Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	30,029	-3.4	-27.2
Nifty-50	8,823	-3.4	-27.5
Nifty-M 100	12,409	-4.5	-27.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	2,954	3.2	-8.6
Nasdaq	9,235	2.4	2.9
FTSE 100	6,049	4.3	-19.8
DAX	11,059	5.7	-16.5
Hang Seng	9,726	0.5	-12.9
Nikkei 225	20,134	0.5	-14.9
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	34	9.0	-48.3
Gold ($/OZ)	1,733	-0.6	14.2
Cu (US$/MT)	5,292	2.6	-13.9
Almn (US$/MT)	1,463	2.4	-17.9
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.9	0.4	6.3
USD/EUR	1.1	0.9	-2.7
USD/JPY	107.3	0.3	-1.2
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.8
10 Yrs AAA Corp	7.2	0.51	-0.4
Flows (USD b)	**18-May**	**MTD**	**CYTD**
FIIs	-0.33	1.60	-4.71
DIIs	-0.02	0.12	10.18
Volumes (INRb)	**18-May**	**MTD***	**CYTD***
Cash	545	544	469
F&O	9,039	11,801	14,169

Note: *Average

Today's top research idea

ICICI Securities (Initiating Coverage): Not just a broker!

Re-engineering the business model; Building a diversified franchise

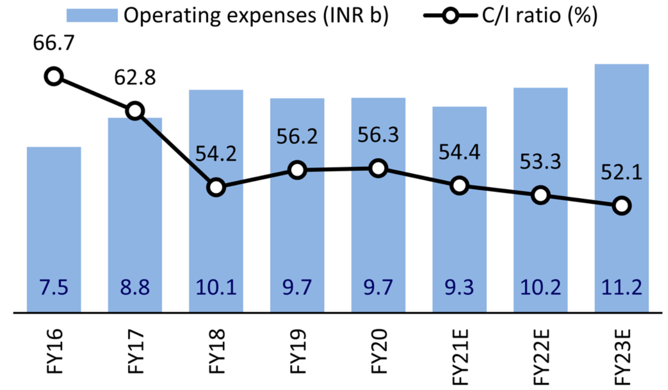
- ICICI Securities (ISEC) is India's second largest broker (~10% active client market share) and non-bank mutual fund (MF) distributor (after NJ Invest). It also ranks amongst the largest wealth managers in the country with an AUM of ~INR830b. Over the past year, the company has undertaken several initiatives (ICICIBC tie-up, 'Prime', 'Prepaid' and 'Options 20' models, Open architecture for broking business) to improve market share and profitability in the retail brokerage business, which have started to bear fruit.
- While we expect revenue growth to moderate in FY21 due to the impact of COVID-19, we believe 8% revenue CAGR over FY20-23E is achievable. At the same time, cost rationalization should result in nearly 400bp PAT margin improvement.
- Initiate with Buy rating and TP of INR460 (22x FY22E EPS). Key risk to our thesis stems from an extended economic slowdown arising due to the COVID-19 crisis and the resultant impact on capital market activities.

Research covered

Cos/Sector	Key Highlights
ICICI Securities - IC	Not just a broker! Re-engineering the business model
Financials	Decoding intrinsic value across cycles
Reliance Industries	Seals fourth stake sale deal in Jio Platforms in a month
Bharti Airtel	Consol. EBITDA up 10% QoQ (in line) on robust India wireless biz
GSK Pharma	Benefit of product mix offset by lower operating leverage
Torrent Power	EBITDA growth led by lower T&D loss
Crompton Gr. Con	March plays spoilsport in an otherwise strong quarter
L&T Finance Holding	Business performance stable
Tata Chemicals	Lower impact from weakness in RM
Blue Star	Adopting cost reduction measures to counter COVID challenges
Expert Speak	PVR: OTT threat to normalize soon

