4QFY20 | July 2020

VOICES

VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earnings calls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, and transcripts links of the respective conference calls.

This quarterly report contains

- Key takeaways from the post results management commentary for 145 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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Contents

Note: All stock prices and indices are as on 7th July 2020, unless otherwise stated.

Voices

BSE Sensex: 36,676 **Nifty-50 : 10,800**

Cautious commentary; Uncertainty reduces demand visibility!

In this report, we present detailed takeaways from the 4QFY20 conference calls as we refine the essence of India Inc. 'Voices'.

- The 4QFY20 corporate earnings were muted but in line with our expectations for both the Nifty and the MOFSL Universe. Nifty 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. 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. Corporate commentaries expectedly conveyed uncertainty and demand weakness given the disruption due to the COVID-19 pandemic.
- Banks have guided that the COVID-19 outbreak would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. Banks will exercise caution while lending in the near term with focus on preserving the balance sheet and keeping liquidity levels high. On the asset quality front, banks expect the incidence of moratorium to show stable/declining trends under moratorium 2.0 as economic activity is picking up. However, they also expect increase in slippages during 2HFY20 from certain retail and SME/business banking segment. Commentaries of NBFCs across suggest that most are sitting on adequate liquidity for another 3-4 months. During the lockdown phase 1.0, disbursements and collections came to a standstill across product segments. However, this has witnessed meaningful improvement over the last one month for most players. HFCs have seen significant decline in customers opting for moratorium phase 2.0, while the same has been modest for VFCs. Most of the managements have re-iterated that rural recovery is likely to be much faster than urban.
- Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption. Further, they are benefiting by focusing on the Health and Hygiene segments, which have gained significance amid the COVID-19 crisis. Most Consumer companies have been able to resume operations at ~70-90% of their normal levels and it is getting better with every passing day. Stringent cost cutting will be a key focus area for all Consumer companies in the near term to fight the current challenging times
- In Autos, all OEMs refrained from providing guidance for FY21 due to the uncertain demand outlook; however, most expect recovery in 2HFY21. With uncertainty in demand, there is high focus on cutting cost/capex and conserving cash. This is evident from the cut in variable/fixed costs and slashing of capex budgets for FY21 across companies.
- In IT, deal wins were a mixed bag. While TCS and HCL saw strong deal wins, INFO and Tech-M saw some impact. Overall, companies did well in adapting to the current situation by shifting to remote operations with agility and enabling over 90% employees to WFH in a short span of time, thereby reducing the impact.
- Capital Goods companies have taken a cautious stance on working capital and gone slow on execution. Most migrant workers are still returning to project sites with execution yet to ramp up fully.
- In Cement sector, managements have indicated that Apr'20 was a washout due to the shutdown of operations till 19th Apr'20. Post this, operations ramped up

gradually. Cement prices have witnessed a hike across regions and are higher by INR10/bag over Mar'20 on an average. Demand recovery in the East/Central India fared better (v/s the North/West India) due to lesser spread of COVID-19.

Autos

- Industry volumes remained weak in 4QFY20 due to the BS6 transition, and were further impacted by the lockdown during the last 10 days in Mar'20. With the lockdown being lifted in May'20, Auto industry has seen demand recovery on the back of (a) preference for personal vehicles, (b) pent-up demand from pre-COVID bookings, and (c) high disposable income in the rural market. For Jun'20, most OEM plants were operating at 50-70% average utilization (ex-tractors) with >90% of dealer outlets operational. While demand outlook is uncertain across segments resulting in no guidance for FY21, most OEMs expect recovery in 2HFY21. With uncertainty in demand, there is high focus on cutting cost, capex and conserving cash, which is evident from the cut in variable/fixed costs and slashing of capex budgets for FY21 across companies.

Capital Goods

- 4QFY20 was marked by disruption in businesses and supply chains owing to the COVID-19 led shutdown toward the second half of Mar'20 with most companies reporting loss of sales. Companies are now cautious on working capital and have gone slow on execution. Most migrant workers are still returning to project sites with execution yet to ramp up fully. Order inflows for ABB and L&T were surprising and provided some comfort on execution going ahead, provided working capital does not stretch further. Higher Inventory in Room AC companies needs to be closely watched as quick liquidation is key for primary sales going forward.

Cement

- Industry cement volumes declined ~13% YoY in 4QFY20 due to the nationwide lockdown and plant shutdowns from 24th Mar'20 to combat the COVID-19 pandemic. Managements indicated that Apr'20 was a washout due to shutdown of operations till 19th Apr'20, post which operations ramped up gradually. Cement prices have witnessed hike across regions and are higher by INR10/bag over Mar'20 on an average. Demand recovery in the East/Central India has fared better than the North/ West India due to lesser spread of COVID-19. A large part of the recovery has been driven by robust demand from rural and semi-urban areas, but managements are still cautious on the demand outlook. Industry is likely to benefit from lower fuel and other input costs, as energy prices (oil/pet coke/coal) have been on a downtrend. However, this benefit is likely to be negated by higher per ton fixed cost (staff and other expenses).

Consumer

- Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption. Further, they are benefiting by focusing on the Health and Hygiene segments, which have gained significance amid the COVID-19 crisis. Most Consumer companies have been able to resume operations at ~70-90% of their normal levels and it is getting better with every passing day. With smaller players affected on the liquidity front, large branded players are poised to improve their market shares. Discretionary portfolios of companies across the board have been affected, including those of largely staple companies. For example, ice creams for HUL and VAHO for Marico have been affected. However, on an overall basis, these companies are well placed due to their large staples portfolio. On the other hand, companies with major discretionary portfolios are likely to be significantly impacted in 1QFY21 and in some cases for the full-year FY21 as well. The largely benign commodity environment is likely to provide some relief on margins. Stringent cost cutting will be a key focus area for all consumer companies in the near term to fight the current challenging times.

Financials

Banks

- The outbreak of COVID-19 would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. Thus, loan growth trends should moderate due to the consumption slowdown. Banks would exercise caution while lending in the near term with focus on preserving the balance sheet and keeping liquidity levels high. Margins should come under pressure due to the sharp reduction in the repo rate. This should lead to moderation in yield; however, the sharp cut in TD/SA rates by various large banks would offset margin pressure to some extent. On the asset quality front, banks expect the incidence of moratorium to show stable/declining trends under moratorium 2.0 as economic activity is picking up. However, an increase in slippages during 2HFY20 from certain retail and SME/Business banking segments is expected. Thus, banks would continue to strengthen their provision coverage, and thus, credit cost trends would remain elevated. Most private banks have taken board approval to raise capital over FY21E to manage the current crisis.

NBFC

- Commentaries of NBFCs across suggest that most are sitting on adequate liquidity for another 3-4 months. During the lockdown phase 1.0, disbursements and collections came to a standstill across product segments. However, this has witnessed meaningful improvement over the last one month for most players. HFCs have seen significant decline in customers opting for moratorium phase 2.0, while the same has been modest for VFCs. With gradual opening of economic activities, businesses are expected to resume in a phased manner. Most of the managements have reiterated that rural recovery is likely to be much faster than urban.

Healthcare

- There has been supply chain disruption in the domestic formulation (DF) segment in terms of manufacturing as well as logistics due to the lockdown implemented on account of COVID-19. While, capacity utilization has improved 50-60% and distribution is moving toward normalcy, managements have cited that patient-doctor connect is gradually improving. This is positively impacting demand for medicines, especially for products related to acute therapies. Companies have been aggressively pursuing digital marketing and looking to further strengthen relationships with doctors. On the US generics front, the ANDA approvals and volume-off-take was higher, particularly for medicines associated with COVID-19. Companies, post completion of remediation measures, are pursuing virtual inspections to ensure regulatory compliance at sites. Overall, there could be near-term weakness in the DF segment, while outlook remains steady for the US generics segment.

Media

- Media industry has been facing demand slowdown in advertisements. The onset of the lockdowns led to a drastic cut by corporates/government toward ad spends. This is likely to continue in FY21 until the economy revives, however, subscription revenue is likely to remain on track. Sun TV has guided that ad revenues could potentially decline 15-20% while subscription revenues may grow in double-digits in FY21. In movie exhibition, PVR expects demand once cinemas commence operations with a good line-up of movie releases. Some producers have released their films on the OTT platform foregoing the big screen, but majority still prefer the big screen for movie releases.

Metals

- Managements highlighted that domestic steel demand has been hit hard in 1QFY21 due to the COVID-19 lockdowns in different parts of the country. Both JSW Steel and Tata Steel stated that capacity utilization was below 50% in Apr'20 but subsequently improved to ~80% in May-Jun'20. Companies also guided that exports are likely to contribute ~50% of volumes in 1QFY21 and ~30% of volumes in 2QFY21 as against the usual levels of ~15%. Tata Steel stated that while domestic prices corrected by just INR500-1,000/t QoQ in 1QFY21, higher exports could dent blended realization by INR4,000-5,000/t QoQ. On the other hand, aluminum companies highlighted that while their capacity utilization remained elevated at normal levels in the entire quarter, even they have resorted to higher exports to balance the weak domestic demand during the quarter. Hindalco guided that exports are likely to contribute ~80% of its volumes in 1QFY21.

Oil & Gas

- OMCs expect refining margin to remain subdued in 1QFY21 due to poor product cracks, which are weighed down by demand destruction. Also, discounts from Middle Eastern suppliers (enjoyed in 4QFY20) have come off. However, OMCs have guided that improvement in product demand would translate into higher cracks, leading to better GRMs in the latter part of the year. OMCs are seeing faster-than-expected recovery in refining throughput and product marketing, which should lead to normalization of GRMs and gross marketing margins. RIL's refining margin is set to improve with the enhancement of delayed coker and distillate yields, while petrochemical cracks are expected to improve with feedstock flexibility. The company's strong growth avenue remains in its retail business. MAHGL continues to struggle with lackluster volume growth and expects some volume relief from development of the Raigarh geographical area (GA). IGL expects CNG volumes to return to normalcy by end-FY21; however, margins are likely to remain strong owing to lower domestic and spot prices. GUJGA has stated that total sales currently stand at 70-75% of normal volumes, with strong demand from Pharma/Agrochem units in Ankleshwar, Panoli, Vapi, etc. PLNG expects strong volume off-take at Dahej (on expanded capacity) from the Power/CGD sectors and foresees capacity utilization of 30-35% from the ramp-up at Kochi post completion of the Kochi-Mangalore pipeline (by end-Jul'20). For FY21, GAIL has stated that gas sales in Apr'20 reduced to ~70% of normal levels; however, it has now reached ~90% of normal levels, barring CNG (which is ~50% of normal levels). We expect full normalization in two months. Growth guidance for the company continues on the back of incremental volumes of ~7-8mmscmd from the commencement of two fertilizer plants and the Kochi-Mangalore pipeline, which should lower the risk on its US contracts.

Retail

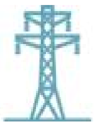
- Retail sector witnessed a complete shutdown during the lockdown period. However, since May'20, retailers are opening doors for consumers in select cites. Though footfalls have been lower, the conversion rate and bill size of customers have improved significantly. ABFRL/SHOP/V-Mart have guided for reduction in cost measures from an average of ~25-50% until majority of their stores are functional. Retailers are also keen to convert rentals as a variable of sales over FY21 and are seeking exemption of rent during the lockdown. Decision over these two requests has been fruitful with some landlords. ABFRL/V-Mart/SHOP have sharply cut their capex guidance in FY21 with no store adds for 1HFY21.

Technology

- 4QFY20 saw good performance in Jan-Feb'20, which was offset by the COVID-19 impact in Mar'20. Supply side challenges were more prominent as WFH was enabled for 90+% employees on short notice. Demand side challenges are expected to be more prominent going forward as clients are deferring discretionary spends, reprioritizing IT spends toward enabling business resiliency and looking for cost optimization. In terms of vertical – Retail (non-essential), Manufacturing / Auto, Aero and Energy have seen higher-order COVID impact while Healthcare /Life Sciences and Technology have been fairly insulated. Deal closures and deal ramp-ups are continuing virtually with delays in a few cases. Sequential contraction in margin was largely due to the dip in utilization, impact on revenues and one-time expenses (contribution to 'PM Cares' fund). The near-term outlook remains challenging and managements expect 1QFY21 to see sequential decline in revenue and pressure on margins. Deferral in wage hike, reduced travel and facility expenses and currency depreciation should help partially offset the COVID impact on margins.

Telecom

- Telecom companies have realized full benefits of the price hike with no down-trading, according to managements. They further indicated that ARPUs would reach INR200 in the near term and INR300 in the long term. Further, the incremental EBITDA margin on increased ARPU should be ~65% on stable-state basis. Network densification, massive MIMOs, core and transport infrastructure deployment and front-loading of investment led to an increase in capex, which should be lower in 1QFY21 and FY21. Bharti Infratel's management mentioned that gross tower addition has doubled since last year. Management is confident of towers being taken by the second tenant due to coverage needs of operators. BHIN is also looking for rental renegotiation if an opportunity arises. TCOM's management is looking to achieve double-digit profit growth in the data business and is also targeting net debt to EBITDA of ~2.5x in the long term.



Utilities

- The nationwide lockdown has impacted execution with PWGR noting issues on resource mobilization and NHPC noting temporary stoppage of work for Subansiri. PWGR has set up FY21 capitalization target of INR200-250b. Much of this though is toward commissioning of Raigarh-Pugalur (INR150b). The company has indicated resolving much of the ROW issues faced and plans to commission Bipole-I by Jul'20. Bipole-II and VSC for the line are expected to come up by Dec'20. NTPC expects capitalization momentum to continue and is targeting ~5.9GW for commercialization in FY21.

Key takeaways from management commentary

AUTOMOBILES

- **Industry volumes remained weak in 4QFY20 due to the BS6 transition, and were further impacted by the lockdown during the last 10 days in Mar'20. With the lockdown being lifted in May'20, Auto industry has seen demand recovery on the back of (a) preference for personal vehicles, (b) pent-up demand from pre-COVID bookings, and (c) high disposable income in the rural market. For Jun'20, most OEM plants were operating at 50-70% average utilization (ex-tractors) with >90% of dealer outlets operational. While demand outlook is uncertain across segments resulting in no guidance for FY21, most OEMs expect recovery in 2HFY21. With uncertainty in demand, there is high focus on cutting cost, capex and conserving cash, which is evident from the cut in variable/fixed costs and slashing of capex budgets for FY21 across companies.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact Covid-19
Ashok Leyland	■ FY21 is expected to be tough. 3QFY21 onwards some recovery is expected with an increase in economic activity. ■ ICDs: These are only given to group companies and are callable/ liquid. No incremental ICDs reported in 1QFY21. ■ Cost cutting: Program K54-2 delivered savings of ~INR5.4b in FY20. Cash burn of INR1.5-1.7b/month seen in lockdown. ■ Major capex cycle is over for now, except for maintenance capex.	■ Expected M&HCV recovery postponed from 2QFY21 to 3QFY21.
Bajaj Auto	■ 1HFY21 to remain weak; hopeful of recovery from 2HFY21. Rural/semi-urban areas to see benefit of farm positives. ■ Management does not see major issues in 2W financing. 3Ws facing challenges due to the current uncertainties. ■ If oil prices sustain between USD30-40/bbl, no material negative impact expected on demand in Africa.	■ Company faced sales loss and supply side challenges during the lockdown.
Eicher Motors	■ RE bookings are back to pre-COVID levels with 90% dealers now operational. ■ Manufacturing operations are improving slowly and are currently at 40%. ■ BS6 cost: In 4QFY20, RE did not fully pass on the BS6 cost increase, but took a price hike of ~INR3,000/unit. This covers the entire BS6 cost but without contribution margins.	■ Inventory was completely replenished with BS6 models with no impact of the lockdown on transition. However, supply chain was affected coupled with pent-up demand, which resulted in higher order book.
Hero MotoCorp	■ 90% outlets are now open with many dealers reaching 70-80% of pre-COVID retail levels. ■ Cost-cutting targets were under Leap-II at 100bp (v/s 50bp in FY20). ■ Capex for FY21 was revised to INR6b (v/s INR10b earlier) v/s INR13.6b in FY20.	■ Revenue (opportunity) loss of ~INR12b was reported due to the lockdown in the last nine days of Mar'20, weighed down by volume loss of ~230k units.
M&M	■ The designated CEO laid out a path to create value through (a) tough actions on loss-making subs, (b) tightening capital norms, (c) differentiating core SUV positioning, and (d) realizing potential of 9 businesses (billion-dollar candidates). ■ The company sees scope to reduce FY21 planned capex by only 15% due to the on-going product development cycle. However, the FY22-24E cycle should see significant capex reduction to INR90b over 3 years (v/s INR120b earlier).	■ Replenishment of inventory with BS6 models was delayed, resulting in low wholesales.
Maruti	■ Expects 14% volume decline in FY21 with estimates factoring in recovery from the festive season (3QFY21). ■ A shift is expected from public/shared mobility to personal mobility. ■ FY21 capex is expected at INR27b.	■ As the BS6 transition was completed well before time, company did not face any inventory related issues; however, sales loss was the same as industry.
Tata Motors	■ JLR-China's recovery is encouraging with showroom leads in Apr-May'20 higher by 11-14% YoY. ■ In JLR, FY21 capex has been cut to GBP2.5b (v/s GBP3.3b in FY20). India business capex estimated at ~INR15b for FY21. ■ India PV business is aiming to be cash positive by FY23E. This will be done by improving margin and reducing fixed cost.	■ CV segment was badly hit due to the slowdown in economic activities owing to the lockdown. Recovery is expected in 1HFY21 along with the festive season.

TVS Motors

- Cautiously optimistic of recovery in 2HFY21. Premium products (Apache/Ntorq) to do better than other segments.
- Price hike: Company took a price hike of 10-12% for BS6 related cost and then took another ~1% price hike in Apr-20.
- Indonesian subs achieved positive operating PBT in 2HFY20.
- FY21 capex guidance at ~INR3b (v/s ~INR7.2b in FY20).
- 85% of wholesales in 4QFY20 were BS6, indicating the company was fairly prepared for BS6 transition with minimal impact from the lockdown.

Amara Raja Batteries — Neutral

Current Price INR 707

AMARA RAJA
Gotta be a better way

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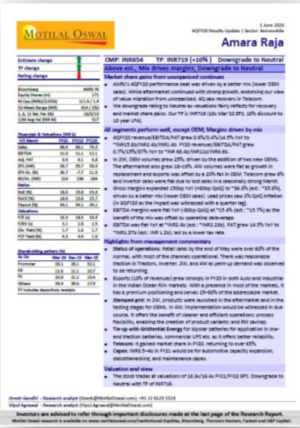
Results Update



- **Status of operations:** Retail sales by the end of May were over 60% of the normal, with most of the channels operational. There was reasonable traction in Tractors, Inverter, 2W, and 4W as pent-up demand was observed to be returning.
- **Exports (10% of revenues) grew strongly in FY20** in both Auto and Industrial in the Indian Ocean Rim markets. With a presence in most of the markets, has a premium positioning and serves 25–30% of the addressable market.
- **Stamped grid:** In 2W, products were launched in the aftermarket and in the testing stages for OEMs. In 4W, implementation would be witnessed in due course. It offers the benefit of cleaner and efficient operations; process flexibility, enabling the creation of product variants; and RM savings.
- **Tie-up with Gridtential Energy** for bipolar batteries for application in low end traction batteries, commercial UPS etc. as it offers better reliability.
- **Telecom:** It gained market share in FY20, returning to over 65%.
- **Capex:** INR3.5–4b in FY21 would be for automotive capacity expansion, de-bottlenecking, and maintenance capex.

Ashok Leyland — Buy

Current Price INR 52

ASHOK LEYLAND

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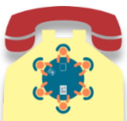
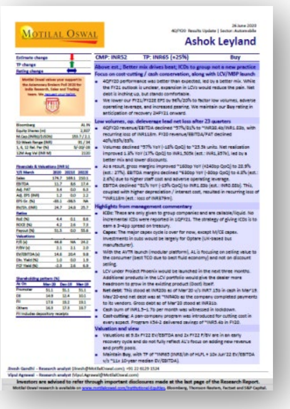
Detailed Concall Transcript &
Results Update





- **FY21 outlook:** FY21 is expected to be tough; 3Q onwards, some recovery is expected with an increase in economic activity.
- **ICDs:** These are only given to group companies and are callable. No incremental ICDs were witnessed in 1QFY21. The strategy of giving ICDs is to earn a 3–4pp spread on treasury.
- **Capex:** The major capex cycle is over for now, (toward the M&HCV AVTR and LCV Phoenix platforms), except M/CE capex. Investments in subs would be largely for Optare (UK-based bus manufacturer).
- **Net debt:** This stood at INR20b v/s INR7.15b in cash in Mar'19. May'20-end net debt was at ~INR40b as the company completed various vendor payments.
- **Realization and gross margins:** The mix improved in terms of: a) higher tonnage trucks, b) higher defense, and c) lower discount drove realizations. This, coupled with year-end discounts from suppliers, boosted gross margins.
- With the AVTR launch (modular platform), AL is focusing on selling value to the consumer (best TCO due to best fluid economy) and not on discount selling.
- LCV under Project Phoenix would be launched in the next three months. Additional products in the portfolio would give the dealer more headroom to grow in the existing platform.
- Cash burn of INR1.5–1.7b per month was reported in lockdown.
- **Cost-cutting:** A pan-company program was introduced for cutting cost in every aspect. Program K54-2 delivered savings of ~INR5.4b in FY20.

- The company incurred impairment cost of INR1b on investments in subsidiary Optare.
- State transport buses (BS6 buses) would have a common style and look, but interiors could be modified as per the need.

Bajaj Auto — Neutral

Current Price INR 2,847

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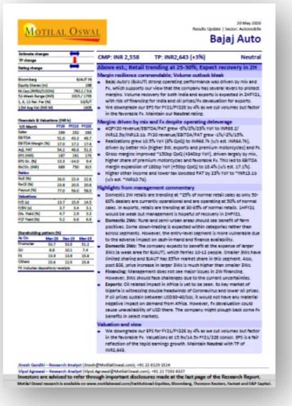

- **Status of retails:** Domestic 2W retails are trending at ~25% of retails as 50-60% of dealers are currently operational and are operating at 50% of normal sales. In exports, retails are trending at 30-35% of normal retails.
- **Status of manufacturing operations:** Plants can operate at 50-75% capacity but demand is nowhere near those levels.
- **Margin improvement in 4Q was driven by** (a) mix in favor of 3Ws and exports, (b) the company selling more motorcycles in the Premium segment v/s other segments, and (c) favorable Fx. The company did not have any material commodity benefits.
- **Domestic market outlook:** 1HFY21 would be weak but the company is hopeful of a recovery in 2HFY21. Management expects 2HFY21 to surprise positively as against the current visibility for 2H. Rural and semi-urban areas should see benefit of farm positives. However, BJAUT does not expect big down-trading across segments, but toward lower trim levels within categories. Entry-level segment is more vulnerable due to availability of finance and cash-in-hand being impacted.
- **Domestic 3Ws:** The company expects to benefit at the expense of larger 3Ws (a weak area for BJAUT), which ferries 10-12 people. Smaller 3Ws have limited sharing and BJAUT has 85%+ market share in the segment. Also, post BS6, price increase in larger 3Ws is much higher than in smaller ones.
- **Financing:** The Company does not see major issues for 2W financing. However, it expects financing to be a challenge for 3Ws.
- **Exports:** Oil related impact in Africa is yet to be seen. Its key market of Nigeria is witnessing double headwinds of Coronavirus and lower oil prices. If oil prices sustain between USD30-40/bbl, BJAUT does not expect material negative impact on demand from Africa. Rather a greater concern would be Fx devaluation in Nigeria and other markets, which could result in unavailability of USD there. ASEAN remains the company's focused market in exports, followed up with right time for entering Brazil. It might plough back some forex benefits in select markets.

Bharat Forge — Buy

Current Price INR 375

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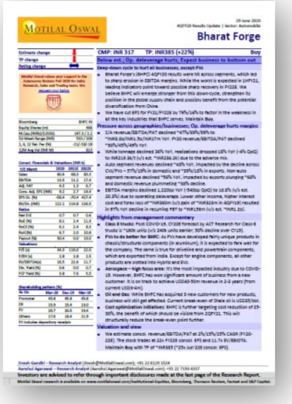
- COVID-19 impact: Estimated sales loss due to the COVID-19 led lockdown stood at INR2b, which impacted profitability by ~INR900m.
- Despite cost reduction initiatives and aid from various governments globally to take care of the partial wage cost, overseas operations are expected to post cash loss of ~EUR5m during 1HCY20.
- Status of production: No production during Apr-May'20. Production started in Jun'20 at 60-70% capacity utilization.
- Overseas operations: The US/Europe are operating at 50%/40% capacity utilization. PVs in the US/Europe are operating at 70%/~55%.



- Class 8 truck's outlook: Post COVID-19, CY20E forecast by ACT Research for Class 8 trucks is ~160k units (v/s 240k units earlier; 50% decline over CY19).
- PVs to do better for BHFC: As PVs have developed fairly unique products in chassis/structural components (in aluminum), BHFC is expected to fare well. The same is true for driveline and powertrain components, which are exported from India. Except for engine components, all other products are slotted into Hybrid and EVs.
- Aerospace – high focus area: It's the most impacted industry due to COVID-19. However, BHFC has won significant amount of business from a new customer. It is on track to achieve USD40-50m revenue in 2-3 years (from current USD3-4m).
- Oil and Gas: Despite BHFC acquiring 3 new customers for new products, business will be affected. Current break-even for Shale oil is USD35/bbl.
- Cost optimization initiatives: BHFC is further targeting cost reduction of 25- 30%, the benefit of which should be visible from 2QFY21. This will structurally reduce the break-even point further.
- Exceptional items of INR939m consists INR890m toward (a) impairment of investments in Tevva Motors, and (b) INR49 for VRS.
- Tevva Motors' impairment: Took one-time impairment loss of INR890m investments in Tevva Motors due to uncertainty. However, BHFC has access to the technology. Currently, a team is working on technology transfer to India to ensure BHFC is part of the EV supply chain and supports local customers.
- Capex: There will be no capex in FY21 except for maintenance capex of INR1-1.2b. However, cash flow will be stronger on the back of higher receivables (v/s payables from previous orders). The company is also reassessing its plans to put up an aluminum forging plant in the US, which could service business from EU plants.
- BHFC is focused on filling up capacities added over the last 3 years and generate free cash flows, which will be utilized to bring down gross debt levels over the next 3-5 years.

BOSCH
Invented for life

Bosch — Neutral

Current Price INR 13,478

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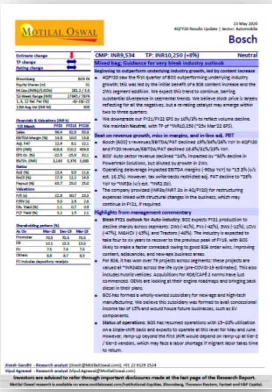

- **Bleak FY21 outlook for Auto industry:** BOS expects FY21 production to decline sharply across segments: 2Ws (-41%), PVs (-42%), 3Ws (-12%), LCVs (-47%), M&HCV (-15%), and Tractors (-40%). The industry is expected to take four to six years to recover to the previous peak of FY19, with BOS likely to make a faster comeback owing to good BS6 order wins, improving content, adjacencies, and new-age business areas.
- For BS6, it has won over 79 projects across segments; these projects are valued at ~INR240b across the life cycle (pre-COVID-19 estimates). This also includes hybrid vehicles. Acquisitions for RDE/CAFÉ 2 norms have just commenced. OEMs are looking at their engine roadmaps and bringing back diesel in their plans.
- BOS has formed a wholly-owned subsidiary for new-age and high-tech manufacturing. We believe this subsidiary was formed to avail concessional income tax of 15% and would house future businesses, such as EV components.
- **Status of operations:** BOS has resumed operations with 15–20% utilization on a single-shift basis and expects to operate at this level for May and June.

- However, ramp-up beyond the first shift would depend on ramp-up at tier-2 / tier-3 vendors, which may face a labor shortage if migrant labor takes time to return.

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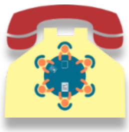

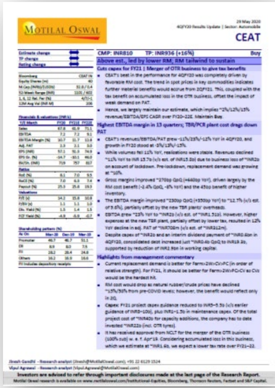

CEAT — Buy

Current Price INR 920

- **Volume trend for FY20:** Total volumes de-grew ~4.8% in FY20. The Farm sector has seen the most declines, while Passenger Car and 2W fared relatively better. CV tyres declined; TBR saw 20% growth, but TBB declined.
- **Volume trend post lockdown:** During the quarter, muted OEM demand was offset by strong replacement demand across segments. Current replacement demand is as Farm>CV>2W>PC; however, in the long term, it should be Farm>2W>PC>CV as CVs would be the hardest hit.
- **The OEM business** in CV, PV, and 2W should benefit from new Capacity/customer/model additions. The company added Hero Glamour Refresh, Mahindra Jetto, Tata Intra, Daimler BS6 trucks, and the Piaggio Aprillia 150 scooters during the quarter.
- **RM cost** would come down as natural rubber/crude prices declined ~15%/50% from pre-COVID-19 levels; however, the effect would be witnessed July onward due to slower utilization in current inventory.
- **Capex:** The FY21 project capex guidance reduced to INR5–5.5b (v/s earlier guidance of INR8–10b), plus INR1–1.5b in maintenance capex. In FY20, it invested ~INR11.05b. Of the total project cost of ~INR40b for capacity additions, it has to date invested ~INR22b (incl. OTR tyres).
- The PCR plant at Chennai was commissioned in Feb'20; however, the ramp-up would be slower due to sluggish demand. At full capacity, it can produce 28,500 PCR tyres/day and 2500 motorcycle radial tyres/day.
- For the merger of the OTR business (100% sub), it has received approval from NCLT. Considering accumulated loss in the business, which we estimate at ~INR1.6b, we expect a lower tax rate for FY21/FY22.
- **Tax regime:** The Company has decided to continue with the old rate regime. 4QFY20 saw lower tax due to the benefit of R&D cost and income tax return for the previous year.

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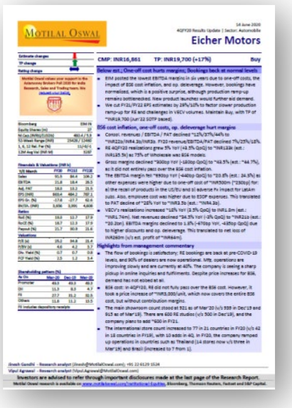

Eicher Motors — Buy

Current Price INR 19,941

Royal Enfield

- The flow of bookings is satisfactory; RE bookings are back at pre-COVID-19 levels and 90% of dealers are now operational. Mfg. operations are slowly improving and are currently at 40%. The company is seeing a sharp pickup in online inquiries and fulfillments. Despite price increases for BS6, demand has not ebbed at all.
- New product launches have been delayed due to the COVID-19 crisis, but subsequent launches may not be delayed.
- BS6 cost: In 4QFY20, RE did not fully pass over the BS6 cost. However, it took a price increase of ~INR3,000/unit, which now covers the entire BS6 cost, but without contribution margins.

- The main showroom count stood at 921 dealers as of Mar’20 (v/s 939 in Dec’19 and 915 as of Mar’19). There are 600 RE studios (v/s 500 in Dec’19), and the company plans to add ~600 RE studios in FY21.
- The international store count increased to 77 in 21 countries in FY20 (v/s 42 in 18 countries in FY19), with 10 adds in 4Q. In FY20, the company ramped-up operations in countries such as Thailand (14 stores as of Mar’20 v/s three in Mar’19) and Brazil (increased to 7 from 1). It entered new markets such as Korea, Italy, and Belgium.
- BS6 retail in 4Q stood at 60%, whereas wholesale was at 75% of the total.
- A one-off cost of ~INR500m in other expenses was for: a) recall in the US/EU for brake calipers and b) Forex volatility in LatAm (particularly in Brazil).
- Employee cost increased due to the impact of ESOP cost as the absolute employee count was lower than last year.

Endurance Technologies — Buy

Current Price INR 931

ENDURANCE Complete Solutions

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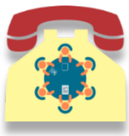

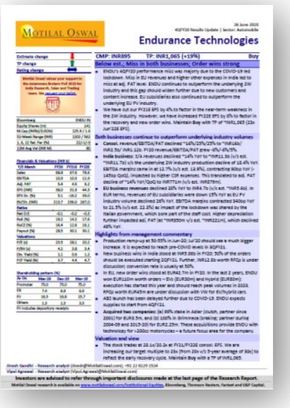

India

- COVID update - Production ramp-up at 50-55%; Jun-Jul’20 should see a much bigger increase. Production should reach pre-COVID levels in 3QFY21 (and not in 2QFY21).
- ABS launch has further got delayed due to COVID-19 related impact. Supplies are expected to start in 4QFY21.
- Also, operations at new plant for Kia and Hyundai have been delayed from July to October. Currently, material is supplied from existing plant.
- New business wins in India stood at INR5.86b in FY20 from HMSI, RE, TVSL, HMCL, Hyundai and Kia. 50% of the business should start from 2QFY21. Further, INR12.8b worth RFQs is under discussion and conversion rate is usually 50%.
- Margins should improve due to mix toward value-added products and import substitution. Focus on more value-adds in the future business include (a) 200cc+ motorcycle brakes and clutch assemblies (aided by recent M&A), (b) paper based clutch assemblies, (c) CVT for scooters, (d) ABS, (e) advanced suspensions, and (f) fully-finished machined castings (target of 100% by FY22E), etc. Backward integration into aluminum forging axle clamp for front fork (to start in Oct’20) and wire-grade hoses for ABS brakes (to start in Aug’20) will also support margins.
- Capex: INR1.5b in FY21, of which, 60% is for expansion of wire-grade hoses, Vallam plant, etc. ENDU had capex of INR10b during the last 3 years, and hence, it does not need much capex.
- Cost cutting with focus on reducing fixed cost and variable cost. Target of 10% reduction was attained as plants restarted on account of renegotiation with vendors and simultaneous internal measures.
- Import substitutions opportunities: ENDU is participating in (a) brake system (supplies to OEM to start from next month), and (b) alloy wheels.
- ENDU has got an export order for supply of shock absorbers to Honda (Indonesia and Latin America).
- Hyundai and KIA are big opportunities for high-value aluminum machined casting space.

EUROPE

- New order wins of EUR42.66m in FY20 from Audi, BMW, Porsche, VW, FCA, Maserati, etc.
- ENDU has won orders worth EUR110m in the last 2 years for EVs/Hybrids, which started this year; it should reach peak volumes in 2023. Order break-up: EUR30m for EVs (Audi and Porsche), and EUR80m for Hybrid (VW, Daimler, BMW, FCA and Maserati). Further, EUR45m worth RFQs are under discussion with VW for EV/hybrid cars.

OTHERS

- Consol: Net cash for the first time reached INR361m.
- Acquired two companies: (a) 99% stake in Adler (clutch, partner since 2001) for EUR3.5m, and (b) 100% stake in braking company Grimmeca (breaks, 2004-09 and 2015-20) for EUR2.25m. Both have been ENDU's tech partners. These acquisitions are largely for India but would also cater to global markets. Both these partners offer good technology for >200cc motorcycles in both clutch and braking. Supplies on these should start in FY22E as it already has orders from 3 customers.

Escorts — Neutral

Current Price INR 1,111

ESCORTS

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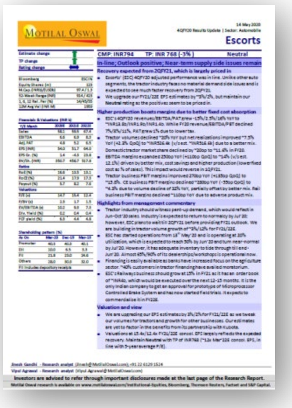

Tractors

- Normally, the company has higher market share in 4Q due to its strong-hold markets, such as the North, East and Central region, having higher demand (v/s the South and West) due to Rabi crop and the festive season (Navratras).
- However, its market share has declined to 13.1% in 4QFY20 (v/s 15% in 4QFY19) due to the ongoing lockdown.
- Company is witnessing pent up demand, which would reflect in Jun-Oct'20 sales. Management expects the industry to be back on the growth path from Jul'20 onwards more clarity on FY21 outlook by 2QFY21.
- Leads are 90% of the normal -– the on-ground situation is highly positive on the back of good Rabi crop and very good reservoir levels; if monsoons are normal, it would take care of demand for the next two years.
- ESC has started operations from 13th May'20 and is operating at 20% utilization, which should reach 50% by mid-Jun'20 and get near-normal by Jul'20. However, the company has adequate inventory to tide through till end-Jun'20, as it had bumped inventory ahead of Navratras (seasonally strong month). The period Jul-Aug is the weakest time for the tractor industry.
- Dealerships: 65% of its dealerships are open for sale and 90% of workshops are operational.
- Currently, the company is more worried about supply rather than demand as a tractor has 3,000 parts, which is sourced from across India. However, most of ESC's labor is local and it can work with 75% of labor based on the current permission.
- Tractor mix: Farmtrac: Powertrac ratio was stable in 4QFY20 at 41:59 v/s 41:59 YoY v/s 39:61 QoQ. '40HP & above' tractor contribution in 4QFY20 was at 51% (v/s 47% YoY).
- Financing: There are no issues on credit availability currently. Feedback from banks indicates that focus is high on agri due to decreasing opportunities in

other sectors. The market share ratio for financiers – NBFC: private bank is 2:1 40% of customers in tractor financing have availed moratorium.

- Non-agri usage: In FY20, the company was facing bottlenecks and hurdle. It started improving in Jan-Feb'20. ESC expects demand to return as most projects that were banned (like mining) have now opened up.
- Tractor EBIT margin expansion was driven from higher production (2pp), which could not be sold and was sitting in inventory, leading to higher fixed cost absorption. This impact would reverse in 1QFY21.
- Subsidy-based sales are expected to return in FY21 and could be higher than FY19 (11-12% of industry volumes).
- Kubota JV SOP is estimated by 3QFY21, it has been delayed due to the lockdown.

Construction Equipment

- In 4QFY20, addressable Construction Equipment industry stood at -24% (v/s -2.2% for Escorts with 50% sales decline in month of Mar'20). In FY20, industry was down 23% (v/s Escorts' decline of 25.3%). Industry in 4QFY20: BHL down 25%, Crane down 27% and compactors down 17%.
- Industry FY20: Backhoe loader was down 23%, compactor down 22% and cranes were down 24%.
- 4QFY20 capacity utilization was at 40% and RoCE at 29.1%
- PBIT margins saw lesser decline (-55bp QoQ) as compared to the decline in volume (-32% QoQ). This is due to structural changes with (1) fixed cost changing to variable cost, and (2) mix improvement. Breakeven utilization is 30%.

Railways

- Order book at ~INR4b as of Mar'20 to be executed in the next 12-15 months.
- EBIT margins are down QoQ/YoY due to impact of high share of NPD products, which has ~40% import content. Localization plans are in place, but testing and validation would take 18-24 months since it is a braking system.
- Received approval for Microprocessor Controlled Brake System (MCBS), which would be commercialized in FY22E after testing for 12 months.

Others

- Net Cash: INR7.2b.
- Released ~INR3.5b of cash from working capital from Mar'19 level.
- Capex: INR2.5b each for FY21.

Hero Motocorp — Neutral

Current Price INR 2,749

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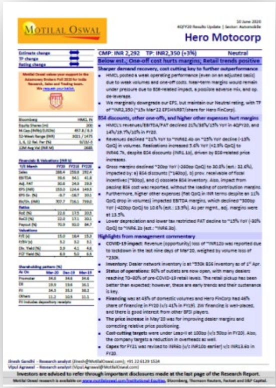
- Retail grew in 4Q, while Wholesale declined ~25%.
- **Status of operations:** 90% of outlets are now open, with many dealers reaching 70–80% of pre-COVID-19 retail levels. Retail pick-up has been better than expected; however, these are very early trends and their sustenance is key.
- **EBITDA margins**, ex one-offs, are at 13.5%. 290bps decline during the quarter was led by: a) the BS4 liquidation package of INR1100m to dealers (discount of 10–15k per vehicle) (~160bps), b) provisioning of INR570m for fiscal benefit at the Neemrana plant in other operating income (~80bps), and c) obsolete RM & Fin. Goods inventory (~50bps).



- **Inventory:** The dealer network has the lowest inventory at ~550k BS6 inventory as of 1st Apr.
- **Status of operations:** 90% of outlets are now open, with many dealers reaching 70–80% of pre-COVID-19 retail levels. The retail pickup has been better than expected; however, these re very early trends and their sustenance is key.
- **Outlook:** It is difficult to take a call on the outlook for FY21. However, the company expects rural and Semi-Urban to do well.
- Down-trading is being witnessed, and HMCL is well-positioned to benefit from the same.
- **Financing** is at 43% of domestic volumes, and Hero FinCorp has 46% share of financing (v/s 41% in FY19). 2W financing is well-placed, and there is good interest from other BFSI players.
- **The price increase in May'20** was for improving dealer margins and correcting relative price positioning.
- **Cost-cutting targets were under Leap-II at 100bp** (v/s 50bp in FY20). Also, the company targets a reduction in overheads as well.
- **Capex for FY21** was revised to ~INR6b (v/s ~INR10b earlier) v/s ~INR13.6b in FY20. The company would not cut investment in R&D / product development.
- **New product launch:** The extreme 160R launch is in the next couple of weeks, and the company targets higher single-digit market share with this product in the premium segment.

Mahindra & Mahindra — Buy

Current Price INR 560

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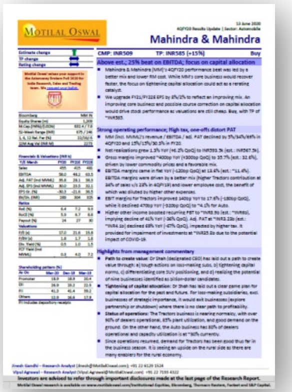

- Dr. Shah (designated CEO) has laid out the path to create value and offered clarity on tighter capital allocation. This process was initiated with the decision to further invest in SsangYong and the closure of the E-Scooter business in the US (running into loss of ~INR1.3b).
- Operations are nearing normalcy in the Tractors business, with good demand and capacity utilization reaching 85%. The outlook is also positive owing to various enablers in place for the rural market.
- The Auto business' near-term outlook is uncertain; however, the medium-term focus is on differentiating the SUV positioning and optimizing capex.
- FY22–24 capex could reduce to ~INR90b over three year's v/s the earlier three years' rolling budget of ~INR120b.
- **Path to create value:** Dr. Shah (designated CEO) has laid out the path to create value through: a) tough actions on loss-making subs, b) tightening capital norms)a differentiating core SUV positioning, and d) realizing the potential of nine businesses identified as billion-dollar candidates.
- **Tightening capital allocation norms and action on loss-making subs**: Dr. Shah has laid out a clear game plan on capital allocation for the past and future. For loss-making subsidiaries, excl. businesses of strategic importance, it would exit businesses (explore partnership or shutdown) where there is no clear path to profitability. While it has decided against injecting further funds in SsangYong, the company has closed the GenZe (E-Scooter) business in the US. Although it would tighten capital allocation norms, the company is not scaling back its growth ambition and would continue to invest in growth with a hurdle rate of18% RoE.

- **Status of operations:** The Tractors business is nearing normalcy with over 90%of dealers operational, 85% plant utilization, and good demand on the ground. On the other hand, the Auto business has 80% of dealers operational and capacity utilization is at ~30% currently.
- **4QFY20 PBIT was impacted by COVID-19**, with loss of PBIT of ~INR6.67b due to volume loss in both Tractors (~14.7k units lost volumes) and Auto (~45.7k units lost volumes).
- **Tractors** – big upside in rural: Since the resumption of operations, demand for Tractors has thus far been good in the business season. It sees good momentum on the ground. This is reflected in its internal index for rural spend, which has been at the highest levels for many quarters. It sees a big upside in rural as there are many enablers for the rural economy.
- **US Tractors business:** The business is expected to achieve breakeven in FY22 through the correction of: a) the price-value proposition and b) cost structure (manpower, inventory, and financing cost).
- **Project K2 (Tractors):** The focus is on developing lightweight compact tractors in alliance with Mitsubishi. The company is working on four platforms (in the 13–70HP range) with 38 models. Work on this project commenced 18 months back and the launch is expected in another 18 months.
- The Auto business outlook is unclear and the company would wait until Jul'20 to give the outlook. However, given very low dealer inventory, it would fill up inventory as production ramps up.
- Medium-term (FY22 onward) priorities for the Auto business comprise: a) building a distinctive SUV brand, b) leveraging upcoming new products, c) optimizing capex as investments in platform and powertrain are largely complete, and d) driving global subs to profitability.
- **Capex + investment:** The company sees scope to reduce FY21 planned capex by only 15% due to the on-going product development cycle. However, the FY22–24 cycle would see significant reduction in capex to INR90b over three year's v/sINR120b earlier, driven by leveraging platforms/powertrain and the Ford JV. Investment would be minimal and have a rigorous allocation policy. However, the company would continue to invest as its growth aspirations are not dampened.
- **Agri reforms:** As per Mr. Mahindra and Dr. Goenka, recent agri reforms on the APMC Act dilution are major reforms as they address the core problem of farmers not getting the right price for their produce. Based on Dr. Goenka's interaction with policymakers, the intent to convert this to reality is very high at the government level, although it would take time. This would transform the agricultural landscape in India through disintermediation and digitalization.

Mahindra CIE

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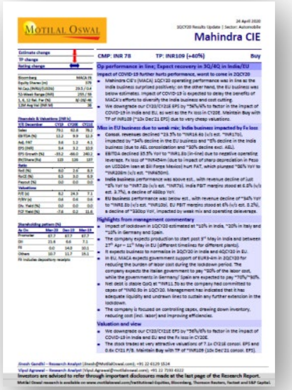

Mahindra CIE

Mahindra CIE — Buy

Current Price INR 117

- Impact of lockdown in 1QCY20 estimated at ~10% in India, ~20% in Italy and ~10% in Germany and Spain.
- The company expects production to start post 3rd May in India and between 27th Apr – 11th May in EU (different timelines for different plants).
- It expects business to normalize in 3QCY20 in India and 4QCY20 in EU.
- In EU, MACA expects government support of EUR3-4m in 2QCY20 for reducing the burden of labor cost during the lockdown period. The company expects the Italian government to pay ~80% of the labor cost, while the governments in Germany/ Spain are expected to pay ~70%/~30%.
- Net debt is stable Q-o-Q at ~INR11.5b as the company had committed to capex of ~INR0.9b in 1QCY20. Management has indicated that it has adequate liquidity and undrawn lines to sustain any further extension in the lockdown.
- The company is focused on controlling capex, drawing down inventory, reducing cost (incl. labor) and improving efficiencies.

MARUTI SUZUKI

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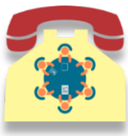

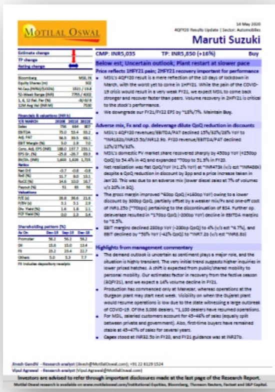

Maruti Suzuki

Maruti Suzuki — Buy

Current Price INR 6,226

- Diesel: 7% portfolio share in 4Q for the company and ~15% for the industry (v/s 29% for FY20 and 37% for FY19). For MSIL, BS6 sales accounted for over 50% of volumes in FY20.
- CNG sales edged up 1% in FY20, against ~16% decline in total volumes.
- Demand outlook: This is difficult to predict as sentiment plays a major role, and the situation is highly transient. The very initial trend suggests higher inquiries for lower priced hatches. A shift is expected from public/shared mobility to personal mobility.
- Status of operations: MSIL has commenced production only at Manesar, whereas operations at the Gurgaon plant may start next week. Visibility on when the Gujarat plant would resume operations is low due to the state witnessing a large outbreak of COVID-19. MSIL has 400 tier-1 suppliers, 3000 tier-2 suppliers, and a much larger tier-3 supplier base. The total supplier base is spread across just nine states. At any given time, at least 20–30 of MSIL's suppliers witness restrictions in terms of activity. In sales operations, ~1,100 dealers (of ~3,000) have commenced operations.
- There is an increased focus on digitalization, with the company having already digitized 21 of the 27 touch points for customers (from inquiry to sales) in the last three years. Financing is yet to see material digitalization. The company is focusing on digital campaigns through hyper-local activity and has seen a multifold increase in inquiry generation through digital platforms.
- For MSIL, salaried customers make up 45–46% of sales (equally split between private and government). Also, first-time buyers have remained stable at 45–47% of sales for many years.
- Discounts in 4QFY20 stood at INR19k v/s INR15.1k in 4QFY19 and INR33k in 3QFY20.
- Capex was INR32.5b in FY20 and is estimated at INR27b for FY21.
- Treasury investments: MSIL is not invested in any troubled papers in debt MF. FY20 returns were good; however, FY21 would be lower.

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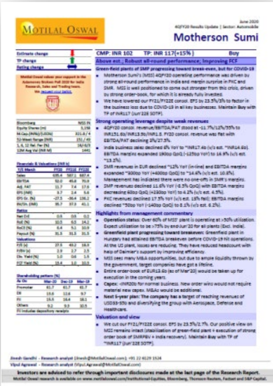

Motherson Sumi — Buy

Current Price INR 99

India Business

- **India:** BS6 supplies this quarter has resulted in increased content (along with rich new content launches).
- Expect India to bounce back faster due to (a) low systemic inventory, (b) pent-up demand, (c) savings, and (d) shift to private transportation.
- **Mr. Sehgal:** 2HFY21 would be phenomenal due to strong demand in PVs, owing to shift to personal mobility.

Global Business

- **Status of operations:** Over 60% of plant is operating at >50% utilization. Expect utilization to be over 75% by end-Jun'20 for all plants (Excl. India).
- Support from the government would reflect in 1QFY21. Support is in the form of sharing employee cost during lockdown as well as grants/loans.
- **Greenfield plant progressing toward breakeven:** Hungary's green-field plant had attained EBITDA breakeven before COVID hit operations. At the US plant, losses are reducing; headcount has been reduced with help of Daimler's support by improving efficiency.
- **M&A:** Many opportunities exist; however, due to ample liquidity thrown by the government, target companies have got a lifeline.
- **SMR:** Margins have no one-offs; benefit of mix exists as well as for efficiencies.
- Net order book of EUR13.6b as at Mar'20 (v/s EUR18.4 as at Sep'19 and EUR18.2b as at Mar'20), as orders worth EUR10.1b were taken up for execution in FY20 (highest-ever execution of orders in a financial year). Entire order book of EUR13.6b would be taken up for execution over the next two years.

Financial highlights

- Net debt levels at ~INR69.2b were the lowest in the last 10 quarters, driven by lower working cap and lower capex. As operations normalize, working capital would also normalize.
- Capex: <INR20b for normal business. New order wins would not require material new capex. M&A's would be additional.
- **Next 5-year plan:** Target of USD33-35b. Diversify the group even further and go beyond Autos for Aerospace, Defense and Healthcare.

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Tata Motors — Buy

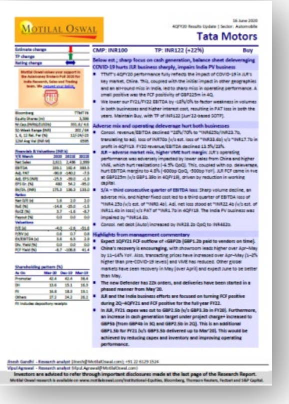
Current Price INR 109

On 4QFY20 performance

- JLR's 4QFY20 performance was severely impacted by COVID-19, with an estimated PBT level impact of GBP 599m due to the impact on volumes, mix, and higher marketing expense.
- JLR's realizations and gross margins declined due to: a) lower contribution from China and b) higher VME (220bp impact).
- In 4QFY20, JLR generated FCF of GBP 225m, driven by savings in working cap. However, JLR is guiding for 1QFY21 FCF outflow of <GBP2b (outflow over Apr–May at GBP1.5b due to trade payables).

Status of operations

- 84% of JLR's retail network is operational. All plants are operational except Castle Bromwich as inventory at this plant was at higher levels.


Tata Motors

- The China recovery is encouraging, with showroom leads over Apr–May higher by 11–14% YoY. Also, transacting prices have increased over Apr–May (1–2% higher than pre-COVID-19 levels) and VME has reduced.
- Other global markets have seen recovery in May (over April) and expect June to be better than May.
- The new Defender has 22k orders, and delivery across markets would commence by July.

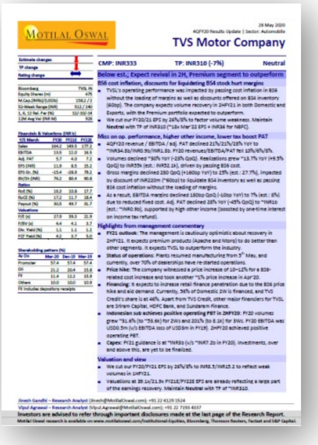
Focus areas for FY21/FY22

- At the TTMT level, the focus is on cutting capex and cost and improving liquidity. Efforts are ongoing to turn FCF positive in both JLR and India between 2Q–4QFY21.
- In JLR, FY21 capex was cut to GBP2.5b (v/s GBP3.3b in FY20).
- Furthermore, an increase was reported in the cash generation target under project charge+ to GBP5b (from GBP4b in 3Q v/s GBP2.5b in 2Q). This implies an additional GBP 1.5b for FY21 (v/s GBP3.5b delivered up to Mar'20). This would be achieved by reducing capex and inventory and improving operating performance.
- Cash break-even levels for FY21 would be significantly lower than current levels of 500k units.

TVS Motors — Neutral

Current Price INR 400

Click below for
Detailed Concall Transcript &
Results Update


TVS Motor Company

- **FY21 outlook:** The management expects consolidation in 2Q, driven by the rural markets, and is cautiously optimistic of recovery in 2HFY21. It expects premium products (Apache and Ntorq) to do better than other segments, and expects these products to outperform the industry. In Nigeria, the company expects no impact on demand if oil prices are above USD40/bbl (currently USD32/bbl).
- **Status of operations:** Plants resumed manufacturing from 5th May and currently, over 70% of dealerships have re-started operations.
- **Discounts:** ~INR220m was put toward a one-time additional discount to dealers to liquidate BSIV vehicles, netted off from net revenues.
- **BS6 model feedback:** BS6 accounted for 85% of Wholesale in 4QFY20 and ~120k in Retail. Initial feedback has been positive, with 15% higher fuel efficiencies.
- **Financing:** It expects to increase retail finance penetration due to the BS6 price hike and aid demand. Currently, 56% of its Domestic 2W is financed, and TVS Credit's share is at 46%. Apart from TVS Credit, other major financiers for TVSL are Sriram Capital, HDFC Bank, and Sundaram Finance.
- **TVS Credit Services:** The FY20 book size stood at INR92.1b and net worth at ~INR13.7b. PAT was ~INR1.5b (2% of growth). NPAs are stable at 2.4% and CAR is higher than the RBI requirement. 37% of its customers have opted for moratorium.
- **Price hike:** The company witnessed a price increase of 10–12% for a BS6-related cost increase and took another ~1% price increase in Apr'20.
- **Indonesian subsidiary achieves positive operating PBT in 2HFY20:** FY20 volumes grew ~31.6% (to ~53.6k) for 2Ws and 201% (to 8.1k) for 3Ws. FY20 EBITDA was USD0.5m (v/s EBITDA loss of USD3m in FY19). 2HFY20 achieved positive operating PBT. NR3b (v/s ~INR7.2b in FY20). Investments are to be finalized over and above this.
- **Norton Motorcycles acquisition:** The Company has acquired only assets and no liabilities. Further details would be shared post the finalization of business plans.

CAPITAL GOODS

- **4QFY20 was marked by disruption in businesses and supply chains owing to the COVID-19 led shutdown toward the second half of Mar'20 with most companies reporting loss of sales. Companies are now cautious on working capital and have gone slow on execution. Most migrant workers are still returning to project sites with execution yet to ramp up fully. Order inflows for ABB and L&T were surprising and provided some comfort on execution going ahead, provided working capital does not stretch further. Higher Inventory in Room AC companies needs to be closely watched as quick liquidation is key for primary sales going forward.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Domestic Capex Cycle	COVID-19 impact
ABB	▪ Company expects end markets like Food and Beverages, Pharma, Utility, Infra, Data center and Hospitals to rebound quickly. ▪ Cash collection remains the top priority in FY21.	▪ Slowdown in the Industrial automation business is largely due to the muted auto sector.	▪ Lost INR2b revenues and INR1.75b collections due to the lockdown in 1QCY20.
Cummins	▪ Management has refrained from guiding for FY21 as it is still assessing the impact of COVID-19. ▪ Distribution segment is expected to rebound faster as the refurbishment of existing equipment would be the top priority for most customers.	▪ In Power gen segment, some offshoots in exports are visible compared to the domestic market. ▪ Management believes the decline in exports may have bottomed out; however, it is difficult to predict their growth trajectory in such times.	▪ Sales loss of INR1.9b due to the COVID led lockdown imposed toward end-Mar'20.
Havells	▪ Channel inventory is higher for seasonal products like ACs and fans, but is normal for other electrical products. ▪ Management believes initial recovery should happen for consumer categories first rather than industrial categories.	▪ While urban areas are slowly opening up, demand is coming from rural and semi-urban areas as well.	▪ Lost sales on account of COVID-19 were higher than expected at INR8b. ▪ Lloyd witnessed lost sales of INR2.5b.
Larsen and Toubro	▪ Company has slowed execution in some cases to control elongation in working capital cycle. ▪ The current labor strength is back at 120k; in another 40–45 days, the company expects the situation to normalize to the 220k requirement (pre-COVID levels).	▪ Order inflows surprised positively, mitigating concerns related to the ordering environment and slowing economic growth. ▪ L&T has removed slow-moving orders worth INR290b (~10% of the OB), making the current order book totally executable.	▪ L&T lost ~INR17.5b in revenue and INR4b in PAT due to the COVID-19 crisis in 4QFY20.
Voltas	▪ Strong sales have happened in the North/East and some parts of the South post the lockdown. Apr'20 was a complete washout. ▪ Voltas has started doing some sales in May'20. The company had 90 days of inventory at end-Mar'20.	▪ International business now forms 40% of the order book. ▪ Domestic projects – Some amount of delay in timeline and collection of receivables seem inevitable.	▪ Due to lockdowns, secondary sales could not materialize, and as such, dealer level inventory stood as high as 60 days at end-Mar'20.

ABB — Buy

Current Price INR 961

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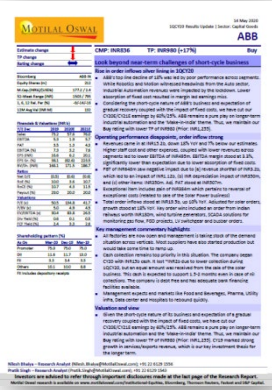

Opening remarks

- There is no change in short/medium/long-term strategy. Focus on servicing customers remains.
- Supply chain got affected due to the lockdown; the same applies for almost all businesses across companies.
- Gradual re-opening of factories is taking place. All factories are open now. Management is taking stock of demand now.
- ABB would start to look at how market is responding and would accordingly take a decision on cash collection from customers.

1QCY20 results

- Revenue impact at the end of the quarter due to disruption of supply chain. Water projects were also slower during the period.
- Solar business (1QCY19: INR700m of sales and margin barely break-even, CY19: INR4b of sales and margin at similar level of 1QCY19).
- Order inflow grew 10%; adjusted for solar business, growth was 18%.
- Large contract received from Indian Railways.
- Lower margins came in due to lower volume, forex impact and lower absorption of fixed cost.
- Other income higher on account of income tax refund of INR180m.

Electrification

- Orders remained flat YoY (~3% growth).
- Revenue was down 15% YoY due to COVID-19 as shipments could not be completed before the lockdown.
- Focus areas would include buildings (incl. airports), data centers, metros, water, automotive, etc.
- Lower revenue due to delay in delivery clearances and lower off-take.
- Volume shortfall and forex impact affected margins.

Motion

- 30% order growth driven by the large contract received from Indian Railways.
- Good traction in export orders; the company has received a large order for export of motors.
- Revenues were down 21%. Revenues were lower from water projects and due to delays in dispatches owing to COVID 19.
- Focus on transportation, digitalization and service.

Industrial Automation

- 10% order growth was led by wins in Energy and Turbocharging Industries.
- Shortfall in revenues was mainly due to lower service revenue. ABB's focus remains on building the services portion of this business.
- Improved cash collection in this business.
- Under absorption due to revenue shortfall; ECL impact led to lower margins.

Robotics & Discrete Automation

- Orders were down 45% YoY as slowdown in the auto industry continued.
- Revenues down 19% as projects moved into 2QCY20 due to delays because of the COVID-19 shutdown.
- Focus areas include Automotive OEMs, General Industry, Food and beverages, Electronics and Logistics.

- Focus on cost rationalization.
- In 1QCY19, paint projects contributed revenue of INR280m; however, in 1QCY20, revenues were impacted due to the COVID-19 lockdown in Mar'20.
- Volume shortfall impact and adverse mix led to the decline.

Cash collections

- Started with INR15b at the beginning of the year.
- ABB lost INR2b owing to lower collection. Received equal amount from sale of the solar business.
- Have support for ~1.5-2 months even if collections are nil.
- The company is debt free with adequate bank financing facilities available.
- Exposure to utility and infrastructure customers is at a manageable level.

Other takeaways

- Looking at cost mitigation efforts across each line item.
- Lost INR2b on revenues and INR1.75b on collections due to the lockdown in 1QFY20.
- Exports stood at 10% in 1Q v/s 14% in CY19 as the company could not ship out some orders toward the quarter end.
- Risk to order backlog: Management believes some clients may look to delay orders or cancel as well. However, visibility is not available at this point as the lockdown is just getting lifted. Management believes that majority of the equipment would be delivered.
- While the company could look to expedite production and delivery, it also depends on how demand pans out. Thus, the limiting factor is demand rather than just ABB's ability to be back at its earlier revenue base.
- Automobile sector continues to be weak, and thus, the robotics business may take time to bounce back. But, the F&B sector is doing well. Jun'20 quarter is expected to be tough for the company and industry as ~45 days are lost. More clarity is expected to emerge by mid-to-end June on the demand outlook. Government has announced few key policies, but ABB would like to understand the actual impact on the ground before coming to any conclusion.
- Other expenses – Stood higher as the company has incurred much variable cost for production purpose. Thus, products are lying in its factory waiting to be delivered.
- End market outlook: Food and beverage, Pharma, Utility infra, Data center, and Hospitals should rebound quickly. Other market segments and customers (OEMs, EPCs, etc.) have lower visibility as of now.
- Supply chain update: Suppliers have started operations but would obviously take time to ramp up. Focus is obviously on health and safety and enabling best practices for ABB.
- ABB Global has clear plans for India ¡V to not only serve the domestic market, but also tap international markets. Also with more exports, a natural hedge would develop against imports. Much adjacent capacity is available for expansion at existing facilities, without the need to buy any land.

BLUE STAR

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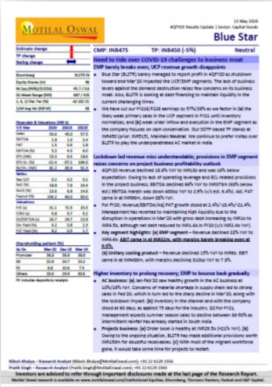
Results Update



Blue Star — Neutral

Current Price INR 498

COVID-19 update

- Due to the COVID-19 crisis in China, all manufacturers incl. BLSTR put in excess orders. With lockdown, there was a steep decline in primary and secondary sales.
- Currently, the company is ensuring services to essential service sectors like pharma, hospitals, banks, etc.
- As of date, the company's factories at Dadra and Wada, coupled with offices in Delhi, Kolkata and Bangalore are operational.

EMP segment

- Made additional provisions for doubtful receivables (INR150m).
- Order book break-up - Office 30%, Metro 15%, Hospitals 12%, Industrial 10%, Power generation 5%, Malls 3% and others 25%.
- Order book is up 21% to INR29.5b.
- Improved market share in Commercial Air Conditioner via Chillers (No.3 player) and VRF (No.2 player).
- On order book – there are certain orders from malls/offices. In India, you can see some delay or change in plans. But, logically, the company's work comes toward the end of project cycle. Customers would have spent ~90% till then, and thus, the company is not worried about order cancellations.

UCP segment

- Revenue declined 15% due to the lockdown impact in Mar'20. In Jan-Feb'20, primary sales growth was 10%/19%. As dealers expected shortage of material in Apr'20, pre-buying happened. In Mar'20, there was a sharp decline.
- Margins at 7.3% were impacted by loss of sales.
- Room Air Conditioner (RAC) – Due to supply chain and demand disruption, there was an overall decline.
- Inventory at manufacturers + dealers should be at 75 days for industry. For BLSTR, it is closer to 60 days combined.
- Not commencing production yet.
- Market share improved to 12.5% from 12.3% last year.
- Expect to gain momentum from 2QFY21.
- Expect Ecommerce to scale up.
- Commercial refrigeration – continuing to gain market share. Received orders from Reliance Retail, Amul, Vadilal, Dinshaw, etc.
- Water purifier:
  - Overall segment margins impacted by 80bp.
  - Market share at 2% now.
  - Target is to reach market share of 4% in FY21.
  - Poised for break-even next year.

Channel support

- Priority is to ensure that own balance sheet is adequately funded first.
- Raising some long-term loans as cost of debt is likely to be lower for strong corporates like BLSTR.
- For some quarters, the company would maintain surplus liquidity on its balance sheet. Thus, it would lead to higher gross debt as well as cash balance.
- Once, inventory is sold, Operating cash flows should improve in due course.

- The company paid all MSME contractors by end-Mar'20.
- Plans to put in place a system for channel partners' payments with banks.

Other takeaways

- The company is focused on order execution and revenue generation. Spread of the pandemic has happened in the peak summer season.
- Looking to renegotiate pricing and payment terms with suppliers.
- Several cost cutting measures have been undertaken.
- Fund raising plans are being contemplated to support liquidity from short/medium/longer-term perspective.
- Out of BLSTR's 6,000 stores, almost 50% are open now. Management believes that shops would open soon, but there may be limitation on operational hours.
- 10% of the project sites are open.
- Availability of labor needs to be monitored.
- Hypothetically, management expects another lockdown in Jul'20 or Oct'20 in some regions or overall India. Thus, the company would make plans considering these risks.
- LSTR expects the rural economy to do pretty well. The company has close to 65% sales from Tier-3/4/5 towns and would therefore focus on those towns.
- While BLSTR may be ranked 5th or 6th across India, there are towns in the South where it is ranked 1st.

Crompton

Click below for Detailed Concall Transcript & Results Update

Crompton Greaves Consumer Electronics — Buy

Current Price INR 241

Update on COVID-19 situation

- The company has resumed operations now. While capacity utilization is limited currently, it is expected to slowly ramp up production.
- 22 out of 23 warehouses have started operations.
- More than 60% vendor partners have started operations. There is adequate inventory in the system, with CROMPTON having inventory for 1 month.
- The company has mapped channel partners in each zone to drive sales as soon as market reopens.
- The company has witnessed better than expected collections.
- The North market has started picking up, but West market remains an issue, particularly due to Maharashtra and Gujarat.
- Management¡¦s key focus is cash conservation and it is looking for further cost reduction initiatives.
- Balance sheet remains strong along with net cash position. However, given the uncertainty, management has taken board approval to raise INR3b of NCDs to maintain high cash levels.

ECD segment

Jan – Feb'20 period

- Volume growth in fans stood at 21% YoY, while market share increased by 77bp.
- Appliances witnessed exponential volume growth. Geysers grew 48% and market share gains continued accruing in the segment.
- Domestic Pumps volume growth stood at 19% while Agricultural pumps remained under pressure.

Lighting segment

Jan–Feb'20 period

- Ex-EESL, Lighting segment grew 7.5% YoY.
- LED Panels and Battens registered 61% volume growth. LED bulb panels and batons registered 41% volume growth.
- LED portfolio continues to face price erosion as compared to last year.
- The company increased its market share by 106bp in LED Lamps.

Other key takeaways

- Ad spends were up 10% YoY in FY20 to INR1b.
- Management believes that there would be a shift in the trade channel to (a) E-commerce, and (b) direct sales to customer. Both these channels currently form a small portion of the overall sales channel. B2B channel is expected to remain largely traditional.
- Down trading – Management believes that these are still early days to suggest down trading. If it happens, it should benefit CROMPTON as the company is present across value points with a range of offerings.
- Most big markets are in the Red zones and have opened up just 25-30%, and hence, demand is not back in full force. In the Green zones, this number stands at ~60-70%.
- According to data received in the last two weeks, 40% of dealers are now open and are working at optimal levels.
- Supply chain – CROMPTON currently has 1 month of inventory. Hence, it is adequately covered for 1 month of production. Overall, management believes that demand-side issue is more significant than supply-side issue.
- Current inventory in the channel is at normal level, except for some seasonal products like air coolers.
- Management is aiming for cost optimization initiatives of INR1b in FY21.
- CROMPTON would continue scouting for investments in key strategic areas from a long-term perspective.
- The B2B + B2G business constitutes 50% of CROMPTON's lighting revenue. Institutional demand, especially EESL, may take a bit longer to recover.
- Inorganic opportunity – Management would continue to pursue opportunities where there is a strategic fit and value addition.

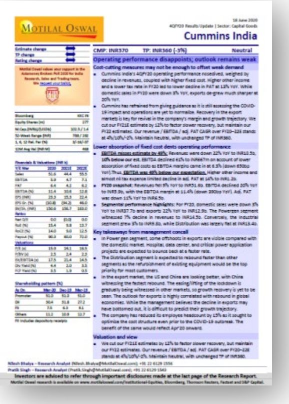
Cummins India — Sell

Current Price INR 430

Click below for
Detailed Concall Transcript &
Results Update

COVID-19 update

- The management expects sales loss of INR1.9b due to the COVID-19-led lockdown imposed toward March-end.
- Ex-COVID-19, 4Q domestic revenue would have declined 6% and export 9%.
- Ex-COVID-19, FY20 domestic revenue would have been up 2%, while exports would have been down 20%.
- Cummins has refused to give guidance this time on account of the COVID-19 situation. Expect a more severe impact due to lockdown in 1QFY21.
- Currently, 50% of factories are operational. Current utilization stands at 35– 40% overall v/s pre-COVID-19 utilization levels of 60–65%. Hence, from a comparison perspective, Cummins is at ~50% of pre-COVID-19 production levels.


18 June 2020

4QFY20 Results Update | Sector: Capital Goods

Cummins India

CMP: INR570 TP: INR560 (-3%) Neutral

Operating performance disappoints; outlook remains weak

Cost-cutting measures may not be enough to offset weak demand

Lower absorption of fixed cost dents operating performance

- Supply chain: There are three clusters of supply chains for Cummins, and these are currently hotbeds of COVID-19. While the company seeks to ramp-up and meet demand, it is still unsure of the pickup in utilization levels. The management expects the next six months to be challenging for the industry.
- Cummins has not had any order cancellations. With the easing of the lockdown, customers have begun taking up the delivery of materials and existing orders. A key monitorable would be growth in new orders. Payments due have largely been fulfilled on time.

Domestic market update

Power generation

- Areas of critical care and data center, technology, hospital, and infrastructure applications are seeing quicker recovery.
- Weakness in the Commercial/Residential Real Estate sectors may continue in the near term.

Industrial

- Expect weakness in the Compressors segment to persist for a while.
- The Construction segment could bounce back quickly if government plans related to spending on roads, canals, and other construction activity are back on track.
- Railways should bounce back quickly. Mining activity did not stop during lockdown, but did slow due to labor shortage. It should bounce back soon as most of the labor force appears to be returning.
- The Defense segment, being predominately government-run, would be in a wait-and-watch mode.

Distribution

- This segment would recover faster than any other segment as customers would be quick to refurbish existing equipment.

Export market update

- The China and US markets are faring better, while other markets are yet to see recovery.
- The fastest recovery has been witnessed in China and other Southeast Asian countries such as Indonesia.
- Expect high HP products to recover faster, while low HP products would take longer to recover.
- Growth in the export markets: Africa was down 40% YoY, Europe 41% YoY, the Middle East 42% YoY, Mexico 20% YoY, and the US just 1% YoY.
- The top 5 markets consist of Europe, the Middle East, Africa, Southeast Asia, and China. The outlook for exports is highly correlated with rebound in global economies. The management believes muted exports would have bottomed out, but is unsure of growth recovery immediately.

Margins

- Other expenses stood higher by INR100m YoY. The forex impact stood at INR20–
- 25m.
- Employee strength was 15% YoY lower by 4QFY20; this would reflect in cost savings from April'20.

Others

- Tax rates would be around 24–25% on a sustainable basis.

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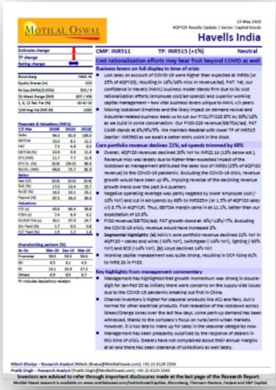


Havells India — Neutral

Current Price INR 598

- Markets are moving in a slow pace as customers and dealers are cautious.
- Urban areas are struggling while rural and semi-urban areas are relatively better.
- Year-end dealer scheme was paid by 31st Mar'20.
- 4QFY20 started on a strong note with consumer business growing in double-digit during the first two months. However, later part of Mar'20 had disproportionate impact on overall sales. The company lost 25% sales due to the lockdown toward end-Mar'20.
- Excluding the COVID-19 crisis, 4QFY20 could have seen growth of 9% YoY.

Lockdown lifting impact

- While urban areas are slowly opening up, demand is coming from rural and semi-urban areas as well. So, there could be a scenario where there is some movement of inventory at dealer end in Apr'20. This would be limited to fans, lighting, ACs, etc.
- Small product category like personal grooming has also seen some pick-up.
- The first 7-8 days of Mar'20 were slightly better than expectation.

Channel support

- During the last 45 days, there have been some collections as against earlier expectation of nil collections.
- HAVL has not seen any issues where dealers have required long line of credit from the company.
- The company does not think there is requirement of heavy discounting presently.

Cost rationalization

- Cost structure rationalization was an ongoing activity even prior to COVID-19.
- Management is looking at new ways on conducting business.
- There have been no pay cuts as yet.

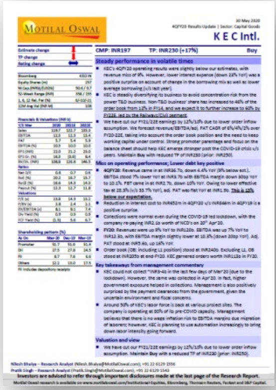
Revenue miss

- Lloyd witnessed lost sales of INR2.5b.
- All put together, HAVL lost INR8b of sales in 4QFY20.

Other comments

- Even though end-Mar'20 sales were nil, inventory may be higher for seasonal products only and not for other products.
- Management believes initial recovery should happen for consumer categories rather than industrial categories.
- Seasonal product sales have been lost and it is too late to recoup the same. There will be some pent-up demand in Jun'20.
- Even if sales happen, initially the channel would look to liquidate first. So, initial few months of demand would be pull-based rather than push-based.
- Dealers have not complained about their annual margins at all.
- On switchgears, there was a mix impact on higher export sales. But, bigger impact was on account of negative operating leverage.
- **Capex –** Management may revisit it depending on the trends and build-up of sales. Most of the capex done over the last two years was for the future. Thus, capex intensity was expected to be lower compared to the last two years.
- Higher depreciation was on account of commencement of the AC plant. Quarterly run-rate should continue going forward.
- There has been no cut in R&D expenses yet.
- While ad-spends were lower this quarter, it is expected to normalize when the situation improves.
- Lloyd is making inroads in multi-brand retail. Modern retail forms 30-32% of the industry. Lloyd is close to this number.
- Industrial sales make up 20-22% of HAVL's revenue, the rest is consumer business.

Click below for Results Update



KEC International — Buy

Current Price INR 284

- KEC could not collect ~INR3-4b in the last few days of Mar'20 (due to the lockdown). However, the same was collected in Apr'20. In fact, higher government exposure helped in collections. Management is also positively surprised by the payment clearances from the government, given the uncertain environment and fiscal concerns.
- Around 50% of KEC's labor force is back at various project sites. The company is operating at 80% of its pre-COVID capacity. Management believes that there is no wage inflation risk to EBITDA margins due migration of laborers; however, KEC is planning to use automation increasingly to bring down labor intensity going forward.
- Order book stood at INR205b (excl. L1 position) with OB/Rev ratio of 1.7x. Order inflows were lower by 20% YoY at INR113b, owing to delayed tendering activity due to the COVID-19 led shutdown. Of all segments, Railways' order book stood at ~INR60b, with management confident of growing it ~30% YoY in FY21E. In 4QFY20, Cables and Civil segment saw healthy order inflows, while Railways reported a drop in orders due to delayed tendering activity.

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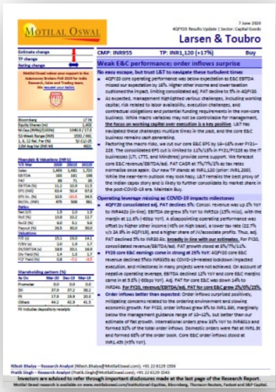


Larsen & Toubro — Buy

Current Price INR 943

- **Strong international order inflow in FY20**: L&T recorded INR578b worth of order inflows (+5% YoY in 4QFY20), supported by strong ordering in the Infrastructure segment. Order inflow increased 9% YoY to INR1.8t in FY20. This was led by strong order growth in the International segment at 33% YoY to INR601b. Domestic order inflow was flat YoY at INR1.3t in FY20.
- **Order book dominated by Infrastructure and Hydrocarbons:** The order book in FY20 stood at INR3.04t, up 4% YoY. The share of international orders stood higher at 25% of the total order book (v/s 21% in FY19). Orders from the Middle East stood at 14% of the total order book. The Infrastructure and Hydrocarbons segment share in the order book stands at 89% cumulatively. L&T has removed slow-moving/non-moving orders worth INR290b. These orders are primarily Andhra Pradesh-related orders, projects subjected to the green tribunal across states, and few buildings orders where viability remains a challenge. The current order book consists of executable orders only.
- **Execution:** L&T has slowed execution in some cases to control working capital. ~5% of the order book has not been moving for the most part of the year, coupled with the COVID-19 impact in the last quarter. The company lost ~INR17.5b in revenue and INR4bn in PAT due to the COVID-19 crisis in 4QFY20. April and May'20 were challenging for operations due to the strict lockdown implemented.
- **On labor situation:** Currently, L&T has an around 120k strong labor workforce. As soon as restrictions were eased, most of the laborers turned back to their homes. Pre-COVID-19, the company had an around 220k strong labor workforce, which fell to 70k when the lockdown was eased. Management believes the situation would normalize over the next 30–45 days if a second wave of COVID-19 does not hit the country. L&T endeavors to raise its labor force to 220k workers to hit higher activity levels.
- **E&A sales update:** This transaction was supposed to be completed by the end of March'20, but things were delayed due to lockdown. Management believes once international travel resumes, the transaction would get fast-tracked. L&T

does not foresee any risk to the consideration amount as all agreements have been signed off. Proceeds from the E&A sale would be used to finance other projects such as the Hyderabad Metro, if the debt level becomes unsustainable.

Key segmental comments

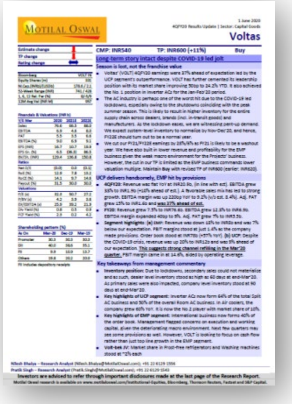
- **Infrastructure:** Strong order inflows were seen in 4Q, driven by domestic orders. Coupled with the COVID-19 impact, many projects could not cross the margin threshold, which led to muted margins.
- **Power:** Strong order inflows have led to the order book getting replenished. Decline in FY20 revenues was owing to a lower opening order book. L&T received favorable claims in 4QFY20.
- **Heavy Engineering:** Order inflow was impacted due to deferments. 4QFY20 revenues were affected due to COVID-19-led shutdown. L&T took cost provisions in 4Q.
- **Defense:** Large order inflows are still missing.
- **Hydrocarbons:** The unexecuted order book stands at three years of revenue, thus providing strong visibility. Despite a strong base, revenue growth stood at 15% YoY in 4QFY20 and FY20.
- **Others:** Delayed handovers in the Realty business impacted revenues in 4QFY20. The Valve business witnessed good growth in 4QFY20. FY19 margins were higher owing to the lumpy sale of commercial properties.
- **Developmental Projects:** The Hyderabad Metro was fully commissioned, but lockdown in March impacted ridership and revenues. The planned InvIT structure for the Hyderabad Metro is currently on hold as the company waits for the Metro to restart.
- **IT & TS:** Mindtree's consolidation led to higher revenue growth.
- **L&T Finance Holdings:** PAT de-growth of 25% was witnessed due to the DTA restatement. 4QFY20 profitability was impacted by higher provisions.
- **E&A business:** Revenue declined 10% YoY. Margin improvement would come in via operational efficiencies.
- **Working capital** as a percentage of sales came in at 23.5%, similar to 2QFY20 levels.

Other highlights

- Borrowing cost at the parent level stood at 7.5%, among the best in the current environment.
- **Working capital:** Around INR15b worth of collections were lost in 4QFY20 due to COVID-19-led shutdown. No deterioration has been witnessed in the quality of receivables. Collections were encouraging in April and May'20. The government has been proactive in such times with timely payments.
- The management view is that larger orders, such as High-Speed Rail, may get further delayed due to funding constraints in such times.
- **Defense sector reforms –** Although FDI has been increased to 74% from 49%, the management does not believe foreign companies would bring technology to India. The collaboration could happen at the fabrication/assembly stage.

VOLTAS

Click below for Results Update



Voltas — Buy

Current Price INR 574

Unitary Cooling Products

- UCP segment grew 50% in the first 11 months of FY20, well ahead of industry benchmarks. Mar'20 witnessed loss of sales due to the lockdown.
- Inverters now account for 50% of the AC business.
- Air coolers: The Company witnessed 60% growth in air coolers. The brand is No.2 with market share of 10%.
- Inventory: Dealers have 60 days of inventory currently. Strong sales have happened in the North/East and some parts of the South post the lockdown. Apr'20 was a complete washout. VOLT has started doing some sales in May'20. The company had 90 days of inventory at end-Mar'20.
- Sourcing: VOLT has adequate inventory at the company level.
- Secondary sales during Apr'19 to Feb'20 stood 30% higher YoY and for FY20, it stood at 24-25% YoY.
- Secondary sales have begun in the North on account of the heat wave.

Electro-Mechanical Projects and Services

- This segment saw delays in execution and payments from customers.
- VOLT has followed a conservative time-based provision.
- Total order book stood strong at INR78b (+57% YoY). International order book was at ~INR30b. Domestic order book stood at INR48b, with orders across key segments like water, metro, airport, solar and electrification.
- International order execution has not suffered as a few domestic order executions, as most construction activities in the Middle East were classified as essential services. However, there was some slowdown in execution.
- Domestic projects – Some amount of delay in timeline and collection of receivables seem inevitable. However, raw material prices have come off.
- Private investments are still subdued. Fiscal constraints are expected to put pressure on government infrastructure spending.

Volt-Bek

- Manufacturing of direct refrigerator has started from Sanand factory.
- The Sanand facility has an annual capacity of 1m units, which can be scaled up to 2.5m units.

Other takeaways

- Clients are holding cash, and hence, there is some delay in receivables. VOLT is looking to focus on cash flows and risk mitigation. The company does not intend using own cash to complete projects if cash payments do not come. Government orders could see delay in payments.
- **Discounting:** Many brands are looking to give large discounts to liquidate inventory while VOLT is not looking at giving large discounts. If there is substantial competition in any particular market impacting VOLT, then the company would act on it. But, it is not looking at cutting prices across the board.
- **E-commerce:** RAC as a product has not been successful on the online platform, even globally, as there is an element of installation. If the E-commerce company offers installation then warranties do not hold. Thus, this is also a determinant for online sales.
- **Working capital cycle** is higher for the EMP segment. For UCP, it would be hardly 23-25 days of receivables.
- **Import v/s domestic sourcing:** Over the longer term, the company needs to lower dependency and become self-reliant. Also, VOLT is looking at alternate sourcing partners domestically.

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- **Industry cement volumes declined ~13% YoY in 4QFY20 due to the nationwide lockdown and plant shutdowns from 24th Mar'20 to combat the COVID-19 pandemic. Managements indicated that Apr'20 was a washout due to shutdown of operations till 19th Apr'20, post which operations ramped up gradually. Cement prices have witnessed hike across regions and are higher by INR10/bag over Mar'20 on an average. Demand recovery in the East/Central India has fared better than the North/ West India due to lesser spread of COVID-19. A large part of the recovery has been driven by robust demand from rural and semi-urban areas, but managements are still cautious on the demand outlook. Industry is likely to benefit from lower fuel and other input costs, as energy prices (oil/pet coke/coal) have been on a downtrend. However, this benefit is likely to be negated by higher per ton fixed cost (staff and other expenses).**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY21	Impact of COVID 19
Dalmia Bharat	▪ 3.0mt new clinker line has been commissioned at Rajgangpur (Odisha), while commissioning of grinding units in Bihar and Orissa have been pushed ahead by 3-6 months to Dec'20 due to labor issues. ▪ Acquisition of Murli Industries will require INR4.0b payment in Jul'20. Murli's cement plant would be operational over the next 12 months.	▪ Volumes declined 7.2% YoY to 5.17mt, lost 0.8mt volume in Mar'20 due to the lockdown.
JK Cement	▪ Cement prices have increased by INR10/bag in North India post lifting of the lockdown. Expect sequential rise in realization but remains cautious regarding the sustainability of demand, which is picking up. ▪ For Line 3 modernization at Nimbahera, INR1.4b (out of planned INR4.0b) was spent till Mar'20; the upgradation will be completed by Dec'20. ▪ Guides for fixed cost reduction of INR600-700m in FY21. ▪ Capex guidance for FY21 stands at INR6-7b. Nimbahera will need capex of INR2.5b in FY21 while Mangrol will need capex of INR4.0b. ▪ Gross debt should peak to INR35b in FY21 while net debt is expected at INR25-26b.	▪ Volumes declined ~7% YoY in 4QFY20 due to the lockdown.
Ultratech Cement	▪ Focus would be on deleveraging, conserving cash, and curtailing FY21 capex to INR10b (v/s INR17b in FY20). ▪ It has deferred capex for the Cuttack grinding unit to FY22E. ▪ The brand transition for Century was completed for ~65% of production (55% up to 3QFY20). Target ~84% production (Chhattisgarh volumes not to be re-branded) to be transitioned to the UltraTech brand by 3QFY21. ▪ Targeting ~10% reduction in fixed overhead costs.	▪ Volumes declined 16% YoY to 21.4mt in 4QFY20 due to plant shutdowns from 24th Mar'20. ▪ Cement plants were shut for three weeks in Apr'20 due to the lockdown. ▪ Capacity utilization in May'20 stood at 65%.

Ambuja Cement

Click below for Results Update

Ambuja Cement — Neutral

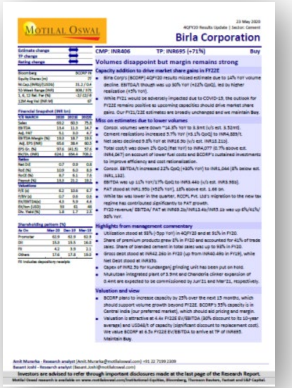
Current Price INR 193

- After the shutdown of operations for nearly four weeks, ACEM resumed operations at some of its plants in a phased manner.
- The company recorded healthy volume growth over January–February, but March volumes were impacted from shutdown due to COVID-19.
- ACEM witnessed decline in power and fuel cost due to operational efficiencies and lower prices, as well as a reduction in logistics cost.
- The company expects demand to stabilize in the near term as rural demand and construction (road and irrigation) should gain momentum post the lockdown.
- ACEM has adopted Ind-AS 116 from 1st Jan'20, which led to a reduction in freight cost by INR98.5m and rent by INR10m. On the other hand, depreciation expense rose INR159m and finance cost INR73m. Other expenses were also

higher by INR162m on account of foreign exchange resulting from the translation of lease liability.

MP BIRLA GROUP

Click below for Results Update



Birla Corp — Buy

Current Price INR 603

Utilization

- All grinding units (barring Raebareli and Durgapur) are currently running at 80-100% capacity.
- Capacity utilization stood at 93% (-5pp YoY) in 4QFY20.
- Capacity utilization for FY20 was 91%, up from 89% in FY19.

Market mix

- BCORP remains focused on premium and blended cement. Sales of its premium slag brand, MP Birla Cement Unique (sold in the East), grew 18% YoY.
- Among new launches, the super-premium Ultimate Ultra brand has been received well in Madhya Pradesh, while Samrat Advanced gained significant ground in the key markets of eastern Uttar Pradesh.
- Sales of premium cement by volume grew 8% YoY and its share within the trade segment rose from 37% in FY19 to 41% in FY20.
- High-yielding blended cement accounted for 93% of volume in FY20 compared to 89% in FY19, helped by BCORP's focus on individual home-builders.

Looking to reduce borrowing cost

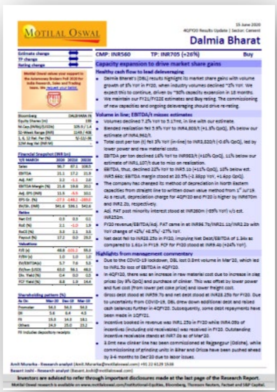
- Gross debt stood at INR42.26b in FY20, up from INR40.49b in FY19 while Net Debt stood at INR35b.
- Board has approved buyback of secured Non-Convertible Debentures in order to bring down borrowing cost, if such opportunity prevails in the market.

Upcoming capacity

- Mukutban integrated capacity of 3.9mt should be commissioned by Jun'21.
- Capex of INR2.5b for Kundanganj has been put on hold.
- Chanderia production capacity would be augmented by 0.4mt and should be completed by Mar'21 with a capex outlay of INR1.5b, out of which 0.7b has been spent till Mar'20.

Dalmia Bharat Limited

Click below for Results Update



Dalmia Bharat — Buy

Current Price INR 719

COVID-19 Impact

- Due to COVID-19 lockdown, DBL lost 0.8mt volume in Mar'20, which led to INR1.5b EBITDA loss in 4QFY20.
- Volumes have recovered in May'20, driven by pent-up demand and strength in the rural markets. Industry is, however, still operating at only 40-45% capacity utilization while DBL is operating at 15-20% below its potential utilization level.
- East India is seeing higher utilization as demand from IHB segment is strong due to movement of migrant labor back to their hometowns in the East. Among the East India states, Bihar and Jharkhand have the best demand.
- Floods in the North East had no impact on DBL's operations.
- DBL is currently not facing any issue regarding transportation, raw material and fuel availability.
- Management, however, remains cautious on demand outlook and is closely watching the evolving demand landscape post COVID-19.

Cost and pricing insights

- In 4QFY20, there was an increase in raw material cost due to increase in slag prices (by 9% QoQ) and purchase of clinker. This was offset by lower power, fuel cost (from lower pet coke price) and freight cost.
- Pet coke prices have softened further in 1QFY21 (from USD66/t in 4QFY20) and are expected to remain in the range of USD60-70/t in FY21.
- Slag and fly ash prices are also expected to remain stable.
- Pricing: 1QFY21 saw price hikes as almost every player raised prices to cover the higher cost of production; however, prices are still lower than May'19 prices.

Debt

- Gross debt stood at INR59.7b and net debt stood at INR28.25b for FY20.
- In order to safeguard liquidity in the wake of uncertainty from COVID-19, DBL drew down additional debt of INR6b in Mar'20 and raised cash balances further. Subsequently, INR3b debt repayment has been made in 1QFY21.
- Debt repayment of INR11.5b is scheduled for FY21, of this; INR7.0b has already been repaid in the current quarter.
- Current debt/EBITDA is 1.34x and management does not expect net debt to increase in FY21.

Capex

- 3.0mt new clinker line has been commissioned at Rajgangpur (Odisha), while commissioning of 4.5mt grinding units in Bihar and Orissa has been pushed ahead by 3-6 months to Dec'20 due to labor issues.
- Due to uncertainty of cash flows, DBL has not provided any capex guidance for FY21. Acquisition of Murli Industries will require INR4.0b payment in Jul'20.

Grasim Industries — Neutral

Current Price INR 624

ADITYA BIRLA GRASIM

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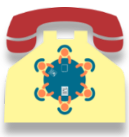
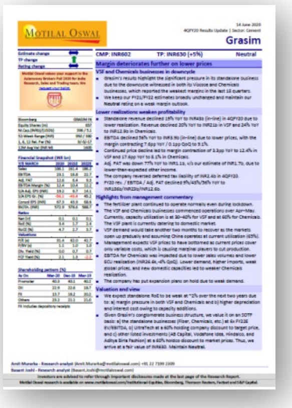
Detailed Concall Transcript &
Results Update





COVID-19 impact on operations

- Sudden lockdown impacted March volumes as the last week is usually a busy season.
- VSF and Chemicals commenced operations over Apr–May. Currently, the VSF plant is operating at 30–40% capacity utilization in June, whereas Chemicals plants are operating at 60% utilization. The VSF plant currently caters to the domestic market.
- The fertilizer plant continued to operate normally even during lockdown.

VSF

- The share of VAP sales in the total sales stood at 24% (+2% QoQ).
- The price premium of VAP over grey increased significantly in 4QFY20.
- Consumption cost for pulp fell to INR53,782/t in 4QFY20 v/s INR60,524/t in 3QFY20. Pulp price remained below USD650/t in 4QFY20 (flattish QoQ).
- VFY profitability was impacted by lower sales volumes (15% down QoQ) due to slowdown in the Automobile market in Europe and an overall weak domestic market due to the COVID-19 shutdown.
- Viscose pricing has stabilized in the Indian market, which has been protected by the government from cheaper Chinese imports.
- Despite COVID-19, Chinese VSF capacities continued to operate at normal utilization levels, leading to inventory pile-up in the absence of domestic demand. Textile demand in China has failed to pick up as expected, which has resulted in high inventory of 125 days (normally 40–45 days), forcing production cuts. Currently, the Chinese VSF industry is operating at ~65% utilization.

- VSF demand would take another two months to recover as markets open up gradually and assuming China operates at current utilization (65%).
- In CY19, global VSF demand grew 7% YoY, implying gains in market share from other fibers as growth in total fiber demand came in lower at 2% YoY.
- Management expects VSF prices to have bottomed as current prices cover only variable costs, which is causing marginal players to cut production.

Chemicals

- EBITDA for Chemicals was impacted due to lower sales volumes and lower ECU realization (INR26.6k,-4% QoQ). Lower demand, higher imports, weak global prices, and ramp-up in new domestic capacities by ~620ktpa resulted in weaker Chemicals realization.
- The Epoxy business' EBITDA improved YoY on lower input prices.
- Chlorine realization was negative in 4QFY20 due to excess supply.
- Demand for Chlorine value-added products (VAPs) improved with increased usage in Health and Hygiene products in the current COVID-19 crisis.
- Chlorine consumption in VAPs improved to 31% in Q4FY20 from 28% in 4QFY19.

Fertilizer

- Industry urea sales for FY20 came in higher by 6% YoY at 31.72 MTPA.
- Grasim's urea production and sales were lower in Q4FY20 at 270KT and 256KT on account of nine days of maintenance shutdown.
- The company received fixed cost reimbursement of INR230m for FY20 from the government in 4QFY20. It expects to receive INR250m every year on account of fixed cost reimbursement.

Cement (UltraTech)

- Volumes were lower by 16% YoY due to the impact of COVID-19.
- Century Cement and the Nathdwara plant reported improvement in realization, operational parameters, and EBITDA/ton.
- Operating cost (Q4FY20) declined on a YoY basis; Logistics was down 3% and Energy 13%.
- Consolidated net debt reduced by INR52b to INR168.6b in 4QFY20. For Indian operations, net debt/EBITDA stood at 1.55x as of Mar'20.

Aditya Birla Capital

- FY20 consol. revenue/PAT after minority stood at INR168b/INR9.2b.
- NBFC and HFC have diversified portfolios, with a focus on growing select segments and strong focus on quality of book, with lower ticket sizes across the board.
- In Life Insurance, in FY20, total gross premiums were up 7% YoY to INR80.1b and renewal premium was up 21% to INR 43.5b; 13th month persistency was at 83%.
- In the Health Insurance business, gross written premiums increased to INR8.7b in FY20, up 76% YoY, with the retail mix at 72% v/s 65% in the previous year.

Others

- Capex spend during FY20 was at INR28b.
- Unspent capex at FY20 end stood at INR49b on various projects, including normal modernization and maintenance capex of INR16b.
- The company has put expansion plans on hold and deferred its capex guidance for FY21 for the time being.
- Standalone net debt stood at INR29.7b in FY20 (v/s INR3b in FY19). This includes interest-free debt of INR3.3b, which the company has repaid in 1QFY21.

THE INDIA CEMENTS LTD

Click below for Results Update

India Cement — Neutral

Current Price INR 126

COVID-19 impact

- ICEM lost ~0.7mt sales in Mar’20 due to COVID-19-led shutdown.
- As a result, India Cement lost INR1.55b in gross profit; however, the overall impact was reduced to INR0.6b due to various cost-control measures undertaken in FY20 and an improvement in NPR by INR38/ton YoY.
- Debtors’ collections were impacted due to COVID-19; collections in Mar’20 stood at INR4.0b v/s INR8.0b in Mar’19.
- As a result, the company had to utilize a higher amount from its cash credit facility, resulting in utilization of INR6.46b in 4QFY20; however, the company has repaid ~INR2.5b, and current utilization stands at INR4.0b.
- The Chennai grinding unit is not operational currently due to lockdown.

Volumes

- FY20 sales volumes stand at 11mt, down from 12.4mt in FY19.
- 4QFY20 sales volumes stood at 2.65mt.
- Capacity utilization stood at 69% in 4QFY20 and 71% in FY20. However, Mar’20 capacity utilization was at 50%.
- Andhra Pradesh and Telangana’s industry volumes declined 36% YoY in 4Q and 23% YoY in FY20. The South India market saw 11% decline in FY20.

Cost reduction in focus

- ICEM is looking to reduce fixed costs by using lesser contractual labor and improving the sales mix in favor of PPC, which has a lower cost.
- The impact of fixed cost reduction should be visible from 2QFY21. On the other hand, the benefit of lower coal and fuel prices is expected to be realized in 3QFY21 as it currently has a higher cost inventory that would last up to 2QFY21.
- ICEM has stopped compensating dealers for selling at a discount to the billing price.
- A rise in diesel prices and increase in lead distance led to an increase in freight cost per ton in 4QFY20.

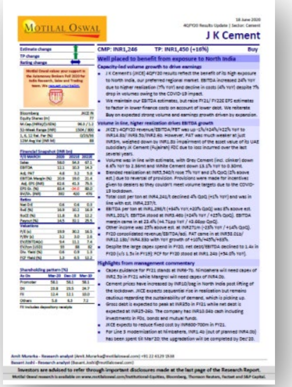
Demand and pricing insights

- ICEM is cautious about demand given the unpredictability of the lockdown. Demand has picked up in geographies where the lockdown has been lifted.
- Prices have gone up from April’20 and are expected to sustain.
- The Rajasthan plant’s utilization has improved as demand has picked up in the northern region.
- Expect strong demand recovery in Andhra Pradesh as the state govt. has started placing orders. Even the Telangana govt. has launched housing schemes that would boost demand.

Debt and capex outlook

- Net debt stood at INR36.2b at FY20-end.
- The company repaid term debt of INR14.b in FY20; INR5.0b repayment is scheduled in FY21.
- ICEM would go slow on its planned Damoh (Madhya Pradesh) green-field project given weak demand currently.
- Maintenance capex for FY21 would be INR700m.
- ICEM is planning an 8MW WHRS at Chilamkur, which would reduce power cost.

Click below for
Results Update



JK Cement — Buy

Current Price INR 1,459

Financial and operational highlights

- INR200-250m provisions for sales incentive scheme for FY20 was reversed in 4QFY20, which led to higher realization by INR30/t.
- Margins were marginally impacted by 2-3% in 4QFY20 due to rebranding exercise and addition of low-margin value-added products.
- No final dividend was proposed in addition to the interim dividend of INR7.5/share.

Cost insights

- Raw material cost is lower QoQ in 4QFY20 largely due to seasonally lower share of white cement business in volume mix.
- Average petcoke cost stood at INR8000/t in 4QFY20; it was lower by INR2000/ YoY.
- Generally, JKCE keeps two months of pet coke inventory; however, it currently has enough inventory to last up to Aug'20. Hence, the company could not benefit from the currently lower pet coke prices.
- JKCE expects to reduce fixed cost by INR600-700m in FY21.
- The company is working on various cost savings projects. It has achieved savings of INR80-85/t in logistics and is working on reducing raw material transportation costs. Full impact of the logistics cost reduction will be visible from FY21.

Demand and pricing outlook

- In the North, sales dispatches started in May'20, while the South opened up in Apr'20. Prices have gone up by INR10/bag post lifting of the lockdown.
- The company expects sequential improvement in realizations but remains cautious regarding the sustainability of demand, which has started picking up.

Debt and cash position

- Gross debt – INR26.21b in FY20, up from INR21.99b in FY19. Net Debt stood at INR16.17b.
- Net Debt/EBITDA improved from 1.56x in FY19 to 1.37x in FY20.
- Average cost of debt stands at 8.75% and is expected to decline by 25-40bp in FY21.
- Gross debt is expected to peak to INR35b in FY21 while net debt should stand INR25-26b.
- The company has INR10.04b cash including investments in FDs, bonds and mutual funds.

Capex and Project status

- Capex guidance for FY21 stands at INR6-7b. Nimbahera will need capex of INR2.5b in FY21. Mangrol will need capex of INR4.0b (including INR2.5b for Line 3). A part of the INR4.0b will be financed through debt. Total amount spent till 31st Mar'20 for Mangrol stands at INR14.95b.
- Nimbahera Cement Grinding (1.0 mtpa), Mangrol Clinkerization (2.6 mtpa) and Cement Grinding (1mtpa), and Aligarh Cement Grinding (1.5mtpa) have been commissioned and commercial dispatches started.

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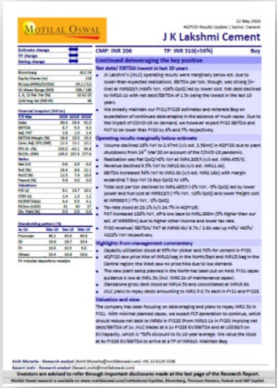

JK Lakshmi Cement — Buy

Current Price INR 284

Clinker utilization remained high in FY20

- 4QFY20 total sales stood at 2.47mt including 0.33mt of clinker sales, whereas total production for the quarter stood at 2.02mt. Total FY20 sales stood at 9.18mt.
- Cement capacity utilization for FY20 stood at 69%, while it was higher in the East at 75%.
- Clinker utilization stood at 95% in FY20 with production of 6.5mt; 4QFY20 production stood at 1.6mt (flat QoQ).
- JKLC's subsidiary, Udaipur Cement Works (UCWL), had 65% utilization in FY20. Sales volume for UCWL for FY20 stood at 1.9mt, including 0.44mt of clinker sales.
- JKLC's plants are currently operating at ~70% capacity utilization as demand from rural areas – where the company has strong presence – is high.

Pricing outlook remains stable

- Current prices are at Mar'20 levels, no hike is expected in the current quarter.
- 4QFY20 saw price hike of INR10/bag in the North/East and INR15/bag in the Central region. The West saw no price hike due to low demand.
- Weighted average price difference in the East/North stood at INR20-25/bag.
- While the industry saw marginal improvement in realizations on QoQ basis, JKLC did not see any improvement due to market mix. This is because Gujarat, which accounts for 37% of sales, did not see any price hike.

Sales mix

- Trade accounted for 80%/55% of sales in the East/North.
- Premium products accounted for 20% of trade sales in the North and 12-14% in the East.
- RMC Revenue for 4QFY20 stood at INR430m.

Demand outlook

- Rural construction has picked up.
- Migrant labor issues would hurt urban demand.

Deleveraging continues

- Standalone gross debt stands at INR14.5b and consolidated at INR19.8b.
- Plans to repay debts amounting to INR2.5-2.7b each in FY21 and FY22E.
- UCWL's gross debt stands at INR5.0b with repayment schedule of 8-10 years.

Major Capex on hold

- Planned capex for a new integrated plant in the North has been put on hold, which would have amounted to capex of INR14-15b if not for the COVID-19 crisis.
- 10MW WHRS at Sirohi would have capex of INR1.2b in FY21.
- Udaipur grinding capacity would have capex of INR0.5b in FY21.
- Total consolidated capex for FY21 is guided at INR2.0b, including INR0.5b for its subsidiary UCWL.

Fuel mix and price

- Current mix stands at 20% coal, 80% petcoke
- Petcoke price stood at INR7,000/t for 4QFY20 (v/s INR8,100/t in 4QFY19) and at INR7,300/t for FY20.
- Full benefit of lower petcoke prices would be visible in the coming quarters, which would be lower than 10% of 4QFY20 average.

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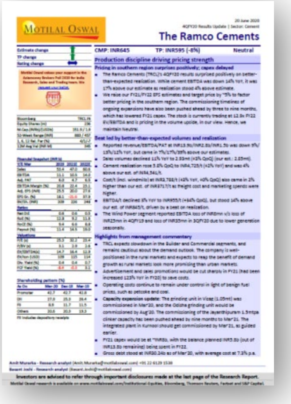
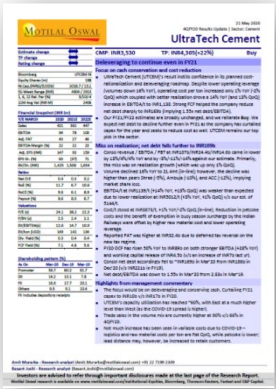


The Ramco Cement — Neutral

Current Price INR 661

- TRCL expects slowdown in the Builder and Commercial segments, and remains cautious about the demand outlook. The company is wellpositioned in the rural markets and expects to reap the benefit of demand growth as rural markets look more promising than urban markets.
- Advertisement and sales promotions would be cut sharply in FY21 (had been increased 123% YoY in FY20) to save costs.
- Operating costs continue to remain under control in light of benign fuel prices, such as petcoke and coal.
- Capacity expansion update: The grinding unit in Vizag (1.05mt) was commissioned in Mar’20, and the Odisha grinding unit would be commissioned by Aug’20. The commissioning of the Jayanthipuram 1.5mtpa clinker capacity has been pushed ahead by nine months to Mar’21. The integrated plant in Kurnool should get commissioned by Mar’21, as guided earlier.
- FY21 capex would be at ~INR8b, with the balance planned INR5.8b (out of INR13.8b remaining) being spent in FY22.
- Gross debt stood at INR30.24b as of Mar’20, with average cost at 7.3% p.a.

Click below for Detailed Concall Transcript & Results Update



Ultratech Cement — Buy

Current Price INR 3,861

Current scenario: Capacity utilization currently at 65%

- The company resumed operations w.e.f. 20th April 2020. It is currently operating at ~65% capacity utilization. All plants have commenced operations, except the grinding unit near Delhi.
- The Cement market is witnessing strong demand from the Retail and Rural markets as people are keen to complete ongoing constructions before the monsoon season begins.
- The share of trade volume (Retail) currently stands at 90% v/s 68% in Q4FY20.
- The company is not facing any labor shortages or logistics issues and could ramp-up utilization in line with demand.
- Plants in the East and Central regions are running at optimum utilization levels; utilization is picking up in the South region, whereas it remains low in West and North.
- Expect strong demand from rural and ongoing govt. infra projects, such as highways, metros, etc., in the post-COVID-19 era.

Q4FY20 insights

- During Jan’20, the company witnessed strong demand growth. However, due to COVID-19, volumes declined by 16% YoY to 21.44mt. Volume decline was higher than among industry peers.
- During Q4FY20, while utilization in the East region remained the strongest at 95%, the Central region saw utilization of only 60%. Utilization ranged between 65–80% in all other regions.
- Overall cost remained under control during Q4FY20, with lower logistics and fuel costs offsetting higher raw material costs. Expect to see the benefit of lower petcoke and fuel prices going forward.

Century - Re-branding and cost reduction to drive EBITDA growth

- The Century plant’s capacity utilization was 80% in 4QFY20 (v/s 55% in Q3FY20). The brand transition was completed for ~65% of production (55% up to Q3FY20). Target ~84% production (Chhattisgarh volumes not to be re-branded) to be transitioned to the UltraTech brand by Q3FY21.

- Petcoke usage currently stands at 69%, flat QoQ. Power consumption reduced by 8% over Q3FY20.
- A one-time cost of INR400m has been reported as part of the process integration.
- During Q4FY20, realization increased by INR160/t QoQ, whereas cost declined by INR200/t QoQ. As a result, EBITDA/t stood at INR575/t (excl. one-time cost).
- The company targets achieving EBITDA/t of INR800+ in the medium term, driven by cost reduction and a realization increase led by rebranding.

Nathdwara operating at EBITDA/t of INR1,400+

- Capacity utilization was at 57% during Q4FY20 (v/s 60% in Q3FY20).
- 14% cost reduction has been achieved through efficiency improvements since the acquisition.
- Average EBITDA/t of INR1250+ was reported in FY20.
- The disposal of non-core assets has been delayed due to COVID-19.
- The commissioning of 10.5MW of WHRS should further improve performance.
- Cash profit of >INR3b was generated during FY20.

Cost reduction to continue

- Spot prices of petcoke were at USD60/t, and petcoke usage at 77% (4QFY19: 67%). Average petcoke price during the quarter was USD70/t v/s USD80/t in 3QFY20.
- The company has achieved a consistent reduction in the consumption of fossil fuel through increasing share in green power. Green power consumption increased to 11.6% (v/s 7.9% in FY19).
- The company benefitted from the exemption of busy season surcharge from the Indian Railways and a better market plant mix.
- The current WHRS capacity is at 103MW; 39MW is under implementation.

Focus on cash conservation: capex to remain lower, overhead cost to drop

- The company has guided for capex of INR10b for FY21 (INR16b in FY20). It has deferred capex for the Cuttack grinding unit to FY22. Of INR10bn, ~INR7b is toward maintenance capex, and INR1.2b for the Bara grinding unit and another 1.2b for the Bicharpur coal block. The company has not allocated any capex spend for Dalla Super in FY21.
- The company has targeted a reduction in overhead cost by 10% over FY20.

Deleveraging continues

- Consol. net debt reduced to INR169b in Mar'20 from INR221b in Mar'19.
- Net debt / EBITDA reduced to 1.55x in Dec'19 from 2.83x in Mar'19. Target to achieve net-debt EBITDA of 1.0x.