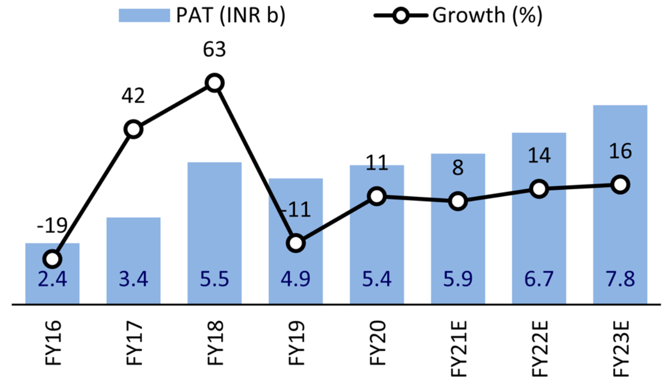
Chart of the Day: ICICI Securities (Initiating Coverage): Not just a broker!

Operating efficiencies key driver of growth



Source: MOFSL, Company

Expect Earnings CAGR of ~12% over FY20-23E



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Oil Posts Two-Month High Amid Demand Recovery, Vaccine Hopes

Oil rose to levels not seen since Covid-19 lockdowns paralyzed the world's largest economy, lifted by signs of recovering demand and news of a viable coronavirus vaccine. Futures in New York climbed 8.1% Monday, the highest level since mid-March. Chinese oil use is at …

2

Coronavirus vaccine from Moderna shows early signs of viral immune response

An experimental vaccine from Moderna Inc. showed promising early signs that it can create an immune-system response in the body that could help fend off the new coronavirus, according to sampling of data from a small, first human trial of the inoculation. The study was primarily designed to look at the safety of the shot and showed no major warning signs in a small phase 1 trial, the company said in a statement Monday. The trial is being run with the US government, and Moderna plans to continue advancing it to wider testing.

3

Tata to buy out PepsiCo's stake in JV NourishCo Beverages

Tata Consumer Products Ltd (TCPL) on Monday said it will acquire the stake of PeopsiCo in their joint venture NourishCo Beverages. The size of the deal was not disclosed by the company. The move is an effort by the Tata Group firm to widen its portfolio in the growing food and beverages space, TCPL said in a statement….

4

Nabard disburses Rs 20,500 crore to coop banks, RRBs

National Bank for Agriculture and Rural Development (Nabard) on Monday said it has disbursed Rs 20,500 crore to cooperative banks and regional rural banks (RRBs) for on-lending to farmers. This amount, is part of the Rs 25,000 crore of special refinance facility provided by the Reserve Bank of India (RBI) to Nabard for refinancing regional rural …

5

Amphan now a 'super cyclone'; landfall on West Bengal coast on Wednesday evening

Cyclone Amphan will make landfall on West Bengal coast on May 20 evening as extremely severe cyclonic storm with wind speeds up to 195 kmph, said Centre on Monday. "Amphan is now a 'super cyclone' and it is a serious issue, the only other cyclone of this magnitude was in Odisha in 1999 and it was very deadly," said National Disaster Response Force DG S.N. Pradhan. "When 'Amphan' makes landfall on May 20 it will be an extremely severe cyclonic storm," aid Pradhan…

6

Cement dealers see 30% fall in demand, liquidity crunch

Cement dealers expect sales volume to fall 30 per cent in this fiscal even as the Central government announced a financial package to pull struggling businesses out of slumber. The drop is expected due the uncertainty on revival of economy and construction activities.

7

ITC restarts cigarette production

The company spokesperson said it has opened around 150 factories, 2,000 wholesale distribution points and 45 warehouses across businesses including packaged food, personal care and paper amongst others.