- **Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption. Further, they are benefiting by focusing on the Health and Hygiene segments, which have gained significance amid the COVID-19 crisis. Most Consumer companies have been able to resume operations at ~70-90% of their normal levels and it is getting better with every passing day. With smaller players affected on the liquidity front, large branded players are poised to improve their market shares. Discretionary portfolios of companies across the board have been affected, including those of largely staple companies. For example, ice creams for HUL and VAHO for Marico have been affected. However, on an overall basis, these companies are well placed due to their large staples portfolio. On the other hand, companies with major discretionary portfolios are likely to be significantly impacted in 1QFY21 and in some cases for the full-year FY21 as well. The largely benign commodity environment is likely to provide some relief on margins. Stringent cost cutting will be a key focus area for all consumer companies in the near term to fight the current challenging times.**

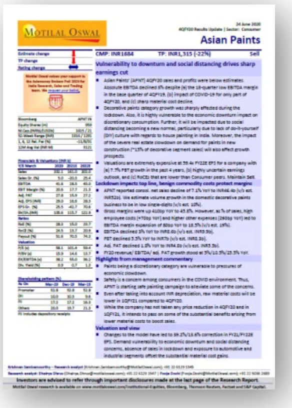
KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY21	Impact Of COVID-19
Asian Paints	■ Paints being a discretionary category face an uncertain demand scenario. New construction, new projects and industrial segment are seeing extremely weak demand. ■ Demand for value-for-money (VFM) products is likely to be better than luxury paints in FY21. ■ Even after taking into account the INR depreciation, raw material costs will be lower in 1QFY21 compared to 4QFY20.	■ Very negative as consumers would avoid painting due to (a) lower discretionary spends, and (b) safety concerns on allowing painters inside the house.
Britannia	■ BRIT witnessed revenue growth of 20%/28% YoY in Apr'20/May'20 owing to (a) high in-home consumption, and (b) the company's nimbleness in ensuring faster availability of products compared to peers. Management believes the trust in brands also plays a big role in times when safety is a concern. ■ Until May'20, BRIT was manufacturing largely high-velocity SKUs given the supply chain constraints. Jun'20 onwards, it would manufacture other SKUs as well as customers now seek variety. ■ In 1QFY21, the outlook for all commodities is weak, including palm oil/milk which were up 18%/50% YoY in 4QFY20.	■ Positive as it has increased in-home consumption of biscuits and snacks. Branded players gain in this scenario due to higher trust perception among consumers.
Dabur	■ Management believes that Dabur's INR10/INR20 packs in most categories would prevent damage to volumes due to down-trading. LUP forms 15-20% of sales. ■ Management expects urban growth to be far slower than rural growth due to lesser impact of COVID-19 in rural areas and few favorable factors like Rabi crop, MNREGA allocation increase and likely good monsoons, etc. ■ Dabur targets to reach 60,000 villages by FY21. It is targeting direct reach expansion from current 1.2m to 1.5m in 2-3 years. ■ Cost savings of INR1b is planned for FY21.	■ Positive as it has increased consumer focus on Ayurveda and naturals category.
Godrej Consumer	■ Management believes that FY21 is a year of resurgence for HI as the company's portfolio is now better than ever. Heightened focus on health is also helping HI sales in these times. ■ Various innovations would be introduced over the next few weeks. GCPL has launched hygiene products across several international markets. ■ Benign commodity environment expected going ahead.	■ Positive as COVID has increased focus on Personal Hygiene and Home Insecticides portfolio.
HUL	■ Near-term outlook remains extremely uncertain. ■ There could be an element of down-trading but HUVR is well placed with strong brands at the lower end as well as across categories. At the same time, LUPs i.e. INR10 packs of premium products are also likely to do well. ■ HUVR is focusing even more on cost savings in FY21. All non-core expenses are being brutally cut. Procurement and media buying are among the key elements of cost savings.	■ Although the company's Home and Personal Hygiene portfolio will grow well, its discretionary portfolio has been significantly impacted, leading to marginally negative overall impact.
Marico	■ Parachute is well placed to gain share from smaller players that have working capital pressures and weak access to distribution. Low unit packs (LUP) would be the key growth driver. The brand is trusted and untouched by hand, which are additional factors that would enable conversion. ■ Saffola is doing well amid resurgence of at-home cooking and rising health awareness. This makes the company confident of double-digit growth in FY21. ■ MRCO is proactively looking at new last-mile options including direct sales model (through tele-calling and mobile app), retail aggregators and initiatives	■ Positive as most of its portfolio is well placed to grow on the back of current trends with higher focus on (a) health and hygiene, (b) in-home consumption, and (c) trust in branded products.

	like saffolastores.in. It would scale up some of these channels eventually. ■ The company would be selective with ad-spends in the core business and focus more on digital media. Cost savings would be a key focus area for the company to deal with the current challenging situation.	
Pidilite	■ Virtually no sales were posted in Apr'20. In May'20, 50% of the markets were open. The rural and semi-urban markets (30–35% of domestic sales) are opening up relatively faster. Some recovery seen in May-Jun'20 may not be the new normal. ■ Some products such as Fevikwik and M-Seal, which find more use at homes, are recovering faster. ■ Current VAM cost is very low at USD650–700 levels on account of low demand and stressed market conditions. Management does not believe these low prices are sustainable.	■ Very negative as demand for adhesives is expected to be significantly impacted in view of the slowdown in real estate and construction activity.
UBL	■ A number of states have increased excise duty due to COVID-19, which has been incorporated in consumer prices. The main increases were seen in Andhra Pradesh (75%), West Bengal (30%), Odisha (38%), Rajasthan (+INR10 in MRP) and Telangana (+INR30 in MRP). COVID-19 tax of 70% in Delhi has been cancelled. ■ On-trade contributes 20% to volumes. There is no clarity on when on-trade would re-open due to concerns related to the rising COVID-19 cases. ■ Maharashtra, Odisha, Kerala, West Bengal, and Punjab have allowed home delivery. Short-term expectations are modest as the home- delivery model is evolving. ■ Barley costs are softening, down 10% YoY, while glass costs are seeing low-single-digit inflation.	■ Highly negative on account of (a) weak demand outlook, (b) high taxes imposed by states on alcohol to compensate for their lower revenues, (c) delay in payments by states affecting the company's working capital, and (d) no clarity on re-opening of the on-trade channel.

asianpaints

Click below for Results Update



Asian Paints — Sell

Current Price INR 1,745

Key highlights

- Jan-Feb'20 witnessed double-digit volume growth in the decorative segment in India. Positive growth was registered in 4QFY20 despite the COVID disruption.
- Volume growth was 11% for the full year.
- Business has seen partial resumption since May'20.
- June has seen better sales than May as consumer confidence is returning but reinforcement of lockdown in parts of Tamil Nadu and Punjab could affect sentiment again.
- Paints being a discretionary category face an uncertain demand scenario.
- Safety is another concern among consumers. Thus, APNT is starting a safe painting campaign to enable demand recovery.
- Demand for value-for-money (VFM) products is likely to be better than luxury paints in FY21.
- APNT does not have very significant exposure to China. It is around 8-10% of some raw materials. The company has alternate sources and alternate vendors.
- Pre-monsoon/pre-marriage painting demand seems to be lost as it cannot be postponed.
- APNT is now operating at 60-70% of pre-COVID operational levels.
- Labor in manufacturing/painting segments is gradually returning. If the situation improves, more people are likely to come back in Jul-Aug'20.
- New construction, new projects and the industrial segment are seeing extremely weak demand. These contribute less than 10% of APNT's sales.

International business

- International businesses were a mixed bag for the quarter.
- The state of South Asia is similar to India in the COVID situation.
- APNT had decent business in Africa and the Middle East where COVID and the lockdown impact is lower.

- Indonesia is also affected by COVID.

Raw material outlook and pricing

- Even after taking into account the INR depreciation, raw material costs will be lower in 1QFY21 compared to 4QFY20.
- There was no price reduction in 4QFY20, but ~1% reduction in prices was witnessed in the decorative segment for FY20. APNT may consider passing on further benefits of benign commodity costs to consumers.
- The company has not taken any price correction so far in 1QFY21 either.

Segmental highlights

- PPG AP was affected by the automotive slowdown in FY20.
- Asian Paints PPG (industrial business) witnessed resilient sales despite the industrial slowdown.
- Provision of impairment in Sleek (kitchen equipment) stands at INR297m.

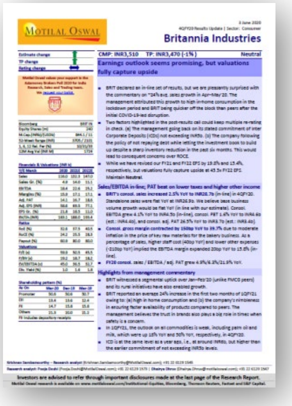
Efforts on dealer relationships

- Sanitized dealer warehouses for free.
- APNT also arranged insurance for dealer employees.
- The company helped dealers get leads for growth in a difficult operating environment.
- APNT also trained them on safe painting.

Britannia Inds — Neutral

Current Price INR 3,677

Click below for Results Update


MOTILAL OSWAL
Britannia Industries

Key highlights

- 4QFY20 has witnessed strong growth over Jan–Feb compared with 9MFY20. Sales and profits for the quarter are estimated to have been impacted by 7–10% due to the COVID-19-led disruption.
- BRIT witnessed a segmental uptick over Jan–Feb'20 (unlike FMCG peers) and its rural initiatives have also enabled growth.
- Direct reach stood at 2.22m outlets as of the end of Feb'20, against 2.1m as of Mar'19.
- Modest inflation of 2% YoY was witnessed on flour and 5% YoY on sugar in 4QFY20. In 1QFY21, the outlook on all commodities is weak, including palm oil and milk, which were up 18% YoY and 50% YoY, respectively, in 4QFY20.
- BRIT reported an average 24% increase in the first two months of 1QFY21 owing to: (a) high in-home consumption and (b) the company's nimbleness in ensuring faster availability of products compared to peers. The management believes the trust in brands also plays a big role in times when safety is a concern.
- Importantly, secondary sales over Apr–May'20 are likely to be just 2–3% lower than primary sales growth.
- BRIT focused on producing more premium biscuits given the production constraints. Contract manufacturing was also utilized as much as possible.
- Until May'20, BRIT was manufacturing largely high-velocity SKUs given the supply chain constraints. June onward, it would manufacture other SKUs as well, as customer now seek variety.
- There is currently a lack of clarity on how demand would be for the rest of the year, but the management is reviewing and reacting on a daily basis.
- By now, peers have also got their acts together, but the management still expects BRIT to do better.

Response to newer products and product pipeline

- Cream wafers and milk drinks are doing well.
- The test marketing of croissants was affected by the lockdown as the Ranjangaon facility was in the middle of the COVID-19 territory.
- The product test marketing of snacks in Andhra was disrupted by COVID-19, but the company expects it to be back to normal soon.
- Winkin Cow Yogurt was launched in East India and has received a good initial response.
- Complete normalcy may not be witnessed for another year or so. BRIT would gradually resume the innovation funnel.

Initial response to COVID-19

- BRIT ensured quick approval from authorities by coordinating consistently with the center, states, and districts. This enabled them to resume operations quickly.
- All factories, depots, and distribution centers are now operational, with safety compliance and social distancing in place.
- The distribution reach was 100% in the first fortnight of the lockdown.

Performances of adjacencies

- Adjacencies such as bread did well in FY20, with high single-digit sales growth and profitability; dairy profitability was maintained and international business, apart from the Middle East, grew in the double digits.

Other points

- ICDs are at the same level as a year ago, i.e., at around INR6b.
- Incremental investments are in non-group entities.
- Loans are also to non-group companies.
- Capex was INR 2.25b in FY20. It is likely to be similar in FY21 depending on demand, but it is currently too early for the management to give a concrete projection.

Colgate

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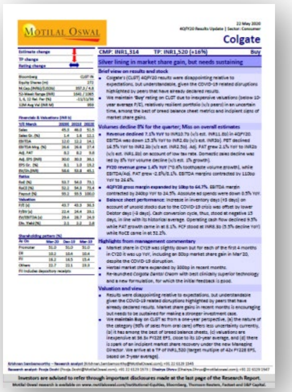


Colagte — Buy

Current Price INR 1,392

Key highlights

- CLGT had a stellar quarter up to the last two weeks of Mar'20.
- Market share in CY19 was slightly down; however, it was up YoY for each of the first 4 months in CY20, including 80bp gain in Mar'20 despite the COVID-19 led disruption.
- CY19 category growth was only 4%.
- Herbal market share was up 300bp in recent months.
- Key focus areas for new MD – sharper focus on driving sales growth, maximizing leadership and bringing in thought leadership.
- CLGT has been rated as the most trusted brand for the 9th consecutive year; the company has witnessed 300bp increase in household penetration over a two year period in 1QCY20 (v/s 1QCY18).

Key recent initiatives

- The company re-launched Colgate Dental Cream with best clinically superior technology and a new formulation. This applies to the INR10 pack as well. CLGT expects to see strong traction here. Also, initial feedback was good.

- Improved Vedshakti had seen strong consumer traction (Jan-Feb'20) before the onset of COVID-19 and has strengthened further in recent months. There has been a 2x increase in penetration.
- Black Toothpaste with charcoal was off to a flying start. It captured ~1% share in modern trade in the first 3 months. It is priced at INR100 and is one CLGT's key bets in the premium portfolio.
- Kids segment – launched products with 0% artificial flavors, preservatives, sweeteners and colors.

Outlook and COVID-19 update

- The COVID-19 impact would be more pronounced in 2QCY20 and 3QCY20.
- Portfolio launches would be significant.
- From the second half Apr'20, the impact of lockdowns has started to ease but there were challenges on labor attendance in plants.
- Plants are operational at 70-80% of normal capacity over the last couple of weeks.
- CLGT is managing stock availability on a granular basis and ensuring product availability.
- It aims to grow its Gross Margins.
- On ad-spends, there could be some recalibration in the current environment compared to 120bp YoY increase in FY20.

Channel performance

- 200bp market share gain in Ecommerce in 1QCY20. Sales were up 7x in the last 3 years.
- 160bp market share improvement in modern trade in 1QCY20, sales were up 1.9x in the past 5 years.
- General Trade - Among all companies, CLGT was rated the most preferred among the distributor community.
- Superior technology and analytics enabled better decision making.
- Would look at reducing wholesale dependence in North India.

On Palmolive

- Wants to be distinctive in terms of products and experience.

Sustainability

- 37,000kl of water usage reduced in the past 3 years.
- 27% wind power usage at the Sanand plant.
- Self-generated power at the Sri City plant.

Other points

- Reached out to 170m kids through the Bright Smiles Bright Futures Program.

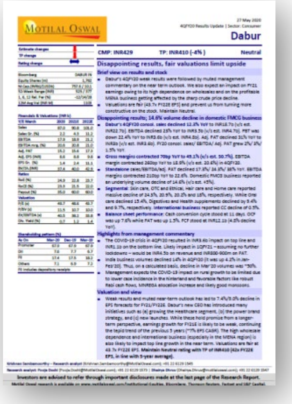
Dabur — Buy

Current Price INR 479

Click below for Detailed Concall Transcript & Results Update

Key highlights

- 6.4% sales growth until Feb'20 declined to ~2% because of adverse COVID-19 impact in Mar'20 as the summer portfolio including juices was affected.
- India business volumes declined 14% in 4QFY20 (it was up 4.2% in Jan-Feb'20). Thus, on a calculated basis, decline in Mar'20 volumes was ~50%. On a monthly impact basis, this is higher than other peers who have reported sales so far.
- In 4QFY20, INR3.6b impact on top line and INR1.1b on bottom line was due to COVID-19.



- Expect INR4.5b revenue impact and INR800-900m PAT impact in 1QFY21 assuming there is no Lockdown-5.
- Management believes that Dabur's INR10 packs or INR20 packs in most categories would prevent damage on volumes due to down-trading. LUP is 15-20% of sales.
- Management expects urban growth to be far slower than rural growth due to lesser impact of COVID-19 in rural areas and few favorable factors like Rabi crop, MNREGA allocation increase and likely good monsoon, etc.
- Western region has been impacted the most by the COVID-19 pandemic.
- Clinical trials are ongoing for an Ayurvedic product as medication for Coronavirus.
- Expect Reliance Jio-Mart to be a potential game-changer in these challenging times when other methods of distribution are facing problems.
- Cost savings of INR1b planned in FY21.

Distribution expansion

- Targets to reach 60,000 villages by FY21.
- Direct reach expansion target from current 1.2m to 1.5m in 2-3 years.
- Rural forms ~45% of domestic sales.

Segments

- Power brand strategy featuring 8 brands would stay its planned course.
- Dabur has been communicating health benefits of their products and has launched a spate of products to boost immunity and aid hygiene.
- Juices category declined by 7.6% in FY20.
- 30bp gain in toothpaste market share in FY20.
- Chyawanprash gained 400bp in terms of market share.
- Honey sales are up by 80% in recent months.
- 15-20% of domestic sales are from immunity boosting products.
- MENA is seeing many headwinds, which is otherwise a profitable business. It is being impacted by oil price decline and Indians emigrating back. These countries are also likely to go into lockdown after Eid.
- Sanitizers would contribute INR1b of sales domestically for the quarter.

Other points

- Current capacity utilization stood at 60-70%. Shortage of contract workers is limiting 100% utilization.
- Company is witnessing low ROCE in the foods business where it has expanded in recent years. Other capex in recent years and high cash on books kept for acquisition have also diluted ROCEs.
- No further provision likely on account of DHFL and Reliance Home Finance.

Emami — Buy

Current Price INR 233

emami

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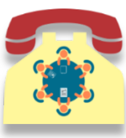
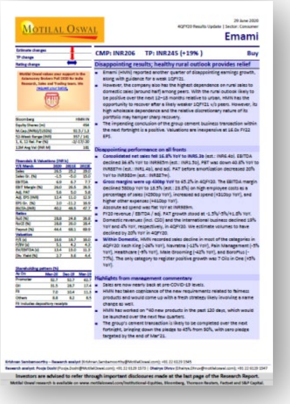


Key highlights

- HMN has ramped-up its production and capacity utilization is back at pre-COVID-19 levels. The supply chain is also nearly back to normal.
- With a heightened consumer focus on health and hygiene, HMN launched the BoroPlus hand sanitizer, the Zandu Ayush powder, a hand sanitizer for the southern region markets, and Zandu Ayurvedic Kadha in Apr'20. It also launched the BoroPlus soaps and handwash in June.
- HMN's summer portfolio was significantly affected due to the lockdown.



- Sales are now nearly back at pre-COVID-19 levels.
- HMN has taken cognizance of the new requirements related to fairness products and would come up with a fresh strategy likely involving a name change as well.
- Rural is expected to do very well, with Emami likely to benefit accordingly.
- HMN has worked on ~40 new products in the past 120 days, scheduled to be launched ver the next few quarters. Expect 3.5–4% of sales from new launches in FY21.
- Expect 100bp gross margin improvement owing to lower raw material costs, including for mentha.

Channels, brands, and cost savings

- Modern trade contributes 9% to sales.
- E-Commerce contributed 1% to sales in FY20, which HMN intends to double in FY21. Good prices, dedicated SKUs (particularly larger packs), and separate teams managing e-commerce channels are factors driving growth in e-commerce.
- HMN is ready with a revival strategy in Fair & Handsome, which was to be implemented in 4QFY20 but was delayed.
- Navratna sales for the summer season were sharply affected due to the lockdown.
- HMN is targeting INR500–600m cost savings in FY21.
- The company has identified several products for launching under Zandu as demand is strong amid the pandemic. These would be more niche products and would be fulfilled by third-party manufacturers.

International business

- The International business was affected more than the Domestic business in 1QFY21. However, it is seeing a pickup in June.
- HMN intends to launch various products under Creme 21 internationally.
- Management expects International to be flat YoY in FY21.

Pledge reduction

- CCI has approved the cement deal, which is expected to be completed within the next fortnight.
- Emami Group has also sold its Solar Power business to a Canadian company.
- Both the above-mentioned deals would help lower the pledge significantly.
- The pledge is expected to reduce to 45% from 90% post the cement deal.
- The pledge is expected to be at zero by March 2021.
- INR1.5b of the INR1.92b buyback amount has already been spent.

Godrej Consumer — Neutral

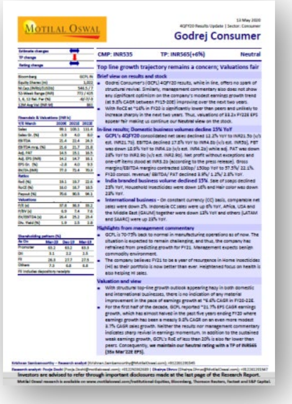
Current Price INR 704

Godrej | CONSUMER PRODUCTS

Click below for Detailed Concall Transcript & Results Update

Key highlights

- Situation would remain challenging, thus, the company cannot predict growth for FY21.
- Would see various innovations in the next few weeks.
- Believe that this is a year of resurgence for HI as the company's portfolio is now better than ever. Heightened focus on health is also helping HI sales in these times.
- April witnessed positive growth in India and Indonesia, while GAUM saw a decline, but the decline was lower than expectations.



- ~70-75% of its manufacturing operations are back to normal currently.
- Hair Color and Air Fresheners are seeing some recovery in demand after weakness in April.
- Benign commodity environment expected going ahead.
- The company skipped final dividend for conserving cash. No cash flow issues.
- Have hired ex-Nestle Nigeria head to help with African operations, specifically to focus on growth and cost optimization.

Operating highlights in 4QFY20 and 1QFY21

- Steady demand growth till mid-Mar'20.
- Virtually no sales in the second half of Mar'20.
- Gained share in almost 70% of portfolio.
- GAUM was also affected by COVID-19 impact.
- Employee costs were down YoY/Q-o-Q as a result of lower performance initiative.
- Ad-spends was lower as many launches happened early in FY20.
- HI has done well in the past 40 days due to favorable season in North India.

Innovation and areas for focus in India

- Would see various innovations in the next few weeks.
- Cost control is a key focus area this year.
- Situation would remain challenging, and therefore, the company cannot predict growth for full-year FY21.
- India and Indonesia have essentials and VFM products. 80% of its portfolio is in the top-3 position.
- Believe that this is the year of resurgence in HI as their portfolio is now better than ever.

Overseas markets

- Indonesia - Economy is running while social distancing is on with malls and schools shut.
- Africa - Down-trading is likely in hair extension, particularly as salons are closed. However, some Chinese imports would also stop.
- Africa - various stages of lockdown going on.
- Have launched hygiene products across geographies.

Hindustan Unilever — Buy

Current Price INR 2,154

Hindustan Unilever Limited

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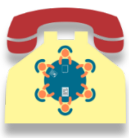
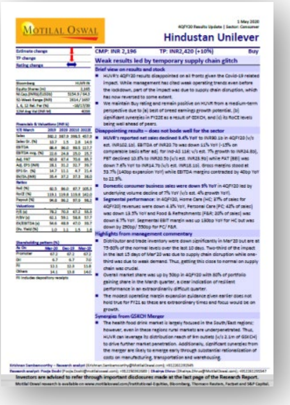
Results Update



Sustained green shoots and recovery in rural demand were not witnessed even before the COVID-19 impact in March.

- Prior to the lockdown, restrictions on movement by various states affected supply chain and operations in the second half of March.
- HUVR was on the growth track before the COVID-19 impact in the second half of March. Normative 3% underlying sales growth (USG) – which would have been the case if not for the impact in the second half of March – ended up as 9% sales decline for the quarter. This means that demand declined by close to 70% (calculated) during the period.
- Near-term outlook remains extremely uncertain.
- Distributor and trade inventory were down significantly in March (close to zero for some time) but are now back to 75-80% of normal levels in the last 10 days, with the situation improving gradually every week. Two-third of the impact in the second half of March was on account of supply chain disruption and one-


MOTILAL OSWAL
Hindustan Unilever
CMP: INR 2,196 TP: INR2,420 (+10%) Buy
Weak results led by temporary supply chain glitch

third was due to weak demand. Therefore, getting this close to normal on supply chain was crucial. Demand has, however, weakened slightly in April compared to March.

- Current rural outlook – Rural growth is likely to improve in FY21 (1) with Direct Benefit Transfers, (2) good Rabi harvest if labor is available and transport is smooth, and (3) if rain is normal as is expected.
- Modest operating margin expansion guidance given earlier does not hold true for FY21 as these are extraordinary times and focus would now be on growth. Also, the company would have to support the system partners to the fullest.

Other highlights from CEO commentary

- The COVID-19 crisis is unprecedented and of huge magnitude. Yet in times of extreme ambiguity, the company is rediscovering its strengths.
- The company was able to ramp up hand sanitizer production capacity by 60x soon after the crisis emerged.
- HUVR is focusing even more focus on cost savings in FY21. All non-core expenses are being brutally cut.
- Procurement and media buying are among the key elements of cost savings.
- Management is confident of its ability to manage this crisis and emerge stronger by growing faster than the market.
- There could be an element of down-trading but HUVR is well placed with strong brands at the lower end as well as across categories. At the same time, LUPs i.e. INR10 packs of premium products are also likely to do well.
- The emergence of 'Red' zones and ports not running to normalcy levels means that production and supply chain are restricted as of now to 75-80% levels.
- Horlicks being a nutrition and immunity builder has been resilient in these times.
- Heightened need for sanitation may eventually come down from the peak levels but is likely to be higher than the past, thus driving premiumization in the skin cleansing category.

Highlights on financials

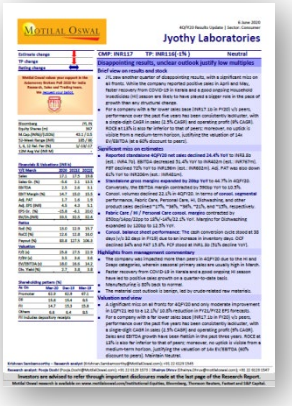
- Overall market share was up by 50bp in 4QFY20 with 80% of portfolio gaining share in the March quarter.
- Supply chain impact along with severe impact on ice creams, water and postponement of relatively discretionary products in the portfolio significantly affected sales in the second half of March.
- Health hygiene and foods were more resilient.
- One-offs in results: 30bp adverse impact on operating margins (+70bp in Home care but -130bp in BPC). Comparable EBITDA margins (adjusted for Ind-AS 116) were down 160bp YoY, which adjusted for the above would be down 130bp YoY.

Other points

- All manufacturing facilities, depots, distributor and even some third party facilities have been completely sanitized.
- Have extended medical insurance to ~20,000 employees including third party employees.
- Innovation – range of new products are likely to hit the market in the next 4-6 weeks (largely on cleansing needs).
- The company would strive to not lay off any people in the June quarter or take any cut in staff costs. Before taking any decision, HUVR would first see how demand pans out.

Jyothy LABORATORIES LIMITED

Click below for
Detailed Concall Transcript &
Results Update



Jyothy Labs — Neutral

Current Price INR 124

Key highlights

- JYL was impacted more in the HI and Soaps categories, wherein seasonal primary sales are usually high in March.
- JYL saw ~5% growth up to 20th March.
- The company once again reported positive YoY sales growth over April-May 2020. The HI off-take has been very good, as has been the case with Dishwashing and Soaps (Margo). Secondary sales are also doing equally well, if not better.
- Faster recovery from COVID-19 in Kerala has also helped the rebound.
- Manufacturing is 80% back to normal.
- There was no extension of credit and no material channel filling.
- The portfolio is largely non-discretionary in nature, which is aiding recovery.

Infrastructure improvements and demand revival

- Most of the 25 factories are in the rural markets, with workers living within the factory premises or nearby.
- Scattered manufacturing is helping the company do better than peers.
- In April, JYL reported 30¡V40% of normal manufacturing operations, which increased to 80% by the end of May.
- JYL is facing numerous constraints, such as one-shift operations in many factories, and only a third of the staff working in several factories. However, states are gradually allowing 10-hour shifts (v/s the usual eight hours) and more staff in factories; the situation should normalize by June end.
- Demand in Maharashtra, Tamil Nadu, and Gujarat may not return to normal in June given COVID-19-led concerns.
- Rural demand is likely to do better.
- Mumbai, Delhi, and Indore are dragging down urban performance, which is doing fine outside of these large cities.
- 60% of modern trade outlets were operational in May. Performance is likely to return to normal levels (pre-COVID-19 levels) post the easing of the lockdown in June.

Ad spends and other costs

- The company has kept ad spend intensity high on key programs and corresponding with key government announcements.
- Ad spends would be in the 15% range in FY21 as well.
- It was unable to cut staff costs and ad spends in 4Q on account of the sudden lockdown.
- Dependence on crude-related raw materials would play a part in margin protection in FY22.
- The full-year FY21 EBITDA margin guidance is at 15-16%.

Other points

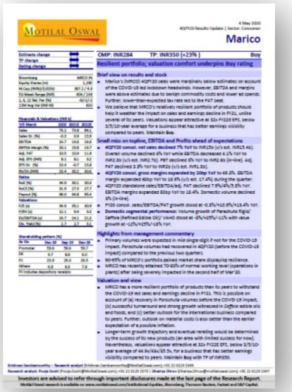
- The Ujala Detergent, Henko Satin Care, and Henko Matic products are doing well.
- T-Shine, re-launched with new packaging, is doing well.
- Margo sanitizers have been launched. Demand is likely to sustain for the rest of the year. The same applies to handwashes, which were a small portion of the Skin Cleansing category earlier.
- The tax rate is expected to be 15% for FY21 and FY22.

- Capex would be modest in FY21.
- Direct reach is 0.85m of the total reach of 3m outlets.
- The Laundry business in a subsidiary was severely affected in the past two months.

Marico — Buy

Current Price INR 352

Click below for Results Update



Holistic view

- The Jan-Feb’20 period was better than the previous two quarters before restricted movement and the subsequent national lockdown came into force.
- Mid-single-digit primary terms would have been witnessed if not for the COVID-19 impact. Parachute volumes had recovered before COVID-19 v/s the previous two quarters.
- 90-95% of MRCO’s portfolio gained market share.
- The company has recently attained 70-80% of normal working levels.
- Saffola is doing well amid resurgence of at-home cooking and rising health awareness. This makes the company confident of double-digit growth in FY21. Value for money for consumers and focus on Gold and Total ranges (have higher realizations) are under focus. No panic buying was witnessed after the second and third week of Mar’20 and yet Saffola is doing well.
- Other than discretionary part of its portfolio, the core part is trending well in the current quarter.
- Expect kirana stores and Ecommerce sales to be much higher this year as they provide quick and safe shopping experience. Premium personal care from chemist outlets would also be more prevalent. DIY personal care brand usage would also pick up in the absence of salons.
- Stronger brands with better distribution networks are doing better in the ‘Red’ zones declared by the government.

Other Category highlights

- Parachute is well placed to gain share from smaller players that have working capital pressures and weak access to distribution. Low unit packs (LUP) would be the key growth driver. The brand is trusted and untouched by hand, which are additional factors that would enable conversion.
- VAHO - There has been a decline in the premium end of the market.
- VAHO Aloe Vera and Dry Fruit oil are doing well among new products.
- VAHO category has not witnessed decline in growth but there has been more of down-trading.
- As VAHO is crude linked, MRCO can pass on the savings in crude cost (due to recent correction in crude price) to regain market share from the lower end by providing value to customers.
- VAHO – Non-sticky and premium segment is getting affected more by the current COVID-19 led disruption. MRCO has disproportionately lower share in this segment.
- Youth portfolio remained weak in April as well.

Five factors that Marico would focus on in FY21

- MRCO’s focus would be to realign its portfolio more toward nutrition and hygiene.

- MRCO is proactively looking at new last-mile options including direct sales model (through tele-calling and mobile app), retail aggregators and initiatives like saffolastores.in. It would scale up some of these channels eventually.
- The company would be selective with ad-spends on core business and would focus more on digital media.
- Cost savings would be a key focus area for the company to deal with the current challenging situation.
- New millennial way of working would be accelerated in the post COVID-19 era.

Overseas business

- Bangladesh and Vietnam (70% of overseas sales) did well. Outlook on both these markets is good from FY21 perspective as well.
- Bangladesh is likely to open up soon from the lockdown, which in itself was less stringent than India. Skin care and baby care are doing well in addition to VAHO. Non-Parachute is 30% of the portfolio and is likely to be 40% in two years.

Other points

- For 4QFY20, ad-spends seem lower YoY due to higher NPD spends in the base quarter with ad-spends on Kaya, True Roots and Crème.
- Work from Home is for only 3-4% of the population and rest of the workforce would have to go to their workplaces post-lockdown. So it is unlikely that VAHO would get impacted after the removal of the lockdown.
- MRCO is supporting channel partners through lower inventory, selective credit, COVID insurance for third-party employees, sanitization of their facilities and using third-party transporters to help distributors.
- Copra costs may be slightly deflationary in the short term.
- MRCO is exploring all means for cost reduction but its first priority would be to protect jobs.
- In FY21, ad-spends could decline by 100bp and still share of voice (SOV) would be higher. For the next 6 months, no shooting of advertisements is likely to happen. Similarly, field sampling is also likely to be low for the next few months.
- Extension of temporary credit to trade, higher proportion of MT toward the year-end and increase in receivables from CSD channel led to an increase in receivable days by 3 days. Control over inventory and higher payables offset this growth, which meant that OCF at ~14.7% and FCF growth at 12.3% was ahead of the ~11.6% increase in PBT.

JOCKEY

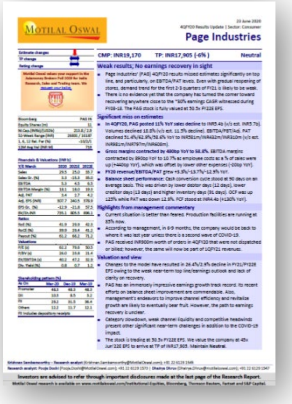
Click below for Detailed Concall Transcript & Results Update

Page Inds — Neutral

Current Price INR 20,577

Key highlights

- Volumes declined 18.8% in 4QFY20 and 3.3% in FY20.
- The current situation is better than expected. Production facilities are running at 85% now.
- 1QFY21 witnessed ~45 days of impact.
- 680 out of 750 EBOs are now operational. EBOs contribute ~20% of sales and some are doing better than pre-COVID levels. However, other EBOs are not performing as well. Stores located in malls were closed.
- According to management, in 6-9 months, the company would be back to where it was last year unless there is a second wave of COVID-19.
- PAG received INR900m worth of orders in 4QFY20 that were not dispatched or billed; however, the same will now be part of 1QFY21 revenues.



Segments

- Focus on leisure wear and online sales have gone up due to customers staying at home.
- As athleisure segment will grow faster, realization growth will be higher. There has been a 700bp swing in the share of athleisure sales in recent months. Athleisure is not more profitable than other segments.
- Junior business showed good traction in FY20 and management is bullish on its prospects. This segment is, however, less than 2% of sales.

Other points

- Own manufacturing gives PAG an advantage at times like this.
- There have been no pay cuts.
- Undelivered goods meant receivable days were unusually lower.
- PAG faced some small issues on supply from vendors but was able to manage.
- IT and manpower costs led to an increase in fixed cost in FY20. The same are non- recurring in nature.
- The company has not yet decided on the quantum of price hikes to be taken this year. It will take a call after reviewing the demand later this year.
- A&P was INR1.14b in FY20 v/s INR1.3b in FY19.

Pidilite Industries — Neutral

Current Price INR 1,399

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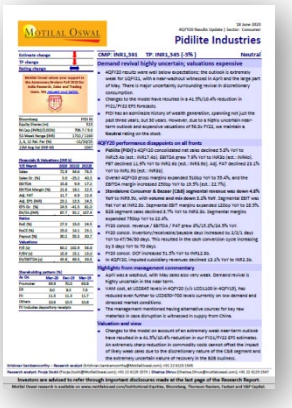


Key highlights

- For 4QFY20, volume and mix in the Domestic C&B segment was down 3.1%, and
- overall volume and mix 4.2% YoY.
- VAM cost was ~USD845 in 4QFY20 v/s USD1100 in 4QFY19.
- The current VAM cost is even lower at USD650–700 levels. Current cost is very low on account of low demand and stressed market conditions. The management does not believe these low prices are sustainable. PIDI has coverage of two months on VAM inventory as of now.
- PIDI has alternative sources for key raw materials in case supply from China is disrupted.
- Virtually no sales were posted in Apr'20. In May'20, 50% of the markets were open (does not necessarily imply PIDI had 50% of sales). The rural and semiurban markets are opening up relatively faster. Semi-urban and rural account for 30–35% of sales in PIDI's overall portfolio in India.
- 70–75% of PIDI's plants are in a position to operate at a reasonable capacity. The management stated these plants may not necessarily be operating at this capacity due to lower demand and shortage of labor. Carpenters and masons are also in short supply.
- The eastern and southern regions (barring Chennai) are also opening up faster than the northern and western regions. Maharashtra and Gujarat are quite slow on recovery.
- The management did not offer any comment on the duration of recovery, stating that even some recovery in May and Jun'20 may not be the new normal.

Other points

- Some products such as Fevikwik and M-Seal, which find more use at home, are recovering faster.

- Waterproofing is facing headwinds due to slowdown in Real Estate. This category has opportunity in smaller towns.
- Distributor inventory is in the usual 7–15 day range.
- PIDI maintained/strengthened market share in major product categories in FY20.
- The company transferred the Waterproofing, Floor Paints, Joineries, and Chemicals businesses from the C&B to B2B segment in FY20.
- PIDI would see savings on discretionary cost in FY21.
- The company has also postponed increments toward the latter part of FY21.
- Interest rate reduction is affecting other income.

Overseas business

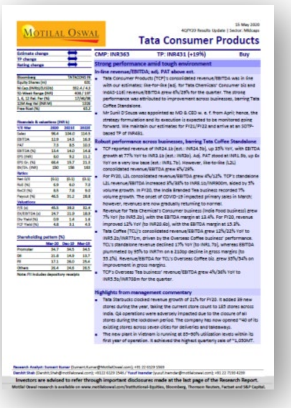
- For 4QFY20, all global businesses (barring Bangladesh) were affected.
- Many international businesses (barring the Middle East and Egypt) were in lockdown, which affected manufacturing; however, several businesses have also seen the reversal of the lockdown by now.
- In FY20, PIDI achieved critical size in Bangladesh, which would aid sales growth in upcoming years.

Buying of stake in Pepperfry and Tenax

- The rationale for buying stake in Pepperfry is to have a closer collaboration and learn about the ready-to-use furniture market as it gains popularity. The company aims to utilize its own adhesives in this category. The consideration for the stake acquisition is INR700m for 2.04% stake.
- In May 2020, PIDI acquired 70% stake in the India subsidiary of Tenax Italy for a cash consideration of INR800m. Tenax is a leading global player in adhesives for marble and granite.

TATA CONSUMER PRODUCTS

Click below for Results Update



Tata Consumer Products Buy

Current Price INR 413

India business

- The India Beverage business grew 7% in FY20 and 6% in 4QFY20, and India Foods 12% in FY20 and 9% in 4QFY20.
- The International Beverage business revenue was flat in FY20 and grew 7% YoY (in constant currency) in 4QFY20.
- Branded businesses globally were moderately impacted due to COVID-19, while food services and out-of-home businesses continue to face headwind.

US Coffee business

- Revenue/Volumes grew 2%/5% in FY20 and 15%/15% in 4QFY20 (Brand).
- EOC Bag's volume share increased to 7.4%. Growth was witnessed across branded bags, K-cups, and private labels.
- Eight o'clock Coffee and Tetley Tea saw strong growth in March, driven by the COVID-19 crisis, due to consumers stocking up. Significant growth was observed in online sales as well.

Other international businesses (UK, Canada, and others)

- Revenue was flat in FY20 and 1% volume growth was seen in FY20, whereas 4QFY20 saw revenue and volume growth of 8% and 3%, respectively.
- UK – The business gained 21.3% market share and 1% annual revenue growth, driven by Everyday black.

- Canada – Market share grew to 28.9% in value terms and saw 6% annual revenue growth. The newly launched product Super Teas has already achieved market share of 3.9% in value terms.

Tata Coffee (incl. Vietnam)

- Revenue and volumes grew 19% and 14%, respectively, in FY20; moreover, 4QFY20 saw revenue growth of 6% and volumes de-grew by 12%.
- The new plant in Vietnam is running at 85–90% utilization levels within its first year of operation. It achieved the highest quarterly sale of ~1,050MT.

JV: Starbucks

- This JV brand is now present in 11 cities with 185 stores in India. Annual revenue growth of 21% YoY was recorded despite the shutdown in mid-March.
- The brand opened 39 new outlets in FY20, and plans to open more stores have been put on hold for now. 34 stores are currently operational.

Tea

- Tea prices in India have declined, primarily due to oversupply from small tea growers. However, a surge in prices has been observed due to the temporary closure of tea estates in India due to the COVID-19-led lockdown.
- Kenyan tea prices also fell, but have stabilized now and are expected to see an uptrend in the short term.

Coffee

- Coffee prices continue to decline, especially for Robusta coffee. The Brazilian Riyal has also had a major role to play in the decline in coffee prices.

COVID-19 impact

- All factories are operational and continue to see high demand in in-home consumption.
- Tea and Coffee sales to retail customers have increased 20–25%, while the B2B businesses in the US and Australia have seen sharp decline. All packaging units and warehouses in India are operational.
- **Tata Starbucks –** All stores in India were closed from 22nd March until mid-April. It has been able to open ~30 outlets for deliveries and takeaways only.
- **Nourishco** was severely impacted as most of the liquid products are consumed out of home. Demand is expected to bounce back following the lifting of the lockdown.
- **Plantations:** All tea and coffee plantations in India were shut until mid-April. However, these have now commenced operations with a 50% labor force. Assam and Bengal are operating with 100% and 50% labor force, respectively.
- **Collaboration with e-com:** There have been tie-ups with several e-commerce and delivery platforms, such as, Swiggy, Zomato, Jubilant FoodWorks, and Flipkart.

Others

- Currency: 40% of the business is international; movement in the USD and EUR impacts the business. The INR depreciated 1.6% and 1.5% against the USD and EUR YoY, respectively.
- Exceptional items of INR2, 750m largely consist of INR520m in merger cost, including stamp duty. INR2200m represents non cash impairment loss on goodwill relating to business in Australia and the US' tea business.
- The tax rate during the year was lower due to the one-off item, which consisted of the reversal of MAT credit and some adjustments to deferred tax.

- Net CFO increased from INR2.1b in FY19 to INR10.8b, of which INR3b relates to the India Food business (Tata Chemicals' Consumer business), and within the base, the Beverages business has managed to release significant cash during the financial year.

United Breweries — Sell

Current Price INR 1,049

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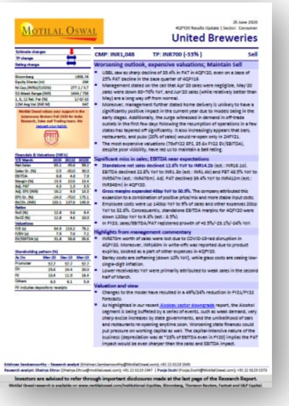

United Breweries

Volumes

- Volumes de-grew 21% in 4QFY20 and saw 4% decline for FY20. Market share was stable up to Dec'19, but unsure of 4QFY20.
- If not for COVID-19, volumes would have been down 6% in 4QFY20 and flat for FY20.
- Volumes were negligible in Apr'20; sales volumes were down 60–70% in May. June was better than May, but a long way from normalcy.
- Barley costs are softening, down 10% YoY, while glass costs are seeing low-single-digit inflation.

Lost sales and expired products impact 4Q

- INR870m worth of sales was lost in 4QFY20 due to COVID-19. Additionally, there was an INR160m write-off due to product expiry, booked as a part of other expenses in 4QFY20.

Regional volume performance

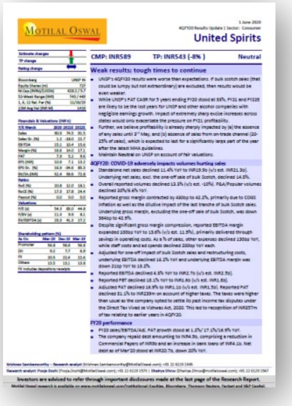
- North: For FY20, growth in Delhi, Punjab, and Uttar Pradesh was offset by decline in Haryana and Rajasthan.
- West: Sluggish demand was witnessed in Mumbai and Goa. The rest of Maharashtra was flattish for the year even before COVID-19.
- East: West Bengal recovered v/s FY19. Odisha was flattish, while Jharkhand reported growth.
- South: High-single-digit growth in TN was offset by the Andhra Pradesh policy impact and Karnataka election curbs.

Other points

- The Andhra situation remains challenging, even more so after a steep increase witnessed in duty in May. Five to six states have increased excise by over 30% in recent months.
- Of the 80,000 outlets selling alcohol in India, 30,000 constitute bars, pubs, and restaurants, which remain closed. Of the remaining 50,000 outlets, sound demand was witnessed in a couple of states in the initial days; this has since tapered off significantly.
- Amstel is now a million-case brand. It is available in the southern states for now and is ranked among the Top 3 in Super Premium in all the states.
- Witbier has been launched in Goa and Karnataka to good response.
- Maharashtra, Odisha, Kerala, West Bengal, and Punjab have allowed home delivery. Short-term expectations are modest as the home delivery model is evolving. Long-term estimates may prove more promising.
- One brewery (Taloja, Mumbai) is yet to resume operations.
- Capex of INR2.5b is expected for FY21, mainly due to be carried forward from last year.
- Lower receivables YoY were largely attributed to weak sales in the second half of March.

UNITED SPIRITS

Click below for Results Update


United Spirits

CMP: INR589 TP: INR543 (-8%) Neutral

Weak results; tough times to continue

United Spirits — Neutral

Current Price INR 594

COVID-19 impact and recent developments

- Lockdown 1.0 and lockdown 2.0 witnessed no sales.
- All factories are currently operating only on single shift.
- 65% off-trade outlets are now open across the country.
- Key challenges for the company include aggressive taxation, down-trading, absence of on-premise sales, and negative impact of COVID-19 on tourism and hospitality.
- Management is unable to predict any demand recovery in states that have taken price increase.
- As of now, the company believes that collections of receivables are under control. 70% of sales is to state corporations, and hence, are safe.
- States are under financial stress and are unable to even pay salaries to government employees. Thus, states are desperate to mop up whatever revenues they can.
- UNSP has received price increases from only 2 states in recent weeks. Price increase window is shut in many states for the next couple of months.
- Green-shoots for the alcohol industry include home delivery and duty being paid on duty-free sales.
- In 4QFY20, some peers increased credit and reduced prices whereas UNSP tightened credit given the risks. Therefore, UNSP may have lost some market share but management does not believe this loss is a cause for concern.
- Recent trends include (a) more demand for larger packs, and (b) down-trading given the tax increases.
- 20-25% comes from on-trade sales.
- Duty-free forms two-third and duty-paid forms one-third of the Bottled-in-Origin (BIO) business. As duty-free consumption would be lower in the near future, UNSP could see some benefit through duty-paid business.

Home delivery and home consumption of alcohol

- So far, six states have allowed home delivery of alcohol. Spirits are easier to transport compared to beer, hence, it could benefit more from delivery.
- Fulfillment of home delivery would be done by retail outlets. Retailers cannot be bypassed given the high license fees that they have paid.
- For many consumers in India, drinking alcohol at home is considered taboo. Nevertheless, a gradual shift toward home consumption could happen.
- Socializing is more of a beer occasion whereas drinking at home is a spirits occasion. Hence, UNSP may do better in the current lockdown scenario. Similar trends have been observed in the US in recent weeks.

Re-launches

- Royal Challenge is currently undergoing a re-launch exercise.
- Initial response to renovation of McDowell's No. 1 has been good.

Other points

- UNSP does not expect hyper-inflation on ENA. 4QFY20 ENA prices have been flat Q-o-Q, but up YoY.
- The company has put in place a strong succession plan for all key company positions.
- For FY20, net sales of bulk scotch declined 1.5% YoY with 0.4% YoY sales growth in the Prestige & above segment.

- **The outbreak of COVID-19 would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. Thus, loan growth trends should moderate due to the consumption slowdown. Banks would exercise caution while lending in the near term with focus on preserving the balance sheet and keeping liquidity levels high. Margins should come under pressure due to the sharp reduction in the repo rate. This should lead to moderation in yield; however, the sharp cut in TD/SA rates by various large banks would offset margin pressure to some extent. On the asset quality front, banks expect the incidence of moratorium to show stable/declining trends under moratorium 2.0 as economic activity is picking up. However, an increase in slippages during 2HFY20 from certain retail and SME/Business banking segments is expected. Thus, banks would continue to strengthen their provision coverage, and thus, credit cost trends would remain elevated. Most private banks have taken board approval to raise capital over FY21E to manage the current crisis.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact due to COVID-19
Axis Bank	▪ It expects credit cost to remain elevated and downgrades in the BB & below pool to continue, which would keep asset quality under pressure. ▪ Near-term focus is on preserving the balance sheet while margins could remain under pressure due to carry of excess liquidity.	▪ As of 25th Apr'20, 10-12% customers had availed moratorium, which is 25-28% in value terms. ▪ The bank has created additional provisions of INR30b toward the COVID-19 crisis, with total contingent provisions of INR59.8b.
HDFC Bank	▪ It expects retail growth to remain tepid over the next few quarters while wholesale trends would remain strong (retail to wholesale mix at 50:50). ▪ The bank has guided for ~3-5% improvement in cost ratios over the next few years led by digital initiatives.	▪ Accounts for which the asset classification benefit has been availed stand at INR10.8b on which the bank holds a provision of INR4.6b (~43%). Overall, the bank made total provisions of INR15.5b toward COVID-19. ▪ It believes that ~9% of the SME portfolio is vulnerable under the stress scenario and expects an additional GNPA impact of ~50bp due to COVID-19.
ICICI Bank	▪ Bank is expecting credit cost to remain elevated and downgrades in BB & below pool to continue. ▪ On the cost side, the hiring rate would slow in the near term, while investments toward digital infrastructure would continue. ▪ Focus would be on maximizing core operating profit in a risk-calibrated manner. ▪ RoE guidance of 15% by 1QFY21 would be delayed by some quarters, with near-term focus likely to be on preserving the balance sheet.	▪ As of Apr'20, ~30% of the portfolio had availed moratorium. High moratorium was availed in the CVs, 2Ws and rural portfolios. ▪ COVID-19 provisions were predominantly toward retail loans. INR12b (10% provisions) was toward overdue accounts, as per RBI guidelines.
St Bank of India	▪ It believes the stressed pool to be manageable and expects profitability to improve. ▪ It also expects chunky recoveries in D3 category accounts (such as Bhushan Power) to support profitability. ▪ Overall, the bank expects staff cost to decline over FY21E. Thus, the C/I ratio would moderate over FY21.	▪ The bank has offered moratorium to all its customers, of which ~92% have paid one EMI, ~82% have paid two or more EMIs, while only 8% have not paid any EMIs. ▪ 13-14% of corporate customers have availed moratorium, while only 16 NBFCs have availed moratorium (less than 5% of the total portfolio). ▪ Overall, 20% of housing loan customers have availed moratorium.
Kotak Mahindra	▪ Expects benefit of interest rate cut on savings deposits to flow into the current year, which could support margins. ▪ Overall, near-term focus would be on preserving the balance sheet and continuing to build strong liability franchise. ▪ The bank is likely to exercise caution in lending to companies with high fixed cost, high leverage, etc.	▪ ~26% of borrowers by value at the account level had availed moratorium as of 30th Apr'20. ▪ Unsecured Personal loans and Credit Cards, MFIs and CVs would see higher delinquencies.

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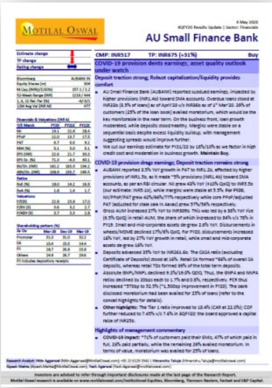

AU Small Finance Bank — Buy

Current Price INR 625

COVID-19 impact

- ~58% of the touchpoints are in the Green/Orange zones.
- ~63% of the business comes from the rural and semi-urban regions, while just 11% from the metro cities.
- In April'20, the bank received collections from ~75% of its customers.
- The bank has made provisions of INR1.38b toward SMA accounts (0, 1, and 2).
- As of 31st March'20, the total portfolio in the 0–89 dpd category was INR27b, on
- which the bank made a provision of 5%.
- As of 1st March, the total portfolio in the 0–89 dpd category was INR36b, which reduced to INR27b by 31st March. This further reduced to INR23b by April end.
- ~71% of customers paid their EMIs, of which ~23% paid partially, while 47% paid in full. Moreover, ~29% of customers availed moratorium. In terms of portfolio value, moratorium was availed for 25% of the loan book.
- On working capital loans, 93% of customers serviced their interest in April'20.
- MSME segment: 56% of customers made full EMI payments, while 23% of customers made partial payments.

P&L and balance sheet related

- March usually contributes 10–15% to annual business.
- Retail deposits increased INR0.8b (CASA + Retail TD) in April and term deposits INR4.96b. Furthermore, the bank opened 13k new accounts in April.
- Expenses were generally higher in 4Q (than 3Q) on account of employee hires and CSR expenses during the quarter. In FY20, 65% of the total expenses were fixed, while the rest were variable costs.
- The bank has surplus liquidity of INR5k parked in govt. bonds and with the RBI. Overall, the cost impact is up to 2bp on the margins.
- The RBI's recent measures to maintain high liquidity levels in the bank are noteworthy. The deposit profile was impacted post the Yes Bank and PMC Bank events. However, the situation has now improved. The bank continues to concentrate on building a stable retail deposit franchise, with a high focus on senior customer deposits.
- ~94% of NBFC customers paid their EMIs in April'20. The bank has 140 NBFC
- customers (enough liquidity over the next six to nine months). NBFC customers' high deposits are parked with the bank, providing further comfort.
- Expect cost of funds to improve over the next six to nine months.
- The bank has no expansion plans in the near term.

Asset quality

- Passenger Wheels: ~18% of this segment comprises taxi businesses. The majority of the portfolio is concentrated in rural and semi-urban areas, with 50–60% of the portfolio currently operational even during the lockdown.
- Cash on Wheels (refinance): ~60% of the refinance is for existing customers only.
- Used Wheels: There has been a higher focus on this segment in the last 18 months. The bank expects 50bp higher delinquency trends than in the New Wheels segment.
- Large operators are putting pressure on the CV portfolio.
- Expect normalcy to return over the next six to nine months.

- Provisions stood at INR5b, of which standard asset provisions came in at INR1.2b; COVID-19 provisions amounted to INR1.38b, with the rest being NPA provisions.

Others

- The bank has significant headroom to raise Tier-II capital.
- The capital raise is an enabling resolution; the bank is expected to decide on this at an appropriate stage. Furthermore, the stake in Aavas is an additional buffer and could be monetized when required.

AXIS BANK

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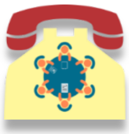

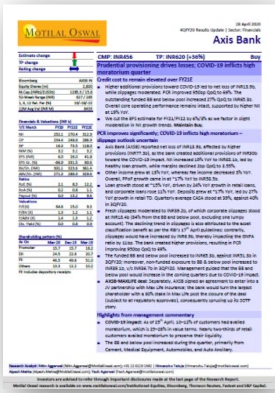

Axis Bank — Buy

Current Price INR 447

On the COVID-19 impact

- AXSB created additional provisions of INR30b toward the COVID-19 crisis; thus, the total contingent provisions stood at INR59.8b as of 4QFY20.
- The bank expects fee income to slow, while provisions to increase in the coming quarters. Also, the BB and below pool of assets would increase in the near term.
- At present, it is difficult to assess how the scenario would play out. Hence, as a prudent measure, AXSB has created provisions toward the COVID-19 crisis.
- The SME portfolio would be more vulnerable and see higher delinquency trends.
- **Breakup of COVID-19-related provisions:** INR730m worth of provisions was created for accounts for which asset classification dispensation was availed; ~INR12b was put toward overdue accounts that availed moratorium and the balance INR18b were unallocated provisions.

Risk profile

- Cash flows and income-generating activities are the primary drivers for underwriting decisions.
- ~80% of the Retail portfolio is secured.
- In the unsecured portfolio, ~82% are salaried customers with a very low default rate. Furthermore, ~67% of the salaried customers are premium employees of large corporates/MNCs and government agencies, which have a strong relationship with the bank.
- SME banking: ~85% of the portfolio is secured, with the balance toward supply chain financing. The avg. ticket size is less than INR40m. The portfolio is spread across 35 sectors in 120 locations. 85% of the SME book is rated SME3 & above.
- Wholesale banking portfolio: 80% of the book is rated A- and above. The bank continues to focus on reducing concentration risk; thus, exposure to the top 20 borrowers as a percentage of tier-1 capital declined to 90%, v/s 112% in FY19.
- As of 25th April, 10–12% of customers had availed moratorium, which is 25–28% in terms of value. Nearly two-thirds of retail customers availed moratorium to conserve their liquidity and had balance in their accounts.

Stress testing scenario

- The bank has classified scenarios into three categories – base, moderate, and severe – based on certain assumptions. Wholesale and SME banking customers were contacted to analyze the stress test.
- Sectors that could face severe stress consist of Transport, Hospitality, Entertainment, Textile, and Export & Import.

On the balance sheet

- The Retail Banking team has been interacting with ~3 lakh customers on a daily basis.
- In the Corporate Banking portfolio, incremental growth has been witnessed in the A- & above rated share of the portfolio, while the low-rated proportion has declined.
- The bank has actively participated in TLTRO and invested in high-rated corporate entities.
- ~70% of retail asset originations in 4Q came from existing customers. Furthermore, 92%/70% of credit card / personal loan originations during the quarter came from existing customers only.
- ~38% of the corporate book has tenure of less than one year. Moreover, 95% of incremental sanctions were in the A- & above rated category.
- LRD accounts for ~50% of the Real Estate portfolio.
- LCR stands at 112%, and the bank holds excess SLR investments of INR484b.
- The RBI has not permitted any moratorium to NBFCs thus far. The bank has offered moratorium to some MFIs.

On P&L

- Retail fees comprise ~64% of the total fees.
- The bank made PSL-related expenses of INR4.64b during the quarter, which kept operating expenses high.
- Post the deal with Max Life, the bank would continue to cross-sell the insurance policies of its other partners as well.

Asset quality

- Total slippages of INR39.2b include technical slippages of INR7b, which were upgraded in the same quarter.
- The bank holds 100% provisions toward land parcels.
- The BB and below pool of assets increased during the quarter, primarily from the Cement, Medical Equipment, Automobiles, and Auto Ancillary sectors.
- The bank has been consistently reducing its international portfolio. It has identified some vulnerable portfolios, part of the BB and below portfolio.

Bandhan Bank

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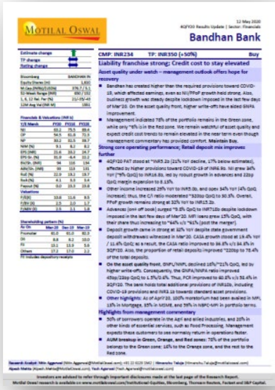
Bandhan Bank — Buy

Current Price INR 395

COVID-19 related

- The bank expects 95–97% of customers to resume normal operations. Post the lifting of the lockdown, it would take four to six weeks for customers to see some normalcy in operations.
- 50% of the bank's borrowers operates in the agri and allied industries, and 20% in other essential services, such as Food and Food Processing. The bank expects these customers to see normalcy in operations faster than other customers.
- 36% of borrowers have alternate businesses and therefore do not depend on a single source of income.
- The bank has created the appropriate COVID-19 provisions based on multiple scenario analyses (such as impacted industry analysis; its prior experience of customer defaults; past events such as the Assam crisis, demonetization, and GST) and COVID-19-affected region.



- Bandhan maintains total provisions of INR10b, INR3.1b of which is put toward standard advances, while INR6.9b toward COVID-19-related issues.
- AUM breakup in Green, Orange, and Red zones: 78% of the portfolio belongs to the Green zone; 16% to the Orange zone, and the rest to the Red zone.
- Collections are yet to begin in the Green zone; however, some customers have already made EMI payments at DSCs.
- Bandhan has launched a COVID-19 emergency credit line and would offer the same to customers who have never defaulted in the past. Under this, additional loans of up to INR50k would be provided.

Balance sheet related

- Collections did not happen in the last 10 days of Mar'20.
- ~79% of micro borrowers have an avg. deposit balance of INR3k, equivalent to four+ weekly installments. Furthermore, the avg. deposit balance stands stable even during the lockdown period.

Mortgage portfolio:

- The avg. ticket size stands at ~INR0.9-0.95m
- Some customers are likely to be impacted in both the Salaried and Self-Employed segments.
- Some customers are likely to have more than one loan.
- LAP constitutes 9–10% of the total Mortgage portfolio.
- ~45% of the customer base belongs to the formal sector.

MFI customer breakdown:

- ~50% of the customers are unique customers of the bank; Bandhan + 1 more lender form ~80%, and Bandhan + 2 more lenders form ~90%.
- Further, 54% of customers fall in the '4th Cycle and above' category.
- The ticket size of unique customers is higher than that of customers with loans with more than one lender.
- Overall, the avg. disbursement ticket size stands at INR62k.
- ~10% of borrowers are in the '10th Cycle and above' category.
- Non-Eastern region deposit growth came in at 51% YoY, while Eastern region deposit growth stood at 32% YoY.
- 81% of the MFI portfolio is concentrated in the Eastern and Northeastern regions, where the share of COVID-19 cases is just 5%.
- In the high-containment zone in Kolkata, the share of business is not very high.

Asset quality

- Write-offs during the quarter stood at INR1.9b, primarily from the Assam-crisis-impacted portfolio, as the bank made provisions of INR2b in 3QFY20.
- The total collection efficiency in March (excluding 10 days of lockdown) was 98%, while it was 93.6% in Assam

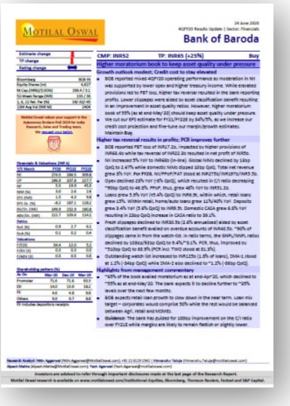
Bank of Baroda — Buy

Current Price INR 51

Click below for Results Update

Opening remarks by Mr. Sanjiv Chadha as new MD and CEO

- The bank is witnessing healthy traction in CASA deposits and expects it to strengthen further.
- Focus would be toward strengthening the balance sheet and being more conservative in NPA recognition norms. At present, the bank provides 20% provisions on the sub-standard NPA category (v/s 15% regulatory requirement).


Bank of Baroda

- Slippage ratio for FY21 should be around the current levels despite COVID.
- The bank is setting a digital lending department with focus on car financing, personal loans and education loans, etc.
- ~80-90% of the savings accounts are opening through tab banking currently.

Moratorium update

- Initially the bank offered 'opt out' facility to all its customers. ~65% of the loan book availed moratorium as at end-Apr'20. It declined to ~55% as at end-May'20. The bank expects it to decline to 35% over the next few months.
- The bank has changed the moratorium policy with 'opt out' facility for only below INR1m while 'opt in' facility is available for above INR1m. Thus, it expects moratorium numbers to decline sharply.

Credit guarantee scheme

- MSME portfolio eligible under the credit guarantee scheme is INR550b, and thus, incremental lending opportunity stands at INR100b. Around two-third of the incremental lending opportunity is already sanctioned, of which, one-third has been disbursed.
- The bank recovered ~INR60b through compromise, NCLT platform, etc. There are few accounts (exposure INR25b), which got upgraded during the quarter.

Balance sheet and P&L related

- Domestic retail term deposits are reflecting strong traction. Further, CASA share is also rising.
- Global NIMs have declined due to the liquidity decision taken by the central banks of different countries.
- Expect retail loan growth to slow down in the near term. Loan mix target – corporates would comprise 50% while the rest would be balanced between Agri, retail and MSMEs.
- The wage hike was assumed at 12%.
- Total re-valuation reserves stand at INR60.8b.
- BOB has small exposure to unsecured portfolio (INR40b – 3% of retail book).
- ~5% of the loans are linked to external benchmark currently.
- In the NBFC portfolio, the 'AA' & above portfolio is ~90% while 'A' & above portfolio is 95%. NBFC forms 15% of the total portfolio with significant focus toward high-rated portfolio.
- Total investment in the Non-SLR category stands at INR520b.

Asset Quality

- Addition to the watch-list largely came from the international portfolio (~INR20b).
- Significant part of the international exposure is toward very high quality portfolio.
- Of the total exposure of INR40b where standstill benefit was taken, the bank has already recovered ~INR15b.
- SMA overdue forms 11% of the total loans, of which, SMA-0 is 8%.
- The bank has a standard asset provision buffer of INR72.5b.
- The bank does not expect any stress due to COVID on large corporate portfolios.
- Total exposure toward DHFL stands at INR20b, on which, the bank has made a provision of INR5b.
- Total security receipts stand at INR17.8b.

Guidance

- The bank has guided for 100bp improvement on the C/I ratio over FY21E as significant cost rationalization is yet to come through branch rationalization.
- It expects margins to remain broadly flattish or slightly lower.
- Recoveries in FY21 would be lower than FY20 impacted by COVID.

DCB BANK

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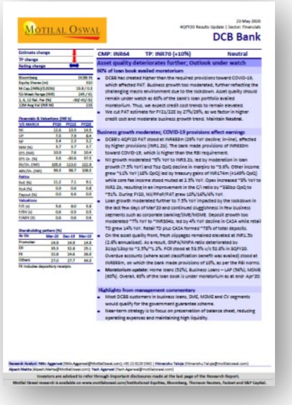

DCB Bank — Neutral

Current Price INR 87

COVID-19 related

- Moratorium has been offered to all customers, except corporate/NBFC customers. Moratorium is much higher in the vehicle portfolio.
- Segmental moratorium: Home loans (52%), Business Loans – LAP (56%), MSME (60%). Overall, 60% of the loan book is under moratorium as at end-Apr'20. Overdue accounts (INR50m and above) worth INR893m are under the asset classification benefit availed by the bank.
- Once lock-down restrictions are eased, loan demand may pick up slowly in 3-6 months. Smaller locations may recover sooner than metropolitan/large cities.
- Near-term strategy of the bank is to focus on preservation of balance sheet, reducing operating expenses and maintaining high liquidity.
- The bank has put limit restriction on all CC/OD facility to reduce risk.
- Extension of moratorium by another three months would give breathing space to cash-flow strained companies to revive and reorganize their business.

Government Guarantee MSME scheme

- Customers are likely to face difficulty in collecting their receivables in the near term, and thus, additional funding would be required to manage liquidity constraints. The Government Guarantee Scheme for MSMEs is important to help MSMEs revive and for normalcy to be restored.
- Most customers in Business loans, SME, MSME and CV segments would quality for the Government Guarantee Scheme.
- The banks can charge lending rates of up to 9.25%.

Operating metrics

- Fee income would decline in the near term as ATM fees, CASA related fees, Penal charges, Processing fees and Loan attached Insurance would be negatively impacted due to the lock-down restrictions.
- NIMs trajectory would decline due to higher slippages in 2HFY21.
- Focus is on having tight control on operating expenses; variable cost is likely to come down significantly.

Balance sheet related

- Retail deposit growth remains strong and comprises ~51% of total deposits. The bank has re-launched a product called Zippi, which is seeing decent volumes.
- During Apr-May'20, retail deposit increased by INR8b.
- The bank is consciously reducing focus on bulk CASA deposits.
- Over the next few years, concentration risk of top-20 depositors is likely to come down below 5% (v/s 9.1% as at May'20).
- The bank is building a granular loan portfolio with an average ticket size of less than INR3.5m, and thus, the exposure of top-20 advances forms ~5.3%.
- The bank has reduced TD rates by more than 100bp over the past few months. Despite cutting TD rates, retail deposit growth has stood strong.
- Customer profile of MSME segment is similar to business loan (LAP) customers.

- Agri, retail and tractor business is likely to revive faster.
- The bank has no plans to raise capital in the near term as loan growth is expected to remain muted during 1HFY21.
- PSLC fee income during FY20 stood at INR400m v/s INR280m in FY19.
- Customer profile: At least 80% are self-employed across business segments.

Asset quality related

- The bank has a floating provision buffer of INR1b.
- DCCB would continue making higher provisions than required in the near term.
- SMA 0/1/2 for self-employed customers is always higher than salaried customers due to cash flow differences.
- CV segment is likely to face higher delinquency in the near term.
- One time restructured book: CV (NR1.3b), MSME (INR430m), Mortgage (INR430) and Corporate (INR100m).
- FTB & Small operators (3-4 vehicles) are the key customer segments in CV book.
- Provisions break-up for 4QFY20: NPA and ageing related provisions (INR450m), COVID related accounts where asset classification benefit was not availed (INR540m), COVID related accounts where asset classification benefit was availed (INR90m), Floating provisions (INR30m), Standard asset provisions (INR100m) and Security Receipts' provision reversals (INR30m).

FEDERAL BANK

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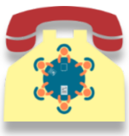

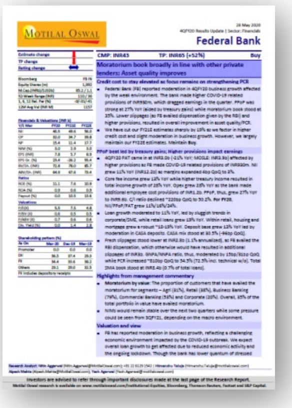

Federal Bank — Buy

Current Price INR 56

COVID-19 related

- Overall, 35% of the bank's loan portfolio has availed moratorium as at 27th May.
- Over the past two weeks, there has been no major change in the moratorium value.
- Within the retail segment, self-employed customers generally prefer maintaining liquidity, and thus, have availed moratorium.
- A very small proportion of NBFC customers have availed the moratorium.

Government Guarantee MSME Scheme

- The bank would focus on the Government Guarantee MSME scheme. It would be done on a case-to-case basis.
- Risk charge attached would be zero, and thus, no capital would be consumed.
- Overall, INR20b of lending opportunity is available over the next 6-8 months.

Balance sheet related

- Liability franchise remained robust during April and May. Retail deposit growth trends have been better in both months.
- Gold loans' portfolio stands at ~INR93b.
- On the liquidity front, the bank wants to preserve liquidity till the operating environment normalizes. The bank plans to bring down the LCR to ~150-160%.
- ~25% of the loan book is linked to the external benchmark, 40% is linked to the MCLR, 5% is linked to the base rate and the rest are fixed-rate loans.
- Further, 30% of the retail portfolio is NR linked.
- **Retail portfolio**
- Gold loan portfolio has been stable.
- **LAP/Home loan portfolio:** 5-7% of the portfolio needs attention.
- Unsecured portfolio proportion remains small.
- Overall, 5-7% of the retail portfolio remains at risk.

Operating metrics

- The purpose of booking treasury gains was to utilize it for enhancing PCR.
- Wage hike provisions made during the quarter stood at INR450m. This is based on 15% wage hike negotiation.
- NIMs would remain stable over the next two quarters and could see some pressure from 3QFY21, depending on the macro environment.
- The bank has affected sharp drop in bulk deposit rates.

Asset Quality related

- The bank would continue to make higher provisions over the next two quarters.
- The bank has a floating provision buffer of INR20m.
- The bank has INR20m exposure to the UAE exchange.
- The bank has nil exposure to tours and travels business.

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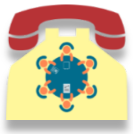

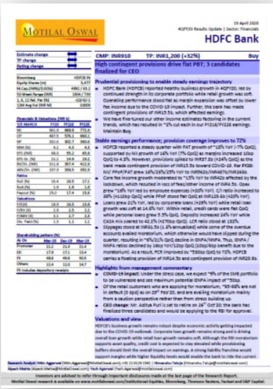

HDFC Bank — Buy

Current Price INR 1,105

P&L & balance sheet related

- Liquidity remains high with average LCR ratio at 132% (INR500b of surplus liquidity available).
- Retail fees contribute ~93% to the core fee income while wholesale forms ~7%.
- Retail growth would continue to remain tepid over the next few quarters while
- wholesale trends would remain strong.
- Portfolio Diversification: The bank has diversified its portfolio across 150 sectors.
- On cost side: Virtual technological platforms need to be adapted; investment on the cyber security side and higher VPN access would also be required. Further digitalization would help in improving productivity and overall cost ratios.
- The bank has guided for ~3-5% improvement in cost ratios over the next few years.
- Retail to wholesale mix would remain at 50: 50.

Unsecured Portfolio

- ~80% of unsecured loans are to salaried customers of which 2/3rd is towards high rated corporate employees while the rest 1/3rd is of slightly higher risk. The difference in delinquency trends for these high-risk profile customers vs others is ~0.09%.
- High CIBIL customers: Delinquency levels ~40-60% lower compared to peers.
- Low CIBIL customers: Delinquency levels 30-50% lower compared to peers. Also, HDFCB is better placed in the self-employed segment compared to market trends. This is mainly due to high underwriting process, multiple bureau and scorecards being considered while making assessments.
- The bank uses several propriety tools to access customer profile.
- The bank will continue to focus on 10-second loan disbursements.
- Expect self-employed segment to face high disruptions in making monthly payments.

Corporate Portfolio

- Corporate portfolio reflects strong growth trends, mainly on account of strong client support and willingness on the part of clients to keep high-cash/liquidity post lockdown. Corporate banking is benefitting from strong disbursement to public sector companies, MNC corporates, etc.
- Strong growth is coming in from power, material, consumer, agriculture and allied sectors, PSL on-lending, etc.

- Top-20 disbursements by value reflect that ~42% is toward working capital requirements, ~24% toward capital expenditure, ~14% toward balance sheet borrowings for acquisition and the balance toward liquidity buffers.
- The bank has not lowered its risk thresholds. Over 92% of incremental disbursements are coming from top-rated clients. Also, HDFCB is continuing to make its portfolio diverse and reduce concentration.
- Cross-sell benefits: CASA in corporate banking has doubled in two years; the bank has witnessed strong traction in corporate salaries.

Wholesale SME & Business Banking Portfolio

- In business banking, each RM is making calls and is in continuous touch with clients.
- Focus is on granular portfolio, geographical spread, risk-mitigation through selffunding, high-collateral value and strong documentation.
- On a regional basis, Punjab, Haryana and UP are showing strong trends while moderate trends are visible in the western region. Also, high customer acquisition has been witnessed from the semi-urban and rural regions.
- ~1,500 new customers were acquired during the quarter.
- ~60-65% of the portfolio qualifies for the PSL purpose.
- ~85% of the borrowers have collateral of more than 100% while 77% of the collateral is in real estate.
- At this point, it would be difficult to assess the percentage of customers availing moratorium; small players with less access to the market are likely to avail this facility.
- Under the stress case, we expect ~9% of the SME portfolio to be vulnerable and to see maximum potential GNPA impact of ~50bp.

Asset quality

- Including contingent provisions, PCR stood at ~90% while PCR including specific, floating and contingent stood at 142%.
- SME segment: Decline in high-risk profile customers visible.
- The bank did a stress test to analyze the COVID-19 impact. At this point, the bank believes that it has made sufficient contingent provisions. If required, the bank would utilize the existing buffer provisions built over the last few years.
- The maximum GNPA impact due to COVID-19 could be around 50bp.
- If not for the RBI's relaxation of NPA norms, slippages would have increased by 40bp.
- Slippages for the quarter came in at INR31.5b.

Asset quality analysis on retail portfolio

- Assumptions: Zero collection in Apr'20. The bank expects weak trends in May'20 while the trend should improve Jun'20 onwards.
- The bank expects maximum impact of INR15.5b due to COVID-19.
- Of the customers applying for moratorium, ~95-98% are not in default (0 dpd) category. The bank did a survey and found that customers availed moratorium mainly from a caution perspective rather than from stress building.
- HDFCB has been cautious of its retail portfolio over the last one year, and therefore, tightened its underwriting standards prior to the crisis itself. Thus, it is better placed to manage the current crisis.

Others

- CEO change: Finalized a list of three candidates and proposal to the RBI for approval would be submitted.
- Another 250 branches are almost ready and should open post the lockdown.
- ~52% of the branches are in rural and semi-urban regions.

- ~6.3m new liability relationships have been acquired during FY20.
- The bank has a credit card base of ~14.5m.
- HDFCB credit rating is 2 notches above the sovereign ratings by S&P.
- HDB Financials has adopted a different methodology and provided moratorium to all its customers.

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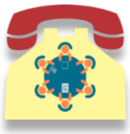

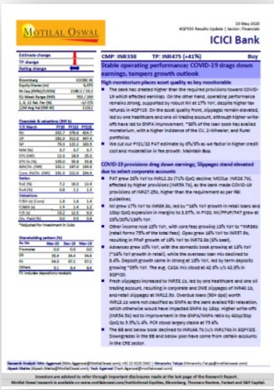

ICICI Bank Buy

Current Price INR 376

COVID-19 related

- As of April'20, ~30% of the total portfolio had availed moratorium.
- The bank highlighted several good corporate customers had availed the moratorium to preserve liquidity.
- The bank witnessed a higher number of borrowers avail moratorium in the CV, 2-Wheeler, and Rural portfolios. This forms ~10–11% of the total portfolio.
- Loans overdue for more than 90 days, but not yet classified as NPA due to the relaxation given by the RBI stand at INR13.1b. The impact on the GNPA ratio would have been ~18bps.
- The bank has created total provisions of ~INR27b toward the COVID-19 impact, predominantly toward retail loans. Of this, ~INR12b is towards overdue accounts, while the remaining INR15b would serve as contingent provisions.

Business segments

- Home Loans: This category has an avg. ticket size of INR3m, which is geographically well-diversified. The avg. LTV is ~65%. The LAP portfolio is based on cash flows, with avg. LTV at 55%.
- Auto Loans: This category is currently witnessing higher delinquency trends in the CV portfolio, and this is expected to increase further. Also, the CE portfolio is likely to face certain challenges.

Unsecured Loans:

- 85% of the portfolio consists of salaried customers.
- 75% of these salaried customers are employed at well-rated entities (MNCs and government agencies); however, delinquency trends were marginally higher in the rest of the salaried portfolio.
- 70% of the Personal & Credit Cards portfolios are from the bank's existing customer base.
- The bank has reduced credit card limits to lower the risk threshold.
- 15% of the unsecured portfolio is toward the self-employed. This segment is expected to be slightly more vulnerable.
- Kisan Credit Card: The bank has witnessed higher delinquency trends in this portfolio in the past few quarters.

Business Banking:

- The avg. ticket size ranges between INR10–15m.
- 85% of the portfolio has a collateral cover of more than 100%, while 87% of the lending is classified as PSL.
- The bank has been witnessing lower delinquency trends in this portfolio.
- SME: This comprises customers with turnover of INR2.5b. The bank has witnessed higher NPAs in the past and thus realigned its strategy toward granulizing the portfolio.

International:

- ~63% of the portfolio is toward Indian companies and their joint ventures, ~7% is owned by NRIs, whereas ~16% is toward non-Indian companies (with India-linked businesses).

- Builder: The Retail Estate portfolio has been under stress since before the COVID-19 outbreak due to funding issues, low sales volumes, and cash flow constraints. The bank's portfolio is quite granular, with large exposure to well-established builders.
- NBFC: Exposure to below-rated entities is just ~2%.
- Non-fund based exposure: The proportion of LC & BG has declined, and stands at ~22% of the total advances v/s 34% in FY16.
- Corporate portfolio: 90% of the fresh disbursements are toward clients rated A- and above, with a focus on reducing concentration risk. Barring the three accounts (Telecom, Power, and Construction), the maximum exposure to the BB and below portfolio is less than INR6b.

P&L and balance sheet related

- The impact of income tax refunds on margins stood at 4bp v/s 10bp in 3QFY20.
- Dividend income from subsidiaries is expected to reduce over FY21E.
- On the cost side, the hiring rate would slow in the near term, while investments toward digital infrastructure would continue. The focus would be on maximizing core operating profit in a risk-calibrated manner.
- If at this point customers move from the MCLR regime to external benchmarking, it would be margin-dilutive for the bank.
- Avg. CA growth, which stands at 17% YoY, is much higher than that of other banks. TD growth has been robust despite interest rates being cut. Overall, cost of deposits has been improving, thereby supporting margins.

Asset quality

- The bank has additional provisions of INR79.4b, which are not considered in the PCR. Of this amount, INR27.25b is toward the COVID-19 crisis, INR34.45b toward general provisions, INR11.8b toward non-fund based o/s to NPAs, and INR5.88b toward standard assets.
- Corporate slippages came from one healthcare and one oil trading account.
- Certain downgrades in the BB and below pool include those from the Commercial Real Estate sector.

Guidance

- ROE guidance of 15% by 1QFY21 would be delayed by some quarters, with the near-term focus likely to be on preserving the balance sheet.

IndusInd Bank — Buy

Current Price INR 526

IndusInd Bank

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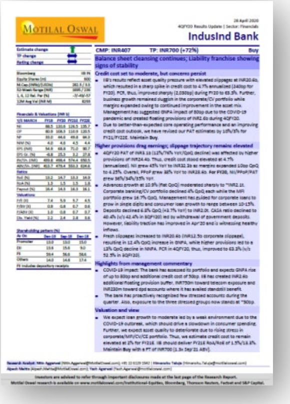
Macro update

- The government has to step in with larger fiscal stimulus to tide over the current crisis.
- The RBI has been active in providing liquidity.
- Repo rate may be cut further to boost demand.

Business related

- Planning Cycle-5 – IIB has added sustainability to its earlier strategy and would roll out a detailed plan once clarity emerges on resumption of economic activity.
- Top-20 advances concentration has decreased from 15% in FY19 to 10% in FY20.
- Exposure to sensitive sectors should continue declining – it has declined QoQ.
- Mr. Arun Khurana has been appointed as Deputy CEO of the bank.
- New team has been constituted with focus on RoRWA for the corporate book.
- LCR ratio of 110-120% was maintained throughout the quarter.
- Deposit would continue growing higher than loans. NII will be one of the key drivers.



Loans related

- Retail growth would be faster vis-à-vis corporate growth.
- Target mix: 65:35 in 2 years in favor of consumer banking with 60:40 by FY20.
- FY21 Guidance: Consumer loans to grow at ~10-15% with CVs growing at ~12-14%, MFI at ~20% and Non-vehicle at ~20-22%.
- Unsecured loans to remain at ~4-5% of total loans.
- Corporate loans to grow at ~6-9%.

Deposits related

- The focus is on building a granular deposits franchise with an increase in retail composition and improved liquidity levels. Loan growth would be aligned accordingly.
- The bank is witnessing retail net deposit inflows of INR500-600m per day. Also, it has witnessed government deposit inflow of INR6-7b. Another INR20b is in the pipeline.
- The bank saw an inflow of INR60b of corporate deposit over the last 15 days.

Asset Quality related

On RBI moratorium

- The bank has offered moratorium to all its retail customers by default (customers can choose to opt out). However, ~95% of customers in its vehicle book have paid their Mar'20 installment.
- NPA recognition has been on standstill as at 1st Mar'20.
- DPD loans under moratorium is just 15bp.
- Collections are coming in Apr'20 as well.
- In its corporate book, the customer has to opt in for moratorium. Very few clients have opted for moratorium

On COVID-19 Impact

- Assumption: ~50% of the country should see resumption of economic activity by 15th-21st May'20, ~25% semi-urban regions should resume by first week of Jun'20, and finally, urban areas should resume by end-Jun'20.
- Sensitive analysis: Additional credit cost impact of 50bp, GNPA impact of 80bp.
- The bank has assessed its portfolio for COVID-19 and has made a provision of INR450m, of which INR230m has been provided for while remaining INR220m would be provided in the next quarter. Further, the bank has created additional floating provision of INR2.6b for COVID-19 (largely to cover MFI and vehicle finance).
- The bank believes the above provision is sufficient as of now. If the situation worsens, it will create additional provisions.
- Credit cost for FY20 was 2.25% (1.45% excl. ILFS and COVID-19).

Credit cost for FY21 is expected at 120-130bp (for business as usual).

- The bank has fully provided for a large infra group (both Hold Co and SPV).
- A tea and a broker account have been completely written off.
- The bank has proactively recognized few stress accounts.
- Exposure to the three stressed groups now stands at ~30bp (of which 12bp is cash flow backed).

Portfolio assessment

- MFI and Vehicle finance – Portfolio continues to perform better than the industry.
- MFI – 99% weekly collection was received till the lockdown was imposed. Virus impact is lower in rural areas. The bank believes that its customer profile is better than the industry.

- Gems and Jewelry – Growth has slowed but it is a profitable segment. ~54% is backed by guarantees, cash, property, etc.
- Corporate Bank – Incremental disbursements are to higher-rated customers.
- NBFC – All are standard accounts.
- Telecom – One account requires relief and the matter is under consideration, if moratorium is given, the exposure is manageable.
- Unsecured credit card/personal loans – 90% of customers belong to CIBIL prime and above category. ~70% are salaried. The delinquency difference between self-employed and salaried customers is ~30bp). The bank has collected ~96% of Feb’20 dues.
- MSMSE – LAP and BBG forms 10% of loans. The exposure is cash flow backed and well collateralized. Taken steps to tighten LTV/underwriting.

kotak

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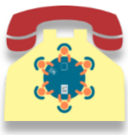

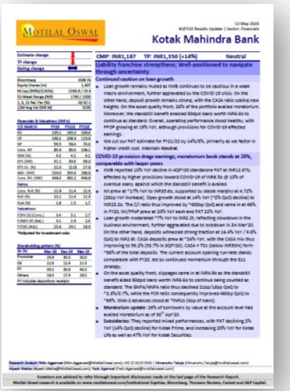

Kotak Mahindra Bank — Neutral

Current Price INR 1,368

Economic package

- The measures announced for the MSME segment would be a big boost for banks/NBFCs in terms of lending as they provide govt. guarantee. Overall, this is a very good package announced by the government.

Business strategy

- The near-term focus would be on preserving the balance sheet and continuing to build a strong liability franchise.
- The lending strategy would remain conservative; the bank is likely to exercise caution in lending to companies with a high fixed cost, high leverage, etc.
- The focus would be more on digital infrastructure and building customer franchise in non-credit risk businesses, such as Asset Management and Advisory.
- The post-COVID-19 world would require less office space, and the work-from home culture would gain popularity. Digital infrastructure and the non-credit risk business would gain considerable attention.
- The Financial sector would undergo a consolidation phase over the next 12–24 months.

COVID-19 related

- Sectors such as Hospitality, Malls, Entertainment, and Airlines would be under pressure.
- Unsecured Personal Loans and Credit Cards, MFI, and CV would see higher delinquencies.
- Customers are availing moratorium even for May.

Operating metrics

- Cost of funds is highly attractive owing to a high CASA ratio.
- The benefit of interest rate cut on the savings deposits would flow into the current year.
- Salary cut: Some revenue impact would be witnessed in the near term. The focus would be on building a sustainable firm, while controlling opex.
- Provision breakup for FY20: INR14b is toward loan loss provisions, while INR7.3b is toward standard and COVID-19 provisions.

Balance sheet related

- Thus far in May’20, the bank has been opening 14k customer accounts daily.
- Savings deposit growth in April remains strong despite an interest rate cut in SA deposits.
- The SME / Business Banking loan portfolio stands at INR210b. A large proportion of business banking customers have outstanding loans below INR250m.

- Overdue accounts stood at ~INR65b.
- The avg. SA balance of 811 customers is lower than that of other customers.
- The Home Loan portfolio is largely given to customers with internal liabilities.

RBL BANK
apno ka bank

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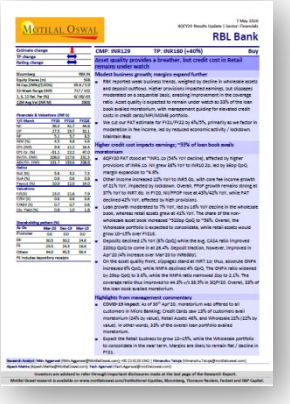

RBL Bank — Buy

Current Price INR 187

COVID-19 related

- As of 30th Apr'20, moratorium was offered to all customers in Micro Banking; Credit Cards saw 13% of customers avail moratorium (24% by value), Retail Assets 46%, and Wholesale 22% (22% by value). In other words, 33% of the total loan portfolio was under moratorium.
- The bank has proactively made provisions of INR1.15b toward COVID-19-related impact.
- Credit cost for FY21E is expected to be largely similar to FY20 levels. However, the proportion of credit cost in FY21E would be higher toward non-wholesale assets (~60%). Overall, MSME/SME and Credit Cards are likely to witness higher credit cost trends.
- ~INR8b th of credit card spend was lost due to lockdown implemented in Mar'20.
- Fee income dropped INR150m, impacted by lockdown.

Balance sheet related

- RBK holds excess liquidity of INR70–80b.
- The bank continues to focus on reducing/de-risking wholesale assets and building a granular portfolio.
- Concentration among the top 20 borrowers further reduced by 4% to 18% in FY20.
- A surge was witnessed in A- and better rated customers.
- Under Base Case scenario: Expect the Retail business to grow 12–15%, while the Wholesale portfolio to consolidate further. The bank plans to focus largely on boosting collection efficiency in the Retail segment.

Micro Banking

- The bank was able to fully collect March collections before the lockdown was imposed.
- ~97% of districts have less than 1% exposure.
- The avg. outstanding per borrower is INR21k.
- The ticket size increased by 7% YoY in FY20.
- 80–85% of the business focus is on rural areas.
- 800 branches are operational, while the center meetings are yet to commence.
- Voluntarily collections have happened thus far, wherein customers have visited the branches and paid in person.

Credit Cards

- The bank has reduced the card limit for risky customers. Overall, 12–15% of the total card customers (2.75m) have seen a reduction in their credit limits.
- 70% of the credit card customers are salaried.
- The bank in its card portfolio witnesses a 30–40bp higher delinquency trend in the self-employed category compared with salaried customers.
- The bank's delinquency trends in cards are ~27% lower than that in the industry.
- ~68% of customers are more than 30 years of age.
- Contribution of spends from big cities has come in lower; spends in April declined 60%. However, post 4th May, spends once again increased 35%.

- Fees earned on credit card spends would be lower in FY21 as spends per card are expected to decline 12% YoY.

SME

- Exposure to sectors impacted due to COVID-19 has been less than 5%.

Asset quality

- After considering the impact of the standstill clause, impact stands at ~9bp on SMA-1 and ~44bp on SMA-2.
- On the disclosed stressed pool of INR18b, the bank maintains PCR of 60%.
- Provision coverage would continue to improve.
- Customers who availed moratorium would not be able to pay for the next three to four months.
- The LAP portfolio comprises a large portion of business loans.
- Credit Cards is likely to drive an increase in retail credit cost in FY21E. Furthermore, MSME/Unsecured Micro Banking would also witness higher trends.
- ~50% of credit card customers who availed moratorium are revolvers.

Operating metrics

- Overall operating expenses would remain under control as branch expansions have already been implemented.
- The margins trajectory would remain flattish to slightly lower.

State Bank of India — Buy

Current Price INR 189

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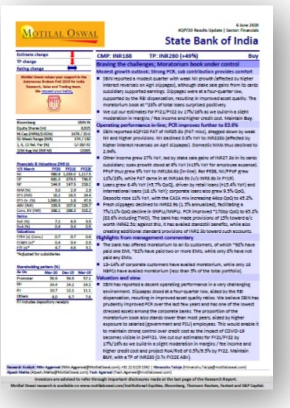

Moratorium update

- The bank has offered moratorium to all its customers, of which ~92% have paid one EMI while ~82% have paid two or more EMIs. Only 8% have not paid any EMIs.
- Total term loan a/c stand at 9.4m, of which 0.9m have not paid any EMI; 0.7m have paid one EMI, while the rest have paid two EMIs.
- 13–14% of corporate customers have availed moratorium (7–8% in value terms), largely to preserve liquidity.
- Only 16 NBFCs have availed moratorium, which contributes less than 5% to the total portfolio.
- ~47% of SME customers have availed moratorium.
- Overall, 20% of housing loan customers have availed moratorium. The bank has ~3.8m outstanding customers for home loans.
- Total working capital loans stand at INR9t, on which ~INR15b worth of interest has not been received and moratorium has been availed, corresponding to ~20%.
- In unsecured personal loans, only 5% of customers availed moratorium.

P/L and balance sheet related

- The bank has gained market share across both loans and deposits.
- The bank expects an operating profit of INR1.4tn over the next two years, of which ~INR400b would be required toward credit cost. Overall, the bank believes the stressed pool would be manageable and expects profitability to come in strong.
- YONO applications are expected to aid credit growth in a big way. Productivity gains have already started to reflect.
- Personal loans are largely lent to salaried customers.

- Overall, the bank expects staff cost to come down over FY21E. Thus, the C/I ratio would moderate over FY21.
- In TLTRO 2.0, the bank has already disbursed INR10b to NBFCs, while the remaining INR20b would be disbursed soon.
- Wage revision provisions were at 10% in FY20.
- Pension provisions increased to INR130b, v/s INR70b in FY19, due to a change in interest rates.
- Deposit growth would slow in the near term as people would spend on basic/essential services.

Asset quality

- The bank believes it is better placed to manage incremental stress than any other bank. This is primarily on account of strong core PPoP.
- No legacy large corporate accounts are left in the existing stress pool.
- The Agri segment has witnessed higher delinquency trends over FY20. However, we expect trends to improve in FY21 as the crop season is going well.
- Slippages were higher in FY20 due to HFC accounts, one account in the Power sector, and Agri slippages.
- The bank expects chunky recoveries in D3 category accounts (such as Bhushan Power) to support profitability.
- 90% of stressed power assets are under IBC, while only six power accounts are outside IBC. Overall, the bank maintains a PCR of 73% on Power sector NPAs.

FINANCIALS/NBFC

- **Commentaries of NBFCs across suggest that most are sitting on adequate liquidity for another 3-4 months. During the lockdown phase 1.0, disbursements and collections came to a standstill across product segments. However, this has witnessed meaningful improvement over the last one month for most players. HFCs have seen significant decline in customers opting for moratorium phase 2.0, while the same has been modest for VFCs. With gradual opening of economic activities, businesses are expected to resume in a phased manner. Most of the managements have reiterated that rural recovery is likely to be much faster than urban.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact COVID-19
Bajaj Fin	■ The share of retail deposits would gradually increase to 75–80% of the total deposits (currently 67%). ■ The co. has lowered fixed opex by 22–24% over the past 50 days. It has introduced Zero-Based Budgeting across business segments. ■ Cost of funds would decline as the CP share increases and bank borrowings reprice.	■ According to management, customers have availed moratorium due to anxiety and not financial stress. ■ Bounce rates in April and May were up 3.5–4x across segments. 68% of moratorium customers did not bounce in 4QFY20. ~2K personnel has been deployed to manage COVID-19-led bounced portfolio collections.
Mahindra Finance	■ Eight to nine areas were identified to reduce opex by 40–50bp over the year. ■ Do not expect customers to surrender assets. A delay is expected, but not a default. ■ Mahindra HFC would go slow on disbursements and focus on recoveries.	■ 75%+ customers opted for moratorium. Decent collections were reported in April. Collections in 15 days of May equaled April collections. ■ Due to the COVID-19 situation, MMFS lost the potential for a 150bp improvement in the GNPL ratio from loan settlements and recoveries.
L&T Fin.	■ The launch of unsecured business loans has been postponed to 2021. ■ The company would consider other options such as sales and mergers if the regulator does not grant concessions on the IDF book merger. ■ Economic recovery would undoubtedly be led by rural India.	■ Positive asset liability management (ALM) has been witnessed even after factoring the impact of moratorium on the asset side. LTFH has not requested its lenders for moratorium. ■ Collections for March would be treated as an advance for the June payments of MFI loans. ■ In RE lending, only 28% of the portfolio is under moratorium on account of significant prepayments (due to sweep-ins). However, a substantial increase is expected in the moratorium percentage in April and May.
LIC Housing	■ The company believes there is good demand in affordable and mid-segment homes. LICHF saw fresh sanctions of INR20b in the first two weeks of Jun'20.	■ 92% collection efficiency has been seen in non-moratorium loans in the past two months. ■ The company used four different COVID-19 scenarios to arrive at expected credit loss (ECL) for the quarter. INR800m COVID-19 provisions were created during the quarter.
Muthoot Fin.	■ 15% growth is targeted on the Gold Loan portfolio for the full year. The co. is looking at calibrated growth in the vehicle and housing finance subsidiaries. ■ Yield could be marginally lower in FY21 as penalty charges have been disallowed; however, it should be able to maintain RoA. On average, spreads would be ~12%.	■ No provisions were made in March for the Gold portfolio. It provided INR18.5m for the MFI book. ■ MFI: Collection efficiency was at 95% in March, 17% in April, and 35% in May; expect June to be at 65%. ■ Since most of the gold loans are of 4–5m actuarial tenure (granted for 12m), none of the Gold Loan borrowers have sought moratorium. MUTH has informed its customers that it would not undertake any auctions during the moratorium period.

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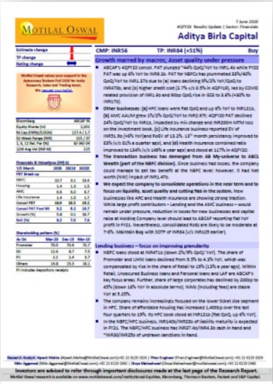

Aditya Birla Capital — Buy

Current Price INR 66

Business updates

- Life/Health Insurance new premiums grew 10%/ 49% YoY in May'20.
- In Life Insurance, the company has achieved 81% premium renewal rate in Apr'20, which has increased to pre-COVID levels in May'20.
- Targeting INR1.5-1.7b cost savings across platforms in FY21.
- Few mid-large corporate NPLs are under resolution, but are delayed due to the lockdown.
- The AMC business has witnessed INR13b of equity inflows in Apr-May'20.
- In the NBFC segment, the company looks to grow in retail secured lending and affordable housing finance.
- In the Life Insurance segment, 6% premiums are from individual protection. The share of protection insurance is on an uptrend (10% share in Apr'20).
- Looking at 8-9% cost saving in the HFC business.
- INR200m MTM losses in the AMC segment from proprietary investments in AMC schemes.

Asset Quality/Moratorium

- 43% of retail customers have opted for moratorium. Expect moratorium rate to come down as the economy starts opening up.
- Security in most cases is hard security such as property and not just cash flow.
- Reclassification of stage 2 assets from the erstwhile 30-60dpd (followed by ABCAP) to 61-90dpd has led to some movement of assets from stage 1 to stage 2 during the quarter and the full year.

Liquidity/Funding

- HFC segment has received INR2.28b NHB sanction; it has also raised INR4b during the lockdown.
- 95% of borrowings are long term. The borrowing mix: Term loans - 40%, NCD - 38%, CP - 5%, Sub-debt - 4%, ECB - 6%.

Others

- 75% of MSME unsecured loans are covered by GoI's MSME emergency credit line.
- Dividend of INR211m from AMC and Insurance Broking business was recognized during the quarter.
- De-merger of businesses to be opportunistic.
- Health Insurance: Combined ratio improves 1,500bp to 134%.
- ~85% of branches are operational as of now.

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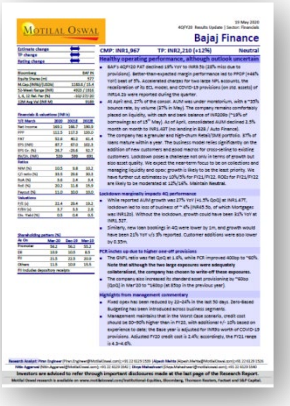
Bajaj Finance — Neutral

Current Price INR 3,353

Activities at ground level and view on resumption of operations

- 1926 branches, of 2392, have been re-opened in urban and rural areas.
- The B2B business commenced in 1583 at urban and rural locations. These branches saw 22–25k applications daily.
- The B2C and SME segments are not expected to resume operations until the lockdown has been lifted. They would commence from the Green and Orange zones June onward.


Bajaj Finance

- B2B Rural has resumed operations, whereas B2C Rural has adopted a similar strategy as the urban locations. Gold loans are expected to grow at a higher rate.
- In Mortgages, most of the business is generated from the top 30 locations, which are in the Red zone and are likely to take time to regain momentum.
- Commercial lending has been halted and is only for existing customers.
- LAS BAU; however, higher volatility is resulting in low activity.
- In the near term, the focus would remain on ETB (Existing to Bajaj) v/s NTB (New to Bajaj).
- Expect the Rural business to recover the fastest.

Views on moratorium

- 27% of cons. AUM is under moratorium; 68% of these have no bounce history. Ex-Auto Finance, the moratorium stands at 22%.
- According to the management, customers have availed moratorium due to anxiety and not financial stress.
- The bounce rate among salaried customers is lower, but the 3x jump in bounce rates is similar for both categories.
- Interest rate remains the same for customers under moratorium.

Views on liquidity and liability

- Cash balance (19% of borrowings) of INR209b and SLR investment of INR33.1b was reported. 1H would continue to operate on a high-liquidity model.
- The share of retail deposits would gradually increase to 75–80% of the total deposits (currently, 67%).
- Cost of funds would decline as the CP share increases and bank borrowings re-price.
- The CP book should be 9–10% of borrowings; hence, the share is being increased of late.
- There is a continued focus on the 'Systematic Deposit Plan'.
- In the normal course of business, three-month loan repayments would amount to INR200b.
- ECB of INR53b was reported on BS – three-year tenure; sub-8% fully hedged cost (most recent transaction of $75m came in at 7.2%).
- Deposits: Retail deposits grew INR2b in April, while corporate deposits declined INR10b.

Views on fees and operating expenses

- 300k health cards were sold to existing clients in April and May. The client pays INR700. The 'Health' card is for spending at multi-specialty hospitals.
- Fixed opex has been reduced by 22–24% in the last 50 days. Zero-Based Budgeting has been introduced across business segments.
- ~2K personnel were deployed to manage COVID-19-related bounce portfolio collections.
- 2800 officers have been employed to for higher collections.
- No new branches would be launched until September 2020.

Details on asset quality

- Additional provisions during the quarter include: a) INR1.3b based on ECL changes, b) INR9b for COVID-related, and c) INR3.9b for two large accounts.
- The impact of changes in RBI guidelines on GNPA/NNPA stood at 6bps/5bps.

- Standard asset prov. of 1.6% is reported v/s 1% a quarter ago and 85bp a year ago.
- 23bp/14bp impact would have been observed on GNPA/NNPA if customers with 60 DPD had been given moratorium.
- Management maintains that in the Worst Case scenario, credit cost should be 80–90% higher than in FY20, with additional +/- 10% based on experience to date; the Base year is adjusted for INR9b worth of COVID-19 provisions. Adjusted FY20 credit cost is 2.4%; accordingly, the FY21 range is 4.3–4.6%.
- Provisions under Ind-AS are much higher than under IGAAP.
- Write-offs for IL&FS and Karvy totaled INR5.87b cumulatively, expect some recovery from Karvy.
- Long-overdue NPLs in Auto Finance were written off.
- Only collections for the SME business were carried out by the company; the rest was conducted through an agency infrastructure (largely a proprietary model). Impact of lockdown in last 15 days in March
- AUM growth was lower by 4% (INR45.5b, of which Mortgages was INR12b) and would have been 31% YoY at INR1.52T.
- New loan bookings were lower by 1m, and growth would have been 21% v/s 3% reported.
- New customer additions came in lower by 0.35m.

Other highlights

- INR15b was invested in BHFL.
- No final dividend was declared. Interim dividend was INR10/share.
- The Top 15 cities in India account for 30–40% of the total consumption.

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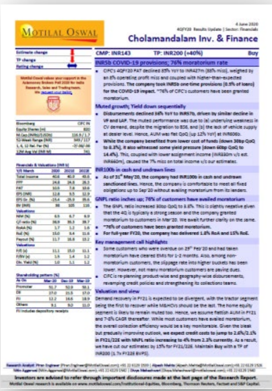
MOTILAL OSWAL
Cholamandalam Inv. & Finance

Cholamandalam Inv. & Finance — Buy

Current Price INR 213

Business Updates

- CIFC is re-planning product-wise and geography-wise disbursements, revamping credit policies and strengthening its collections' teams. In the digital space, the company is working on end-to-end digital integration with auto OEMs and channel partners, setting up alternative digital collection modes and remote investigation of field assets using video PD, digital KYC, etc.
- Reached out to all 1m+ VF customers to understand cash flows and vehicle status.
- Tractor sales in May'20 were flat YoY.
- Do not expect to raise further equity capital.
- 7,000+ collections executives and a similar number in sales. Currently, sales and credit managers are also working on collections.

Asset Quality/Moratorium

- CIFC chose to not give moratorium to 180dpd+ customers.
- Only a few non-delinquent moratorium customers are paying back right now.
- Number of customers taking Moratorium 2.0 will be similar.
- Moratorium rate across product segments: VF – 79%, HE – 66%.
- GNPL ratio: VF – 2.7% (INR13.56b).
- PCR has declined to 31% due to lower LGDs.
- 93% of self-employed customers have opted for moratorium.

Data points on collections

- NRRB (Normalizing and rolling back): Customers who honor one of the overdue EMIs are rolled back, and the ones who honor all overdue EMIs are normalized. Higher the ratio, better is the asset quality. Currently no billing is happening for these customers as they have opted for the moratorium, hence the ratio is improving as they are clearing past dues.
- Roll Forward Customers: Since the current month billing is not happening, there are no roll forwards, and hence, the ratio is reducing.

Demand outlook

- LCV comprises three segments – Pick-up segment, 4-7ton segment and LCVs. Within these, the Pick-up segment would do well due to last-mile transportation.
- Expect used CVs to do better. Prices are up ~20% due to the BS6 transition of new vehicles.
- 3Ws/SCVs – Demand would be the least impacted.
- HCVs and CE – Expect recovery to be sluggish.
- Entry level 2W sales would improve while other 2W sales may not.

Others

- New scheme with Maruti – 2-month holiday period before EMI starts. For instance, if a customer avails a loan in Jun'20, payment of EMIs would commence from Aug'20 (instead of Jul'20 as is the norm).
- In Mar'20, only 45% of customers had taken the moratorium.
- Headcount has reduced over the past 12 months.
- Collections in Apr'20 – INR6b.
- ALM table given in PPT is adjusted for moratorium.
- Refinancing of existing customer is business-as-usual (for working capital needs). However, this depends on the principal outstanding too.
- 73% home loan customers have taken a moratorium.
- MSME scheme – Have to register as MLI first.
- AN NBFC can provide moratorium to a Stage 3 asset, but the DPD freeze is not applicable to those accounts.

Equitas Holdings — Buy

Current Price INR 59

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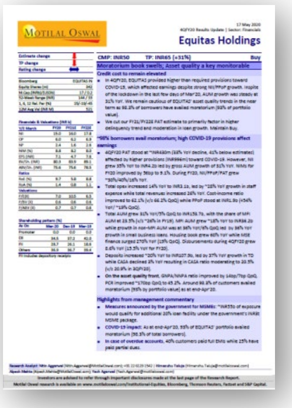
Motilal Oswal
Equitas Holdings

COVID-19 related impact

- EQUITAS has made provisions of ~INR0.99b toward COVID-19, which are in excess of the RBI's requirement (INR29.8m represents the minimum provision of entire 10% on overdue accounts)
- In case of overdue accounts (as at 29th Feb'20), 40% of customers have paid their full dues while 25% have made partial payments.
- Moratorium update: As at end-Apr'20, 93% of its portfolio availed moratorium, which includes 98.3% of total borrowers. The bank has encouraged customers to opt for moratorium to help preserve liquidity.
- Rural/semi-urban borrowers would be less impacted as 53% of the MFI, 50% of Small business loans and 5% of the Vehicle portfolio are located in semi-urban/ rural locations.
- Apr'20 is a complete washout with no disbursements made during the month.

- On the collection front, Apr'20 was weak while some collections started post 5th May'20.
- Immediate top-up loans would be required by the MFI/ Small business customers to normalize. Thus, it has launched 'Bounce-Back Loan' scheme for top-up loans.

Impact of recent measures announced by government

- Measures announced for the MSME segment by the government: Nearly INR55b of exposure would qualify for an additional 20% loan facility covered under the INR3t government guaranteed loan scheme.
- Further, the government has announced interest subsidy on loans up to INR50k, and thus, majority of MFI/ street vendors would benefit under this scheme.

Business segments

MFI Portfolio

- More than 50% of customers in livestock/farming related businesses.
- Post 3rd May'20, 60% of center meetings have started with 40-45% attendance.
- Only evaluation of customer is being done with no payment collection happening at center meetings.

Vehicle Finance

- Downward cycle should continue as supply chain has got impacted severely/broken.
- Reducing LTVs in the commercial vehicle (CV) portfolio.
- Heavy CV segment would remain vulnerable. Overall vehicle segment should see higher delinquencies. Total exposure to heavy CVs is ~INR15b.
- Higher focus on LCVs and Small CVs that depend on the local economy.
- Exposure to passenger vehicles minimal.

MSE

- Have contacted all 800 customers.
- ~16% customers engaged in healthcare, pharma, essential services, etc. have been positively impacted while 17-18% should see negative impact.
- Other customers would see minimal impact.

Small business loans

- 98% of customers have only single loan.
- There are three ticket size categories – (a) up to INR0.5m, (b) INR0.5m to INR1m, and (c) INR1m to INR2.5m. Majority of borrowers have exposure below INR1m.

Balance sheet related

- On the liability front, acquired 20k new accounts in Apr'20.
- Overall, the bank's customer profile is very different from other banks. ~90% of these customers cater to the informal segment.
- Retail TD forms 50% of the total term deposits. Retail TD + CASA forms ~65% of the total deposits.

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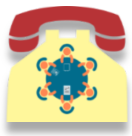
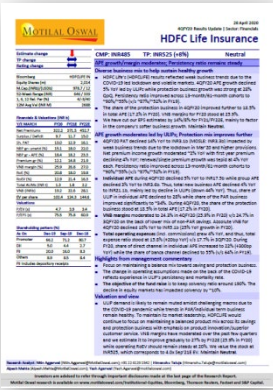




HDFC Life — Neutral

Current Price INR 582

COVID-19 impact

- Impacted both new business and renewal business as people want to maintain liquidity in hand right now.
- The decline in interest rates has led to lower EV unwind rate (decline to 7.6% v/8.5% earlier).
- Received board approval for capital raise through Tier-II bonds.
- Not declared any dividend for FY20.
- Guiding customers to take loans for insurance payments (cheaper than personal loans) rather than the policy lapsing. When the situation has normalized, fore closure of loan can be done at any point in time.
- HDFCLIFE has provided toward COVID-19 reserves of INR0.4b after considering analysis of both group/individual policy holders across geographies.
- Persistency assumptions have been lowered in our EV calculation.
- Around INR3-4b of overall business has been impacted due to the lockdown in the last 15 days of Mar'20.

Operating metrics

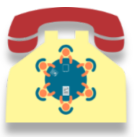
- Impact of YES Bank additional Tier-I bond is ~INR1b.
- The company has reviewed ALM approach and assessed appropriateness of ALM to manage interest rate risk in the non-PAR savings business. Net asset liability change will remain positive under all stress scenarios that were tested.
- The objective of the fund raise is to keep solvency ratio around 190%. Given the equity market decline, solvency was impacted by 10%.
- The change in operating assumptions made on the back of the COVID-19 reflects experience in ULIP's persistency and mortality rate.
- Economic variance is largely toward the decline in equity markets of INR9b. Impairments in policyholder' accounts is INR5.6b while in shareholders accounts, it is INR2b. Large part of the diminution value over FY20 has been taken during 4QFY20 itself.
- Effective tax rate change will see an impact of 0.2%/0.3% on the EV/VNB margin. Operating cost break-up – 50% is for distributors/variable cost; 7% is volume related cost; 12% is toward infrastructure/technology and the rest is employee cost. Sensitivity on EV/VNB has declined due to balanced portfolio approach.

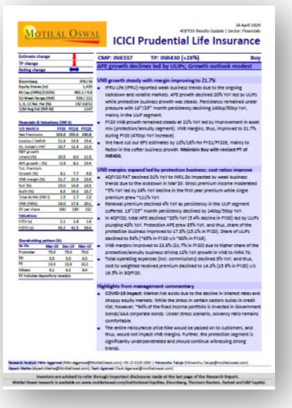
Business mix

- Focus on maintaining a balanced mix in the savings and protection business.
- People are currently staying away from investing in ULIP products.
- Online channel during the last 15 days of Mar'20 grew 13% YoY due to the lockdown.
- Considering price hike on protection policies after considering mortality rate so that risk is well balanced. Overall, margin impact would be neutral. Further, the company does not expect any demand impact due to the price hike and would remain competitive in the protection business
- Increase in re-insurance price is mainly toward underwriting of protection business. Demand for non-PAR remains attractive even in a falling interest rate environment. Strong business trends should be visible in low-ticket sized sum-assured policies. Some price irrationality is being witnessed in the credit life business either by distributors/ other players. Thus, the company has exited from some of the relationships where the risk was uneven.

ICICI PRUDENTIAL LIFE INSURANCE

Click below for Detailed Concall Transcript & Results Update





ICICI Prudential Life — Buy

Current Price INR 434

COVID-19 impact

- Market risk exists due to the decline in interest rates and choppy equity markets while the stress in certain sectors builds in the credit risk.
- Interest rate change would impact liabilities. IPRU does not take any risk, which it cannot manage.
- Credit risk: ~94% of the fixed income portfolio is invested in Government/AAA corporate bonds while only 1% is invested in low-rated bonds.
- Product mix: ULIPs constitute 68%, PAR forms 13%. Non-PAR guaranteed return products constitute only 0.4%, and therefore, are able to withstand market risk from the liability perspective.
- Solvency ratio at 194% is well above the regulatory requirement (150%). Under stress scenario, solvency would remain above regulatory requirement.
- 723 deaths until now due to COVID-19; only two claims have been raised so far.