ICICI Securities

BSE Sensex	S&P CNX
30,029	8,823

CMP: INR351 **TP: INR460 (+31%)** **Buy**

Stock info

Bloomberg	ISEC IN
Equity Shares (m)	322.1
M.Cap.(INRb)/(USDb)	113.2 / 1.5
52-Week Range (INR)	525 / 191
1, 6, 12 Rel. Per (%)	8/40/96
12M Avg Val (INR M)	151

Financial Snapshot (INR b)

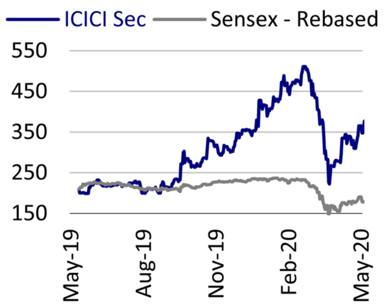
Y/E March	2020	2021E	2022E
Revenues	17.3	17.2	19.1
Opex	9.7	9.3	10.2
PBT	7.5	7.8	8.9
PAT	5.4	5.9	6.7
Ratios			
C/I ratio (%)	56.3	54.4	53.3
PAT margin (%)	31.4	34.2	35.0
RoE (%)	48.1	45.2	45.0
Div. Payout (%)	71.0	70.0	70.0
EPS	16.8	18.2	20.8
Valuations			
P/E (x)	20.9	19.3	16.9
P/BV (x)	9.3	8.2	7.1
Div. Yield (%)	3.2	3.6	4.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	79.2	79.2	79.2
DII	11.1	11.5	11.6
FII	3.2	2.7	2.7
Others	6.5	6.6	6.5

FII Includes depository receipts

Stock Performance (1-year)



Not just a broker!

Re-engineering the business model; Building a diversified franchise

- **ICICI Securities (ISEC) is India's second largest broker (~10% active client market share) and non-bank mutual fund (MF) distributor (after NJ Invest). It also ranks amongst the largest wealth managers in the country with an AUM of ~INR830b. Robust technology platform, innovative offerings, strong brand and ability to leverage the large distribution network of its parent ICICIBC are the key factors differentiating ISEC from its peers.**
- **Over the past year, the company has undertaken several initiatives (ICICIBC tie-up, 'Prime', 'Prepaid' and 'Options 20' models, Open architecture for broking business) to improve market share and profitability in the retail brokerage business, which have started to bear fruit. While ISEC is adding new product distribution and capacity in the wealth management/institutional equities business, it remains focused on the synergistic lending business to diversify revenues and reduce cyclicality.**
- **ISEC has maintained profitability despite revenue pressure in the recent past through several cost-cutting measures (reduction in branches/headcount, renegotiation of arrangements, etc.). These cost-cutting measures are likely to continue over the near-to-medium term and should result in ~400bp reduction in C/I ratio over FY20-23E, in our view.**
- **While we expect revenue growth to moderate in FY21 due to the impact of COVID-19, we believe 8% revenue CAGR over FY20-23E is achievable. At the same time, cost rationalization should result in nearly 400bp PAT margin improvement.**
- **The ongoing challenges in the industry are driving incremental market share toward large, institution-backed brokers like ISEC. Further, the company's business model is capital light with a dividend payout ratio of ~70%. Initiate with Buy rating and TP of INR460 (22x FY22E EPS). Key risk to our thesis stems from an extended economic slowdown arising due to the COVID-19 crisis and the resultant impact on capital market activities.**

Focus on ARPU and increasing customer base

ISEC is focusing on generating higher average revenue per customer (ARPU) and customer acquisition, which should lead to superior overall volumes. **It has taken several initiatives to increase customer base/volumes, such as (a) new revenue-share arrangement with ICICIB, which has helped increase activation rates and trading volumes from customers, (b) recently allowing non-ICICI Bank clients to open a trading account, (c) 'Prime' and 'Prepaid' plans and 'Option 20' for customers, (d) eATM, and (e) partnerships (sub-brokers, IFAs etc.)** Core to the ISEC strategy is ARPU (including distribution and lending revenues), and thus, cross-selling and innovative offerings are likely to be key initiatives in revenue generation. While yields are under pressure due to the changing industry volume mix and pricing pressure from competition, such initiatives are likely to generate volumes, change covert inactive clients to active clients and help top line growth in the retail business. **Overall we estimate 9% CAGR for retail brokerage revenues over FY20-23E.**