Operating metrics

- On implications of the budget: (i) The proposal to create an alternative tax regime would not have major business impact as IPRU has an affluent customer base, and (b) Removal of DDT would impact VNB and EV due to the change in the effective tax rate.
- Increase in reinsurance price: IPRU would be able to maintain VNB margins as the entire reinsurance price hike would be passed on to customers
- The board has amended dividend distribution policy. To conserve capital, the board has decided not to distribute any final dividend during the year.
- IPRU is continuing with its guidance of doubling VNB over 3-4 years.
- ~74% of the VNB during FY20 has come from the protection and non-PAR linked products.

Drivers of VNB growth:

- Share of non-linked, protection/annuity segment rising
- Persistency trends stable
- Productivity: focus on improving distribution and bringing cost down.
- VNB growth over 1QFY21 would be challenging due to the COVID impact.
- Focus is on improving cost ratios for the savings business (tightening man power) by making costs more variable.
- Increase in the effective tax rate has led to 1.1% reduction in VNB margins to 21.7% in FY20.
- Doubling in absolute VNB would be led by product mix change and cost ratio improvement. There are many levers to deliver strong VNB growth.
- Margins in ULIP product is between 7-8%.
- Economic assumption change is entirely led by equity markets decline.
- Reinsurance has asked all insurance companies to increase prices as they are witnessing some adverse trend. The entire reinsurance hike would be passed on to customers to protect VNB margins. Further, the protection segment is significantly underpenetrated; the company does not expect any significant change in demand.
- IPRU has created additional reserves to tide over the COVID-19 impact.
- On the economic variance change, the biggest contributors will be equity over debt, which has impacted Embedded value (EV)

- Operating assumption changes are based on operating expenses, which is related to inflation adjustments; the change is largely toward effective tax rate.

Business mix

- Protection and annuity business from the banca channel has improved to 10%.
- Within the protection business, share of retail has improved to ~70%. Credit life segment has reported growth of 50% YoY.
- Share of Credit Life through third-party distributors has improved to 16%.
- Persistency in ULIPs has declined.
- More focus segments would be protection, annuity, PAR while weak market trends should moderate ULIP demand.
- Protection policy with a large sum assurance is difficult to underwrite during the lockdown scenario.
- Demand for annuity business should improve as people continue to invest toward retirement corpus. Also, the annuity business is less sensitive to interest rate change.
- On the participating product, 25% of the portfolio is in equity while the rest is in debt instruments.

Others

- The company is focused on widening agency channel and building new partnerships with e-commerce players.
- ICICIBC remains its key distributor with 46% of the total APE. The bank is currently focusing more on cross-selling protection and annuity products rather than traditional products.
- No plans to raise Tier-II bonds as on now.

IIFL Wealth **Buy**

Current Price INR 994

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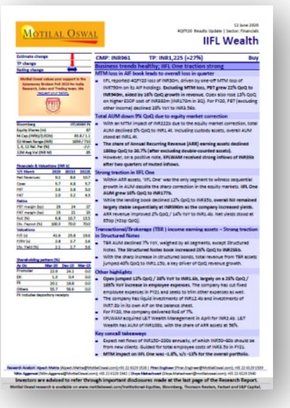

Business updates

- The company added 680 relevant new families in FY20. Client retention remains at 98%+.
- INR550m MTM loss was witnessed on sponsor equity exposure and INR150m MTM loss on real estate exposure. Expect real estate, NAVs would return to normal in the next 12–18 months.
- IIFL One net yields are steady at 42bp.
- The MTM impact on IIFL One was -1.8%, v/s -13% for the overall portfolio.
- Expect significant decrease in the C/I ratio by end-FY21.
- Its clients' exposure to credit funds is only INR20–25b (largely HDFC AMC and IPRU AMC).
- The company needs to work hard on the RE fund of its AIF. It is witnessing incremental delays in repayments from some of the borrowers in the fund.
- Documenting IIFL One has been a challenge as it is not possible to do so digitally. Hence, flows are much lower than expected.
- The loan book is typically 2–3% of overall AUM and would reach a maximum of 3.5–4% of AUM.
- Calculated yields on IIFL One AUM appear low at 25bp since INR55b of IIFL One is currently non-chargeable stocks. This AUM would have been under a distributor relationship, for which the company has already earned fees earlier. This would normalize when the products mature.

- Typically, the company has more asset allocation discretion in IIFL One than distributor relationships. In distributor relationships, the typical debt-to-equity mix is 60:40. In IIFL One, it changes are per the markets. Currently, it is at around 80:20. Hence, MTM loss in the IIFL One portfolio was lower than that in the other portfolios.
- The increase in attrition rate over the past two years is largely attributed to involuntary attrition.

Guidance

- Expect net flows of INR150–200b annually, of which INR50–60b should be from new clients. Management acknowledged that this could be a challenge in FY21 given the environment. Typically, 700–800 new client additions are seen every year.
- Expect fixed cost for FY21 to decline 20% YoY to INR2.4b (ex-L&T acquisition). L&T fixed cost would be an additional INR200m. Hence, total fixed cost in FY21 would be INR2.6b. Variable would be INR400m (typically 15–20% of fixed cost). And, ESOP expense is expected to double YoY to INR450m.

L&T Finance Holdings — Buy

Current Price INR 71

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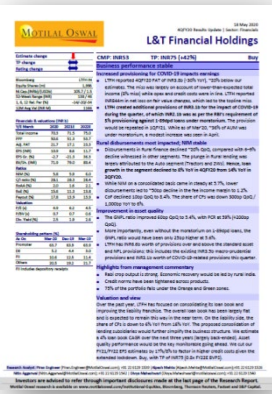

Business updates

- Decline is expected in Tractor and 2W sales for the industry in FY21.
- MFI – The repeat rate for good customers is 51%. NTC customers account for 17% of the portfolio. The indebtedness limit for a borrower has now been lowered to ~INR70k from ~INR80k earlier.
- The operating instruction from authorities on the ground across geographies was confusing. Local authorities across states interpreting rules in their own way have resulted in operational confusion.
- The Rabi crop output is strong. However, some problems related to harvesting have been witnessed in certain regions. However, economic recovery would undoubtedly be led by rural India.
- Toll receipts for operating roads are back to 30–40% of normal collections.
- The company would need to use the DCCO dispensation for its Real Estate lending portfolio very sparingly (less than 10% of projects would require this). Even if zero sales are assumed up to Sep–Oct, expect the Real Estate portfolio to be healthy (unless there are delays beyond the promoter's control).
- ~75% of the portfolio belongs to the Orange and Green zones.
- The infusion of equity in the infra book is more of an accounting need to maintain certain ratios.
- Credit norms have been tightened across products, at least until there is a lingering uncertainty.

Liquidity

- TLTROs have only partially helped the NBFC sector.

Moratorium related

- Positive ALM has been witnessed even after factoring the impact of the moratorium on the asset side.
- LTFH has not asked its lenders for a moratorium.

- Collections for March would be treated as an advance for the June payment for MFI loans. For other products, it would be considered repayment for March, and moratorium would be provided only for April and May.
- In April, a small increase was reported in moratorium availed across segments.
- In RE lending, only 28% of the portfolio is under moratorium on account of significant prepayments (due to sweep-ins). However, a substantial increase is expected in the moratorium percentage in April and May.

Asset quality

- NS3 of sub-1% in rural lending sets a benchmark.
- Another 5% hit would be taken on 1-89dpd moratorium accounts in 1QFY20. There could be a small increase in this number (to ~INR2.5b).
- The reduction in the GNPL ratio in Infra finance was from ARC sales, write-offs, and some recovery of ~INR4b.
- Collection efficiency currently stands at 33% for Farm and 50% for 2W.

Others

- Some green shoots have been observed, with a few areas opening up in the country.
- The merger of lending subsidiaries makes ALM and liquidity management more efficient. However, no tax benefit is possible from the merger of subsidiaries under Ind-AS.
- Two large exposures in the de-focused book (one HFC and one Power Generation Company) are largely covered. No shocks are expected from this book.
- The new launch of unsecured business loans has been postponed to 2021.
- The first preference is to retain the IDF if the regulator grants the same concessions if the IDF is merged with the book. Otherwise, the company would consider other options, such as a sale or merger.

LIC Housing Fin. — Buy

Current Price INR 278

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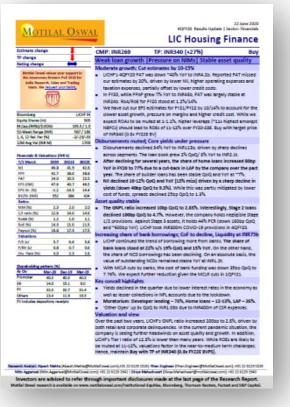

Business Updates

- The company achieved INR112b disbursements in PMAY in FY20 (52% YoY growth) and INR31b in 4QFY20.
- High tax rate in the quarter was due to reversal of deferred tax assets, which were at a higher rate to a lower rate.
- Yields declined in the quarter due to lower interest rates in the economy as well as lesser collections in NPL accounts due to the lockdown.
- Typically had 15% collections in the last week of the financial year.
- Sharp increase in opex in 4QFY20 was due to CSR of INR400m.
- LICHF exercised call option on INR5b Tier II bonds in Mar'20.
- Fresh sanctions of INR20b in the first two weeks of Jun'20.
- Disbursed INR20b in the past few weeks.
- Incremental yield: HL – 8.3-8.4%, LAP/LRD – 10-10.5%, Builder – 12-13%.
- INR35b LRD book (included in LAP).

Asset Quality/ Moratorium

- Moratorium number in PPT is as at end-May'20. It is 25% by value but would be 15-16% by volume.
- ~20-21k customers who have availed the moratorium are still paying EMIs.

- 92% collection efficiency in non-moratorium loans in the past two months.
- INR5b of Stage 2 assets as of 3QFY20 slipped into Stage 3 in 4QFY20 while INR17b moved back to Stage 1.
- 4 developer accounts slipped into NPL this quarter. Developer NPL stands at 17% (INR25.3b).
- Have 17 accounts (INR11b) in the INR250b GoI AIF. Of which, 1 loan has been disbursed.
- Moratorium: Developer lending – 75%, Home loans – 12-13%, LAP – 35%.
- The company used 4 different COVID scenarios to arrive at ECL for the quarter.
- INR800m Covid-19 provisions during the quarter.
- Stage 2 – Project loans: 2.5%, Individual: 4.79%.

Liquidity/Funding

- Recently raised 3-year NCDs at 5.9%.

Others

- Loan book break-up provided in the PPT in 4QFY20 is as per Ind-AS, while earlier it was as per IGAAP.
- INR330m negative ‘other income’ was due to forex fluctuations regarding the ECB raised in Dec’19.
- There is demand in affordable and mid-segment homes.
- More than 95% of LAP is against self-occupied properties.
- 2-3 months of EMIs are taken as DSRA in LRD.

Mahindra Finance

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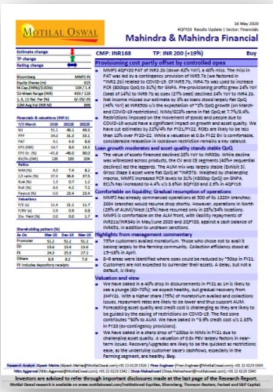

M&M Financials — Buy

Current Price INR 204

Business updates

- 500 branches are now operational; the company is seeing some walk-ins.
- 8–9 areas have been identified where opex could be reduced by 40–50bp over the year. For example, the company is attempting to reduce branch rent by 20–25%.
- It would be another quarter or so before normalcy has returned. Many people are staying back in their hometowns.
- Customers are not expected to surrender their assets. A delay, but not a default, is likely.
- MMFS is considering changing the mix of employee remuneration between fixed and variable payouts.
- 28–30% of customers/branches are in the Red zone.
- Collection efficiency in April was 15–16%.
- Of INR5.74b, INR4.74 worth of the COVID-19 provision is for Stage 3 assets.
- Tractor demand is already picking up.
- According to the management, moratorium of 90 days is insufficient for several products, such as CVs. Rescheduling is a better option for longer duration products.
- Mahindra HFC would focus on recoveries and make disbursements gradually.

Moratorium

- 75%+ customers availed moratorium. Those who chose not to avail it belong largely to the farming community. Decent collections were witnessed in April. Collections in the 15 days of May were equal to April collections.

Liquidity/Funding

- The company has enough liquidity to meet all obligations even if the current situation lasts another six months.
- Liquidity on the balance sheet is INR45b; INR30b+ has been raised in the past few months.
- Broadly, debt maturity stands at INR10b per month.
- It has thus far raised INR6.75b via TLTRO at 7.5–7.65%.

Others

- 15–20 business days were lost in March.
- INR5.7b has been put toward COVID-19 provisions; East India has contributed a bit lesser than other geographies.
- The LCV segment is expected to bounce back before M&HCV; taxi operators would take a while to recover.
- The quarter saw some benefit of the restatement of gratuity cost.
- Due to COVID-19, MMFS has lost out on a potentially 150bp improvement in the GNPL ratio from loan settlements and recoveries.
- The company has a mix of customer profiles: taxi operators comprise 10%, farmers 25%, and the self-employed (including traders) 15–18%, among others (including contractors and fleet operators).
- 4% of the portfolio is for FTUs (CVs).
- 170–200k customer loans mature every year.

MAS Financial Services — Buy

Current Price INR 688

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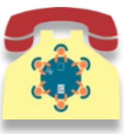

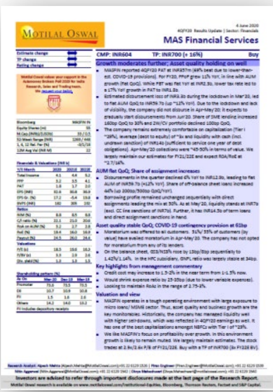

Business Update

- In Apr-May'20, the company did not do any disbursements and just did collections. Will start disbursements in Jun'20.
- It is evaluating the amount of moratorium to offer its borrowers for the next three months.
- 96 branches are operational with minimal staff.
- In the short run, ROA might be affected. However, will try to maintain it at 2.75-
- 3.5%.
- Will shrink expense ratio by 25-35bp (due to lower variable expenses).
- In Apr'20, MFIs were not active in collections. However, MFIs are currently able to collect 5-30% of dues, which is expected to pick up to 50%.

Asset Quality

- 51%/55% of borrowers (by value) have availed moratorium in Apr/May'20. 60% of NBFC borrowers by value have been given moratorium.
- COVID-19 provisions: 0.6% of on-book loans.
- Credit cost may increase to 1.5-2% in the near term from 1-1.5% currently. SMA2 book: INR820m.

Liquidity and Funding

- INR10b sanctions on hand.
- Direct Assignments: INR8.1b done with PSU banks in 4QFY20. The company has INR12b of assignment sanctions on hand, which will be utilized in 1HFY21.
- INR18b cash credit facility, of which MASFIN has utilized 65-70%.
- During the quarter, the company rolled over INR12.5b short-term WC loans. It also raised INR3b long-term loans in 4QFY20, including INR250m sub-debt.

- Unutilized sanctions of long-term loans stand at INR2.5b. Hence, as of 31st May, MASFIN has INR7b cash on hand with additional unutilized CC of INR7b.
- The company has applied for loans under the various government schemes (SIDBI refinance, PCG scheme, TLTRO).

Others

- In MSME financing, MASFIN lends to electricians, small shop owners, manufacturing and services. The average ticket size stands at INR50k. According to management, small manufacturing units would be able to restart before the larger ones.
- 65% of assets come from semi-urban and rural areas. 60% of repayments have come from semi-urban and rural areas and the rest from urban areas.
- Could not do INR3.25b of disbursements in Mar'20 (the company maintained heightened liquidity post the Yes Bank crisis).

Muthoot Finance

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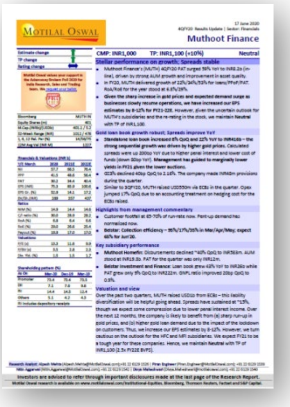
Detailed Concall Transcript &
Results Update



Muthoot Finance — Neutral

Current Price INR 1,104

Business Updates

- The first 1-2 months were challenging in the lockdown, as branches were shut. Apr'20 was a complete washout, with almost Nil footfalls. Branches opened from 20th Apr'20. Customer footfalls are at 60-70% currently (many customers not able to come due to lack of public transport). Expect footfalls to reach pre-COVID levels by the month-end.
- See demand traction from new as well as existing customers, with pick-up in economic activity.
- In the last week, 50-60 branches (that were still closed) in Mumbai/Pune have also opened up. Currently close to 100% branches are open (except the ones that are in strictly prohibited regions).
- Initially customers were coming to branches only for interest repayment, now they are taking new gold loans. Pent-up demand – to take back ornaments in the first two weeks of opening branches – has normalized now.
- Usually average LTV is less than 70% for MUTH's gold loans; however, due to gold price hikes, LTV is currently down to 52-53%.
- All forex fluctuations are completely hedged. There was some accounting restatement related to the hedge, which spiked opex in the quarter (similar to 3QFY20).
- Accrued interest on books stands at INR15.57b (last year INR8.96b).

Liquidity/funding

- All commitments have been honored. The company did not seek moratorium from any lenders.
- Receiving competitive rates from offshore funds. Raised USD560m this quarter (~USD1b raised so far).
- Do not expect any challenges in raising funds. To achieve the targeted growth, MUTH would need INR60b funds. Will continue to approach MFs, NCDs (offshore and domestic) and banks.
- Banks have not reduced the cost significantly. Banks are charging significant risk premiums from NBFCs ever since the IL&FS crisis. But, money market costs have come down. Expect NCD costs to decline going ahead.

- Average cost of borrowings stand at 9% and returns from liquid investments/ deposits would be in the range of 4-5%.
- If CoF comes off, benefits will be passed on to the customer.

Asset Quality/ Moratorium

- Collections are improving in May/Jun'20 for MFI/Muthoot Money.
- No borrower suo-moto has asked for a moratorium. However, as per the RBI guidelines, MUTH has offered moratorium to all borrowers (across businesses) in Apr-May'20.
- No provisions were made in Mar'20 for gold portfolio. Provided INR18.5m for the MFI book.
- MFI: Collection efficiency – 95%/17%/35% in Mar/Apr/May; expect 65% in Jun'20.

Guidance

- Targeting 15% growth on gold loan portfolio for the full year.
- Looking at calibrated growth in vehicle and housing finance subsidiaries. Not aspiring for aggressive growth. Hence, will not need any capital in the next 1 year.
- Yields are adequate to protect margins. There could be slightly lower yield in FY21 as penalty is not allowed, however, the company should be able to maintain RoA and have stocked up on some lower-yielding products to make up for the lower disbursements, if any.
- On an average, spreads should stand at ~12%

Others

- 80% of customers are repeat customers.
- 90% of the business is in gold loans. Don't need any major provisions.
- ATS up from INR41k to INR50k, employees increased from ~24k to 25k YoY.
- All gold loans have bullet repayments.

PNB Housing Finance — Neutral

Current Price INR 214

pnb Housing Finance Limited Ghar Ki Baat

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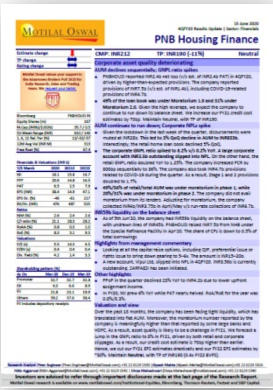

Business updates

- The focus is on cost rationalization by negotiation of rent, branch rationalization, no new hiring, etc.
- It is in discussion with a few PSU banks to sell the corporate books. It may sell down INR20b in the next month or so.
- Looking at all the capital raise options, including QIP, preferential issue or rights issue. The amount is INR15–20b. The capital raise is intended to bring down the gearing ratio to 5–6x from 8.25x.
- Do not foresee any asset quality issues for salaried employees who have availed a moratorium.
- In the mid-income category (INR0.7–0.9m ticket apartments), demand is still strong.
- Even post the capital raise, PNBHOUSI would be able to manage double-digit ROE.

Asset quality / Moratorium

- The top 20 developers form 64% of the corporate book. The company collected INR6.42b principal from corporate loan accounts that were under moratorium in FY20 (regular moratorium, not the RBI one).

- Four of the five accounts on the watch list are now NPL. The details are in the table below.
- A new account, Vipul Ltd, slipped into NPL in 4QFY20. PNBHOUSI had disbursed INR4.07b, of which INR3.56b is currently outstanding. SARFAESI has been initiated.
- Moratorium in the corporate book stands at 80–90%.
- Moratorium in volume terms is largely similar to that in value terms.
- NPA in LAP is 1.6%.

Liquidity/Funding

- Banks offered the company a moratorium, but the company did not avail the same.
- Incremental CoF stands at 8.15–8.20%.
- Lower securitization this quarter was a conscious decision.

Others

- The company has 1,549 employees.
- It currently does INR4b collections per month.
- RWA declined INR20b QoQ.
- In the first 10 days, the company receives a bit more than 50% of its monthly EM.
- Home registration offices are not operating at the moment in many places.
- The no. of applications increased to 3000 in May from 1300 in Apr.
- Disbursements stood at INR2.12b.

Shriram City Union Finance — Neutral

Current Price INR 677

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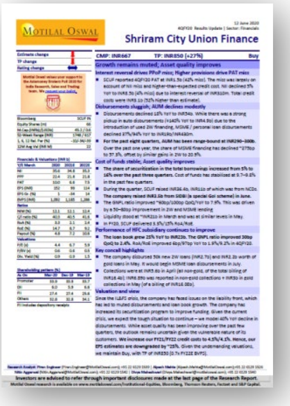

Business updates

- The company disbursed 50k new 2W loans (INR2.7b) and INR2.2b worth of gold loans in May. It would begin MSME loan disbursements in July.
- Some customers continue to pay part installments, while some have availed moratorium despite being capable of paying just to save cash for their businesses.
- Most of SCUF's MSME customers are proprietorships; hence, they would not be eligible for the INR3t MSME emergency credit line scheme.
- Most of the customers the management has personally interacted with have said they are not getting money from other financiers.
- According to management, it would take another six months for businesses to reach 80–90% of pre-COVID-19 volumes.
- SCUF is open to offering top-up loans to MSME customers.
- Shriram HFC has shifted from DSA-led sourcing to a mix of DSA and direct sourcing.
- Expect INR6.5–7b worth of monthly disbursements in June and July.
- Delinquency in pre-owned 2W loans is better than in other segments.

Asset quality / Moratorium

- Moratorium stood at 75% for SME and 50% for 2W as of May.
- The bulk of March collections happened over 7–15th March.
- 34%/52% collection efficiency was witnessed in April/May. Collections thus far in June are 60% better than those in May. Nevertheless, 15th is the due date for most customers. Run-rate collection efficiency of 90%+ is targeted by end-Sep.

- Collections were at INR5.6b in April (all non-gold, of the total billing ofINR16.4b); INR6.89b was reported in non-gold collections + INR3b in gold collections in May (of a billing of INR16.08b).
- 240k more customers paid in May v/s April.
- The INR4.3b COVID-19 provisioning covers only Morat 1.0.
- Write-offs as a percentage of AUM should not move much above the historical range of 2.5–3%.
- The company applied for moratorium, which it availed from three banks (HSBC, Union Bank, and Indian Bank).

Funding

- The company has not raised money in April and May. In June, it has raisedINR3.5b from SIDBI under the government scheme. Expect some inflows from the new PCG scheme. Comfortable with liquidity at the moment.
- It paid INR16b as borrowing commitments in April and May (including out flows of INR2.3b for deposits).
- As of date, the liquidity balance is at INR20b (similar to 31st Mar).
- It has received net flows in public deposits over the past two months (INR1b).Cost of deposits is 8.25–8.5%.

Others

- Typically, INR3.8–4b worth of cash collections happen per month. In April, since the company was unable to make physical collections, INR2.5b was collected digitally.
- Compared with an average of 30k customer transactions witnessed per month, 400k customers transacted via the digital channel in April.
- Gold loan LTV as of current price stands at 60%.
- Some stores selling non-discretionary items such as clothes and jewelry are not seeing enough foot-fall.
- 80% of MSME is collateralized at 50–60% LTV.

Shriram Transport Finance — Buy

Current Price INR 723

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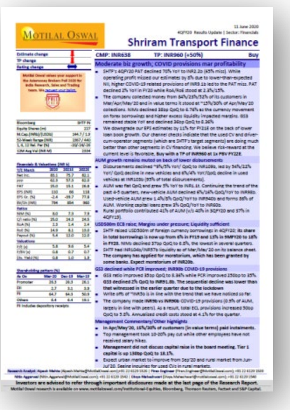

Business updates

- 30%/50%/70% of customers are using their vehicles in Apr/May/Jun’20. However, inter-state movement of trucks is not happening (10% of total AUM). 99% branches are operational.
- Expect urban market to improve from Sep’20 and rural market from Jun-Jul’20. Seeing inquiries for used CVs in rural markets.
- LTV of portfolio up to 2018 was at 70%, but now stands at 65%. For new vehicles, it would be 75-80%.
- Taxi segment contributes 3% of the total portfolio. This portfolio is seeing some challenges. However, 30-40% of the passenger vehicles are now operational. Shortage of drivers is not a problem that SHTF’s customers would face.
- Expect to do some sanctions in the INR3t MSME emergency credit line scheme. Around 20-30% of borrowers would be eligible.
- Did not discuss capital raise in the board meeting.

Asset Quality/Moratorium

- Gave moratorium to ~95% customers (except chronic defaulters) but have asked customers to make some payments if they had the money. In Apr/May’20, 15%/30% of customers (in value terms) paid installments. INR100b incremental moratorium in the second round of moratorium. If a customer under moratorium pays back some amount, it will be considered as a prepayment.

- Did not avail moratorium for the first three months. Approached banks for Moratorium 2.0 (amounting to INR20b). 8-9 banks have given consent so far, while the others are expected to give consent too.
- Stage 2 loans: 11.21%.

Liquidity/Funding

- Enough liquidity to meet debt obligations till Sep'20.
- Borrowed INR8b from banks in Apr-May'20 in addition to the INR2b in TLTRO. Should get more sanctions in Jun'20. INR40b of debt maturity in Sep'20 and another INR40b in 3QFY21.
- In the current quarter, margins are lower due to some accounting treatment on exchange rates with respect to foreign currency borrowings.
- Raised money from multi-lateral foreign institutions like IFC, Proparco and OAB in addition to dollar bonds and export credit agencies.
- INR23.69b securitization done in 4QFY20.
- Re-launched deposit products across branches during the COVID-19 pandemic. Earlier it was outsourced. Cost of funds: Deposits – rates reduced by 30-40bp to 7.6%, Banks – 8.5-9% (from 9.25-9.5% earlier; 5-year tenure), Securitization – slightly lower than bank rate (but volumes have been lower).

Others

- SHTF finances used tractors only (ticket size of INR150k).
- Up to three years back, NBFCs were not allowed to borrow from overseas. In addition, the minimum tenure of borrowings was brought down from 5 years to 3 years. If the USD750m overseas borrowing limit for a fiscal is exhausted, then the RBI could be approached for further borrowings.
- Government has released only part payment for food grain purchases. Once the full amount is released, borrowers would have more cash in their hands.
- INR110b fixed deposits.
- Repossession is only 1% of portfolio.

- **There has been supply chain disruption in the domestic formulation (DF) segment in terms of manufacturing as well as logistics due to the lockdown implemented on account of COVID-19. While, capacity utilization has improved 50-60% and distribution is moving toward normalcy, managements have cited that patient-doctor connect is gradually improving. This is positively impacting demand for medicines, especially for products related to acute therapies. Companies have been aggressively pursuing digital marketing and looking to further strengthen relationships with doctors. On the US generics front, the ANDA approvals and volume-off-take was higher, particularly for medicines associated with COVID-19. Companies, post completion of remediation measures, are pursuing virtual inspections to ensure regulatory compliance at sites. Overall, there could be near-term weakness in the DF segment, while outlook remains steady for the US generics segment.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY21	Commentary on Covid-19
Aurobindo Pharma	▪ ARBP guided for R&D spend at 5.5% of sales, primarily toward complex product clinical trials for biosimilars. ▪ ARBP intends to file 50–60 ANDAs and launch a similar number of products in FY21, including already approved products (25). ▪ Capex would be USD150–200m for FY21. ▪ It expects the Acrotech business to achieve breakeven in 2HFY21. ▪ ARBP intends to be net debt free by FY22 v/s the earlier guidance for FY23.	▪ Lower injectables sales in Q4FY20 were attributed to lower hospitalizations / elective surgeries, which affected Ertapenem sales. ▪ Some transportation challenges were seen due to COVID-19. However, an overall broad portfolio aided sales growth.
Cipla	▪ Cipla has guided for moderation in R&D spend for FY21 v/s FY20. ▪ Albuterol is a 60m unit market. The market is interchangeable between gProair and gVentolin. Another player is in queue to acquire approval for Albuterol. ▪ Cipla may look at options to commercialize IV Tramadol to limit its expenses.	▪ Lockdown impacted sales of INR2b for 4QFY20. ▪ Lower expenses due to reduced MR activity were partially offset by higher expenses on COVID-19-related safety measures. ▪ Capacity utilization is up by 80–85% against that in the lockdown scenario.
Cadila	▪ R&D is to be at 7–8% going forward. Half of the R&D spend is utilized for US Generics and the other half for the development of biosimilars and vaccines. ▪ CDH targets 50 injectable launches in the US over the next three years. ▪ CDH reduced its net debt by ~INR5b in FY20, and plans to further reduce net debt by INR8.5–10b in FY21.	▪ COVID-19-related disruptions impacted CDH sales by INR2.2b. ▪ The company did not benefit from the panic buying witnessed in the US.
Lupin	▪ R&D spend should be similar at absolute levels of INR15b for FY21. ▪ The EBITDA margin would improve to 19–20% for FY21 without the COVID-19 and any FX impact. ▪ LPC hopes to launch g-Fostair (market size – USD500m) in 2HFY21. ▪ No queries are pending for g-Albuterol, and mgmt. has indicated for a launch in 2HFY21. ▪ Capex is guided to be INR5b for FY21.	▪ The India business was impacted due to COVID-19, and the co.'s 1Q would be adversely impacted due to freight and RM costs. ▪ Demand for Albuterol went up by 30–40% in March and April. It has since stabilized, but yet to achieve pre-COVID-19 sales. ▪ LPC saw a significant COVID-19 impact on the Specialty segment as doctor visits were down to ~20% in the US.

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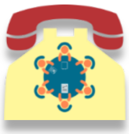

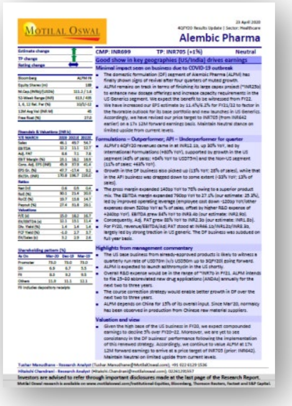

Alembic Pharma — Neutral

Current Price INR 915

- ALPM received 25 ANDA approvals for FY20, taking its cumulative approvals to 119.
- The sartans-led opportunity continues to drive business, with 15 ANDAs having a different combination related to sartans.
- The top five products contribute 35% to US sales. Overall price erosion in the base business has been low, in single digits.
- The API business was impacted as ALPM's contract manufacturing deal from a customer signed in FY19 failed to materialize this year. However, it targets 15–20% YoY growth in FY21.
- The Acute sub-segment in the DF segment grew 24% YoY (despite weak industry growth), driven by sales from azithromycin and the cough and cold portfolio.
- Management has guided for good double-digit growth and market share gains in DF over the next two to three years on continued traction in key therapies (Acute, Cardio, Gynecology, and Gastro).
- Given that major projects would be past the capex phase, debt is expected to decline over the next two to three years.
- Capex on new projects is expected to be INR3b, opex capitalized to stand at INR3.7b, R&D capitalized to be INR500m, and Aleor R&D capitalization to come in at INR1.2b.
- Opex for the onco injectables and general injectables unit is estimated to be INR2.5b (annualized) and commence from 2HFY22.
- Opex for the Jarod facility would be INR400m and commence from 2HFY21.

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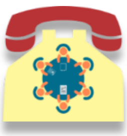

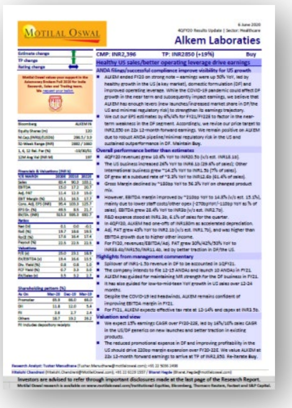

Alkem Labs — Buy

Current Price INR 2,336

- Spillover of INR1-1.5b revenue in DF to be accounted in 1QFY21.
- The company intends to file 12-15 ANDAs and launch 10 ANDAs in FY21.
- ALKEM has guided for maintaining MR strength for the DF business in FY21.
- It has also guided for low-to-mid-teen YoY growth in US sales over 12-24 months.
- Despite the COVID-19 led headwinds, ALKEM remains confident of improving EBITDA margin in FY21.
- For FY21, ALKEM expects effective tax rate at 12-14% and capex at INR3.5b.
- ALKEM expects to outperform industry by 200-300bp in FY21.
- 26% of DF is under NLEM.
- Expect pick-up in acute therapy related off-take in 3-4 months.
- ALKEM expects trade generics to deliver double-digit growth in FY21.
- The Gross Margin impact for the quarter is mainly due to change in the product mix, rather than on increased RM cost.
- Debt is higher due to increased dividend and working capital loans.

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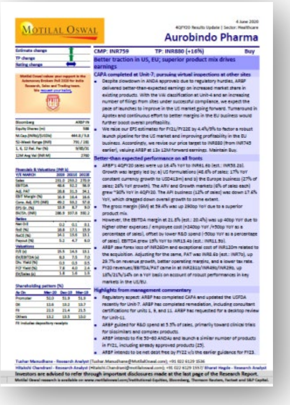

Aurobindo Pharma **Buy**

Current Price INR 776

- Regulatory aspect: ARBP has completed CAPA and updated the USFDA recently for Unit-7. ARBP has completed remediation, including consultant certifications for units 1, 9, and 11. ARBP has requested for a desktop review for Unit-11.
- ARBP guided for R&D spend at 5.5% of sales, primarily toward clinical trials for biosimilars and complex products.
- ARBP intends to file 50–60 ANDAs and launch a similar number of products in FY21, including already approved products (25).
- ARBP intends to be net debt free by FY22 v/s the earlier guidance for FY23.
- Lower injectables sales in Q4FY20 were due to lower hospitalizations / elective surgeries, affecting the sale of Ertapenem.
- GM improvement was ascribed to product mix, favorable currency, and lower raw material cost.
- ARBP is developing eight inhalers (six metered dose inhalers; two dry powder inhalers), eight transdermal patches, five biosimilars, and 36 topicals. Clinical trials for a depot injection are expected to start in 3QFY21.
- The first two biosimilar products would be filed in Europe at the end of this year or early next year. The company is expected to acquire approvals for this in seven months, and this would be reflected in revenues in FY22.
- ARBP expects the Apotex business to achieve breakeven in 2HFY21.
- ARBP guided for capex of USD150¡V200m for FY21.

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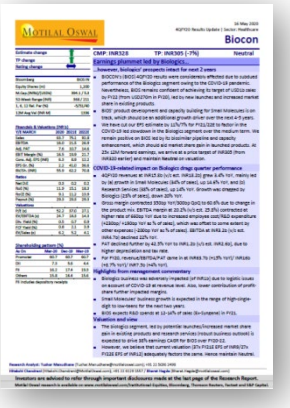

Biocon **Neutral**

Current Price INR 400

- Biologics business was adversely impacted (of INR1b) due to logistic issues on account of COVID-19 at revenue level. Also, lower contribution of profitshare further impacted margins.
- Small Molecules- business growth is expected in the range of high-single digit to low-teens for the next two years.
- BIOS expects R&D spends at 12-14% of sales (Ex-Syngene) in FY21.
- JV partner in the UAE has come under investigation and BIOS is looking to wind up the JV entity. Business from this JV was ~INR700m. BIOS would discontinue the branded formulations business under this JV.
- The remaining branded formulation business would become a part of Biologics.
- Biocon is planning to launch 3 Bio-similar over FY23-25E.
- Biocon recorded loss from Malaysia operations stands at INR1.6b for FY20.
- Biocon would incur total capex of USD400m over the next 2 years, of which, INR 200b would be in Small Molecules and the rest would be in the Biologics segment.
- Glargine, Bevacizumab and Aspart provide strong confidence for USD1b revenue.
- Market share of Pegfilgrastim at 6% should grow with capacity expansion.
- Net debt at consolidated level stands at INR7.6b.
- Estimated tax rate for FY21 is expected at 23-27%.

Cadila Healthcare — Buy

Current Price INR 362

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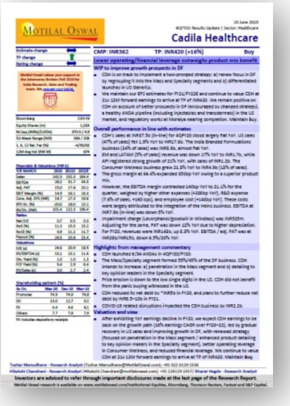
Cadila Healthcare

- CDH launched 6/34 ANDAs in 4QFY20/FY20.
- The Mass/Specialty segment formed 55%/45% of the DF business. CDH intends to increase: a) penetration in the Mass segment and b) detailing to key opinion leaders in the Specialty segment.
- Price erosion is down to the low single digits in the US. CDH did not benefit from the panic buying witnessed in the US.
- CDH reduced its net debt by ~INR5b in FY20, and plans to further reduce net debt by INR8.5–10b in FY21.
- COVID-19 related disruptions impacted the CDH business by INR2.2b.
- CDH has a target of 50 injectables launches in the US over the next three years.
- R&D is to be at 7–8% going forward. Half of the R&D spend is utilized for US Generics and the other half for the development of biosimilars and vaccines.
- Overall, biosimilars recorded revenues of INR2.8b in FY20, while vaccine sales were less than INR500m. Currently, 9–10 biosimilars are in the development stage, and CDH plans to file four additional products by FY23 to have a portfolio of 12–15 products with an initial focus on India and EMs.
- Of the products transferred from the Moraiya to the Liva facility, the first injectable product was commercialized in May'20.
- All the remediation at the Moraiya plant would be completed by June'20; the company would consult the USFDA on the future course of action to get the facility inspected via desktop inspection.
- CDH intends to spend INR6–7b on capex in FY21.

Cipla — Neutral

Current Price INR 636

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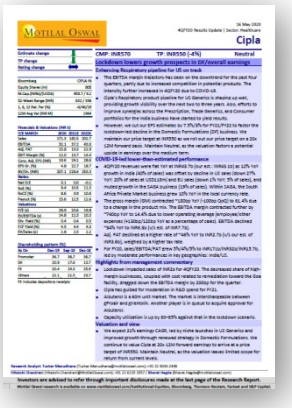
Cipla

- Lockdown impacted sales of INR2b for 4QFY20. The decreased share of high-margin businesses, coupled with cost related to remediation toward the Goa facility, dragged down the EBITDA margin by 200bp for the quarter.
- Cipla has guided for moderation in R&D spend for FY21.
- Albuterol is a 60m unit market. The market is interchangeable between gProair and gVentolin. Another player is in queue to acquire approval for Albuterol.
- Capacity utilization is up by 80–85% against that in the lockdown scenario.
- India's Rx (branded business) sales grew 12% YoY and Trade Generics +15% YoY (adjusted for CHL). The Chronic segment was up 12% YoY, in line with market growth.
- Chronic buying, which increased in late March, normalized in April. Channel inventory, which was running low in the Red zones due to lockdown, is expected to be back to normal as stockiest start to re-open shop.
- Lower expenses due to reduced MR activity were partially offset by higher expenses on COVID-19-related safety measures. Cipla is expected to offer further clarity in the upcoming quarter.
- Cipla has filed another complex inhalation asset. It also has another partnered asset in late-stage clinical trials.
- The company may look at other ways to commercialize IV tramadol to limit its expenses.
- Price erosion in the US continues, albeit at a lower intensity.

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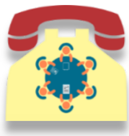

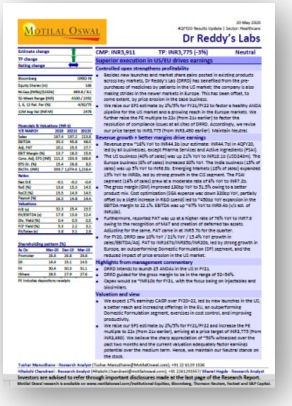

Dr. Reddy's Labs — Neutral

Current Price INR 3,823

- DRRD intends to launch 25 ANDAs in the US in FY21.
- DRRD guided for the gross margin to be in the range of 52¡V54%.
- Capex would be ~INR10b for FY21, with the focus being on injectables and biosimilars.
- Part of the receivables increase was due to collection issues. These issues are being resolved and collections are gradually improving.
- DRRD remains confident of gaining market share in g-Suboxone.
- A change in the business mix and inventory write-offs had an impact on gross margins for the quarter.
- The deal to acquire the DF portfolio from Wockhardt is expected to close in 1QFY21.

Multiple levers drive growth in US for quarter

- The US business' revenue grew 21% YoY to INR18.1b (USD240m) in 4QFY20. Revenue increased on account of volume increases and new launches, partially offset by price erosion. Higher volumes in Q4FY20 were also driven by COVID-19-related pre-buying in the US. This has eased in Q1FY21.
- Price erosion has been stabilizing over the years in the US market.
- Particularly, in 4QFY20, DRRD had five new launches.
- At the end of 4QFY20, DRRD had 99 filings (97 ANDAs and 2 NDAs) pending approval. Of the 97 ANDAs, 54 are Para IV filings (30 being FTFs).

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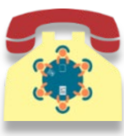

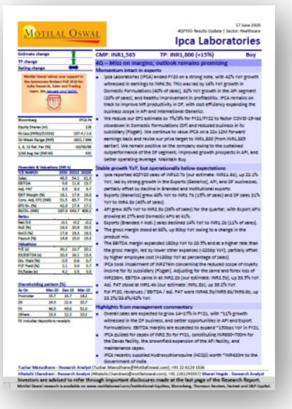

IPCA Labs — Buy

Current Price INR 1,643

- Capacity utilization at the Ratlam API plant stands at 90%. Management expects environment clearance soon for the Devas site. Subsequently, it would take six to eight months to improvise and commercialize the site by FY22.
- Management indicated that it saw minimum impact from RM price volatility.
- IPCA guided for the Institutional Anti-Malaria business to be INR2.4b in FY21.
- Prices for Sartans APIs have normalized from their peak levels.
- The company has MAT credits of INR3b, which would be utilized over the next two years. Hence, an effective tax rate of 17–18% is likely for FY22.
- The company does not plan to add MRs in this financial year due to the ongoing impact of COVID-19.
- Within DF, Anti-Bacterial therapy (8% of DF) grew 40% YoY in Q4FY20. The Anti-Malarial business (4% of DF) expanded 33% YoY in Q4FY20. The CNS business increased by 18% YoY in Q4FY20.
- Overall sales are expected to grow 14–17% in FY21, with ~11% growth witnessed in the DF business, and better opportunities in API and Export Formulations. EBITDA margins are expected to expand ~150bps YoY in FY21.
- IPCA guided for capex of INR2.5b for FY21, constituting INR600–700m for the Devas facility, the brownfield expansion of the API facility, and maintenance capex.
- IPCA recently supplied Hydroxychloroquine (HCQS) worth ~INR420m to the Government of India.

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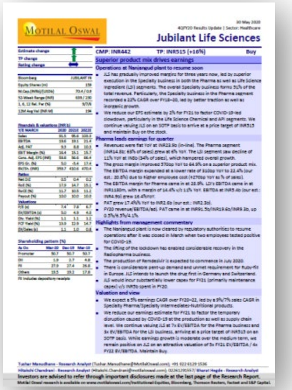

Jubilant Life Sciences — Buy

Current Price INR 674

- The Nanjangud plant is now cleared by regulatory authorities to resume operations after it was closed in March when two employees tested positive for COVID-19.
- The lifting of the lockdown has enabled considerable recovery in the Radiopharma business.
- The production of Remdesivir is expected to commence in July 2020.
- There is considerable pent-up demand and unmet requirement for Ruby-fill in Europe. JLS intends to launch the drug first in Germany and Switzerland.
- JLS would incur substantially lower capex for FY21 (primarily maintenance capex) v/s INR5b spent in FY20.
- JLS indicated it would invest significantly to double capacities for the Drug Discovery Services (DDDS) business in anticipation of strong demand. The DDDS expansion would add more lab space to take care of additional requirements.
- Pricing would be better in the DDDS business going forward, with capacity utilization also improving.
- The Specialty Intermediates segment declined 13% YoY, weighed by lower demand for key products such as Pyridine and Pyridine derivatives. This was a result of weak demand in Crop Protection products due to the COVID-19 outbreak in China.
- Subdued demand was witnessed for Acetic Anhydride due to lower demand from Auto and Consumer Durables for the quarter.
- JLS is progressing well on addressing the USFDA observation in consultation with a third-party consultant.

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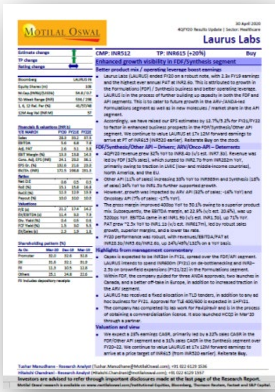

Laurus Labs — Buy

Current Price INR 549

- Capex is expected to be INR3b+ in FY21, spread over the FDF/API segment. LAURUS intends to spend INR600m (FY21) on de-bottlenecking and INR2– 2.5b on brown-field expansions (FY21/22) in the Formulations segment.
- Within FDF, the company guided for three ANDA approvals, two launches in Canada, and a better off-take in Europe, in addition to increased traction in the ARV segment.
- LAURUS has received a fixed allocation in TLD tenders, in addition to any ad hoc business for FY21. Approval for TLE 400/600 is expected in 1HFY21.
- The company has completed its lab work for Favipiravir and is in the process of obtaining a commercialization license. It also launched HCQS in Mar'20 through a partner.
- The ANDA-led Formulations business was driven largely by Pregabalin.
- LAURUS continues filed, two are Para IV and seven are FTF (first-to-file).
- LAURUS guided for revenue from contract manufacturing formulations from an EU customer to be USD20–25m for FY21.
- The company plans to increase the overall API manufacturing capacity from the 4m liter reactor volume currently to 5m liters in FY21.
- ARV API sales growth was led by first-line APIs on a QoQ basis. The company is yet to supply second-line APIs such as Lopinavir/Ritonavir.

- LAURUS is yet to see any significant change in dispatch and production plans due to the lockdown; shipments are delayed by a week due to supply chain issues, and air freight charges have increased sharply.
- The company does not intend to add capacity in the Onco-API segment.

Lupin Buy

Current Price INR 871

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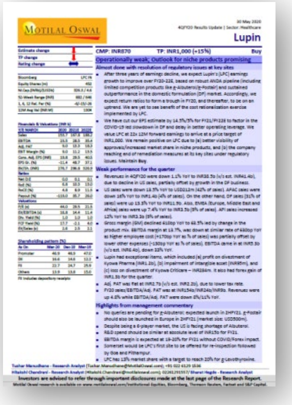
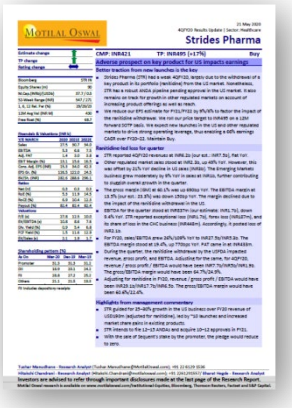


- No queries are pending for g-Albuterol; expected launch in 2HFY21. g-Fostair should also be launched in Europe in 2HFY21 (market size: USD500m).
- Despite being a 6-player market, the US is facing shortage of Albuterol.
- R&D spend should be similar at absolute level of INR15b for FY21.
- EBITDA margin is expected at 19-20% for FY21 without COVID/Forex impact.
- Somerset would be LPC's first site to be offered for re-inspection followed by Goa and Pithampur.
- LPC has 13% market share with a target to reach 20% for g-Levothyroxine.
- LPC does not intend adding MRs in its India business over the medium term.
- 60% of the prescription is generic in case of Albuterol Sulfate.
- LPC hopes to get approval soon for g-Spiriva; however, it does not plan to launch g-Spiriva for the next couple of years.
- Capex – INR5b for FY21.
- ETR expected at 34-35% for FY21, should gradually decline in subsequent years.
- One batch of Metformin could be recalled due to impurity issue.

Strides Pharma Buy

Current Price INR 410

Click below for Results Update



- STR guided for 25¡V30% growth in the US business over FY20 revenue of USD190m (adjusted for ranitidine), led by ~10 launches and increased market share gains in existing products.
- STR intends to file 12¡V15 ANDAs and acquire 10¡V12 approvals in FY21.
- With the sale of Sequent's stake by the promoter, the pledge would reduce to zero.
- Capex for FY21 stands at USD15-20m (mostly maintenance capex).
- The effective tax rate would be 10-12% for FY21.
- Net debt / EBITDA are to be maintained at ~ 2x.
- Investment in the biotech plant is expected to continue this year and would be USD40m in FY21.
- Ranitidine cannot be in the market for another two years.
- Pricing this quarter has been stable.
- The Anti-Viral business is expected to pick up post approval from WHO.
- The Branded Africa business has now turned around. Growth in this segment is likely to be led by new product approvals under the new regime in the ARV category.

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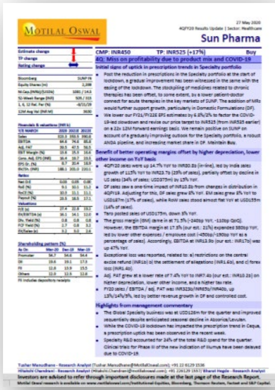

Sun Pharma — Buy

Current Price INR 479

- The Global Specialty business was at USD126m for the quarter and improved sequentially despite anticipated seasonal decline in Absorica/Levulan.
- While the COVID-19 lockdown has impacted the prescription trend in Cequa, a prescription uptick has been observed in the recent week.
- Specialty R&D accounted for 24% of the total R&D spend for the quarter. Clinical trials for Phase III of the new indication of Illumya have been delayed due to COVID-19.
- EM sales are down due to a reduction in tender revenues in SA; adjusting for this, growth is in the double digits on a YoY basis. Key markets in the segment are Russia, Brazil, and Romania.
- SUNP is engaging with the USFDA on a monthly basis to resolve the situation at the Halol plant.
- COVID-19-led supply challenges have led to lower execution in US Generics.
- No green-field projects have been planned, and most of the capex in FY21 is to be utilized for upgrades and expansions.
- The company is currently awaiting approval for 98 ANDAs / 5 NDAs.
- As guided earlier (10% addition in MRs for DF), 75% of incremental MRs have been added currently.
- SUNP remains focused on acquiring approval for Illumya and its subsequent launch in the Japan market.

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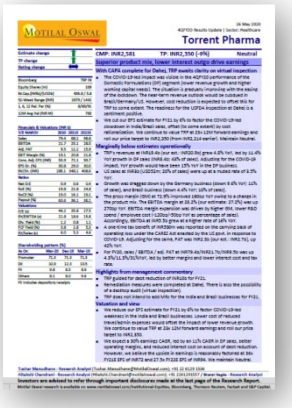

Torrent Pharma — Neutral

Current Price INR 2,335

- TRP guided for debt reduction of INR10b for FY21.
- Remediation measures were completed at Dahej. There is also the possibility of a desktop audit (virtual inspection).
- TRP does not intend to add MRs for the India and Brazil businesses for FY21.
- TRP guided for single-digit ANDA launches based on approvals from its derma facility and third-party sites.
- Despite the lack of launches, TRP maintained a quarterly sales run-rate, led by increasing market share in key products.
- Based on notification from the USFDA, TRP would restart production at the Levittown facility in 2HFY21. However, the transformation from OTC to Rx would lead to a gradual pickup in the business.
- TRP has observed some improvement in the patient-doctor connect with the easing of the lockdown.
- Compared with the 8–10% growth forecast (pre-COVID 19), the Brazil industry is estimated to grow 1–2%. TRP is expected to do better than the industry. The company has the entire Brazil portfolio in the chronic category.
- TRP guided fr maintenance capex of INR2.5b for FY21.

MEDIA

- **Media industry has been facing demand slowdown in advertisements. The onset of the lockdowns led to a drastic cut by corporates/government toward ad spends. This is likely to continue in FY21 until the economy revives, however, subscription revenue is likely to remain on track. Sun TV has guided that ad revenues could potentially decline 15-20% while subscription revenues may grow in double-digits in FY21. In movie exhibition, PVR expects demand once cinemas commence operations with a good line-up of movie releases. Some producers have released their films on the OTT platform foregoing the big screen, but majority still prefer the big screen for movie releases.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact on COVID-19
PVR	▪ Currently, 20-50 screens are in various stages of fit-out; and management aims to complete them; committed capex remains between INR500m-1b. ▪ Some producers have released their films on the OTT platform foregoing the big screen, but a majority (90-95%) prefers the big screen for movie releases. ▪ Some states have allowed shootings to commence in a controlled environment.	▪ Some landlords have agreed for rental waiver during lockdown, with the remaining expected to follow suit.
SUN TV	▪ Ad revenues could potentially decline 15–20%, while subscription revenues may grow in the double digits in FY21. ▪ The company has held its ad prices in 1QFY21. ▪ Receivables are not expected to rise significantly as the company has been strict with its collections.	▪ Content production has commenced in various cities, with markets opening up and production being resumed is some cities. ▪ SUN TV's channels have improved their viewership during lockdown and are expected to remain strong.

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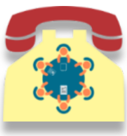

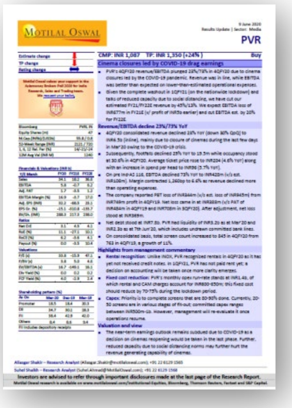

PVR — Buy

Current Price INR 1,073

Key Highlights

- **Rental recognition:** Unlike INOX, PVR has recognized rental in 4QFY20 as it has yet not received credit notes. In 1QFY21, PVR has not yet paid rent and will decide on its accounting once it gets more clarity over the next few weeks.
- **Fixed cost reduction:** PVR's monthly opex run-rate stands at INR1.4b, of which rental and CAM charges account for INR600-650m; this fixed cost should reduce by 70-75% during the period of lockdown.
- **Capex:** Priority is to complete screens that are 80-90% done. Currently, 20-50 screens are in various stages of fit-out; committed capex ranges between INR500m-1b. However, management will re-evaluate it once operations resume.
- **Producers' attitude toward film releases:** Some producers want to gauge the market before releasing movies while the others are looking at the crisis as an opportunity as there is no content backlog. Shooting has also resumed in a controlled manner and we expect some mid/big-sized movie releases in Jul-Aug'20.
- **Lower occupancy in near-term, but long-term business intact:** The near-term closure of cinemas has pushed weaker players to move to OTTs for movie releases. Once cinemas reopen, social distancing norms may reduce capacity by 20-25%. However, in the long term, 60-70% of movie revenue generation from big screens may keep the business intact.

Operational highlights

- **Operating metrics:** PVR has added 87 screens in FY20 and has received footfalls of over 100m during the year.
- **One-time adjustment:** PVR has recognized one-time expense for remeasurement of deferred tax assets on transition to low tax structure from FY20.
- **Liquidity:** The company has liquidity of INR2.3b without any undrawn credit lines as at Mar'20. The PVR board has approved rights issue of INR3b to shore up liquidity.

COVID-19 impact

- **Impact on Profitability:** The company has high fixed-cost structure, which impacted profitability due to closure of cinemas during last the 17 days of Mar'20.
- **Rental negotiation:** Management is continuously engaging with mall owners for rental waiver during the lockdown period and rent reduction for this year (post reopening). Some owners have already agreed with the remaining too following suit.
- **Rental recognition:** The company had low rent in 4QFY20 as compared to 4QFY19 due to low revenue share owing to lower revenues.
- Revenue recognition: Advertisement and convenience revenue has been accounted for the period cinemas were open (and not for the lockdown period).

Measures taken for COVID-19

- **Fixed cost reduction:** Employee expenses would be lower post reopening as lower footfalls would require less manpower. This should ramp up with the business.

Content outlook

- **Producers' attitude toward film release:** Producers/Studios are highly optimistic about the pent-up demand globally with some studios even announcing the release date. However, in India, release dates are yet undecided. In India, producers have two different views toward movies releases:
- **Would wait until confident:** First view is that consumers will take time to understand the safety protocols, thus, they would wait to release movies until confident about the market.
- **See this as an opportunity:** Another set of producers consider the current crisis an opportunity as there is no backlog of content. Thus, we can expect some mid/big-sized movie releases in Jul-Aug'20.
- **Medium-term supply:** Some states have allowed shootings to commence in a controlled environment, and thus, shooting for a few unfinished movies have started. For new movies, there is some encouraging response from both actors and producers.

Industry/company outlook

- **Big Screen preferred over OTT:** Although some producers have released their films on the OTT platform foregoing the big screen, a majority (90-95%) prefer the big screen for movie releases. In some cases like 'Suryavanshi', 'Coolie No. 1' and '83', the producers have postponed their releases as they prefer the big screen. Further, big screens contribute 60-70% of a film's revenue and thus, producers prefer theatrical release for their profits. OTT release means foregoing the domestic as well as international theatrical revenues.
- **Cinemas reopening:** PVR plans to reopen as soon as it gets permission from the regulatory bodies. As India is a heterogeneous market with films in 12-13 languages, supply side should not be a constraint.
- **Global cinemas reopening:** California has announced reopening of cinemas from 12th Jun'20 with 25% occupancy or 100 people (whichever is higher), while

most other US states have a 50% cap. The California government would gauge the situation and would increase it to 50% later.

- **Indian Regulatory norms for cinemas reopening:** In India, the exhibitors are proposing a gap between different groups, which should translate to 20-25% lower capacity. Management plans to reduce the gap between weekdays and weekend pricing (without increasing prices on overall basis), which should help spread out the crowd. In case of higher restrictions, the company has capacity to spread the movies in more auditoriums or to spread it over more weeks.
- **F&B revenue:** While there could be some subdued demand initially (post cinema reopening), it should normalize in the medium term.
- **Advertisement revenue:** Some clients are looking to advertise aggressively due to a huge pile-up of inventory.

Sun TV Network — Buy

Current Price INR 389

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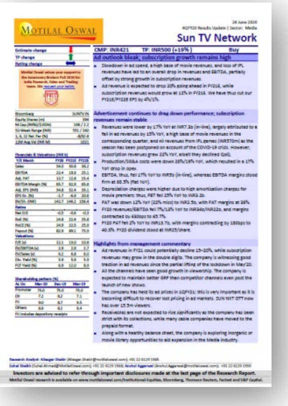


Business operations

- **Sticky viewership:** Reach and viewership have gone up, with stickiness expected to improve; the company does not expect GRP loss over competitor channels post the launch of new shows.
- **Subscription revenues:** Subscription revenues improved by 25% YoY, which is a positive as revenues are margin-accretive, with lower commission shares; moreover, they have been aided by the lockdown as TV viewership has increased.
- **Amortization charges:** The company has doubled the amortization charges for 4QFY20 on account of premiere screenings, the benefit of which would reflect in the near future, as fees paid to broadcasters are realized in the first movie screening.
- **Channel GRP:** All the channels have seen sound growth; Sun TV's GRP stood at a record 1900 for the first time ever. In the lockdown period, the company has gained 8% viewership in Telugu; Udaya TV ranks first among channels of the region, and Surya TV has also improved viewership. GRP in Karnataka grew 35–40% from pre-COVID-19 levels. Other GEC channels saw a drop in GRP post a few weeks of lockdown.
- OTT: OTT app SUN NXT now has over 15.5m viewers.

COVID-19 impact

- **Min. impact in 4QFY20:** The impact of COVID-19 was not fully reflected in 4QFY20, but would be majorly witnessed in 1QFY21.
- Loss of ad revenue: The company has been witnessing good traction in ad revenues from May'20. FY21 ad revenues are expected to decline significantly by 15–20%.
- **Ad prices:** The company has held its prices and yield in 1QFY21 to maintain pricing power in the ad markets. Advertisement yield would improve once new programs start airing on its TV channels.
- **Receivables:** Receivables are not expected to rise significantly as the company has been strict with its collections, and many cable companies have moved to the prepaid format.
- **Cost-saving measures:** As margins have been good and its cash position has been strong, the company has not implemented cuts in employee salaries. Sun TV would reduce some operating costs, but would not be aggressive in implementing cost-saving measures.
- **Content production:** Content production has commenced in various cities, with markets opening up and production being resumed is some cities. Tamil Nadu is expected to open up in the next 15 days.

Business outlook

- **Amortization:** FY21 amortization would stand lower by 50% v/s FY20.
- Costs: IPL-related costs and lower cost of production would lead to lower opex in 1QFY21.
- **Ad revenues:** Expect FY21 ad revenues to decline by 15¡V20%. SUN is expected to attract advertisers as its channels have witnessed good GRPs, which would lead to higher ad revenues and yield.
- **Subscription revenue:** Expect FY21 subscription revenues to grow in the double digits.
- **Radio business:** The Radio business has fared better over May¡VJune¡¦20, but April¡¦20 was bad for business. Radio did not witness orders from the government in ads, which has impacted radio companies.
- **Consolidation in Radio:** The Radio industry is expected to consolidate due to a large number of operators.
- **IPL profits:** The IPL generates INR2.5b in pre-tax profit for Sun TV, and FY21 would see a similar negative impact if the IPL stands cancelled. Uncertainty prevails related to IPL sponsorship rules, advertisements, and ticket sales, but the management remains confident of significant profits from the franchise. Sun TV pays 20% revenue share to BCCI; if IPL stands cancelled, Sun TV would not incur any costs.
- **Opportunities:** The company is exploring opportunities that would aid expansion in the Media industry.
- **Movie profits:** Sun TV follows the strategy of making a quick profit with decent margins from movie production and then selling it to movie distributors, while retaining the satellite rights, resulting in high margins for the company.
- **Switch to OTT for movie releases:** South Indian movies depend majorly on distributors; hence, the company does not plan to distribute movies over the SUN NXT platforms.
- **Content acquisition:** Sun TV would continue to seek content for new movies and its content library.

METALS

- **Managements highlighted that domestic steel demand has been hit hard in 1QFY21 due to the COVID-19 lockdowns in different parts of the country. Both JSW Steel and Tata Steel stated that capacity utilization was below 50% in Apr'20 but subsequently improved to ~80% in May-Jun'20. Companies also guided that exports are likely to contribute ~50% of volumes in 1QFY21 and ~30% of volumes in 2QFY21 as against the usual levels of ~15%. Tata Steel stated that while domestic prices corrected by just INR500-1,000/t QoQ in 1QFY21, higher exports could dent blended realization by INR4, 000-5,000/t QoQ. On the other hand, aluminum companies highlighted that while their capacity utilization remained elevated at normal levels in the entire quarter, even they have resorted to higher exports to balance the weak domestic demand during the quarter. Hindalco guided that exports are likely to contribute ~80% of its volumes in 1QFY21.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact of COVID-19
Hindalco	▪ Guided for 1% YoY decline in aluminum volumes, whereas copper volumes are expected to remain flat. ▪ Aluminum CoP is expected to decline 5% in 1QFY21. ▪ Benchmark treatment and refining charges (Tc/Rc) for CY20 have declined 23% YoY to settle at 15.9 cents/lb; this would impact the copper margin in CY20. ▪ The Utkal alumina expansion of 500kt should get commissioned in 4QFY21 (earlier expected in 3QFY21). ▪ FY21 capex guidance was lowered to INR15b from an earlier guidance of INR20b.	▪ Auto volumes (~19% of volumes in FY20) are likely to be hit due to lower demand.
JSW Steel	▪ Guided for full-year sales volumes of 15.0mt (flattish YoY). ▪ Exports for FY21 would remain elevated with >50% exports in 1QFY21. Full-year exports are guided at >30%. ▪ JSTL has curtailed its FY21 capex to INR90b (earlier guidance of INR164b) to preserve cash.	▪ 1QFY21 capacity utilization stood at 65%; production declined 30% YoY. ▪ The commissioning of the Dolvi expansion has now been delayed to end-FY21 (initially scheduled for early FY21). ▪ Higher exports are expected to dent realizations.
JSPL	▪ Guided for production of 7–7.5mt in FY21 (6.3mt in FY20) for India operations and 8.7–9.3mt (8.2mt in FY20) at a consolidated level in FY21. ▪ EBITDA/t is expected at ~INR9, 000 in 1QFY21. ▪ Capex of INR6–8b is expected for FY21 (v/s ~INR9b in FY20).	
Tata Steel	▪ Guided for achieving flattish (YoY) sales volumes in FY21 (12.3mt in FY20). ▪ FY21 capex has been curtailed to INR40–50b, with a 50:50 split between the India and Europe businesses (FY20 capex: INR104b).	▪ 1QFY21 utilization stood at 70% v/s normal utilization levels of >95%. ▪ 1QFY21 realization would decline by INR4, 000–5,000/t due to an adverse product mix (higher exports).

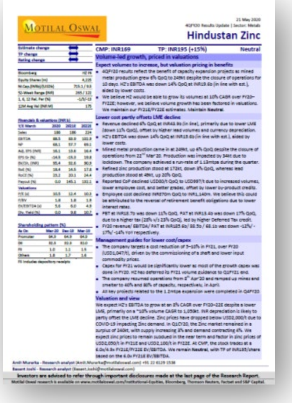
HINDUSTAN ZINC

Click below for Results Update

Hindustan Zinc — Neutral

Current Price INR 196

- The company declared interim dividend of INR16.5/sh, amounting to INR69.7b in May'20.
- Operations resumed from 8th Apr'20; mines and smelter were ramped up to 40% and 80% of capacity, respectively, in April.
- At USD1,950/t, ~15% of zinc producers are operating at cash losses. ~25% of zinc supplies on an annualized basis have been impacted due to COVID-19-led shutdowns across the globe.
- The company has exported 70% of its volumes in the last one month, against ~25% in the pre-COVID era, as no domestic demand has been witnessed in April.



With steel mills ramping up production in India, the company expects demand to pick up.

Achieved run-rate of 1.1mtpa in Q4FY20

- Mined metal production increased 6% QoQ (up 2% YoY) in 4QFY20 to 249kt, despite operational shutdowns witnessed from 22nd March, owing to higher ore production and improvement in ore grades. Shutdowns due to lockdown led to production loss of 34kt during the quarter. It operated at a run-rate of 1.1mtpa during the quarter.
- Refined metal production at 221kt was up 1% QoQ (down 3% YoY).
- Refined zinc production at 172kt was down 4% QoQ (down 2% YoY).
- Refined lead production was up 20% QoQ (down 7% YoY) in 4QFY20 as the Dariba lead smelter facility resumed operations.
- Silver production increased 12% QoQ to 177kt (incl. captive consumption) due to higher lead production and recovery rate. Silver production recovery improved to 128ppm v/s 100ppm in 1HFY20. Expect higher silver production going forward.
- All key projects related to the 1.2mtpa expansion were completed in Q4FY20.
- The company exited Q4FY20 with higher mined metal inventories (35kt v/s the normal level of 20kt). The company expects to achieve normal levels of inventory by Q1FY21 end.

Status of expansion projects

- RA mine: Ore hauling from the shaft was commenced during the quarter. This would enable the RA mine to achieve a production capacity of 5.0mtpa.
- Zawar: Two backfill plants are under commissioning, and backfilling into voids is expected to commence in May’20 (earlier, Feb’20).
- Fumer plant at Chanderiya: This is ready for commissioning and is expected to produce its first metal by May’20 end. It would lead to the production of an additional 30–35t of silver on an annual basis.

Hindalco Inds — Buy

Current Price INR 152

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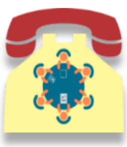

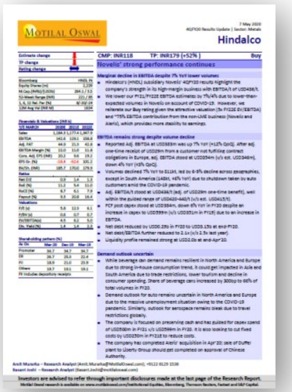

Beverage can market

- Demand is resilient in North America and Europe due to strong in-house consumption trend.
- However, trade restrictions are limiting the company’s ability to sell in Asia. Reduced tourism, public events and consumer spending should impact demand in South America and Asia.

Auto market

- Due to Auto customer shutdowns in Europe and North America from late-Mar’20, Novelis’ auto facilities remain shut. Expect operations to restart in line with customer demand.
- In China, auto producers have started production in Mar’20 after shutdowns in Jan-Feb’20.
- Global recession concerns pose a threat to demand.

Special Manageties market

- Demand softening was seen at the beginning of late-Mar’20. Outlook remains weak.

Aerospace market

- Demand has been impacted significantly due to lower consumer travel trends. No guidance has been provided.

Guidance

- Management did not provide any volume guidance for FY21 as impact of COVID-19 remains uncertain.
- Management has maintained EBITDA/t guidance at USD420-440/t under normal circumstance; however, it may be impacted severely in FY21E due to lower share of auto volumes in the mix and un-absorption of fixed cost due to lower volumes. No guidance, however, was provided for FY21 margin.
- Management did not provide any guidance for Aleris' business. It would start providing guidance for Aleris 1QFY21 results onwards.
- Management has guided for capex spend of USD500m in FY21, lower by USD100m v/s FY20. Further, it is also working on fixed cost reduction of USD250m in FY21.

Aleris acquisition

- Novelis has completed the acquisition of Aleris in Apr'20 for a consideration of USD2.8b.
- Duffel plant sale is pending approval from Chinese Authorities.
- The company expects to sell the Lewis Port asset in the next 12 months.
- From financial reporting point of view, operating results and assets of the Duffel plant and Lewis Port facility shall be disclosed as part of discontinuing operations.

Project expansion

- The 100kt rolling capacity expansion in Brazil is on track and is expected to start in FY22E. However, management has delayed commissioning of 200kt automotive finishing line in the US and 100kt automotive finishing line in China to 2HFY21 in order to align with demand and reduce costs.

Jindal Steel & Power — Buy

Current Price INR 156

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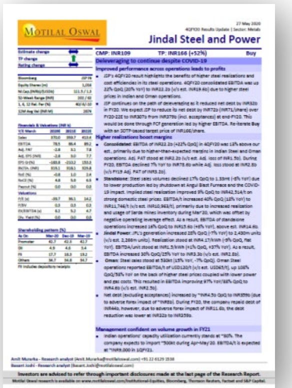


Key takeaways:

- The company has opted for moratorium till Aug'20 for debt and principal repayments that are due. This would result in deferral of principal and interest of INR7b each i.e. INR14b in its Indian Steel operations.
- Management has guided for FY21 production volume of 7-7.5mt (6.3mt in FY20) in Indian operations and 8.7-9.3mt (8.2mt in FY20) at consolidated level. Capex has been guided at INR6-8b for FY21 (v/s ~INR9b in FY20).
- Indian operations' capacity utilization currently stands at ~80% with EBITDA per ton expected at about INR9,000/t for 1QFY21.

Other takeaways:

Indian Steel Operations

- Steel production in 4QFY20 was impacted by the 40-day shutdown taken at the Angul Blast Furnace.
- Improvement in EBITDA per ton in 4QFY20 was driven by higher NSR (up 8% QoQ) and raw material cost reduction, offset by shutdown cost and lower operating leverage.
- Currently producing 0.56mt/month implying ~80% utilization.
- Exported 249kt in Apr'20, expect exports to be higher than 500kt in Apr-May'20. Pellet export run-rate currently stands at 400kt per month (v/s 200kt per month earlier).
- Exporting rails, plates, billets to Europe, the Middle East and China.
- Expect to generate EBITDA/t of ~INR9,000 during 1QFY21.

- Cost to benefit from lower thermal coal, coking coal and other consumable prices. Usage of Sarda iron ore to further optimize raw material cost.

Jindal Power Ltd

- JPL benefitted in 4QFY20 from lower coal cost during the quarter.
- JPL has receivables of INR16b from State Power DISCOMs (mainly Tamil Nadu and Kerala) and expects this to reduce in FY21.
- E-auction coal has been booked till Aug'20 at zero premium as it is a buyers' market currently.
- JPL expects to sign two 3-year PPAs of 420MW in Jun-end under the PFC Pilot Scheme-II; power supply should start from Oct'20 and expected realization is INR3.25/kWh.
- JPL has not seen drop in power demand from Tamil Nadu and Kerala (having PPAs of 750MW with these two states). However, it has been supplying ~200MW/day to exchanges at ~INR2.5/kWh to generate additional cash flow.

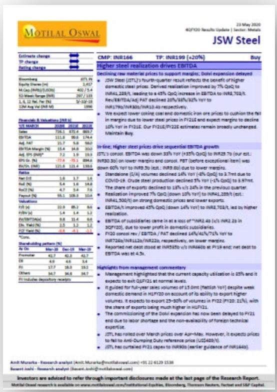
Debt position

- Repaid debt of INR44b in FY20, however, adverse forex impact of INR11.6b (of which ~INR8b in 4QFY20) led to lower YoY debt reduction of INR32b in FY20 to INR359b.
- JSP has opted for moratorium for debt and interest repayment due till Aug'20. This has resulted in deferring of debt repayment by INR7b and interest cost by another INR7b.
- Scheduled debt repayment of INR61b in FY21 – Standalone (INR16b), Australia and Mauritius (INR33b), Oman (INR6b), and JPL (INR6b).
- JSP expects to refinance its Australia and Mauritius debt repayment (mostly falling due in Mar'21) through issuance of debt and monetization of overseas assets. Restructuring of debt in Australian subsidiary has been completed in
- May'20.

JSW Steel — Buy

Current Price INR 191

Click below for
Detailed Concall Transcript &
Results Update



Key takeaways:

- The company is currently operating at 85% capacity utilization. It expects to exit Q1FY21 with a normal utilization.
- It provided full-year crude steel production guidance of 16.0mt and sales volume guidance of 15mt (flattish YoY).
- Overall inventory levels in India are lower than Sep–Oct'20. Although JSW Steel has rolled over March prices in April and May, it sees prices falling to Anti-Dumping price levels (USD$489/t).
- The Dolvi expansion is now scheduled to be completed by end FY21; it has been delayed by six months due to the exodus of migrant labor and foreign technology support staff, with only 30% workers on site currently.

Q4FY20 insights:

- Steel sales volumes declined 5% QoQ to 3.70mt due to the COVID-19-led crisis. However, domestic steel sales grew 3% QoQ during the quarter.
- Automotive steel sales grew by 8% QoQ despite overall decline witnessed in domestic automotive production by about 11%.
- Indian subsidiaries contributed INR2.3bn to EBITDA, whereas Overseas reported EBITDA loss of INR3.0b.
- Net sales realization increased 8% QoQ, driven by strong domestic prices and higher domestic sales.

- Raw material cost benefitted from lower coking coal prices, offset by lower operating leverage and higher other expenses due to INR depreciation.
- As a result, standalone EBITDA/t stood at ~INR8,703.
- Inventories increased by 0.2mt to 1.2mt during the quarter.
- During the quarter, the company provided for impairment of INR8.52b toward investments related to iron ore mining operations in Chile. Additionally, it impaired INR3.8b worth of interest receivables from one of its US subsidiaries. It also impaired assets of INR800m.

Near-term outlook:

- Production in April declined 60% to 563kt. It is currently operating at 85% capacity utilization.
- The company expects steel exports to be higher in H1FY21 (Q1: 50%+) due to subdued domestic demand. It guides for exports to be in the range of 25–30% for FY21, i.e., 3.75–4.50mt (v/s 3.1mt in FY20).
- The benefit of decline in iron ore prices would flow in 15-days' time. The company would benefit from lower iron ore prices in Q1FY20. It expects coking coal cost (consumption) to remain flattish and the benefit of lower coking coal prices in Q1FY21 to flow into Q2FY21.
- It expects the performances of overseas subsidiaries in the US to improve in H2FY21 and sustain operations on their own, without funding requirement from the parent company, except USD50m in capex.
- The company plans to cut fixed cost by 10% in FY21 and reduce its commercial spend by 10% as a part of cost-cutting measures.

Status of iron ore mines:

- The company is yet to receive a vesting order from the government for iron mines won in an Odisha auction. It expects to receive the vesting order soon. On receipt of the order, the company can commence mining operations after making an upfront payment.
- The mines have a capacity of 29mt. JSW has to produce 16mt from the said mines in FY21.
- The company produced 4.1mt from its mines in Karnataka and expects to produce 7.0mt from the same in FY21, with new mines turning operational in FY21. This, coupled with the Odisha mines, would increase the captive production of iron ore to 23mt in FY21.

Capex and project update:

- Capex in FY20 stood at INR102b (v/s guidance of INR110b). Of announced capex of INR485b, INR240b has been spent thus far.
- The company has curtailed its FY21 capex guidance to INR90b from an earlier
- guidance of INR163b. The balance capex of INR164b shall be spent over FY22–
- 23.
- Of INR90bn in capex announced for FY21, INR82b would be spent on projects and INR8b on mining. In addition to this, the company needs to make an upfront payment of INR12b toward the mines won in the auction, which would be adjusted with premium payable on iron ore extracted from these mines.
- Labor shortage and the lack of foreign technology assistance due to the COVID-19 outbreak have led to delay in the Dolvi expansion. The company now expects the commissioning of the 5mtpa Dolvi expansion, including the captive power plant and coke oven Phase 2, by FY21 end.
- The 8mtpa pellet plant and wire rod mill at Vijayanagar are expected to be commissioned in Q2FY21. Similarly, downstream modernization cum capacity

enhancement projects at Vasind, Tarapur and a color coating line at Kalmeshwar are expected to be commissioned in H2FY21.

Liquidity position:

- Net debt increased INR43b in Q4FY20 to INR535b (INR460b at FY19 end). Of the INR43b increase, INR15b was on account of forex.
- Revenue acceptances stood at USD1.1b.
- Net debt / EBITDA stood at 4.5x at FY20 end (v/s 2.43x at FY19 end).
- The company had liquidity of INR120b at FY20 end.
- Debt maturities in FY21 stand at INR75b. Management is confident of refinancing the same.
- The company remains committed to the acquisition of Bhushan Power and Steel; however, it expects delay in the same due to ongoing litigation in the Supreme Court.

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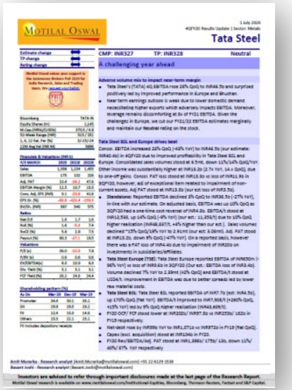


Tata Steel — Neutral

Current Price INR 330

Operational Highlights

- Lock-down in Mar-end impacted sales volumes resulting in piling up of finished goods inventories.
- Operated at ~50% utilization in Apr-20 and post that raised utilization to 80%. Expect to raise capacity utilization to 100% in Jul-20.
- Share of exports to remain ~50% in 1QFY21 and ~30% in 2QFY21.
- Target to achieve flattish volumes in FY21 (12.3mt in FY20) on the back of carried forward inventories, assuming no 2nd lock-down, though, production would be lower YoY.
- Domestic realizations have declined by just INR500/t during 1QFY21; however, adverse mix due to higher exports (~50% of volumes) would lower blended realization by INR4, 000-5,000/t Q-o-Q in 1QFY21.
- Tata Steel Europe is operating at ~70% utilization.

Financial Highlights

- Company has raised additional funds in Mar-end to build contingency cash reserves. As a result, gross-debt increased by ~INR6.5b, however, reported net debt maintained at Dec'19 level (INR1,050b).
- Debt-maturities for FY21/FY22 stand lower at ~USD250m each.
- Europe reported positive EBITDA (USD4/t) (vs loss of USD57/t in 3QFY20) on the back of lower raw material costs (GBP80/t) offset by lower realizations. Raw material cost was lower due to lag effect of lower iron ore and coking coal prices.
- Capex spend during 4QFY20 was INR26.4b, of which Tata Steel India (TSI) capex stood at INR16.1b incl. INR7.6b on Kalinganagar expansion.
- Company generated OCF of INRINR53.2b in 4QFY20 aided by Working Capital release of INR6.5b. Net-cash generation during the quarter stood at INR4.7b.
- Company has liquidity of INR177b at Mar-end (incl. undrawn lines of INR62b).
- Of the impairment charge taken, INR22b was related to investments in Europe, INR6.7b towards assets in Canada and INR1.5b towards assets in India.
- TSE has recorded reduction in employee cost to the tune of GBP60m in last 6 months. TSE has seen benefits of GBP370m from ongoing transformation programme.

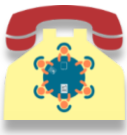
Other Highlights:

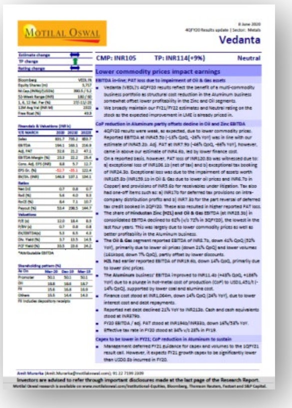
- Steel Demand is improving in some segments in which Tata Steel operates. While, demand is improving in rural market and Govt. projects, auto demand is likely to improve only in 2HFY21.
- In Europe, steel demand has been adversely affected; while automotive sector continues to struggle, demand from packaging is strong.
- Negotiations with Auto customers for pricing contracts are not yet concluded.
- Tata Steel highlighted that cash conservation remains key focus for the company and it has curtailed capex sharply.
- FY21 capex is curtailed to INR40-50b with 50:50 split between India and Europe business (FY20 Capex: INR104b). Most of the capex would be on safety and sustenance projects.
- Tata Steel would prioritize Pellet plant capex in Kalinganagar (KPO) which will aim aid in cost reduction followed by CRM complex and Blast furnace.
- TSE does not need to incur carbon credit expenditure at ~70% capacity utilization in FY21.

Vedanta — Neutral

Current Price INR 108

Click below for
Detailed Concall Transcript &
Results Update




Vedanta
CMP: INR105
TP: INR114(+9%)
Neutral

COVID-19 impact on operations

- HZ witnessed the closure of operations from 22nd March and resumption on 8th April 2020; it was operating at 80% utilization in May.
- Zinc International resumed operations from 17th April 2020 and is operating normally, supported by ore stockpiles.
- Management informed minimal impact was seen on oil production during the lockdown; however, gas production was impacted by 50mmscfd due to lower demand.
- Aluminum facilities are currently operating at 75% capacity.
- Steel operations are currently operating at two-thirds of capacity.

Zinc

- All major projects related to capacity expansion to 1.2mtpa in HZ have been completed in 4QFY20. It achieved an ore production run-rate of 4.5mtpa at the Rampura Agucha mine in FY20.
- Gamsberg is ramping-up well; it produced 30kt in 4QFY20, with 13kt produced in Jan'20. Production was impacted by shutdown related to COVID-19. Gamsberg's CoP increased 4% QoQ to USD1,484/t.
- The Skorpion mine would go into care and maintenance Apr'20 onward.

Aluminum

- CoP declined 14% QoQ / 20% YoY to USD1,451/t. This was driven by decline across cost heads such as alumina, power and fuel, and other raw material costs.
- Alumina cost declined by USD54/t of aluminum due to lower CoP at the Lanjigarh refinery unit and lower global alumina prices.
- Power and fuel cost was lower by USD138/t to USD560/t on account of the following factors: a) better coal availability (USD60/t), b) higher PLF (USD25/t) and c) lower RPO obligation and fuel costs (USD35/t). With lower alumina costs, better coal availability, and lower e-auction coal prices in the country, the company expects cost to decline further in 2QFY21.
- FY20 CoP declined 14% YoY to USD1,690/t.
- Production at Lanjigarh stood at 479kt, flat QoQ and up 13% YoY (FY20: 1,811kt, up 21% YoY).

- Lanjigarh's CoP declined 4% QoQ / 11% YoY to USD258/t (FY20: USD275/t, down 15% YoY).

Oil & Gas

- Impairment was taken in accordance with Accounting Standards as oil prices slipped below USD30/bbl. The company is working with an oil price assumption of ~USD40/bbl (USD20/bbl lower than FY20) in the short term and USD50/bbl in the medium term. This, combined with project delays, resulted in lower NPV, leading to the impairment of Oil & Gas assets.
- An early gas production facility has been ramped up to a design capacity of 90 mmscfd.
- Management is confident of exiting 2QFY21 with a daily average production run-rate of 225kboepd v/s a daily production average of USD172kboepd in 3QFY20. This is attributed to the completion of various key projects, such as a liquid handling facility, a tight oil project, and an MDA polymer infusion project in 2QFY21.
- Management has deferred capex on various projects in the Oil & Gas segment and would pursue only those projects that are nearing completion. Unspent capex at FY20 end in the O&G segment stood at USD1.35b.
- The company received an extension of three months for signing the production-sharing contract for RJ Block. It expects to receive the extension for 10 years within the next one month, with the original terms of profit sharing, i.e. 40%. However, we believe profit sharing as per the new agreement would be at 50%.
- One of the conditions for the extension of the Block concerns payments arising from certain audit exceptions. One of the audit exceptions raised for FY16–17 requires the company to pay INR27.2b (VEDL's share); however, the company has disputed the same and the matter is under arbitration. No provision has been created against the same.

Other highlights

- Management deferred FY21 guidance for capex and volumes to the 1QFY21 result call.
- The company incurred USD0.8b on growth capex in FY20 against guidance of USD1.2b. It expects capex to be significantly lower in FY21.
- The company expects to refinance all of its debt maturing in FY21 (INR91b). It opted for moratorium for some loans in Mar'20.
- The company informed that there is no change in dividend policy; however, in order to conserve cash, the board decided not to distribute dividend received from HZL.

OIL & GAS

- **OMCs expect refining margin to remain subdued in 1QFY21 due to poor product cracks, which are weighed down by demand destruction. Also, discounts from Middle Eastern suppliers (enjoyed in 4QFY20) have come off. However, OMCs have guided that improvement in product demand would translate into higher cracks, leading to better GRMs in the latter part of the year. OMCs are seeing faster-than-expected recovery in refining throughput and product marketing, which should lead to normalization of GRMs and gross marketing margins. RIL's refining margin is set to improve with the enhancement of delayed coker and distillate yields, while petrochemical cracks are expected to improve with feedstock flexibility. The company's strong growth avenue remains in its retail business. MAHGL continues to struggle with lackluster volume growth and expects some volume relief from development of the Raigarh geographical area (GA). IGL expects CNG volumes to return to normalcy by end-FY21; however, margins are likely to remain strong owing to lower domestic and spot prices. GUJGA has stated that total sales currently stand at 70-75% of normal volumes, with strong demand from Pharma/Agrochem units in Ankleshwar, Panoli, Vapi, etc. PLNG expects strong volume off-take at Dahej (on expanded capacity) from the Power/CGD sectors and foresees capacity utilization of 30-35% from the ramp-up at Kochi post completion of the Kochi-Mangalore pipeline (by end-Jul'20). For FY21, GAIL has stated that gas sales in Apr'20 reduced to ~70% of normal levels; however, it has now reached ~90% of normal levels, barring CNG (which is ~50% of normal levels). We expect full normalization in two months. Growth guidance for the company continues on the back of incremental volumes of ~7-8mmscmd from the commencement of two fertilizer plants and the Kochi-Mangalore pipeline, which should lower the risk on its US contracts.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & gas	Outlook of FY21	Snapshot of the quarter	Impact of COVID-19
GAIL	▪ GAIL has hedged ~90% of US cargoes (volume) for CY21. ▪ According to GAIL's guidance, due to the commencement of the three fertilizer plants on the Jagdishpur–Haldia pipeline, most US Henry Hub (HH) contracts would be sold within India. ▪ Due to COVID-19-led lockdown, some delays may be witnessed in gas off-takes from the Ramagundam fertilizer plant (~2mmscmd) and Matix fertilizer plant (~2.25mmscmd). However, we continue to believe the establishment of fertilizer plants would support volume growth.	▪ GAIL reported higher-than-estimated EBITDA, led by better performances from gas trading and the LPG HC business. With revival witnessed in crude oil prices, we believe these two segments would remain lucrative for the company in the coming quarter. ▪ An exceptional item of INR1b has been recorded in light of the impairment of investments. ▪ Capex guidance for FY21 stands at INR45–50b and INR80–90b for FY22.	▪ Gas sales in April reduced to ~70% of normal levels; however, this has now reached ~90% of normal levels, barring CNG (at ~50% of normal levels). We expect full normalization within two months. ▪ The petrochem plant was shut for three weeks in April. It is now running at 100% utilization as demand has picked up. Some more delay is expected at the company's Maharashtra petchem plant due to COVID-19-led 'Red Zones'.
OMCs (IOC/BPCL/HPCL)	▪ Improvement in product demand would translate into higher cracks, leading to better GRMs in the latter part of the year. OMCs restated that on a long-term basis, GRMs and marketing margins would trend at normalized levels. ▪ IOCL continues its strong capex of INR260b annually, while HPCL has guided for capex of INR120b in FY21. BPCL has revised down its capex to INR80–85b for FY21 (from INR120b earlier).	▪ The SG GRM further declined to USD1.2/bbl in the quarter, primarily led by the worsening of gasoline and ATF cracks. ▪ Thus, OMCs clocked core GRMs of USD7.4–9.6/bbl in the quarter, with inventory loss of USD6.6–17.8/bbl. ▪ Implied gross marketing margins for HPCL/BPCL stood marginally lower sequentially at INR3.7–4.4/lit during the quarter, while they were strong for IOCL at INR9.4/lit.	▪ Sales demand (for MS and HSD) has revived to 85–90% of normal levels (from as low as ~30% of normal in Apr'20). ▪ LPG consumption has been strong during the lockdown period, supported by various government initiatives, while ATF demand remains 65–70% below normal levels. ▪ Companies expect GRMs to remain subdued in 1QFY21 due to poor product cracks, weighed by demand destruction; also, discounts from Middle Eastern suppliers (enjoyed in 4QFY20) have come off.

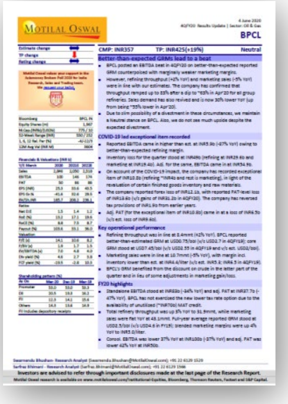
ONGC	▪ With the lifting of the lockdowns worldwide, demand is once again seeing an uptick; conversely, production cuts, both intentional (OPEC++) and unintentional (due to poor economies/bankruptcies), appear to be putting upward pressure on oil prices. ▪ Gas production is expected be boosted by KG-DWN-98/2, and the incremental production of oil should largely offset oil depletion from the major older fields.	▪ Higher other expenditure (INR14.8b) and COVID-19-led impairment (INR49b) have resulted in huge loss in the company bottom line during the quarter. ▪ No subsidy sharing was witnessed for ONGC and OINL in 4QFY20. ▪ Companies neither expect any subsidy burden nor any subsidy discussion with the government for the remainder of FY21.	▪ ONGC did not see any reduction in crude oil demand starting 1st Apr'20. However, gas production saw modest decline of 9% during the lockdown, but this has now been restored to pre-COVID-19 levels. ▪ OINL has guided for oil and gas production to be marginally lower YoY in FY21.
Petronet LNG	▪ Small-scale LNG (ssLNG) has potential for 8–9mmtpa of LNG for trucks over the next 8–10 years. ▪ Negotiations are on with Qatargas over LNG pricing. ▪ PLNG further stated the MOU with Tellurian may be extended, with the final decision expected in FY21.	▪ Volumes at Dahej were down QoQ (and were below est.) as three cargoes were cancelled/deferred due to the COVID-19-led lockdown in Mar'20. ▪ Negotiations are on with Qatargas over LNG pricing. ▪ Expect strong volume growth of 6–7% to continue for FY21/FY22, with higher adoption from Power and CGD aiding volume growth.	▪ The Dahej terminal is currently operating at ~100% utilization, up from 50–55% in Apr and May'20. Various power plants are switching from coal in the current lower spot price environment, resulting in higher gas off-take and imports. ▪ PLNG expects utilization to be healthy at ~100% going into the year, further aided by Power sector demand.
Reliance Inds	▪ RIL expects the vacuum gasoil (VGO) diversion for IMO to support gasoline cracks over the near term, along with discounts on high-sulfur crude. ▪ It has also been trying to switch to better performing diesel cracks using certain feedstock. ▪ The company is increasing its crude desalter capacity and has boosted the capacity of the DTA coker by 30%. ▪ RJio's growth momentum should slow relative to previous years. ▪ Retail would remain among the key performers.	▪ Reported GRM resulted in premium over SG GRM of USD7.7/bbl (highest ever) as the company benefited from a better performance from diesel cracks and favorable crude differentials. ▪ However, the company has recorded non-cash inventory loss of INR42.5b (as an exceptional item); if adjusted (as normally done for OMCs), this would result in core GRM at USD4.5/bbl.	▪ Refining throughput was at 18.3mmt (+14% YoY). Petrochem production was 4% higher YoY to 9.8mmt (flattish QoQ). ▪ The company enjoys a huge benefit from its petrochemical integration, which translated into higher utilization despite lower demand in the lockdown. ▪ In the current challenging operating environment, RIL's ability to optimize between feedstock and sales mix provides an edge in improving its performance.

Click below for Results Update

Bharat Petroleum — Neutral

Current Price INR 380

- Standalone capex stood at INR47.8b for the quarter and at INR110.6b for full year FY20. The company has revised down FY21 capex to INR80-85b from INR120b, owing to impact from COVID-19 led lockdown.
- Consol. debt increased due to INR60b of lease accounting, another INR59b was on account of working capital related to the liquidity crunch faced by dealers/consumers in marketing. Impairment of INR6b in BPRL was taken.
- Outstanding receivable from the government at end-FY20 stood at ~INR48b, down from INR88b in end-FY19. The government has been making regular payments to the company for the recent (three) free LPG scheme announced under the 'Atmanirbhar Bharat' announcement.



4 June 2020
4QFY20 Results Update | Sector: Oil & Gas
BPCL

CMP: INR357 TP: INR425(+19%) Neutral

Better-than-expected GRMs lead to a beat

COVID-19 led exceptional item recorded

Key operational performance

FY20 highlights

Investors are advised to refer through important disclosures made at the last page of the Research Report.

- Currently, valuation of NRL is on and is aimed to be done with the BPCL divestment
- concurrently.
- Total refinery throughput was up 3% YoY to 31.9mmt, while marketing sales were flat YoY at 43.1mmt. Full-year average reported GRM stood at USD2.5/bbl (v/s USD4.6 in FY19); blended marketing margins were up 4% YoY to INR5.0/liter.

RETAIL

- **Retail sector witnessed a complete shutdown during the lockdown period. However, since May'20, retailers are opening doors for consumers in select cites. Though footfalls have been lower, the conversion rate and bill size of customers have improved significantly. ABFRL/SHOP/V-Mart have guided for reduction in cost measures from an average of ~25-50% until majority of their stores are functional. Retailers are also keen to convert rentals as a variable of sales over FY21 and are seeking exemption of rent during the lockdown. Decision over these two requests has been fruitful with some landlords. ABFRL/V-Mart/SHOP have sharply cut their capex guidance in FY21 with no store adds for 1HFY21.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook	Impact of COVID-19
Aditya Birla Fashions*	▪ Management targets converting rent, employee, and SG&A into semi-variable costs within six to nine months. Frontend store employee cost should reduce by 25%; SG&A should reduce by 50–75%. ▪ The company seeks to reduce capex by 70% in FY21, with major capex to be deployed in 2HFY21. ▪ Due to a strong parentage, the company has access to adequate bank lines of INR6.5b for smooth operations. It has only working capital loans and some commercial paper repayments due in the near term.	▪ ABFRL has converted its factories to manufacture masks and PPE kits, and has produced 2m masks and 0.5m PPE kits thus far. ▪ Management could also look at closing some stores due to a shift in customer behavior toward digital.
Shoppers Stop	▪ It achieved reasonable success in rental waivers in the lockdown; post lockdown, most stores would have a variable rent structure. ▪ Employee cost optimization should lead to annualized savings of 20–25% (INR500–600m) in FY21. ▪ Capex should reduce to INR500m in FY21; management seeks attractive real estate opportunities.	▪ SHOP has only opened stores for which negotiations with landlords have been fruitful. ▪ Business at opened stores (in June'20) is at 45% of FY20 levels. ▪ Footfall has reduced by 70%; however, transaction size and conversion have improved.
V-Mart*	▪ V-Mart would not open any stores in 1HFY21. ▪ Expect overall fixed cost to reduce by 50%. Conversely, rental cost charged during lockdown should be at 30% of the total rent; employee cost is expected to reduce by 25%. ▪ The company has settled rental negotiations with one-third of its landlords for the next 3–12 months.	▪ VMART plans to clean up all its inefficient sections and close its loss-making stores. Fewer weddings, festivals, and events are expected, which would lead to a drop in the sale of higher priced products.

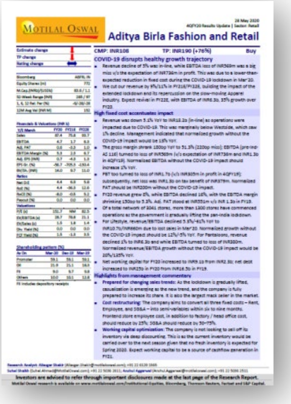
Click below for Results Update

Aditya Birla Fashions — Buy

Current Price INR 127

Key highlights

- **Prepared for changing sales trends:** As the lockdown is gradually lifted, casualization is emerging as the new trend, and the company is fully prepared to increase its share. It is also the largest mask seller in the market.
- **Cost restructuring:** The company aims to convert all three fixed costs – Rent, Employee, and SG&A – into semi-variables within six to nine months. Frontend store employee cost, in addition to factory / head office cost, should reduce by 25%; SG&A should reduce by 50–75%.


Aditya Birla Fashion and Retail

- **Working capital optimization:** The company is not looking to sell off its inventory via deep discounting. This is as the current inventory would be carried over to the next season given that no fresh inventory is expected for Spring 2020. Expect working capital to be a source of cash flow generation in FY21.
- **Capex:** The Company is looking to reduce capex by 70% in FY21, with major capex to be deployed in 2HFY21. However, it would keenly eye any good opportunity in real estate.
- **Debt:** The company seeks to maintain similar debt levels in FY21 as in FY20 at INR25b, without considering the rights issue of INR10b. Expect debt to increase in 1HFY21, and then return to FY20 levels by the end of the next fiscal.

Operational performance

- **Performance pre-COVID-19:** The first 11 months were perfect for the company, with all internal targets fulfilled, such as revenue, margin, capex, FCF, etc.
- **COVID-19 impact on profitability:** Shortfall in sales in Mar'20 impacted the profitability of the company due to its higher fixed cost structure.
- **Lifestyle:** Lifestyle brands reported LTL of -6% for 4QFY20.
- Pantaloons: Pantaloons performed well in the pre-COVID era with LTL growth of 9.5% in Jan-Feb'20 due to EOSS.
- **Fast Fashion:** The company closed 'People' stores and transferred the brand to Pantaloons, which incurred INR280m in loss in 4QFY20.
- **Debt positioning:** Net/Gross debt stood at INR25b/INR27.5b; debt has increased due to an investment of INR2.67b in FY20.
- **Gross margin:** Factory unabsorbed costs at the end of Mar'20 have impacted the gross margin in 4QFY20. Impact is lower on a full-year basis.
- **Innerwear:** Innerwear growth reduced to 40% in Dec'19 and Jan/Feb'20, from 60–70% in 1HFY20, due to market liquidity. The management also did not want to push the channel expansion beyond a point as this would dilute the brand.
- **Peter England Red:** The company opened 200 stores in FY20 in five states (50 stores in Maharashtra), 30 less than the target due to COVID-19. Most of the stores are in tier 3/4/5 cities.

Operational transition from COVID-19

- **Change in product line:** ABFRL has converted the factories to manufacture masks and PPE kits, and has built 2m masks and 0.5m PPE kits thus far.
- The management has engaged in discussions with various partners, such as vendors and landlords, to plan the strategy to deal with the crisis.

Operational efficiency efforts

- **Cost restructuring:** Management's focus is on restructuring cost by converting fixed costs to variables within six to nine months.
- **Rent cost:** The Company is in talks with landlords to make the rent structure as much possible to be linear with sales.
- **Employee cost:** This could be reduced at three levels: a) front-level employees, where the cost could be reduced by 25–30% at unit levels, which could be utilized in other avenues, b) head office cost could be rationalized, and c) factory cost optimization by outsourcing manufacturing.
- **Other expense:** These could be reduced by lowering the travel, conveyance, and advertisement components by 50–75%; advertisement expense is 3–3.5% of

sales for the Lifestyle business and this has also increased to the same levels for Pantaloons from earlier levels of 1–1.5%.

- **Working capital:** The management is looking to carry the current inventory over to the next season, with no fresh inventory for Spring 2020; however, fresh inventory could be purchased for the festive or winter seasons based on demand. A significant amount of cash flow is expected from inventory in FY21. Furthermore, the company does not plan to sell off inventory via deep discounting.
- **Store closures:** The management could also look to close some stores if customer behavior shifts toward digital.

Rights issue

- **Amount:** The Company seeks to raise INR10b through a rights issue.
- Primary purpose: The major purpose of a rights issue is to repay debt; more than half of this should be for debt repayments.

Growth outlook

- **Sales:** Sales would be significantly lower in FY21 as the past two months have been a complete washout. Sales are fluctuating on a daily basis as new stores are opening every day; thus, assessing the impact on sales is difficult. It should take at least a month to assess the sales impact. The basket/ticket size is increasing, and casualization is emerging as a new trend.
- **New product lines:** Athleisure is a major part of the Innerwear segment and should gain ground in the Premium and Sub-Premium Comfortable Clothes markets. The company has reprocessed fabric inventory to create masks.
- **Operational stores:** Currently, 1,300 stores are operational (80 for Pantaloons), along with E-Commerce. Furthermore, some MBOs are also allowed to operate.
- **Liquidity:** Due to a strong parentage, the company has access to adequate bank lines of INR6.5b for smooth operations. Furthermore, the company has only working capital loans and some commercial paper repayments in the near term.

Jubilant Foodworks — Neutral

Current Price INR 1,746

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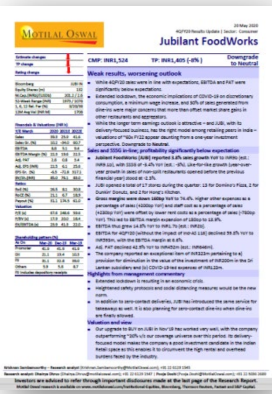
Jubilant FoodWorks

Weak results, worsening outlook

Key comments on COVID-19 impact and response to the situation

- Extended lockdown is resulting in an economic crisis.
- Heightened safety protocols and social distancing measures would be the new normal.
- Domino's was the first to introduce safety and sanitization measures, and zero-contact deliveries.
- In addition to zero-contact deliveries, JUBI has introduced the same service for takeaways as well. It is also planning for zero-contact dine-ins when dine-ins are allowed.
- Supply chain issues were witnessed in Raw Materials, but commissaries enabled the fast reopening of stores.
- All employees are checked by doctors every week.

Other key highlights

- 931 stores, of 1335 stores, have been re-opened thus far.
- SSSG stood at 7.2% and 13.1% for the first two months, respectively, in 4QFY20.

- Delivery and Takeaway sales would recover in the next few weeks, as per management.
- Restricted seating due to social distancing would affect Dine-in sales. JUBI has already started preparing for six feet of distancing among customers once dine-in are allowed again.
- Malls may reopen June onward, so mall dine-ins could turn operational in 2QFY21, albeit with limited occupancy.
- In smaller towns, deliveries have reached pre-COVID-19 sales levels. Larger towns have seen a greater impact of the lockdown.
- Delivery sales were affected in mid-April due to a well-reported incident in Delhi (of a pizza delivery boy for another brand having been detected with COVID-19). This affected delivery sales only in the north, but not in the rest of the country.

On cost savings and variabilizing costs

- **Rent:** JUBI has invoked the force majeure clause with reasonable progress, but more work is needed.
- **Manpower:** All full- and part-time employees were shifted to 'flexi time' with a one-hour slab.
- **Maintenance costs:** Costs were moved from AMC to incident-based costs.
- **RM inflation:** Dairy inflation continued in 4QFY20, but has come down in 1QFY21.

Other points

- Deliveries and dine-ins account for 70% of sales.
- The shift from unorganized would be very significant over the next few months.
- Customers are looking more for safety and less for discounts.
- 33 new stores are in various stages of construction and await permissions for completion and commencement.
- If not for COVID-19, JUBI would have opened 50 stores in 4QFY20.
- Lower dependence on malls v/s peers has allowed JUBI to reopen its stores faster.
- Domino's Essentials was established to supply essential goods such as atta (flour) to the community. The nature of this business comprises just the trading of goods. This was primarily a community service project.
- Minimum wage increases are being proposed by states in FY21.

Clarification on financials

- The staff cost increase in 4QFY20 was due to minimum-wage-related inflation.
- Inventory days increased as the shutdown was implemented suddenly, while the company had planned for normal operations.

Exceptional item of INR323m in quarter

- INR 200m was for the diminution in the value of investments in Sri Lanka operations.
- INR 123m was put toward expenses related to COVID-19 and the sudden lockdown. When the lockdown was announced suddenly, all operational stores were shut down, resulting in raw materials in stores perishing. The company had to write off this inventory loss. Furthermore, it had to incur higher expenses on the necessary hygiene measures.

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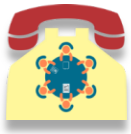

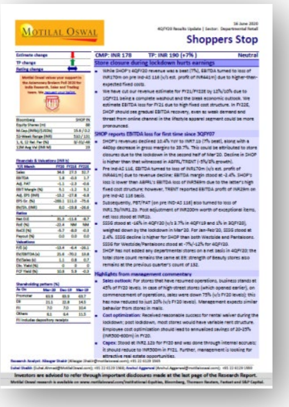

Shoppers Stop — Neutral

Current Price INR 173

- **Sales outlook:** Business in stores that have resumed operations is at 45% of FY20 levels. In case of high-street stores (which opened earlier), on commencement of operations, sales were down 75% (v/s FY20 levels); this has now reduced to just 20% (v/s FY20 levels). Management expects similar behavior from stores in malls.
- **Cost optimization:** Received reasonable success for rental waiver during the lockdown; post lockdown, most stores would have variable rent structure. Employee cost optimization should lead to annualized savings of 20-25% (INR500-600m) in FY20.
- **Capex:** Stood at INR2.12b for FY20 and was done through internal accruals; it should reduce to INR500m in FY21. Further, management is looking for attractive real estate opportunities.
- **Liquidity:** SHOP has availed credit facility of INR750m in May'20 and is also looking to raise additional INR750m through banks; it has sufficient liquidity for one year.

Operational Performance

- Employee cost optimization: SHOP has optimized employee cost from zero based budgeting approach, which leads to annualized savings of 20-25% (INR500-600m) in employee cost for FY20.
- Normalized revenue: Growth should have been 8.8% in 4QFY20.
- Gross margin: It has reduced by 260bp YoY in 4QFY20 on Non-GAAP basis. This was due to (a) promotional activity in Feb-Mar'20 (70bp), (b) one-time GST gain in 4QFY19 (70bp), (c) other absorption such as fixed cost in Mar'20 (30bp), and (d) inventory write off (40bp).
- One-offs: SHOP has recognized one-time accelerated depreciation of INR20m on account of vulnerable stores and INR307.5m on account of change in useful life of assets. Further, the company has taken impairment charge of INR200m for Crossword and wrote off INR117.5m inventory, which could be sold in FY21.
- Capex: Stood at INR2.12b for FY20 and was done through internal accruals.
- Loyalty program: The company has implemented gravity online loyalty engine. Over 4QFY20/FY20, SHOP added 140k/1m loyalty customers to its 'First Citizen' program and 3.5k/17k to 'Black Card' program. Purchase size of customers with 'Black Card' is 3x compared to 'First Citizen' program.
- Personnel shopper: This program contributed 13%/15% of total sales in 4QFY20/FY20.

COVID-19 impact

- Cost optimization: SHOP is in active discussions with landlords for rental waiver during the lockdown period and to move rents to variable structure post the lockdown period. It has received reasonable success for most stores. Further, it is looking to reduce its overhead costs by significantly reducing discretionary spends.
- New product line: SHOP has added PPE kit to its product line and started delivering it post the partial lifting of the lockdown.
- Store closure: It has identified vulnerable stores that were marginally profitable in the normal scenario and engaged with landlords for rental negotiations. Thus,

these stores would remain operational in case of success or would be closed down if landlords do not agree to rental reduction.

- Capex: Looking to defer capex until the situation normalizes, and thus, it should reduce to INR500m for FY21. However, SHOP would invest where the committed cost has largely been deployed. Further, it is open for some attractive real estate business opportunities.
- Stores re-opening: SHOP has only opened stores where negotiation with landlords has borne fruit.

Changing focus to Omni channel:

- Leveraging personal shopper: SHOP is using its 'Personal Shopper' program to enable 'First Citizens' to move online; the same is gaining good traction.
- Hyper-local stores: Planning to take some retail space to convert to hyper-local stores.
- Omni channel sales: Currently, omni-channel contributes 1.9% of total sales but management is looking to increase this number significantly in FY21.
- New brands: Added 60 new brands to its Ecommerce platform during the lockdown.

Outlook

- Inventory liquidation: Plans to liquidate excess inventory due to COVID-19, which should turn to INR600m cash. This should get liquidated through its own Ecommerce portal and Amazon, and would be a combination of both realignment of inventory and discounting.
- Price repositioning: SHOP has realigned its prices in private brands after recognizing change in consumer behavior post COVID-19.
- Sales: Business in opened stores is at 45% of FY20 levels with categories such as innerwear, beauty, children, and home products in higher demand, and categories such as luggage, footwear, hand-bags and sunglasses in lower demand. Also, footfalls have reduced by 70%; however, transaction size and conversion has improved. Impact on metro cities is more than Tier 2/3 cities. In case of high-street stores (which opened earlier), on commencement of operations, sales were down 75% (v/s FY20 levels); this has now reduced to just 20% (v/s FY20 levels). Management expects similar behavior from stores in malls.
- Crossword: Management will come up with a better plan and clarity by next quarter.
- EOSS: As the inventory is fresh, EOSS should get delayed. The company recommends it to be in Jul'20.
- Liquidity: SHOP has availed credit facility of INR750m in May'20 and is also looking to raise additional INR750m through banks. Management mentioned that liquidity is sufficient for one year.

Titan — Neutral

Current Price INR 1,016

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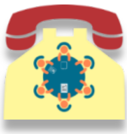

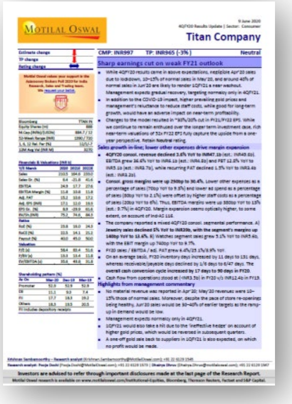

Key highlights

- ~1,400 of the 1,800 stores across all formats have been re-opened with safety protocols in place.
- Stores contributing 75% to sales have re-opened. Over the next two to three weeks, TTAN would re-open stores contributing 90% to demand.
- Average daily sales are now at 80% of normal for Tanishq and at 45–50% for both the Watches and Eyewear businesses. This could be attributed to pent-up demand, but no deceleration has thus far been witnessed in week-on-week revenues.
- TTAN targets normalcy in sales by 4QFY21.
- The scale back in large-scale weddings could benefit jewelry purchases as consumers may be willing to spend more on jewelry on saving on other wedding expenses.
- Reduced holiday travel could also benefit jewelry demand in the near term.
- TTAN targets a 15% reduction in fixed costs. Management is hopeful that this would enable them to maintain margins for the remainder of FY21.
- TTAN has adequate stock for now despite its karigars (artisans) returning to their villages. The company expects them to be back in the next couple of months.
- No material revenue was reported in Apr'20. May'20 revenues were at 10–15% of normal sales. The company expects Jun'20 sales to be at 30–40% of earlier targets as the ramp-up in demand would be low.
- FY21 is likely to see revenue decline despite the best efforts, resulting in an impact on PBT margins.
- TTAN's focus for FY21 would be on gaining market share in Jewelry, even at the cost of near-term margins. As TTAN's competition does not hedge gold, heavy promotions are likely in the near term. Schemes such as 25–30% off on making charges are already being seen in the market. However, liquidity is a big challenge for peers.
- A fairly high impact would be witnessed in 1QFY21 on accounting for the impact ineffective hedge due to rise in gold prices. However, this would be reversed in subsequent quarters. Management did not quantify the amount.
- An increase in the proportion of exchange gold has led to a rise in capital employed. This is because the payment has to be made in cash unlike gold-on lease wherein six months' credit is offered. The company is trying various schemes to reduce the impact in FY21.

Jewelry industry and TTAN's challenges

- Jewelry declined in FY20.
- Increase in gold price is also affecting TTAN's sales. Management believes the company would have to be very nimble in its response.
- TTAN would witness pressure on demand, margins, and capital employed in FY21.
- Wedding demand is uncertain in FY21.
- High-value studded jewelry demand is likely to be weak in FY21.
- The opportunity to gain market share is high in the near term.

- The Diamond industry is under a lot of stress due to unsold inventory. The company expects price of larger diamonds (such as solitaires) to soften, but price of smaller diamonds may not decline.

Initiatives in Jewelry business

- TTAN has rolled out video selling in 50 stores.
- It has also initiated appointment-based selling.
- The company has introduced best-in-class safety procedures for the safety of its employees and customers.
- Of 460 stores, 75% are now open, and 90% are likely to be operational by the end of Jun’20.
- Vendors are seeing 10–30% of their employees returning.
- 280 of 329 Tanishq stores are now operational.
- Demand for the Golden Harvest Scheme (GHS) is good, as is that for gold exchange.
- TTAN continues to gain market share.
- TTAN opened 41 new stores of 50 store openings targeted in FY20. The remaining nine stores would be opened at the end of 1QFY21.
- The contribution of new buyers to GHS is 35%. New buyers have also contributed to sales recovery in 1QFY21.

Watches

- The Titan brand did well in FY20, as did the Fastrack brand.
- In FY20, Watches reported 7% topline growth and 9% PBT growth despite the COVID-19 impact.
- TTAN was ranked second in the Smart Wearable’s category in FY20.
- TTAN expects demand contraction in the lower-middle-class segment of consumers in FY21. On the other hand, demand from the upper middle class is likely to be reasonable.
- There are green shoots in the premium segment.
- ~75% of stores are now operational in the Retail channel; sales are at ~50% of pre-COVID-19 sales.
- 50% of stores are now open in the Trade channel; sales are at 30% of normal levels.
- Large-format stores (LFS) are mall-dependent; thus, only 11% of stores are open, with 14% of pre-COVID-19 sales.

Eyewear

- Consumer scores are at an all-time high.
- TTAN focused on premium frames (> INR5k) in FY20. This segment is doing very well and contributes 1.5–2% to sales.
- TTAN added 60 Eye+ stores last year, taking the total count to 584 stores.
- 400 stores have re-opened thus far.
- Management expects to achieve the same sales as last year by 4QFY21 and perhaps the same growth as well in that quarter.

Other points

- Margins were better in 4QFY20 due to studded jewelry, plain gold sales (usually high toward the end of the quarter) that did not come through, and higher making charges as a proportion of sales.

- TTAN had built up inventory in anticipation of good demand, which increased the number of inventory days. Inventory would be liquidated as part of pure gold sales, which would aid revenues, but would not contribute to margins.
- 45% of inventory was exchange gold, 10–15% was outright purchases from other jewelers, and 40% was gold on lease in FY20.
- Contribution from weddings was 23% in FY20, up from 21% in FY19 and FY18.
- TTAN placed Commercial Paper at a 4% interest rate over Apr–May'20 to tide over liquidity concerns. The company expects to be cash positive by Sep–Oct'20.
- Most of the re-opened stores are in high street, where the company has obtained some waivers on lease rentals. Mall stores are yet to get back on rental reduction.
- The company has decided not to cut salaries even for employees of the closed stores. However, the variable component of employee salaries would not be high.

V-Mart Retail — Neutral

Current Price INR 1,856

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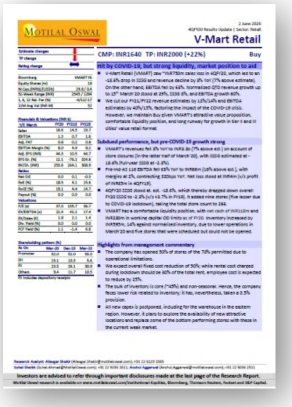

- Sales were lower by ~INR750m due to lockdown; normalized revenue growth in 4QFY20 up to the lockdown came in at 29%. The company now has 50% of stores open of the 70% permitted due to operational limitations.
- We expect overall fixed cost to reduce 50%. While rental cost charged during lockdown should be 30% of the total rent, employee cost is expected to reduce by 25%.
- The bulk of inventory is core (~45%) and non-seasonal. Hence, the company faces lower risk of inventory; it has, nevertheless, taken a 0.5% provision. Its inventory procurement days stand at half those of other retailers.
- All new capex is postponed, including for the warehouse in the eastern region. However, it plans to explore the availability of new attractive locations and replace some of the bottom performing stores with these in the current weak market.
- The flow of migrants may not have an adverse effect on spending due to lower remittances. On the other hand, down-trading was witnessed on account of consumers initially shifting to higher priced brands.

Business update

- Store location profile: Most of VMART's store locations are directly/indirectly dependent largely on agriculture and agriculture-related income / the trading of agricultural output.
- Agri income dependent customers: Farmer income has been stable thus far in the crisis, and we believe farmers would be the key beneficiaries of the government schemes, along with reduced cost in labor wages and commodity prices. Independent/Self-employed people have seen lower incomes, which would impact apparel sales going ahead.
- Drop in remittances: Labor migrants from Bihar, UP, and Jharkhand have now returned to their villages; this would lead to lower consumption due to a fall in remittances from cities.

Competition in markets

- Essential operations continue: Retailers selling essential products have tied up with online delivery partners and are running basic operations.
- Liquidity issues: Smaller retailers are likely to see some stress due to liquidity issues.
- Healthy competition necessary: The company believes competitors are essential for the industry to survive; some peers are facing liquidity challenges and may close their non-performing stores.
- No plans for inorganic growth: Not many stores are available that VMART would look to acquire. The company is currently not looking for any acquisitions, although it would look at attractive real estate deals.

Response to COVID-19

- Reduced employee costs: VMART has not cut jobs, although May salaries have been deferred by some days, and salary cuts would lead to employee cost reduction by 25% in 1QFY21.
- Working with business partners: VMART has communicated with all the stakeholders regarding issues of inventory management, contractual and business commitments, and vendor agreements, and would work with stakeholders for smooth business operations.
- Provision: The company has undertaken sufficient provisions for any adverse impact arising in the worst-case scenario going ahead.
- Training: Store employees have been trained well to maintain safety precautions and social distancing over the past five weeks.
- Support to vendors: VMART has undertaken steps to communicate and ensure the vendors are well-equipped with working capital and support them in tough times.

Financial performance

- Provisions lead to drop in GM: For FY20, the gross margin came in at 32.3% despite provisions; ex-inventory provisions, the impact on the gross margin would have been 32.7%.
- Reduced employee/rental costs: During the lockdown period in the latter half of March'20, full salary and rental cost have been accounted for.
- Lower sales: March'20 had INR900m in sales v/s INR1.5b in sales in March'19 on account of lockdown. Jan–Feb sales were driven by delayed winter and wedding sales.
- Shrinkage: This was 1.6% due to increased provisioning; otherwise, comparable shrinkage would have been 0.9%.
- Sales lost: VMART lost ~INR750m in sales in March'20 due to store closures.
- Provisions: Provisions of 0.5% on sales have been provided for inventory.
- Moderation in owed rent: The company has also paid full rentals for the month of March'20; it has requested for rent exemption for the lockdown period. The company is also in talks to reduce rent cost for the upcoming three to six months and rent exemption during the lockdown phase.
- Inventory: The company has received the majority of summer purchases; the bulk of inventory is core (~45%) and non-seasonal, implying lower risk related to inventory.

Business outlook

- No additional capex: VMART has put additional capex on hold for the next three months.
- Temporary FMCG sales: VMART's 45 stores offer FMCG products; some more stores could offer these products, but VMART does not plan to focus on the FMCG category as part of its long-term strategy.
- Online channel: This would be supported by the Amazon and Flipkart partnership and through VMART's website, with no major spends on marketing and advertisements. Expect margins from online apparel sales to be slightly lower.
- The new warehouse project opening in the eastern region has been deferred.
- Rent negotiations: The company has settled rental negotiations with one-third of its landlords. The company has negotiated for three to six months of rentals with landlords.
- Lower operational costs: We expect rental cost to reduce by 30% during the lockdown and 50% in 1QFY21, and employee cost is expected to reduce by 25%; total fixed cost would drop ~50% in 1QFY21.
- Store ads: V-Mart won't open any stores in 1HFY21, though it would continue to look for opportunities in newer location and might close stores that not profitable.

- **4QFY20 saw good performance in Jan-Feb'20, which was offset by the COVID-19 impact in Mar'20. Supply side challenges were more prominent as WFH was enabled for 90+% employees on short notice. Demand side challenges are expected to be more prominent going forward as clients are deferring discretionary spends, reprioritizing IT spends toward enabling business resiliency and looking for cost optimization. In terms of vertical – Retail (non-essential), Manufacturing / Auto, Aero and Energy have seen higher-order COVID impact while Healthcare /Life Sciences and Technology have been fairly insulated. Deal closures and deal ramp-ups are continuing virtually with delays in a few cases. Sequential contraction in margin was largely due to the dip in utilization, impact on revenues and one-time expenses (contribution to 'PM Cares' fund). The near-term outlook remains challenging and managements expect 1QFY21 to see sequential decline in revenue and pressure on margins. Deferral in wage hike, reduced travel and facility expenses and currency depreciation should help partially offset the COVID impact on margins.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook	Impact of COVID-19
HCL Technologies	▪ Company withdrew guidance given the high uncertainty in the environment. Revenue growth to be impacted in the near term. ▪ 4QFY20 was the highest order booking quarter of FY20. HCL signed 14 transformational deals in the quarter. Order booking on a comparable basis is up 12% YoY as the company entered FY21. ▪ ER&D is expected to see some dip in coming quarters due to impact in some verticals – Auto, Aero, industrial. ▪ Digital should see 3-5 years of transformation in the near term itself.	▪ Impact was limited as HCL shifted to remote operations early on with 96%+ WFH. ▪ Organic growth fuelled by Digital. ▪ 4QFY20 saw 1.5% supply-side driven billing loss as some projects in the ER&D space could be catered to via WFH.
Infosys	▪ Company suspended practice of providing guidance. ▪ Expect impact on top line in the near term with pressure on margins. ▪ Retail, Media, Auto, Aero, BFSI – to see some impact going forward. ▪ **1QFY21:** Supply side constraints should come down as lockdowns are lifted. Supply-demand mismatch is expected to continue for some time as earlier hiring was done for higher volume expectations in 1QFY21.	▪ Top line saw an impact of USD32m from COVID due to lower utilizations as client approvals were not received in some cases. ▪ EBIT margin declined 80bp QoQ (saw 90bp impact from COVID). ▪ Large deal booking's TCV of USD1.7b saw some impact.
TCS	▪ Highest-ever deal wins of USD8.9b in 4QFY20 should partially help offset COVID impact. ▪ Short-term uncertainties exist. Impact can be comparable to that of GFC (2009 recession). ▪ With recovery expected in 2HFY21, TCS will look to achieve 4QFY20 exit rate – absolute revenue / margin numbers in FY21 as well. ▪ Confident of long-term margin guidance at 26-28%; EBIT margin remains unchanged.	▪ Saw strong start to 4QFY20 but performance was impacted later due to the spread of COVID-19. ▪ Delay in customer approvals to Work from home (WFH) in BFSI (mainly in core banking operations) space impacted revenue.
Tech Mahindra	▪ Enterprise saw delay in discretionary spends though digital will be important post COVID. 5G related network deployment investment commitments continue to exist. ▪ 1QFY21 will also be negatively impacted. TechM is addressing supply side issues, plus customer approvals are coming in from BPS customers. Demand side issues will be more prominent in 1QFY21. ▪ High exposure to BPO (~10% of revenue) will continue to see some challenges though no resources. WFH should improve to ~85% by 1QFY21. ▪ EBIT margin – goal to reach mid-teens margin.	▪ Half of the revenue decline of 3.3 QoQ was due to COVID, which impacted (a) BPO (supply side constraints, customer approval delay to WFH), (b) Networks, Retail – customers deferred projects in the near term, (c) Comviva – renewal impacted. ▪ COVID related revenue/utilization dip had 80bp impact on margins.

	Revenue outlook	Impact of COVID-19
Wipro	▪ Discontinued practice of providing guidance. ▪ If COVID peaks out in 1QFY21 then it will be better, if peak shifts to 2QFY21, then the impact will be stronger. ▪ In 1QFY21, overall revenues are expected to decline and there will be pressure on margins. ▪ Retail, Auto, Airlines, Hospitality and Energy most impacted verticals. ▪ Seeing cascading impact on IT spends – currently clients are cutting down discretionary IT spends and halting transformation. Programs, asking for discounts in pricing.	▪ COVID had USD14-16m impact on topline. ▪ Overall working capital is set to increase.

CYIENT

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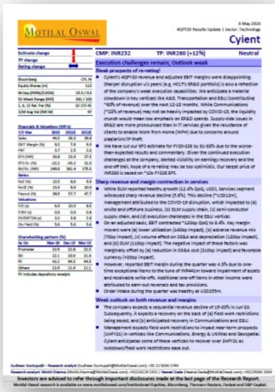

Cyient **Neutral**

Current Price INR 270

- The company expects a sequential revenue decline of 15-20% in Jun'20. Subsequently, it expects a recovery on the back of (a) field work restrictions being eased and (b) expected recovery in Communications and E&U verticals.
- Management expects field work restrictions to impact near-term prospects (1HFY21) in verticals like Communications, Energy & Utilities and Geospatial. Cyient anticipates some of these verticals to recover over 2HFY21 as lockdown/field work restrictions ease out.
- Commentary around key verticals likes Aerospace, Defense and Transportation is downbeat. Given the expected drop in volumes of fleet delivery by Aero OEMs and the resultant ripple effect, management anticipates this vertical to remain weak over the next 12-24 months.
- Margins are expected to take a hit in 1QFY21 due to low volumes. However, the company remains focused on cost optimization in several areas including sub-contractor expenses, reduced travel, facilities' costs, deferral of wage hikes to 2HFY21, etc. Management expects EBIT margins to bounce back to 4QFY20 level by 2QFY21.

HEXAWARE

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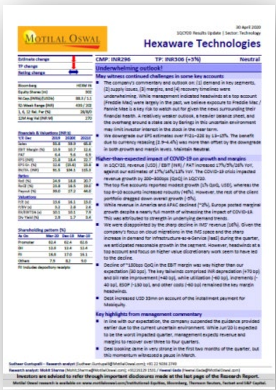

Hexaware Technologies **Neutral**

Current Price INR 335

- In line with our expectation, the company suspended the guidance provided earlier due to the currently uncertain environment. While Jun'20 is expected to be the worst impacted quarter, management expects revenue and margins to recover over three to four quarters.
- Deal booking came in very strong in the first two months of the quarter, but this momentum witnessed a pause in March.
- Even as certain tail accounts may be on the verge of bankruptcy, management foresees no material impact for now. The day's sales outstanding (DSO) is expected to increase as some clients may request for an extension in payment terms.
- Management indicated the challenges at a key client (Freddie Mac) are now in the past. This confidence is driven by a month-on-month increase in the revenue run rate. However, we believe the client's financial health needs to be observed keenly given the current news pertaining to it.

- The company expects supply-side issues in the BPO segment to continue to some extent, even in Jun'20. Even after the lockdowns have been lifted, management indicated employees' return to the office would be staggered.

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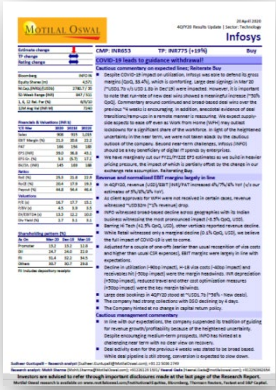

Infosys — Buy

Current Price INR 794

- In line with our expectations, the company has suspended its tradition of guiding for revenue growth/profitability because of heightened uncertainty.
- Despite encouraging medium-term prospects, INFO has hinted at a challenging near-term with no clear view on recovery.
- Deal activity even over the previous 4 weeks was stated to be broad based.
- While deal pipeline is still strong, conversion is expected to slow down.
- Near-term headwinds are expected to impact all verticals and geographies.
- Management has hinted at increased interest in areas like Cloud, Virtualization and Security, etc. in response to the COVID-19 crisis.
- INFO has called out a trend that clients are cutting back, reprioritizing and delaying discretionary spends.
- While nothing is alarming so far, the company did indicate that it is witnessing requests for price cuts and extension of credit terms.
- Management's discussions with clients indicate that INFO will possibly end up on the positive side of potential vendor consolidation.
- Supply-demand mismatch is expected to continue for some more time as the earlier hiring was done with different expectations.
- While there would not be COVID-19 related lay-offs, involuntary attrition related to performance may still continue.
- Suspension of salary hikes, promotions, incremental hiring and reduction in travel costs, capex and discretionary spends are key margin defenses.
- The company has hinted at no change in its capital return policy. Revenue and normalized EBIT margins largely in line.
- In 4QFY20, revenue (USD) / EBIT (INR)/PAT increased by 4%/7%/6% YoY (v/s our estimates of 5%/8%/3% YoY).
- As client approvals for WFH were not received in certain cases, revenue witnessed ~USD32m (~1% revenue) drop.
- INFO witnessed broad-based decline across geographies with its Indian business witnessing the most pronounced impact (-8.5% QoQ, USD).
- Barring Hi Tech (+2.5% QoQ, USD), other verticals reported revenue decline.
- While Retail witnessed only a marginal decline (0.1% QoQ, USD), we believe the full impact of COVID-19 is yet to come.

Let's Solve

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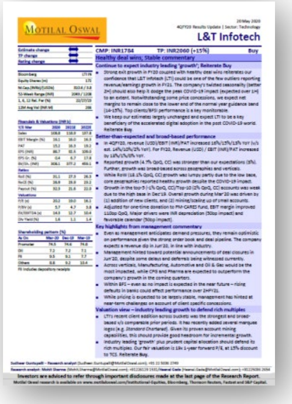
L&T Infotech — Buy

Current Price INR 2,012

- Even as management anticipates demand pressures, it remains optimistic on performance given the strong order book and deal pipeline. The company expects a revenue dip in Jun'20, in line with industry.
- Management hinted toward potential announcements of deal closures in Jun'20, despite some delays and deferrals being witnessed currently.
- Across verticals, Manufacturing, Automotive and Oil & Gas would be the most impacted, while CPG and Pharma are expected to outperform the company's growth in the coming quarters.



- Within BFS – even as no impact is expected in the near future – rising defaults in banks could affect performance over 2HFY21.
- While pricing is expected to be largely stable, management has hinted at near-term challenges on account of client specific concessions.

Better-than-expected broad-based performance

- In 4QFY20, revenue (USD)/EBIT (INR)/PAT increased 16%/15%/13% YoY (v/s est. 14%/10%/2% YoY). For FY20, Revenue (USD) / EBIT (INR)/PAT increased by 13%/1%/0% YoY.
- Reported growth (4.7% QoQ, CC) was stronger than our expectations (3%). Further, growth was broad-based across geographies and verticals.
- While RoW (18.1% QoQ, CC) growth was lumpy partly due to the low base, core geographies reported healthy growth despite the COVID-19 impact.
- Growth in the top-5 (-1% QoQ, CC)/Top-10 (2% QoQ, CC) accounts was weak due to the high base in Dec'19. Overall growth during Mar'20 was driven by (1) addition of new clients, and (2) mining/scaling up of small accounts.
- Adjusted for one-time donation to PM-CARES fund, EBIT margin improved 110bp QoQ. Major drivers were INR depreciation (50bp impact) and favorable calendar (50bp impact).

Mindtree — Neutral

Current Price INR 982

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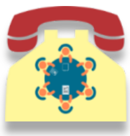

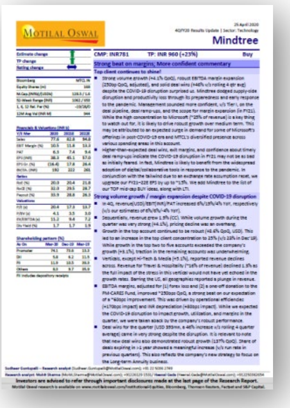

- The company indicated it expects softness in demand, due to which near-term performance would be impacted. However, we found the commentary stronger than that of some large-cap companies.
- While hinting at a healthy demand pipeline, management indicated some delays in decision-making are being witnessed. Discretionary spend is being pushed back in some verticals.
- Ramp-ups in recently won large deals are expected to be largely on track with certain delays in a few cases. Management highlighted the company's ability to remotely transition, onboard employees, and kick off projects.
- Within the top client, the company indicated it is well-diversified across areas such as analytics, networks, customer/tech support, and marketing operations. In addition, Mindtree indicated that it has had decent exposure to annuity-/project-based work in the account. As COVID-19 is expected to drive the strong adoption of collaborative tools, management believes its top client and the company are in an advantageous position.
- The company hinted at an aspirational EBITDA margin of 17–18%. In the near term, while margins may come under pressure, the company expects EBITDA margins in FY21 to be better than in FY20 despite the COVID-19 impact. Key cost optimization levers are reduction in sub-contractor expenses, pyramid rationalization, etc.

Mphasis — Neutral

Current Price INR 921

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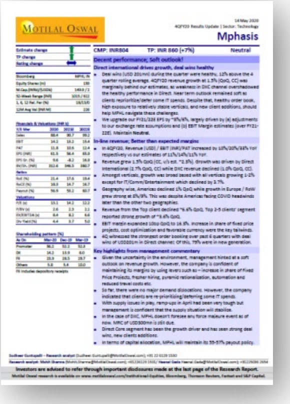
- Given the uncertainty in the environment, management hinted at a soft outlook on revenue growth. However, the company is confident of maintaining its margins by using levers such as – increase in share of Fixed Price Projects, fresher hiring, pyramid rationalization, automation and reduced travel costs etc.



- So far, there were no major demand dislocations. However, the company indicated that clients are re-prioritizing/deferring some IT spends.
- With supply issues in play, ramp-ups in April had been very tough but management is confident that the supply situation will stabilize.
- In the case of DXC, MPHL doesn't foresee any force majeure event as of now. MRC of USD300mn is still due.
- Direct Core segment has been the growth driver and has seen strong deals wins, new client's additions.
- In terms of capital allocation, MPHL will maintain its 55-57% payout policy.
- Better than expected margins
- In 4QFY20, Revenue (USD) / EBIT (INR)/PAT increased by 10%/20%/33% YoY respectively v/s our estimates of 11%/14%/11% YoY.
- Revenue grew 1.5% Q-o-Q (CC, v/s est. ~2.3%). Growth was driven by Direct International (2.7% Q-o-Q, CC) while DXC revenue declined (1.0% Q-o-Q, CC).
- Amongst verticals, growth was broad based with all verticals growing 1-2% except for IT/Comm/Entertainment which declined by 3.7%.
- Geography wise, Americas declined 1% Q-o-Q while growth in Europe / ROW grew strong at 8%/9%. This was despite Americas facing COVID headwinds later than the other two geographies.
- Revenue from the Top client declined ~6.6% Q-o-Q. Top 2-5 clients' segment reported strong growth of ~3.6% Q-o-Q.
- EBIT margin expanded 10bp Q-o-Q to 16.3%. Increase in share of fixed price projects, cost optimization and favorable currency were the key tailwinds.
- 4Q witnessed the strongest order booking over past 6 quarters with deal wins of USD201m in Direct channel; of this, 79% were in new generation.

NIIT Technologies — Neutral

Current Price INR 1,513

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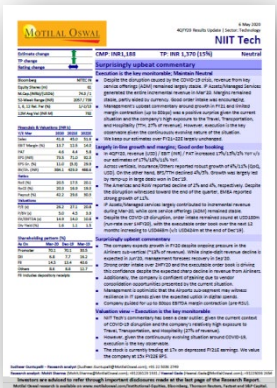

- The company expects growth in FY20 despite ongoing pressure in the Airliners sub-vertical (~13% of revenue). While single-digit revenue decline is expected in Jun'20, management foresees recovery in Sep'20.
- Strong order intake over 2HFY20 and the executable order book is driving this confidence despite the expected sharp decline in revenue from Airliners.
- Additionally, the company is confident of gaining due to vendor consolidation opportunities presented by the current situation.
- Management is optimistic that the Airports sub-segment may witness resilience in IT spends given the expected uptick in digital spends.
- Company guided for up to 80bps EBITDA margin contraction (pre-RSU).

Largely in-line growth and margins; Good order booking

- In 4QFY20, revenue (USD) / EBIT (INR) / PAT increased 17%/15%/2% YoY v/s our estimates of 17%/18%/11% YoY.
- Across verticals, Insurance/Others reported robust growth of 6%/11% (QoQ, USD). On the other hand, BFS/TTH declined 4%/5%. Growth was largely led by ramp-up in large deals won in Dec'19.
- The Americas and RoW reported decline of 2% and 4%, respectively. Despite the disruption witnessed toward the end of the quarter, EMEA reported strong growth of 11%.
- IP Assets/Managed services largely contributed to incremental revenue during Mar-20, while core service offerings (ADM) remained stable.

- Despite the COVID-19 disruption, order intake remained sound at USD180m (run-rate over 1HFY20), with the executable order book over the next 12 months increasing to USD468m (v/s USD424m at the end of Dec'19).

PERSISTENT

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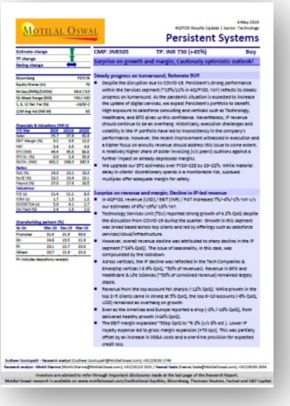

Persistent Systems — Buy

Current Price INR 678

- The company is cautiously optimistic on performance in the coming quarters, even as COVID-19-led uncertainty prevails. Management expects a near U shaped recovery over the next few quarters.
- Management hinted at a healthy deal pipeline, with good contribution across channels (internal sales team and advisory firms such as ISG and Zinnov). The company further indicated it was targeting new logos and receiving incremental requests for business in existing accounts, driven by the COVID-19 disruption.
- Within Services, all the verticals – BFSI, Healthcare & Life Sciences, and Tech – are largely resilient. Even as spend on erstwhile legacy applications is expected to face headwinds, management highlighted clients are pursuing spends in new areas.
- Due to the COVID-19 crisis, the company is witnessing a trend of delays in certain deal ramp-ups as well as requests for price discounts and credit extension. However, PSYS is very cautious in accommodating these requests and does not expect any major impact due to the same.

TATA CONSULTANCY SERVICES

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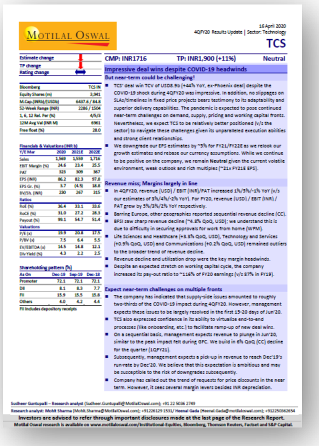

Tata Consultancy Services — Neutral

Current Price INR 2,270

- The company has indicated that supply-side issues amounted to roughly two-thirds of the COVID-19 impact during 4QFY20. However, management expects these issues to be largely resolved in the first 15-20 days of Jun'20.
- TCS also expressed confidence in its ability to virtualize end-to-end processes (like onboarding, etc.) to facilitate ramp-up of new deal wins.
- On a sequential basis, management expects revenue to plunge in Jun'20, similar to the peak impact felt during GFC. We build in 6% QoQ (CC) decline for the quarter (1QFY21).
- Subsequently, management expects a pick-up in revenue to reach Dec'19's run-rate by Dec'20. We believe that this expectation is ambitious and may be susceptible to the risk of downgrades subsequently.
- Company has called out the trend of requests for price discounts in the near term. However, it sees several margin levers besides INR depreciation.
- While the long-term aspirational EBIT margin remains at 26-28%, the company foresees challenges in the near term.
- Exit EBIT margin rate of 25% is anticipated by Mar'21.
- Current capital return policy (80-100% of FCF) is reiterated.
- As of now, TCS does not foresee any major threat to the eventual collection of receivables. However, in the near term, the company expects some customers to request extension of payment terms.

- The company has re-iterated its focus on people value chain and indicated that it has no plans of employee lay-offs in order to cut costs.
- It has also indicated that all offers made to laterals/fresh graduates so far will be honored. However, further hiring activity will be frozen until the time the COVID-19 uncertainty is behind.

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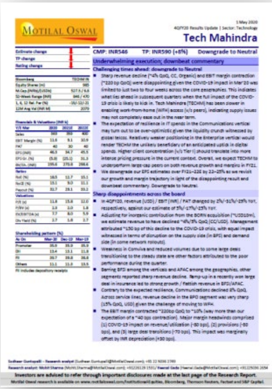

Tech Mahindra — Neutral

Current Price INR 587

- Within IT Services, 100%/93% of onsite/offshore employees is currently WHF, and 75% in BPO. While delay in customer approvals to shift to WFH impacted the BPS business in Mar'20, management expects to grant WFH access to up to 85% of BPS employees in Jun'20.
- The company indicated Jun'20 would also be negatively impacted due to supply- and demand-side issues. While management indicated supply-side issues may ease out to some extent, we are not sanguine.
- In the Communications vertical, while TECHM is seeing commitments from clients for investments in network upgrades / 5G deployments, the logistical challenges with execution due to the lockdown should lead to near-term delays.
- Within the Enterprise segment, management hinted at delays in discretionary spending. While Manufacturing (especially Auto) and Retail are impacted, the company foresees a relatively lower impact in BFSI.
- The company's target to reach the mid-teen EBIT margin range has been pushed back by a year. It indicated the key cost levers include: (1) the optimization of third-party expenses (e.g., sub-contractor costs), (2) cuts in the variable pay of the senior management team, and (3) a reduction in the travel costs.

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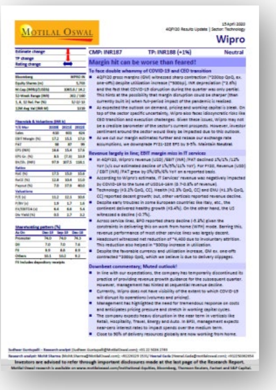

Wipro — Neutral

Current Price INR 225

- In line with our expectations, the company has temporarily discontinued its practice of providing revenue growth guidance for the subsequent quarter. However, management has hinted at sequential revenue decline.
- Currently, Wipro does not have visibility of the extent to which the COVID-19 situation will disrupt its operations (volumes and pricing).
- Management has highlighted the need for tremendous response on costs and anticipates pricing pressure and stretch in working capital cycles.
- The company expects heavy disruption in the near term in verticals like Retail, Hospitality, Travel, Energy and Auto. In BFSI, management expects near-zero interest rates to impact spend over the medium term.
- Close to 90% of delivery resources globally are now working from home.

Revenue largely in line; EBIT margin miss in IT Services

- In 4QFY20, Wipro's revenue (USD) /EBIT (INR) /PAT declined 1%/1% /12% YoY (v/s our estimated decline of 1%/5%/11% YoY.
- According to Wipro's estimate, IT Services revenue was negatively impacted by COVID-19 to the tune of USD14-16m (0.7-0.8% of revenue).
- Technology (+3.2% QoQ, CC), Health (+2.3% QoQ, CC) and ENU (+1.3% QoQ, CC) reported decent growth while other verticals reported revenue decline.

ZENSAR TECHNOLOGIES

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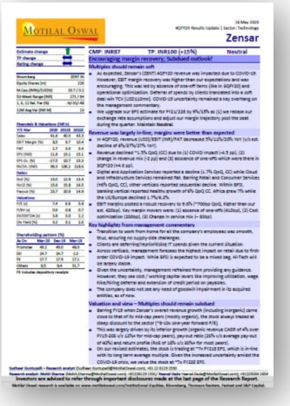

Zensar Tech — Neutral

Current Price INR 127

- Transition to work from home for all the company's employees was smooth, thus, ensuring no supply-side challenges.
- Clients are deferring/reprioritizing IT spends given the current situation.
- Across verticals, management foresees the highest impact on retail due to first-order COVID-19 impact. While BFSI is expected to be a mixed bag, Hi-Tech will be largely stable.
- Given the uncertainty, management refrained from providing any guidance. However, they see cost / working capital levers like improving utilization, wage hike/hiring deferral and extension of credit period on payables.
- The company does not see any need of goodwill impairment in its acquired entities, as of now. Indigo slate has been stable due to high exposure to Hi-Tech vertical while Cynosure has seen moderate ramp downs in Guide-wire implementation projects as clients in the US have deferred spends.

Revenue was largely in-line; margins were better than expected

- Revenue declined ~1.5% Q-o-Q (CC) due to (1) COVID impact (-4.5 pp), (2) change in revenue mix (-2 pp) and (3) absence of one-offs which were there in 3QFY20 (+4.6 pp).
- Digital and Application Services reported a decline (1.7% Q-o-Q, CC) while Cloud and Infrastructure Services remained flat. Barring Retail and Consumer Services (+6% Q-o-Q, CC), other verticals reported sequential decline. Within BFSI, banking vertical reported healthy growth of 6% Q-o-Q CC. Africa grew 7% while the US/Europe declined 1.7%/6.2%.
- EBIT margins posted a robust recovery to 9.8% (~700bp Q-o-Q, higher than our est. 420bp). Key margin movers were: (1) absence of one-offs (410bp), (2) Cost optimization (200bp), (3) Change in service mix (– 80bp).

- **Telecom companies have realized full benefits of the price hike with no down-trading, according to managements. They further indicated that ARPUs would reach INR200 in the near term and INR300 in the long term. Further, the incremental EBITDA margin on increased ARPU should be ~65% on stable-state basis. Network densification, massive MIMOs, core and transport infrastructure deployment and front-loading of investment led to an increase in capex, which should be lower in 1QFY21 and FY21. Bharti Infratel's management mentioned that gross tower addition has doubled since last year. Management is confident of towers being taken by the second tenant due to coverage needs of operators. BHIN is also looking for rental renegotiation if an opportunity arises. TCOM's management is looking to achieve double-digit profit growth in the data business and is also targeting net debt to EBITDA of ~2.5x in the long term.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact of COVID-19
Bharti Airtel	▪ Capex should moderate and would be lower in FY21. ▪ Management seeks to expand the Home Broadband business by expanding in the top 10 cities using its own capex and tying up with cable operators in smaller cities. ▪ It seeks to grow profits in Airtel Africa, with leverage within the 2–2.5x range, along with cash flow generation. ▪ It looks to re-farm the spectrum and have sub GHz spectrum in select circles.	▪ Bharti has witnessed huge demand for home broadband due to the COVID-19 impact. ▪ Some revenue impact was seen from low ARPU feature phone customers due to lower disposable incomes. ▪ Furthermore, SIM consolidation is seen at high ARPU smartphone customers.
Bharti Infratel	▪ Management seeks rental renegotiations if the opportunity arises. ▪ Better connection needs bode well for the Network Infrastructure industry. ▪ BHIN has been successful in reducing costs from all line items and would look to enhance efficiencies post the merger with Indus.	▪ COVID-19 has halted the addition of new sites.
Tata Comm	▪ It looks to achieve double-digit profit growth in the Data business, which should be led by the growth segment and better margins. ▪ The Transformation segment loss should be fully recovered by 1QFY21. ▪ It targets net debt to EBITDA of ~2.5x for the longer term business. ▪ TCOM would continue to invest in business opportunities.	▪ TCOM has delivered 650+ orders, resulting from COVID-19, and saw 30% growth in Internet traffic on the network in Mar'20 v/s Jan'20. ▪ A significant uptick has been witnessed in Internet traffic and conferencing revenue due to the quick deployment of global WFH measures and solutions.

airtel

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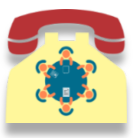
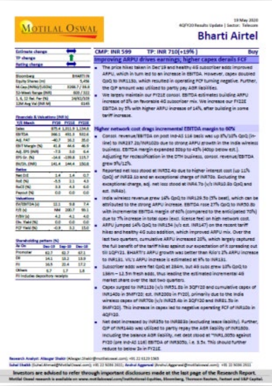


Bharti Airtel — Buy

Current Price INR 567

Key highlights

- ARPU trajectory to remain healthy, but no immediate plans for price hike: ARPU improvement was supported by (a) no down trading despite the recent price hike, (b) increase in postpaid customers, and (c) increasing mix of 4G subscribers. ARPU should touch INR200 in the short term and INR300 in the long term, which is essential for the telecom business.
- **Incremental EBITDA margin at 60-65%:** In 4QFY20, incremental EBITDA margin stood at 60%. On a stable-state basis, incremental EBITDA margin is expected at ~65%, but this would depend on the network cost and sales and distribution



expense (to drive 4G adds). Capex should moderate: Network densification, massive MIMOs, 3G spectrum re-farming, core and transport infrastructure deployment and front loading of investment due to COVID-19 led to higher capex in 4QFY20. Capex should moderate and would be lower in both 1QFY21 and FY21.

- **Home broadband opportunity:** BHARTI is excited about the growing opportunity in the home broadband segment, especially during the current prevalent work from home (WFH) culture. In 4QFY20, 60-65k home broadband customers were added.

Operational performance

- **Capex:** Core and transport capex was used in both wireless and enterprise business. Capex/home pass have substantially reduced in the last 2-3 years. Telco's investment in core and transport infrastructure is taking a disproportionate share of the total capex. To move toward 5G, more base stations and towers are needed to be connected to fiber, which is also driving capex.
- **Leverage:** Net debt to EBITDA reduced to 2.8x in FY20 (v/s 4.2x in FY19).
- **Digital platform:** BHARTI has 150m digital customers on digital platforms such as Airtel Thanks, Airtel X'treme and Airtel WYNK. Further, there are 1.1m retailer transactions on the Mitra app. ~60% of BHARTI's entire business goes through digital channels. The company has launched WFH solutions during COVID-19. BHARTI has a digital team of 1,200 employees with B2C partners across content, financial services, etc.
- **Subscriber churn:** Subscriber churn of 2.6% is over stated due to the lockdown in the last 15 days of Mar'20.

ARPU break-up

- **Subscriber mix to drive ARPUs:** Feature phone subscribers have INR49 and INR69 plan with no data, thus, ARPU for these customers is ~INR50. In case of 4G subscribers, the entry-level plan is of INR219, thus, here ARPU is more than INR200. Therefore, subscribers shifting from feature phones to smartphones drives 3x ARPUs.
- **Postpaid customers:** Entry plan is at INR399, thus ARPU for postpaid plans are substantially higher. Management believes that postpaid has higher opportunity to grow – similar to the trend in other developing countries i.e. in the Philippines, postpaid constitutes 50-55% of total customers while in Brazil, it constitutes 60-65%. In India, the number of postpaid subs is lower due to arbitrage in price plans between prepaid and postpaid; the decline in prepaid pricing has led to a drop in postpaid subscriber share.

Network capacity

- **Spectrum holding:** Management is comfortable with the current spectrum holding of the company. There is still an opportunity to re-farm the spectrum and the company is looking to have sub GHz spectrum in select circles.

Airtel Africa

- **Airtel India holds 56%** in Airtel Africa (post the IPO) and it is a strategic investment; market prices are not reflecting true value of the company.
- **Airtel Africa strategy:** Management is looking to grow profits in Africa with leverage within the range of 2-2.5x with cash flow generation. Devaluation of local currency is a headwind currently. Execution strategies of Airtel Africa are local and independent.

Broadband business

- **Healthy growth opportunity:** BHARTI is excited about growing opportunity in the home broadband segment. In 4QFY20, the company added 60-65k home broadband customers. Due to COVID-19, the company has witnessed huge demand for home broadband.
- **Strategy for expansion:** It is working in two ways to expand the broadband subscription – (a) to expand into the top-10 cities with capex, and (b) tying up with cable operators (providing them share of revenue) in smaller cities.

COVID-19 impact

- The company is witnessing huge demand for home broadband.
- There is significant increase in B2B site with growth in some services such as collaboration services, video conferencing, etc.
- **Mobile business:** 4G customers were more resilient, while lower ARPU feature phone customers are facing significant pressure. The company has launched alternate recharge channels for such customers; however, while some were able to recharge, many were also unable due to the economic impact.

Outlook

- **Regulatory:** BHARTI expects the government to understand the pain of the industry and to implement TRAI's recommended proposal to reduce the tax burden.
- **One digital platform:** BHARTI has 35m monthly active subscribers on the company's payment bank with their mobile numbers as bank account numbers. The company's focus is to develop a single digital platform to bundle broadband, mobility and DTH services. This in turn would lead to lower churn, higher ARPU and greater stickiness for the company. Digital connectivity also requires very low capex.

Bharti Infratel Limited

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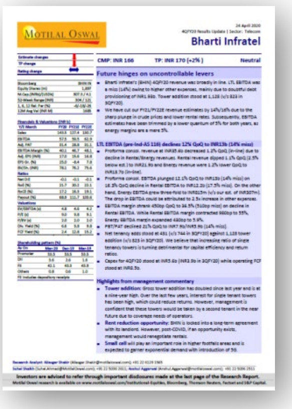

Bharti Infratel

Bharti Infratel — Neutral

Current Price INR 223

Key Highlights

- Tower addition: Gross tower addition has doubled since last year and is at an absolute nine-year high. Over the last few years, interest for single tenant towers has been high, which could reduce returns. However, management is confident that these towers would be taken by a second tenant in the near future due to coverage needs of operators.
- Rent/tower: Due to building of single tenant towers, rent per tower has declined for Indus while rent per tenant has increased.
- Rent reduction opportunity: BHIN is into a long-term agreement with its landlord. However, post-COVID, management might renegotiate rentals if an opportunity exists.
- Small cell opportunity: Small cell would play an important role in areas with higher footfalls areas and is expected to garner exponential demand with the introduction of 5G. The return profile of this technology is healthy as it requires lower capex.
- Bharti Infratel-Indus merger: Management expects the merger to get concluded within the next two months without any further extension.

Operational Performance

- Tower addition: Gross tower addition has doubled since last year and is at an absolute nine-year high.

- Operating cash flow (OCF) position: Excluding Ind-AS 116, OCF declined 6% YoY due to co-location exits in FY20 (for 4QFY20, it declined 33% YoY).
- Other expense increase: Other expenses increased due to provision for doubtful debt of INR1.9b in 4QFY20. These provisions would unwind as soon as the company receives payment.
- Return profile: Both RoCE (pre-tax) and RoE (post-tax) stood at ~24% for 4QFY20.
- Rent/tower: Due to building of single tenant towers, rent per tower has declined for Indus while rent per tenant has increased.
- Link between receivables and other financial assets: Due to some technology related issue, certain receivables were transferred to other financial assets. Thus, receivables have declined while other financial assets have increased in 4QFY20. When combined, both have increased by INR330m in 4QFY20 (v/s 3QFY20).

Dividend policy

- Annual dividend: The board has declared an interim dividend of INR4.1/share. Including the previous interim dividend, the total dividend amount for FY20 stood at INR10.1/share. This dividend does not include the dividend received from Indus. However, management is expecting dividend from Indus, which according to the company's policy would be passed on to shareholders.
- No scope for buybacks: With the continuous dividend disbursal by the company, there is little scope for buybacks.
- Dividend distribution policy: The company has been distributing the maximum possible dividend in accordance with Indian laws.

Network integration

- New site addition at standstill: Due to the outbreak of COVID-19, new site addition has halted from the last 4-5 weeks; however, the company is focusing on keeping the network up and running. Further, BHIN is supporting its customers in building network capacities by means of software. Post government approval, roll-out of new sites would continue.
- BHIN has not received any official request from any player to change network payment terms.
- Tower addition objective: BHIN is open to building tower even for a single tenant. Management is confident that these towers would be taken by a second tenant in the near future due to coverage needs of operators. Even with a single tenant, the company generates returns (albeit a lower quantum).
- Capex differential for single tenant tower: Capex increases by 7-10% per tower while building a tower for two tenants. However, the company has kept provision for a second tenant as the differential is small; also, it is not feasible to add provision for another tenant later. Capex for a single tower ranges between INR0.15-0.3m.

Divergence in tenancies between BHIN and Indus

- Geographical areas: BHIN has a larger portion of category 'C' circles while Indus has a larger portion of category 'B' circles. Increase in capacity utilization in cities has strengthened the tenancies of Indus. BHIN's circles are mostly in rural areas where new roll-outs continue. Thus, there is divergence in tenancies. This divergence could also be attributed to exit in certain areas while growth in other.

- Redeployment: Certain low utilization sites have been redeployed to new geographies by telecom operators.

Merger update

- Merger date extension: The board has further extended the merger approval date to 24th Jun'20 due to the current lockdown and uncertainty over the AGR matter with both the parties having the right to terminate the merger.
- Management expects the merger to be concluded within the next two months without any further extensions.

Industry Developments

- AGR verdict: The Supreme Court (SC) has upheld the DoT's definition of AGR and has ruled that telcos would have to pay the entire amount including interest and penalty. Further, the SC has also ruled out any self-assessment of dues.
- Little ray of hope: The SC has agreed to hear the DoT's plea on allowing telcos to stagger the AGR payment over 20 years. Management is hoping for a positive outcome from the hearing.

Outlook

- The current pandemic due to COVID-19 outlines the significance of the telecom industry.
- Management believes that the need for a better connected nation in lieu of the COVID-19 outbreak bodes well for the industry.
- Introduction of 5G in the coming years would require infrastructure demand, which would be beneficial for the company's future growth.
- Rent reduction opportunity: BHIN is in a long-term agreement with its landlord; however, management might renegotiate rentals if an opportunity exists.
- Efficiency enhancement opportunities: Looking to enhance efficiencies post-merger. Further, the company has been successful in reducing costs from all cost-line items and would continue with it.
- The company is deploying small cells in buildings with higher footfalls in urban cities to provide capacity. Post-COVID, operators are expected to look for network enhancement capacity in higher footfall areas.

TATA COMMUNICATIONS

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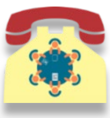

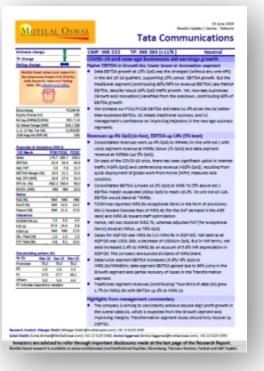

Tata Communications — Neutral

Current Price INR 630

Key Highlights

- Aiming to consistently achieve double-digit profit growth in the overall data business, which is expected from the Growth segment and improving margins; Transformation segment losses should fully recover by 1QFY21.
- Innovation business has couple of products – (a) Move, and (b) Net Foundry, which is seeing healthy traction.
- Targeting net debt to EBITDA of ~2.5x for the longer-term business. The company would continue investing in business opportunities.

- **The nationwide lockdown has impacted execution with PWGR noting issues on resource mobilization and NHPC noting temporary stoppage of work for Subansiri. PWGR has set up FY21 capitalization target of INR200-250b. Much of this though is toward commissioning of Raigarh-Pugalur (INR150b). The company has indicated resolving much of the ROW issues faced and plans to commission Bipole-I by Jul'20. Bipole-II and VSC for the line are expected to come up by Dec'20. NTPC expects capitalization momentum to continue and is targeting ~5.9GW for commercialization in FY21.**

Coal India — Buy

Current Price INR 133

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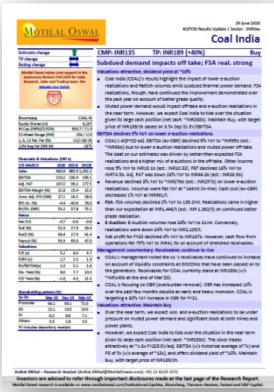
Results Update



- Dispatches are down 22% YoY currently for the first quarter. The co. is trying to maintain production at the same level as dispatches. It is also undertaking efforts to auction as much coal as possible.
- Liquidity has tightened due to problems at the DISCOM level, which have flowed to the generators. Receivables currently stand at ~INR180b. State generation companies are not in a position to pay. The situation is unlikely to improve until September.
- FSA realization improved in FY20 owing to improving coal quality and fewer disputes.
- Expect manpower reduction by 13–14k per year for the next two years.
- Capex for FY20 stood at INR65–70b. The target for FY21 stands at INR110b. This includes capex on first-mile connectivity, railway infra, and heavy equipment machinery.
- The co. did an OBR of 1,156mt for FY20. OBR has increased 10% in the past few months despite an early and heavy monsoon. The co. is targeting a 30% YoY increase in OBR for FY21.
- Wage negotiations would commence in July next year. The co. does not expect commercial mining to affect these negotiations.
- The co. has auctioned 34mt in e-auctions and plans to improve this quantum in 2Q. th the quality of coal available, it can export only to Bangladesh, Nepal, and Bhutan. Among these, Bangladesh has the potential for some coal requirement for its power plants, along with certain cement factories in Bhutan and Nepal. However, it is not looking at exports currently. Transportation costs may be an issue for dispatching coal beyond these countries as Indonesian coal is of better quality and may prove cheaper.

JSW Energy — Buy

Current Price INR 48

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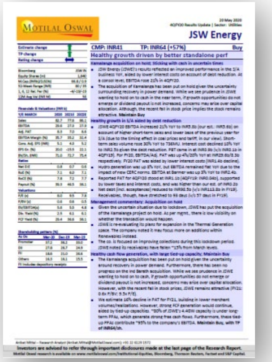
Results Update

- **Kamalanga acquisition:** Given the ongoing uncertainty due to lockdown, the acquisition of the GMR Kamalanga project has been put on hold. With the growth trajectory seemingly bleak, there is low visibility on whether the transaction would happen. Furthermore, the company is re-evaluating its expansion plans within Thermal Generation. JSWE did not provide for advances/guarantees, and no break fee was in place.
- **Ind Barath acquisition:** Due to lockdown, there has been no progress on the Ind Barath acquisition. The proposal to the acquisition has been submitted to NCLT.
- Lower O&M costs and better fuel costs have helped the company achieve better profitability. This is the third consecutive year of decrease in O&M costs by the company.



- Net debt (incl. acceptances) for JSWE stood at INR89.5b for FY20. The company expects a reset in interest rates may reduce its interest cost by 1%.
- JSWE estimates capex for plant maintenance to be <INR1b. The company is concentrating on reducing capex and O&M costs.
- JSWE is re-evaluating its plans for expansion in the Thermal Generation space. The company noted it may focus more on additions within Renewables instead.
- The majority of its dues are from the Jodhpur DISCOM. However, JSWE is focused on improving collections during the lockdown period. The co. noted its overall receivables were down ~15%, with the over dues amount down ~25% from March levels.

NHPC — Neutral

Current Price INR 20

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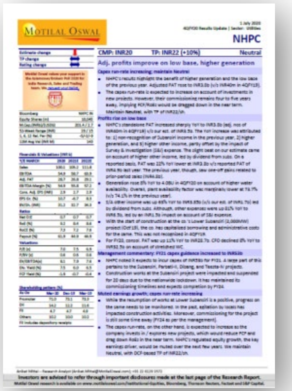

- Generation for 4Q was up 8% YoY to 4.0BU in 4QFY20 on account of higher water availability. Although, plant availability factor was marginally lower at 73.7% (v/s 74.1% in the previous year) due to R&M activities at Baira Siul and the shutdown of two units at Chamera II.
- NHPC would provide a rebate of INR1.85b for the disruption caused by COVID-19 at the DISCOM end.
- Works at Subansiri were impacted and suspended for ~20 days due to the nationwide lockdown. Work has now resumed and is being carried out in the day shift. However, the company has not changed its scheduled date of commissioning and expects the project to be completed in FY24.
- Incentives: For FY20, the PAF incentive stood at INR3.6b, DSM incentive at INR1.3b, and secondary energy income at INR3.3b.
- FY20 capex stood at INR41.6b. The co. expects capex at INR53b for FY21.
- NHPC noted the current quarter was impacted by higher S&I and CSR expenses.

NTPC — Buy

Current Price INR 93

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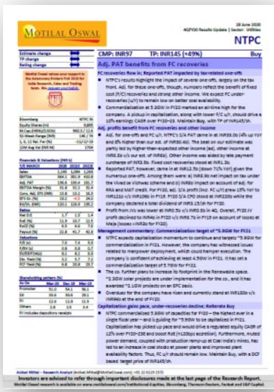

Capex and capitalization:

- Capex for NTPC stood at INR240b for FY20. Capital outlay for FY21 is estimated at INR210b.
- The co. targets ~5.9GW for commercialization in FY21. However, the company has witnessed issues related to manpower deployment, which could hamper execution. However, the company is confident of achieving at least 4.5GW. It has set a commercialization target of 5.7GW for FY22.

Under-recoveries:

- The co. witnessed FC under-recoveries of INR2.5b for FY20.

One-offs:

- During the quarter, NTPC reported one-offs of INR21.5b. This includes an INR8.9b net impact on tax under the Vivad se Vishwas scheme.

Overdues:

- Overdues for the company have risen and currently stand at INR180b v/s INR96b at the end of FY20.

Renewables:

- The co. further plans to increase its footprint in the Renewable space. ~2.3GW solar projects are under implementation for the co., and it has awarded ~2.1GW projects on an EPC basis.
- Flue-gas desulfurization:

- The company plans to install flue-gas desulfurization (FGD) at 64.9GW. Of this, 920MW has been commissioned. 56.7GW has already been awarded, while the remaining ~7GW is under various types of tendering.

Power Grid Corporation of India

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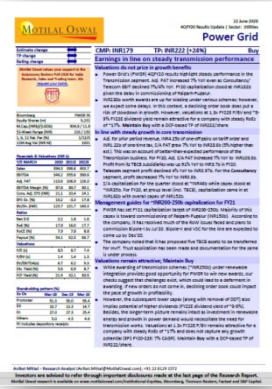

Power Grid Corp — Buy

Current Price INR 173

Capex

- Capital expenditure for the company stood at ~INR117b on standalone basis and at ~INR153b on consolidated basis for FY20.
- The company aims to incur capex of INR105b on consolidated basis for FY21 at group level.

Capitalization:

- For FY20, capitalization at INR182b is inclusive of INR29b of TBCB.
- PWGR is targeting a capitalization of INR200-250b for FY21 and is largely dependent on Raigarh-Pugalur project.
- Management noted that it has resolved much of the RoW issues faced by the Raigarh-Pugalur project and plans to commission Bipole-I by Jul'20. Bipole-II and VSC for the project are expected to come up by Dec'20.

Work in hand:

- PWGR currently has INR520b worth of work in hand. This consists of ongoing work of INR340b, new projects of INR60b and TBCB projects of INR120b.

Projects up for bidding:

- PWGR has noted that INR160b of inter-state projects and INR70b of intra-state projects are up for bidding.
- PWGR has won INR134b worth awards in FY20. Management expects to win similar awards for FY21.

InvIT

- The company noted that it has proposed five TBCB assets to be transferred for InvIT. Trust application has been made and the documentation for the same is under process.

TATA POWER

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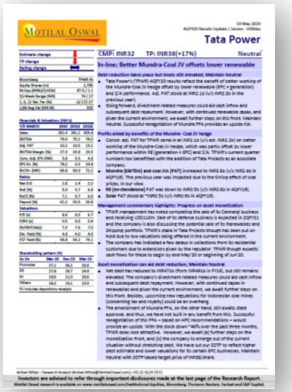

Tata Power — Neutral

Current Price INR 51

Asset Monetization

- TPWR completed the sale of Cennergi (a Joint Venture) for which the company has received USD110m.
- TPWR expects monetization of Strategic Engineering Division (SED) to start by 2QFY21.
- Also, TPWR is looking to monetize renewable assets.
- Due to lack of interest in the current environment, TPWR has restated the accounting for Tata Power Projects as an associate.
- The company believes the sale of the shipping business can fetch INR10- 14b. Income related to shipping is in the range of USD20-25m.
- Due to the lockdown, TPWR expects some delay in execution of projects. Also, the current situation had some impact on deleveraging of the balance sheet. However, the balance sheet does not reflect the sale proceeds of Cennergi.
- Regarding collections, TPWR had normal collections coming in. However, there are a few delays in the residential segment due to extensions given by the regulator. The company expects the cash flows for these to begin by end-May or beginning of Jun'20.

- TPWR does not see any delay in terms of payment from DISCOMs. The only issue is in Andhra Pradesh, where the company has received lower payments.
- Total dues from the state stands at ~INR2b. The state's total outstanding within renewables greater than 3 months stands at ~INR6b. Plant availability for its Walwhan assets has been very good. However, challenges have been faced in terms of weather changes.
- At Mundra, the company has brought down the loss funding and is looking to amend PPAs separately - once the approval is received from the regulator.

Other key takeaways include:

- From the recent DISCOM package announced by the govt., TPWR expects ~INR10b. Also, the company has decided not to avail any moratorium.
- TPWR is planning to reduce the Debt/Equity to less than 1.25x with reduction in debt by INR25b.
- Regarding coal mine licenses in Indonesia, the country has come out with a new regulation of 20-year license renewal.
- TPWR's takeover of CESU got delayed due to the lockdown. Once the lockdown is lifted, the same would be completed.
- TPWR capex guidance for renewable in FY21 is ~INR30b while regular capex guidance stands at INR10b.
- TPWR had a true-up impact of INR0.2b in 4QFY20.
- Prayagraj contributed ~INR0.1b during FY20.
- TPWR has noted that bids for the next 6 months entail ~20GW of renewable projects.

Torrent Power — Buy

Current Price INR 336

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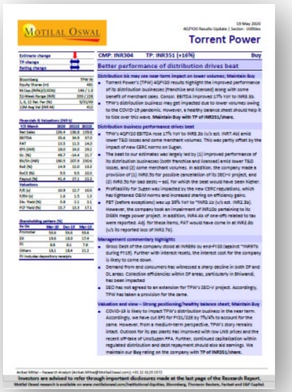

- **Interest Cost:** Gross debt stands at ~INR89b. Due to interest rate resets on its loans, the company expects its weighted average interest rate to decline to 8.15%.
- **Capex:** TPW has revised its capex guidance for FY21. For License Distribution business, the revised capex now stands at ~INR12-12.5b (against previous estimates of INR15b) and is ~INR3.5b for Franchisee Distribution.

Renewable projects:

- SECI has not agreed to an extension for TPW's SECI-V project (115MW). Accordingly, TPW has taken a provision of INR0.5b for the same.
- The company is also not looking at bidding for new renewable projects.
- **Distribution franchise:** TPW received Shil, Mumbra and Kalwa regions on 1st Mar'20. However, with the onset of COVID-19, there was a sharp rise in AT&C losses at the circle leading to an impact of INR0.2b. TPW has noted that every 1% reduction in T&D at the circle loss leads to a benefit of INR650m.
- **Drop in demand:** TPW has noted a sharp demand decline for its DL and DF businesses on the back of COVID-19. However, it is hopeful of a recovery in demand during May-Jul'20.

BRIGADE

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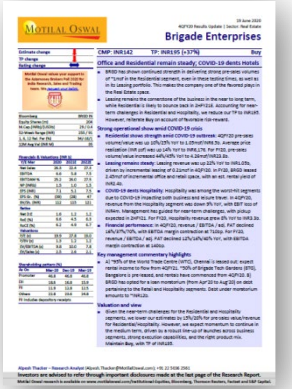

Brigade Enterprises — Buy

Current Price INR 145

- COVID-19 impact spans business segments: Except for the Office segment, all the other segments were impacted by the COVID-19-led lockdown, with Hospitality hit the hardest.
- Office segment: Rent collection remained steady across operational assets, with 96%+ rent collection witnessed during the lockdown period. Thus far, there have been no rental re-negotiations with existing tenants on the downside. However, at the Brigade Tech Gardens, ~0.2msf of pre-leasing was canceled.
- Residential segment: The Residential segment maintained its 1msf quarterly rate for 4QFY20, with 0.98msf of pre-sales volumes, up +9% YoY (ex. commercial sales). However, sales inquiries have dropped to 15%, 25%, and 35% of pre-COVID-19 levels for April, May, and June, respectively.
- Retail segment: BRGD waived 50% of the rent of its retail tenants for the period of the lockdown (April and May). All malls are now operational, with 60% of stores operational as well. Footfall is at ~20% of pre-COVID-19 levels. F&B outlets and multiplexes are yet to open up. Expect to see near-term pressure.
- Hospitality segment: This is one of the worst-hit segments. It is expected to revive only in 2HFY21 and be driven by domestic travel. Foreign travel is likely remain subdued in the near term.
- Cascading effect of WFH culture and social distancing on commercial real estate: BRGD's management believes work from home (WFH) would become reality for certain job profiles in the post-COVID-19 era. However, stringent social distancing norms in the wake of COVID-19 are expected to drive the average space per employee for a commercial tenant. Thus, the management does not foresee any significant impact on commercial real estate demand due to the COVID-19 crisis in the long run.
- One-time impairment loss in 4QFY20: The company has taken one-time impairment loss on the Holiday Inn Racecourse (~INR60m) and the Brigade Broadway (~INR145m).

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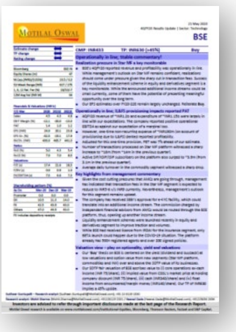

BSE — Buy

Current Price INR 500

- Given the cost cutting pressures that AMCs are going through, management has indicated that transaction fees in the Star MF segment is expected to reduce to INR5-6 v/s INR9 currently. Nevertheless, management's outlook for this segment remains upbeat.
- The company has received SEBI's approval for e-KYC facility, which could translate into an additional income stream. The commission charged by independent financial advisors from AMCs would be routed through the BSE platform, thus, opening up another income stream.
- Liquidity enhancement schemes were launched recently in equity and derivatives segment to improve traction and volumes.
- While BSE had received license from IRDAI for the insurance segment, only BETA launch could happen due to the COVID-19 situation. The platform already has 500+ registered agents and over 200 signed policies.

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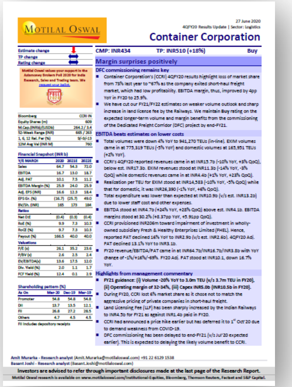

Container Corp — Buy

Current Price INR 430

- During FY20, CCRI lost 6% market share as it was focussed on maintaining margins. Hence, it exited short-haul freight, which saw heightened pricecompetition from private players. The company has taken a conscious decision to not participate in the pricing war or chase negative margin businesses.
- CCRI has temporarily discontinued coastal freight services and expects resumption by end-CY20. It expects normalization in this business by 4QFY21.
- Empty running charges for FY20 was down 11% YoY to INR2,030m (EXIM – INR1,070m and Domestic – INR960m).
- Number of double-stacking trains in 4QFY20 stood at 497 (v/s 780 in 4QFY19) and in FY20 at 2,528.
- Originating volumes in 4QFY20 – EXIM at 451,007 TEUs (-13% YoY); Domestic – at 80,267 TEUs (+1% YoY).
- Lead distance in 4QFY20 – EXIM at 738kms (722kms in 4QFY19); Domestic – at1,367kms (1,373kms in 4QFY19). FY20 lead distance for EXIM stood at 725 km (714 kms in FY19) and that for Domestic stood at 1,356kms (1,402kms in FY19).
- Port-wise volume split for CCRI in FY20 – JNPT 33%, Mundra 31%, Pipavav 14%,Chennai 6%, Vizag 7%, and others 6%.
- CCRI's market share at key ports – JNPT 66%; Mundra 44%, Pipavav 49%.
- Of the INR10.4b SEIS income claimed by CCRI, INR1.82b has been allowed by the DGFT and scrips have been received for the same. While CCRI has not booked income for the balance INR8.6b, it is in discussion for the same with authorities.
- Indian Railways has changed the Land Licensing Fee (LLF) formula for FY21 to make it a fixed payment v/s earlier method of volume-linked charges. This would result in a sharp increase in LLF outgo to INR4.5b for FY21 as against INR1.4b in FY20. However, CCRI has requested Railways to defer implementation of the same given the weak demand environment currently.
- CCRI had announced a price hike earlier but has deferred it to 1st Oct'20 due to demand weakness from COVID-19.
- Dedicated Freight Corridor (DFC) commissioning has been delayed to end-FY21(v/s Jul'20 expected earlier), delaying the likely benefit from the project to CCRI.
- Employee count at end-FY20 stood at 1,421. CCRI is curtailing costs by not replacing employees who are retiring and reskilling the existing workforce.
- The company has guided FY21 capex spend at INR5.0b (INR10.5b in FY20).
- CCRI has guided for maintaining operating margins in the range of 32-34%.
- It expects volumes to decline ~20% YoY to 3.0 MTEUs in FY21 (v/s 3.7 MTEUs in FY20).

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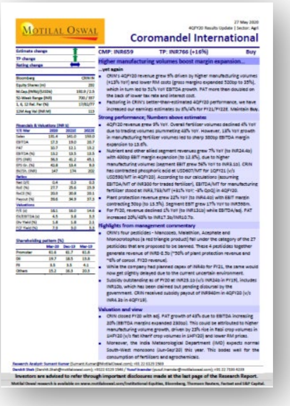
Coromandel Intl — Buy

Current Price INR 753

Agri scenario

- Food grain production for FY20 is expected at 296MMT, higher by 4% compared to the previous year.
- The inauguration of the Kaleshwaram project during FY20 is expected to increase water availability in the northern districts of Telangana (a key market), which would benefit CRIN.
- Industry


Coromandel International

- Industry received INR100b under the special banking arrangement in FY20; subsidy backlog is ~INR360b for the industry.
- In FY20, overall industry volumes have grown 8% to 20MMT (v/s 18.6MMT FY19) with 8%/7% growth coming in from DAP/NPK.

Company specific

- RM Price: Phosphoric acid price for 1QFY21 has been contracted at USD607/MT (v/s USD590/MT in 4QFY20).
- During the quarter, phosphatic fertilizer plants operated at 87% capacity utilization levels and production stood at 7.8lac MT. For the full year, phosphatic fertilizer plant operated at 86% utilization level with corresponding production at 3MMT.
- New launches: During the year, CRIN launched six new products, including two in-house manufactured technical – Pymetrozine and Pyrozosulfuron, and four formulated products. All the new products have received an encouraging response from the market.
- During the year, the company commissioned three new plants in the crop protection segment to manufacture Pymetrozine, Pyrozosulfuron and Mancozeb WDG.
- During the year, CRIN saw 62 new registrations in both global/domestic markets.
- Revenue break-up for subsidy/non-subsidy business for 4QFY20 stands at 78/22 (v/s 80/20 last year). EBITDA break-up for subsidy/non-subsidy business for 4QFY20 stands at 72/28 (v/s 73/27 last year).

Subsidy

- Subsidy outstanding as of FY20 stood at INR23.1b (v/s INR24b last year). Outstanding subsidy (as of FY20) includes INR10b, which has been claimed but pending disbursal by the government.
- CRIN received subsidy payout of INR940m in 4QFY20 (v/s INR4.3b in 4QFY19).

Others

- Pesticides ban: Out of the 27 molecules banned by the government, four molecules (Mancozeb, Malathion, Acephate and Monocrotophos) are produced by CRIN. Revenue from these four molecules is approximately INR8-8.5b.
- Inventory as of FY20 was lower due to muted RM prices and efficient management of inventory.
- Locust: CRIN's Malathion and Nemazole products are very effective to curb spreading of locust.
- FY21 capex: Current capex plan for the year stands at INR4b; however, with the current COVID-19 situation, some might be spilled over to the next financial year.

Essel Propack — Buy

Current Price INR 182

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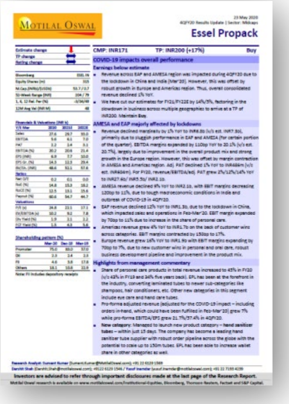
Results Update

Essel Propack 2.0

- The company remains focused on capital efficiency, consistent earnings and growth. The entire company board has been revamped with experts that are involved in the deep strategic initiatives taken by the company.
- Mr. Sudhanshu Vats (ex-Viacom18, Unilever) joined EPL in Apr'20 as Managing Director and CEO.
- Four major levers for the company to deliver growth are (a) accelerated growth in personal case, (b) continued leadership position in oral care, (c) innovative and sustainable solutions, and (d) prudent allocation of capital across regions.


Essel Propack

COVID-19 Impact

- Pro-forma adjusted revenue (adjusted for COVID-19 impact – including orders in hand, which could have been fulfilled in Feb-Mar'20) grew 7% while pro-forma EBITDA/EPS grew 21.7%/57.4% in 4QFY20.
- Also, pro-forma adjusted revenue grew 3.97% while pro-forma EBITDA/EPS grew10.8%/22.3% in FY20.
- Impact of COVID-19 on revenue/EBITDA was INR536m/INR157m across the four regions.

Personal Care

- Share of personal care products in total revenue increased to 45% in FY20 (v/s43% in FY19 and 34% five years back). EPL has been at the forefront in the industry, converting laminated tubes to newer sub-categories like shampoos, hair conditioners, etc. Other new categories in this segment include eye care and hand care tubes.
- Personal care grew 9.1% YoY in FY20 despite the impact of COVID-19 and weak demand environment in India.
- In personal care segment, EPL continues to provide innovative solutions in hand sanitizer and beauty and cosmetics as well as pharma categories to customers.

Oral Care

- In the oral care segment, EPL remains the preferred supplier for global and local players. EPL has managed to maintain market leadership position in this segment.

Regions

- EAP – China business was impacted in Feb-March'20 due to the lockdown. Under AMESA, India business was affected for some portion of Mar-Apr'20.
- Europe: Europe recorded 15% YoY revenue growth in FY20, driven by 11% oral care growth and 19% personal care growth. Revenue was driven by new customer wins and wallet share increases in existing customers. With recent key customer wins in Europe, EPL now serves all major Oral Care players in the region.

Other highlights

- Plants – All 20 EPL plants across the world are operational at reasonably good capacity, as company's products have been classified under essential goods. Depending on the intensity of COVID-19 impact in the region (where the plant is operating), capacity utilization varies.
- New category: Managed to launch new product category – hand sanitizer tubes – within just 15 days. The company has become a leading hand sanitizer tube supplier with robust order pipeline across the globe with the potential to scale up to 150m tubes. EPL has been able to increase wallet share in other categories as well.
- Have formed a crisis committee comprising of the CEO, COO, CFO and other regional heads to deal with the impact of COVID-19.
- Platina laminate tube– 100% recyclable and is certified fully-recyclable in Code 2 stream by Association of Plastic Recyclers, USA. Seeing strong traction globally. Platina laminate launched in India and has been approved for use in cosmetics and hair care tubes.
- Phase 2 Project Phoenix: Phase 1 of Project Phoenix contributed 176bp to EBITDA margin expansion in FY20, and now Phase 2 has been launched. Phase 2

is focused on (a) every cost item, (b) making processes easier, and (c) making people more efficient and agile. It's a full year project with target to improve overall EBITDA.

- The EPL Board has approved full dividend of INR3.3 per share in FY20.

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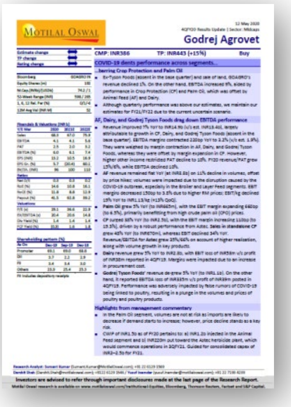

Godrej Agrovet Buy

Current Price INR 465

Animal Feed

- In India, broiler production averages at 75–80m per week, which has dropped to 35–40m per week due to the COVID-19 crisis. Similarly, India usually produces 2.2b eggs in a single week v/s 1.4b per week reported currently.
- Cost of production of feeds for broiler has dropped to INR77/kg currently, from INR84–85/kg in March, on RM prices declining due to the rabi maize crop set to enter the market.
- Maize prices in the pre-COVID-19 era stood at INR22–24/kg v/s 12–14/kg currently. Prices have fallen due to decline in poultry demand and rabi maize set to enter the market.
- Out-of-home consumption accounts for 50% of demand for chicken. Even if 15–20% of this demand is revived, this would aid a price rise.
- Consolidation is unlikely in the Animal Feed segment as barriers to entry are low.
- Aqua (shrimp and fish) prices have been remunerative for farmers. Cattle feed sales have been impacted due to lower milk prices.

Crop Protection:

- The company has been cutting credit to distributors to avoid bad debts, which have impacted sales. Collections have taken a hit as these usually happen toward the end of March.
- The CP plant, which has been running at 60–70% utilization, is expected to run at 100% utilization from 17th May; lost production would be recovered by working on holidays.
- In Dec'19, the company launched Hanabi, a Nissan product, which has received an excellent response.
- The company is lagging behind on placement for the kharif season, which should ideally have happened by this time, as production processes are running slower than usual.
- A drop in labor availability would aid in increasing the consumption of herbicides.
- Astec's growth during the quarter was led by two main factors. A) An increase in enterprise sales, on disruption in China's supply chain, led to growth in order inflows from Southeast Asia, Russia, the US, and Europe. B) Moreover, Contract Manufacturing launched two new products, which customers earlier acquired from Chinese manufacturers.
- The prices of certain Astec products are competitive with those of Chinese products.
- Three to four molecules under the registration would be launched in the Standalone Crop Protection segment over FY21–22.

Palm Oil

- 55–60% of sales are usually conducted in the July–Oct season.

- The company has two mills, each with a processing capacity of 1,200MT per day. It is also refurbishing another mill with a 600MT per day processing capacity.
- Currently, the price of CPO is INR58–59kMT; prices have dropped as demand from bakeries, restaurants, and other institutions have been impacted. Previous-year prices were a little lower, reaching as high as INR60–68kMT in Mar'20.
- Palm kernel oil finds use in industrial oils, FMCG products, and beauty products, among others; prices have been impacted due to lower demand from end user industries
- In Palm Oil, volumes are not at risk as imports would decrease if demand starts to increase; however, price decline stands as a key risk.
- In FY20, the company processed FFB of 568k MT, sold CPO of 98.6kMT, and supplied palm kernel oil of 12kMT.

Dairy

- The company is attempting to lower procurement from agents, which would not only control the price of milk but also quality.
- Over the next couple of quarters, share of revenue from value-added products would be higher than liquid milk sales.
- Milk production in India is 180m MT, 45–50mn MT of which is procured by organized players; of this, 33% goes to value-added products (VAP) and institutions.

Others:

- The Aqua Feed and Crop Protection businesses face credit risk.
- The company reported exceptional loss of INR99m in its subsidiary Godrej Tyson Foods as demand and prices of poultry and related products plummeted toward the end of fiscal. Accordingly, the company had to recognize inventory loss of INR30m and loss of INR69m with reference to the fair valuation of biological assets.

Indian Hotels — Buy

Current Price INR 85

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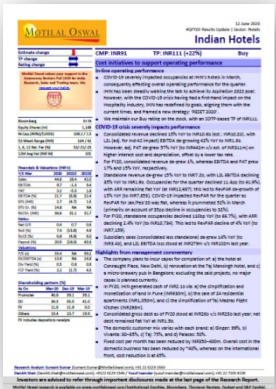

Indian Hotels

- The company plans to incur capex for completion of: a) the hotel at Connaught Place, New Delhi, b) renovation at the Taj Mansingh hotel, and c) a micro-brewery pub in Bangalore; excluding the said projects, no major capex is planned currently.
- In FY20, IHIN generated cash of INR2.1b via: a) the simplification and monetization of land in Pune (INR630m), b) the sale of 24 residential apartments (INR1,050m), and c) the simplification of Taj Madras Flight Kitchen (INR298m).
- Consolidated gross debt as of FY20 stood at INR26b v/s INR23b last year; net debt remained flat YoY at INR1.9b.
- The domestic customer mix varies with each brand: a) Ginger: 99%, b) Vivanta: 80–85%, c) Taj: 75%, and d) Palaces: 50%.
- Fixed cost per month has been reduced by INR350–400m. Overall cost in the domestic business has been reduced by ~40%, whereas on the international front, cost reduction is at 65%.

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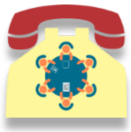

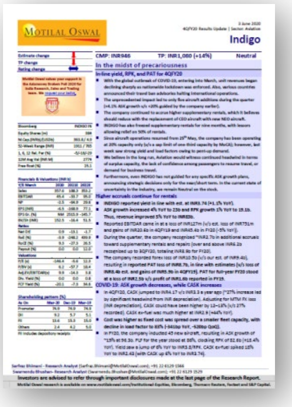

Interglobe Aviation Neutral

Current Price INR 1,034

Company plans various approaches for future:

SUPPLEMENTARY RENTAL ADJUSTMENTS – The company plans to raise INR30–40b in additional liquidity through the following methods (in the next nine months):

- The company has freezed supplementary rentals for nine months. Lessors gave relief on 50% of rentals (i.e., on non-flying aircraft).
- It has also approached lessors for more favorable credit terms.
- Since operations were resumed, the company has been operating at 20% capacity only; thus, its plans to use fuel-efficient NEOs first (which would also help defer the maintenance of CEOs).
- Supplementary rentals are a variable for the company, while other maintenance costs are fixed in nature.

COST SIDE – ~40% of the cost of Indigo is fixed, and the company has undertaken various measures, as follows, to reduce it:

- Salary cuts by 5–25% were announced across the company (apart from the lower strata of employees). Leave without pay was announced for May–July.
- INDIGO aims to reduce its total cost by 25% and is formulating various strategies for the same, such as putting discretionary expenses on hold, etc.
- Thus, we believe cost for the company would reduce with the deferment of supplementary rentals and trimming on the company's already high employee cost.

OLD AIRCRAFT REPLACEMENTS

- For the quarter, the company reduced the A320CEO fleet by three aircraft (to 123 CEOs currently, out of the total 262 aircraft).
- For the next three months, the company would continue to replace older A320CEOs with A320NEOs (natural retirement strategy).
- INDIGO would see no penalty for returning its CEO aircraft and plans to replace 123 CEOs over the next two years (if not all, at least a large number).
- The replacement of Pratt & Whitney engines on some aircraft is pending; however, the DGCA has given the company an extension of up to 31st Aug'20. The DGCA had earlier clearly stated to preferentially replace unmodified engine aircraft with the new deliveries INDIGO would take over the coming months, rather than deploying a new/fresh schedule.

CARGO BUSINESS STRENGTH – A new learning from COVID-19:

- The Cargo business was performing really well until the lockdown was announced. Even during the lockdown, Cargo has been used for relief operations/flights.
- The company has 10 (converted aircraft) cargo planes with up to 20 tons of flying capacity.
- Ancillary revenue growth of 30% and total capacity growth of 4% were reported during the quarter. The company plans to explore further opportunities in the Cargo business even after business returns to normal.

INFO EDGE

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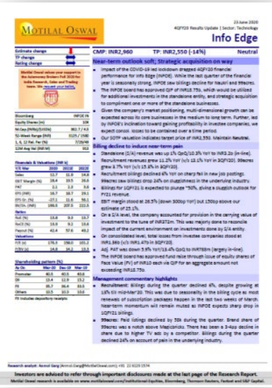

Info Edge — Neutral

Current Price INR 2,909

Recruitment

- **Operating performance:** Naukri's revenue growth for 4QFY20 stood at 11.2% YoY with EBITDA margin of 54%. The entity added 2m new resumes in its database 'Resdex'. According to 'similarweb', traffic share for the platform remains above 90%. Billings during the quarter declined 6%, despite growing at 13% till mid-Mar'20. This was due to seasonality in the billing cycle as most of the renewals for subscription packages happen in the last two weeks of March.
- **Competition:** Indeed and LinkedIn are the major competitors for the entity. Despite LinkedIn possessing better technology, it has not been able to eat much into Naukri's market share due to strict privacy policies that restricts the platform from providing a candidate's contact information without prior permission. Naukri remains the most significant player for resume database across the country. IIM Jobs clocked revenue of INR218m delivering 20%+ CAGR in the past 3 years.
- **Additional services:** Naukri has been venturing into premium hiring through its internal platform – bigshift and IIM Jobs. While contribution from both remains low, the company has been investing significantly to gain higher market share in the segment. In the current few quarters, the company expects branding part of the business to take a hit; access to resume database, which contributes ~60% of the business will see lesser impact.
- **Contract Cycle:** Naukri offers subscriptions starting from a week to multi-year packages. The company expects some reduction in new contracts or renewals for longer duration subscriptions. However, INFOE also expects revival once the employment cycle revives.

Real Estate

- **Operating performance:** 99acres revenue growth for 4QFY20 stood at 3.7% YoY with EBITDA margin of 3.5%. Paid listings declined by 58k during the quarter. Brand share of 99acres was a notch above Magicbricks; there has been a 3-4pp decline in share due to higher TV ads by a competitor. Billings during the quarter declined 24% on account of pain in the underlying industry.
- **Traffic:** After dipping 80% in Apr'20, traffic in now back to 70-80% of pre-COVID levels. Billings in 1QFY21 is expected to plunge by >50%. Revenue growth will have to wait as higher activity has only come from Tier-2/3 cities. Revival in Mumbai, Delhi and Chennai is yet to be seen.
- **Long-term potential:** Despite near-term pains, long-term prospects look promising for the entity given the lower penetration of online portals. Brokers contribute 53% of the revenue, while share of builders and owners stands at 41% and 6%, respectively.

Matrimony

- **Operating performance:** Unlike Naukri and 99acres, Jeevansathi saw healthy billing growth during the quarter. Revenue for the entity grew by 25% YoY.
- **Market share:** Jeevansathi is at 3rd position in the matrimony segment. Overall market share is less than 15%. Traffic share is higher in the North/West (~25%), while its insignificant in South India, which is majorly dominated by Matrimony.com.

Others

- **QIP:** INFOE took the board's approval to raise maximum of INR18.75b through QIP. While the approval has been taken for a higher amount, the company will decide on the amount to be raised based on the investment opportunities in the market. Funds will be mainly utilized for investment in standalone entities and for big ticket M&A to strengthen its market position. The company believes that liquidity crunch in the market led by COVID-19 and screening of Chinese investment will give opportunities for M&A at reasonable valuations. Funds will not be invested in AIF, for which the company will bring an additional investor on board.
- **Zomato:** After steep drop in partner restaurants during Apr-May'20, the company is seeing more and more restaurants coming back to the platform. Overall cash burn has reduced significantly and the company has now turned unit economics positive. Zomato is seeing some investor traction for additional funding.

Kaveri Seeds — Buy

Current Price INR 566

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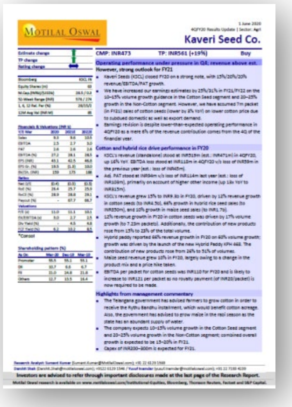

- Cotton seed sales for KSCL: Cotton volumes increased 17% in FY20. The contribution of new crops increased from ~15% to ~23% of the total volumes.
- 'Money Maker' cotton seed product: The performance of 'Money Maker' was appreciated by farmers across sectors. Also, two new cotton hybrids were introduced during the quarter.
- Maize: Maize volumes were stagnant for the year, whereas revenue increased 10% owing to an improved product mix and price gains.
- Hybrid rice: Volumes increased 60% and revenue ~66% in FY20. The contribution of new products rose from 26% to 51% of volumes.
- COVID-19: The company has managed to overcome initial supply chain and labor problems, and operations are running smoothly. As the company is classified under the Essential category, its plants have been operational throughout the lockdown.
- EBITDA per packet for cotton seeds was INR110 for FY20 and is likely to increase to INR130 per packet as no royalty payment (of INR20/packet) is now required to be made.
- Margins: Margins of non-cotton crops are better than those of cotton crops.
- Growth outlook: The company expects 10–15% volume growth in the Cotton Seed segment and 20–25% volume growth in the Non-Cotton segment; combined overall growth is expected to be 15–20% in FY21.
- The Telangana government has advised farmers to grow cotton in order to receive the Rythu Bandhu installment, which would benefit cotton acreage. Also, the government has advised to grow maize in the rabi season as the state has an abundant supply of water.
- Maize: Even after the correction in maize prices, maize acreages are not expected to come down, except in the state of Karnataka. In northern India, the Punjab and Haryana governments have advised farmers to grow maize. Hence, overall maize acreages are not expected to come down significantly.
- The company has managed to collect money from dealers compared with last year and does not expect any default.

- Currently, the company deals directly/indirectly with more than 40,000 dealers in India.
- Usually, maize trades at INR12–15/kg, but went up to INR21/kg last year and has now declined to INR17/kg. This price is still remunerative for farmers compared with the price at which maize usually trades / other alternative crops are available to them. Thus, the management does not expect the maize average to decline materially.
- Capex of INR200–300m is expected for FY21.
- Revenue from the Vegetables Seed segment grew 30% in FY20 to INR200m, and the company is confident of achieving 30% growth in this segment for the next four to five years.
- Inventory write-offs of INR170–180m were reported for FY20.
- Advance bookings from dealers in FY21 to date stand at INR2.2b (50% from Cotton Seed and the balance from Non-Cotton) v/s INR2b in FY20 (70% from Cotton Seed and the balance from Non-Cotton).

KNR Constructions — Buy

Current Price INR 215

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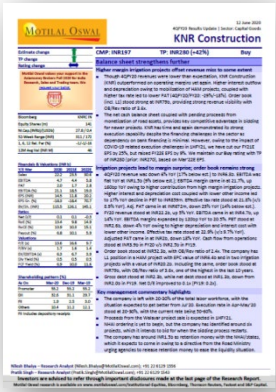

NHAI:

- NHAI awarded 3,211kms in FY20 as against 4,000kms in FY19.
- COVID-19 led to delay in ordering toward end-Mar'20.
- FY21 target consists of awarding 4,000-4,500kms of projects.
- Around 5-10 projects were supposed to be out for bidding in the last two months but got delayed.
- Around six projects have been identified by KNR, which it intends to bid for.

COVID-19 impact:

- The company faced logistic and raw material availability issues just after the lockdown ended.
- The company bagged INR20b worth of orders during the shutdown.
- KNR has not opted for moratorium with banks.

Financial Highlights:

- Interest cost was higher during 4QFY20 due to interest mobilization on HAM projects.
- Standalone debt stood at INR2.30b, including promoter loan of INR1.8b.
- The company has equity commitment of INR5.8b and has invested INR2b till date.
- KNR is expected to invest INR1.5b as equity in FY21.

Labor impact:

- The company is left with 20-30% labor and is trying to hold on to them.
- Different states have put certain rules on entry of migrant people (like quarantine for 14 days), which has led to difficulty for laborers returning.
- Management expects relaxation to further ease from Jul'20.
- Current projects are running at 50-60% efficiency.

Irrigation project:

- With delay in payments, margins can return to the 13-15% range.
- Irrigation projects generally have higher margins than road projects.
- KNR does not intend to subcontract the Pump House project in Kerala.
- Order backlog: Mehga project – INR5.18b, Navayuga project – INR8.47b, Others – INR430m.

Receivables:

- INR5b is the total receivable outstanding from the Telangana government for the Irrigation project. INR2b was outstanding as at end-Mar'20 but got delayed owing to the COVID situation. INR3b was billed in Apr-May'20.
- KNR expects payment in another 1-2 month.
- The company held some creditor payment to balance out the delay in receivables.
- KNR has ~INR1.5b of retention money pending with the NHAI and the states.

Capex:

- Around INR0.5b of maintenance capex will be incurred in FY21.
- No capex is required in new irrigation projects.
- In FY22, the company will invest in equipment related to lift irrigation schemes and pump house irrigation.

EBITDA margin:

- 200-300bp decline is expected in 1HFY21. From 3QFY21, KNR should ramp up and get margins back.

Tax rate:

- Pending MAT credit of INR340m will be utilized in FY21.
- FY21 is expected to see tax rate of ~25%.
- The company will migrate to the new tax rate in FY22.

Others:

- The company expects 3-4 projects in FY21 with a target of INR30b.
- Other expenses were up in FY20 owing to consultancy charges in the HAM projects.
- In Tamil Nadu, the company expects a tender award, for which bid has been submitted.
- Percentage of land acquired for KSHIP/Palani projects stand at 72%/50%.
- Proceeds from the Walayar project sale is expected in 1HFY21.
- KNR incurs around INR150m in fixed cost every month.
- INR600m of mobilization advance is pending each in Somwarpet and Palani project.

Lemon Tree Hotels — Buy

Current Price INR 25

lemon tree HOTELS

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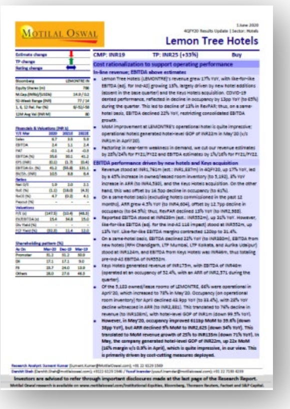
MOTILAL OSWAL
Lemon Tree Hotels
CMP: INR19 TP: INR25 (+33%) Buy

- Demand for rooms is currently witnessed from: quarantined guests, healthcare staff (doctors and nurses), and some customers staying at hotels as part of their employer's business continuity plan.
- 75–76% of the company's total expenses are fixed in nature; the company has managed to reduce this by 60% and variable cost by 35%. It expects to achieve breakeven at 27–30% of normal revenue.
- APG has agreed to invest INR3b in Fleur (a subsidiary of LEMONTRE) through Compulsorily Convertible Preference Shares, which would be converted into equity after 30 months. The company has drawn down INR1.75b initially. LEMONTRE would inject an additional 100% in owned assets in Fleur at the end of 30 months to retain current majority ownership. This is aligned with the company's asset monetization plan / asset light strategy.
- Currently, it is only executing Aurika, the Mumbai hotel. Capex of INR300–350m is expected in FY21 and INR1b in FY22.

- Some cost-cutting measures shall also persist post COVID-19, which would increase the EBITDA margin by 500–700bps.

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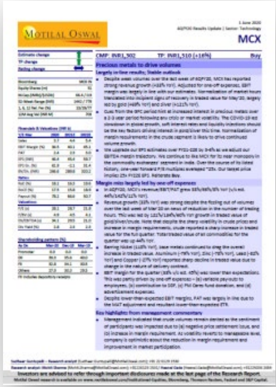

MCX Buy

Current Price INR 1,300

- Management has indicated that crude volumes remain dented as the sentiment of participants was impacted due to (a) negative price settlement issue, and (b) increase in margin requirement. As the volatility reverts to manageable level, the company is optimistic of reduction in margin requirement and improvement in market participation.
- The company has hinted at lockdown impact on its warehouse operations. As the lockdowns eased, it is indicated that operations/delivery are now coming back to normal. Even as the change in contract specifications continued to impact volumes, management sees huge potential in base metals.
- While the visibility of revenue growth in FY21 is not robust, management has indicated that tight control on costs has already begun. The company has decided not to give salary increments beyond a certain level. It is negotiating with vendors also on different cost rationalization initiatives.

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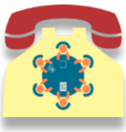

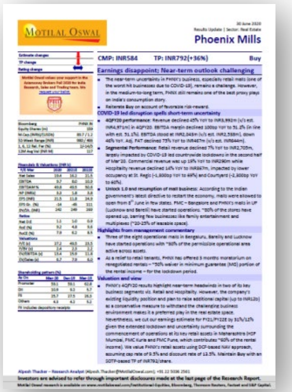

Phoenix Mills Buy

Current Price INR 586

- **Plans to raise capital:** The company is fully covered in terms of planned capex and operational expenses for its assets that are active. However, in order to address the ongoing uncertain times, PHNX has taken board approval to raise capital up to INR12b (mostly equity or combination of debt and equity), which could be used to combat liquidity stress, paring down of debt or to take up growth opportunities.
- **Consumption pattern in malls:** Consumption at operational malls have reached ~40% levels with strong demand for few categories like electronics and home accessories. Fashion and apparels are seeing relatively lower demand.
- **Hospitality business:** Courtyard by Marriot is expected to remain closed till Jul'20 due to lack of demand. St. Regis is operating with limited occupancy (~17% occupancy for Apr-Jun'20).
- **Commercial business one of the least impacted:** ~80% rentals for the lockdown period (Apr-Jun) have been collected so far. Traction for leasing appears strong for the upcoming towers in Fountain Head (T2 and T3). The company is on track to increase its commercial portfolio from 1.3msf to 6.3msf by FY24E.
- **On residential business:** As informed earlier, the company has restructured its luxury offering at Kesakku Bengaluru to offer its customers 3-4 BHK apartments. This is expected to generate better velocity for the project.
- **Under-construction projects:** The construction work at Phoenix Palassio (Lucknow) has been completed and the mall is expected to open in Jul'20. PHNX has resumed construction for other projects at Indore, Bengaluru, Pune and Ahmedabad.
- **Capex plans:** Capex outflow for FY21 is expected at ~INR2.9b (Retail at ~INR1.4b, Commercial at INR0.5b and Residential at ~INR1b).
- **Debt levels:** Total debt remained largely stable at INR46b with average cost of borrowing down to 8.9% in 4QFY20 (v/s 9.3% in 3QFY20).

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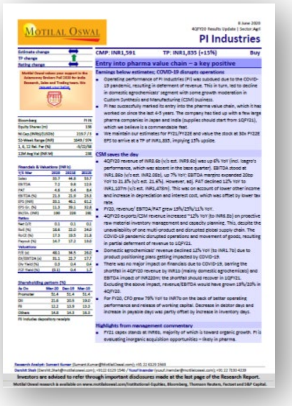

P I Industries Buy

Current Price INR 1,664

Custom Synthesis and Manufacturing (CSM) business:

- Inquiry flows have increased due to the China issue.
- Generally, it takes 2-3 years to commercialize a new molecule by working alongside customers.
- Order book stood at ~USD1.5b, which provides high visibility for sustainable growth over 3-5 years.
- PI commenced two multi-purpose plants in FY20.
- Exports registered solid ~30% growth YoY by volume scale-up of few existing products and commercializing five new products.

Domestic agrochemicals:

- Domestic revenue declined 12% YoY (to INR1.7b) due to product positioning plans getting impacted by COVID-19.
- Price increase has been taken in selective products for the upcoming Kharif season in the domestic market.
- Products launched in the last 2-3 years contributed 30-35% of sales.
- Osheen product going generic could be challenged by the company (could be taken up with government authorities).

Pharma

- PI has tied up with few large pharma companies in Japan and India, and supplies should start from 1QFY21. PI has successfully developed and scaled up advance intermediate for a COVID-19 drug. This marks PI's entry into the pharma value chain.
- Revenue contribution from pharma is expected at 11-15% over the next few years.
- The company's plant has not gone through any regulatory approvals as they manufacture intermediates.

Others

- Isagro's revenue for the quarter stood at INR600m – INR330m from domestic and the balance from exports.
- Guidance for FY21 – revenue growth of 20%+.
- FY21 capex stands at INR6b, majority of which is toward organic growth. The company is evaluating inorganic acquisition opportunities – likely in pharma. First quarter performance of Isagro Asia (post acquisition) was consolidated with PI; business registered ~10% YoY growth.

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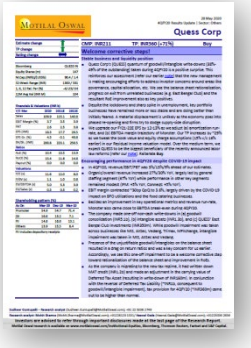
Quess Corp Neutral

Current Price INR 350

- Management has indicated that impact on operations in Apr-May'20 was not as bad as initially feared. Having large enterprises as customers and limited exposure to SMEs has helped QUESS in navigating through the crisis.
- General Staffing witnessed headcount reduction of ~5% in Apr'20 over Feb'20 level. Further, management expects ~5% MoM reduction in May-Jun'20. As enterprises try to dodge supply-side risks in the context of labor migration, we anticipate a positive surprise on this front too.
- The company has reduced indirect costs by ~20% during Feb-Apr'20. It is further looking for avenues to variabalize the cost structure in order to maintain margin in case the COVID-19 situation deteriorates further.



- Management has hinted at a target of 20% RoE and 20% YoY OCF growth over the medium term. They have also indicated that goodwill impairment may not be required any further.
- According to QUESS, Excellus, Digicare and BPO are the worst hit. While Facilities Management may witness some headwinds due to Work from Home (WFM), formalization in the industry should help offset it. Management expects Monster to witness growth and margin challenges in the near term as renewals (typically happen in last week of March) are hit. However, as recruitment picks up, this segment should also recover.

SRF **Buy**

Current Price INR 3,832

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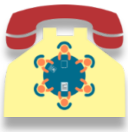
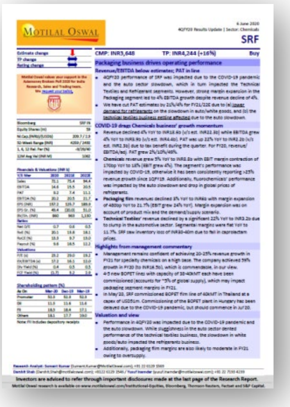
Results Update





Specialty Chemicals

- SRF faced logistics issues during the quarter, which led to delay in product delivery.
- Due to COVID-19, production facilities were completely closed for 15 days; from mid-Apr¡-20, operations started in a phased manner.
- Achieved revenue of INR16.5b in the specialty chemicals segment and have guided for 20-25% growth in FY21.
- Order-book looks strong, as growth is expected in agro and pharma segment.

Fluorochemicals

- Performance in the segment was subdued due to prolong and severe slowdown in auto/white goods sector, leading to lower demand.
- Price of key refrigerants was low during the quarter. Demand for refrigerant from OEMs is expected to be muted in the near term. Slight pull is expected from the replacement market on lifting up of the lockdown.
- The recently commissioned HFC capacity is expected to ramp up volumes over the next few quarters.
- Volumes of chloromethane contributed to the segment¡¦s growth. Prices of certain chloromethane products contracted, resulting in a quick shift to other products.
- Capacity utilization in the refrigerant segment is 70-75% for FY20 (on pro-rata basis).

Packaging

- Delivered strong performance in BOPP and BOPET due to improvement in volumes and product-mix. In India and internationally, plants were operating at optimum utilization level.
- During the lockdown, all plants were operational and functioning at reasonable capacity.
- Operating margins should moderate as new lines in the international market are expected to impact the demand-supply scenario.
- In May-20, SRF commissioned the BOPET film line of 40kMT in Thailand at a capex of USD51m. Commissioning of the BOPET plant in Hungary has been delayed due to COVID-19, but should commence in July -20.
- Growth from value-added products was 20-22% in FY20.

Technical Textiles

- Performance of Tyre Cord Fabric business was severely impacted due to sluggish domestic demand.
- Inventory loss of INR30-40m due to fall in caprolactam prices.
- OEM demand may take a longer time to recover, whereas replacement demand is expected to kick-in by end of 2QFY21.

- Coated and Laminated fabrics business reported stable performance led by new product launches. Laminated margins were affected due to oversupply in the market.

S H Kelkar — Buy

Current Price INR 70

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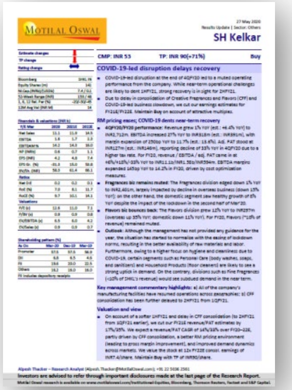

- COVID-19 impact on business: SHKL saw increased demand and improved traction in terms of order inquiries and leads from new and existing customers across both the Fragrances and Flavors divisions for Jan and Feb in 4QFY20. However, countrywide lockdown at the end of Mar’20 in India and similar restrictions in overseas markets led to a muted performance in 4QFY20. The revenue impact of the lockdown on the quarter was ~INR300m. The manufacturing facilities in India that were shut for ~33 days (incl. the second half of Mar’20) resumed operations 27th Apr’20 onward. Blended capacity utilization across plants stands at 30–35%.
- On market share: SHKL has market share of ~13% in the domestic Fragrances and Flavors (&F) industry, with 20% market share in Fragrances and <5% in Flavors.
- Client concentration: The Top 10 customers account for ~25% of the total revenue.
- Fragrances division: The company is witnessing healthy demand in categories such as Personal Care (soaps, body washes, sanitizers, and hand washes) and Home Care (detergents).
- On new business wins: Revenue from business wins (new and existing customers) stood at 5% (~INR500m) for FY20, which is likely to scale up as engagements with clients deepen going ahead.
- On Creative Fragrances and Flavors: For 1QCY20, the Fragrances division’s revenue grew 13.5% YoY, with gross margins up 580bps to 54.7%, driven by softer raw material prices. CFF consolidation has been deferred by a couple of quarters, until the COVID-19 situation stabilizes, and is expected to be completed in 2HFY21.
- On debt levels: Net debt stood at ~INR3b at the end of FY20 and is likely to remain at similar levels going ahead.
- On capex plans for FY21: Maintenance capex of INR200m and the CFF acquisition entailing an outgo of ~EUR16m are expected for FY21.
- FY21E outlook: In light of the COVID-19-led disruption and the uncertainty surrounding the same, the company has not given any revenue guidance for FY21. However, SHKL’s management expects double-digit growth in few of the product categories, such as hand washes, sanitizers, and soaps. These are expected to drive the Personal Care and Home Care segments in the Fragrances division.

TATA CHEMICALS LIMITED

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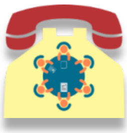

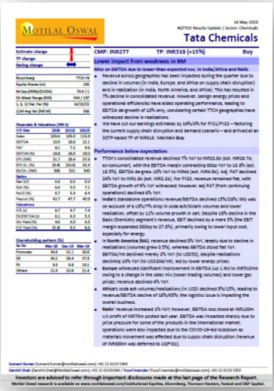
Tata Chemicals

Tata Chemicals — Buy

Current Price INR 312

- **Plants operations:** Units in the UK, US, and Magadi are operational; however, logistical issues are resulting in slower operations at ports. The India unit is operating continuously. Operations were temporarily suspended at the Nellore, Sriperumbadur, and Cuddalore facilities, but were resumed from 11th May 2020.
- **Demand dynamics for soda ash:** Demand from sectors such as Food and Pharma is holding fine; Real Estate sector demand has been affected, thereby affecting the sale of flat glass. Demand for container glass stands moderately impacted.
- **India's soda ash demand situation:** Demand for detergents has not witnessed any major impact, whereas container glass demand has been affected due to lower sales in end user industries. However, sales are starting to revive currently. Demand for flat glass manufacturing (accounting for 25% of India's soda ash volumes) has been impacted due to lower car sales and lower demand in Real Estate; it is likely to take some time to revive.
- **Capex:** TTCH had earlier committed capex of INR9b for FY21; however, it has currently scaled down. Capex for the Energy Science division may see some delay due to the current scenario.
- **Anti-dumping duty (ADD) in India for soda ash:** ADD investigations have been initiated for imports from North America and Turkey; public hearings are yet to commence. An anti-subsidy investigation on soda ash imports from Turkey is also underway.
- **Margins:** As per management, margins in the soda ash business are generally not volatile.
- Price increase announced by TTCH NA is usually indicative price increase; depending on the market scenario and size of the customer base, the same is realized.
- In India, Mithapur has been producing all products with additional emphasis on salt and bicarb as both products fall under the Essential Commodities category. The soda ash plant is currently operating at 80–85% and has been on the rise.
- China's soda ash plants would likely run at 70–75% utilization level; this is likely to keep demand–supply dynamics in balance. Turkey's plants have been set up using debt; thus, no material decline would be witnessed in prices.
- The difference in the fair value and carrying amount of net assets in the Consumer Products Biz (CPB) as of 1st April 2019 is recognized as gains on the de-merger of CPB in the P&L as an exceptional item amounting to INR62b.

TeamLease™
Putting India to work

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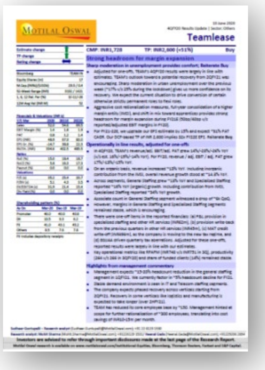
Teamlease

TeamLease Services — Buy

Current Price INR 1,750

- Management expects ~15-20% headcount reduction in the general staffing segment in 1QFY21. We currently factor in ~5% headcount decline for FY21.
- Stable demand environment is seen in IT and Telecom staffing segments.
- The company expects phased recovery across verticals starting from 2QFY21. Recovery in some verticals like logistics and manufacturing is expected to take longer (over 2HFY21).
- TEAM has reduced its core employee base by ~150. Management hinted at cope for further rationalization of ~300 employees, translating into cost savings of INR10-15m per month.

- Buoyed by this cost savings and other cost rationalization initiatives, management expects EBIT margins to recover to 1.9% in FY21. We are currently building in 1.8% EBIT margin for the year.
- TDS receivable (amounting to ~INR400m) is expected to get released to the company over the next two months, thereby strengthening its cash position.

UPL Neutral

Current Price INR 451

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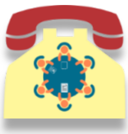
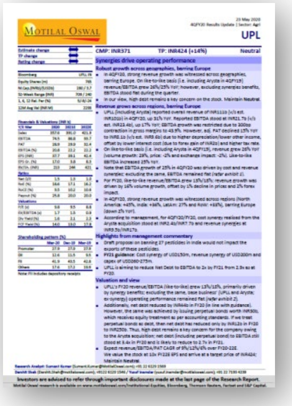
Results Update





- All plants of UPL are currently operational.
- Realized cost synergies of INR7.7b in FY20 (ahead of guidance).
- UPL acquired a company in China (Laoting Yoloo), which has more than 150products.
- Cost synergy target – Year-1 is USD120m, Year-3 is USD200m. UPLL realized cost synergy of INR2.4b in 4QFY20 and INR7.7b in FY20.
- Revenue synergy target – Year-1 is USD100m, Year-3 is USD350m. UPLL realized revenue synergy of INR9.5b in 4QFY20 and INR16.9b in FY20.
- Inventory days in FY20 declined to 81 days v/s 106 days in FY19. Further decline in inventory days would be driven by efficiency.
- UPLL's products cater to a diverse range of crops with no crop accounting for more than 12-15% of sales.
- UPLL's long-term revenue growth ambition is 7-10% per annum.
- Gross margin was under pressure in 4QFY20 due to change in the geographical mix and depreciation in Brazilian real currency.
- Higher employee cost in 4QFY20 (up 44% YoY) is due to bonus and regrouping of expenses, which was in cost of goods sold last year (related to Arysta and considered under employee cost in the current year (of INR1b).
- The company would continue to invest in registration despite having more than 12,000 registrations. UPLL still needs to spend USD150m every year on R&D due to products receiving resistance over the years.
- Peak sales value of UPLL's proprietary pipeline accounts for USD1, 000-1,500mwith projects reaching sales maturity progressively in 5 to 8 years. Proprietary pipeline includes: (i) 38 new active ingredients in the early stage (thereof 10New Mode of Actions (MOA), 8 Biological), and (ii) 14 new active ingredients in the late stage (thereof 1 MOA, 1 Biological).
- Peak sales value of UPLL's post patented pipeline accounts for USD2,000-2,500m with projects reaching sales maturity progressively in 5 to 8 years. Post-patent pipeline includes (i) 15 future off-patent active ingredients, and (ii) new formulations for 76 active ingredients already in UPLL's portfolio.
- Draft proposal on banning 27 pesticides in India would not impact the exports of these pesticides.
- FY21 guidance: Cost synergy of USD150m, revenue synergy of USD200m and capex of USD260-275m.
- The company is aiming to reduce its net debt to EBITDA to 2x by FY21 from 2.9xas at FY20.

FY20 Regional highlights

Latin America

- Revenue grew 27%/24% in 4QFY20/FY20.
- Customers are awarding UPLL a higher share of wallet after integration.
- Complete portfolio in soybean, corn, sugarcane and cotton aided sales.

- Continue to increase prices in local currencies to offset 4QFY20 for ex-devaluation.

North America

- Revenue grew 45%/13% in 4QFY20/FY20.
- UPLL managed to grow 13% in the region despite floods, which led to demand decline in the market.
- Strong growth in Canada was due to synergies in the combined portfolio.
- UPLL grew in the US despite the industry witnessing a decline.

Europe

- Revenue declined 2%/7% in 4QFY20/FY20.
- Dry/hot weather conditions impacted crop yields in the region.
- UPLL's high share of herbicides and France business weighed on results.
- Early spring in 4QFY20 is showing signs of market recovery in FY20-21 seasons.

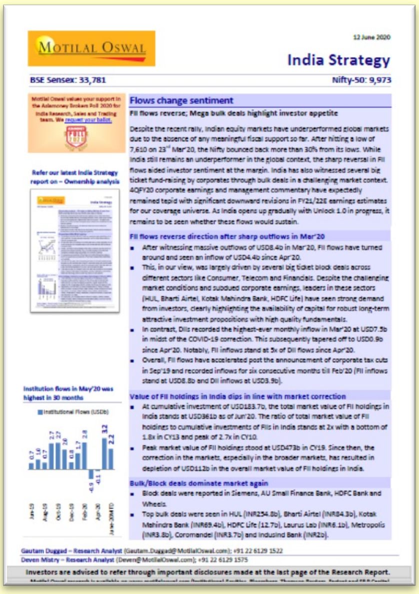
Rest of World

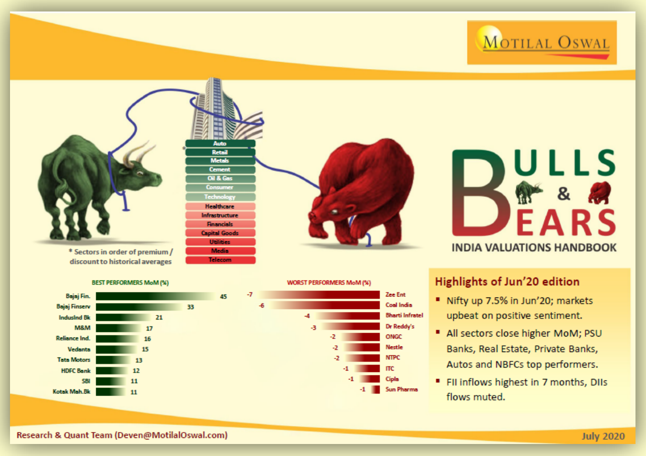
- Revenue grew 33%/12% in 4QFY20/FY20.
- Strong business growth in South East Asia is due to the return of rains and synergies owing to Arysta.
- The company completed the strategic acquisition of Laoting Yoloo in China.
- Business was adversely impacted from foreign exchange rate in Africa and drought/wild fires in Australia.

India

- Revenue grew 36%/11% in 4QFY20/FY20.
- Glufosinate aided in driving volumes in the herbicide category.

India Strategy, Thematic and Quant Research Gallery





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BUY	>=15%
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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