Distribution gradually becoming a larger revenue contributor

With an AUM of INR345b, ISEC is the second largest non-bank mutual fund distributor after NJ Invest. Around 75% of its AUM is in equity assets, wherein the commission earned is higher. This segment witnessed headwinds during the past 18 months from an upfront commissions ban and reduction in trail commissions. As a result, the average calculated yield declined from a peak of 100bp+ in 4QFY18 to 61bp in 1QFY20. However, with trail commissions on net flows higher than those on the back book, yields improved to 66bp in 4QFY20. Commission yields are now stable/marginally improving and revenues should grow in line with AUM. **However, over the near term, we expect a hit on revenues stemming from (a) higher-than-expected redemptions, and (b) lower NAVs in equity schemes.** Moreover, ISEC also distributes other financial products such as life and health insurance, loan products, fixed deposits, etc. In addition to providing an extra revenue stream, the distribution business also helps to reduce overall volatility of earnings stemming from the brokerage and investment banking segments.

Focus on alternative businesses to reduce dependency on brokerage revenues

In addition to brokerage and distribution, other key revenue sources for ISEC include margin funding and investment banking. **Over 9MFY20, ISEC grew its funding book (margin trade finance and ESOP funding) from INR4b to INR12b but scaled it down to INR5.8b in 4QFY20 due to heightened risk equities led by COVID19.** In our view, the company will grow this book opportunistically over the medium term. ISEC is among the leading investment banks in the country, especially in public market activities. Over the past 5 years, the company has worked on 140+ IPO deals amounting to INR1.8t+ in value. It has also built scale in the institutional brokerage division with revenues up 2.4x over FY16-20 to INR1.3b. Also, the company has carved out a separate business unit specifically catering to its wealth clients. Interestingly, the ESOP funding business assists in sourcing such clients. This business has over 30k customers and manages INR830b of customer assets.

Optimizing opex to counter revenue pressure

While ISEC's C/I ratio of 56% is healthy, it is significantly above that of HDFC Securities, which is at 37%. Over the past two years, management has taken several initiatives to reduce operating expenses. **Number of branches have been pruned from 199 to 172 YoY and are expected to reduce further as unprofitable branches get shut. Headcount has been trimmed from 4,180 in FY18 to 3,790 in FY20. ISEC had also renegotiated demat charges with ICICI Bank resulting in 27% YoY decline in custodial and depository expenses to INR340m in FY19.** Such initiatives have helped total opex decline 5% over FY18-20. **With a pick-up in revenue growth, we expect operating leverage to play out, resulting in ~400bp reduction in the C/I ratio to 52% over FY20-23E. We bake in ~5% Opex CAGR vs ~8% CAGR in revenues.**

Lingering uncertainty over the near term – A key risk

Over the past two months, most equity brokers, including ISEC, have been key beneficiaries of the heightened stock market volatility as (a) trading volumes have been higher than ever before, and (b) new account openings have increased.

However, as the situation settles, it remains to be seen whether investors would take a 'wait-and-watch' approach or continue to trade. **Post the Global Financial Crisis, over 2009-11, equity markets experienced 30%+ decline in equity case ADTO – it is likely that such a scenario is repeated if recovery is prolonged.** In addition, the sharp correction in stock prices and credit events has resulted in mutual fund redemptions from some retail investors. These redemptions, coupled with lower NAVs, would be a double whammy for ISEC. Hence, we believe that, in the near term, earnings growth would be driven by cost control rather than by revenue growth.

Earnings CAGR of ~12% and dividend payout of ~70%

Over the past year, ISEC has re-engineered its business model as well as its approach toward clients. **Initiatives such as the ICICI Bank tie-up, 'Prime', 'Prepaid' and 'Options 20' models, etc. have also started yielding results.** While brokerage revenues could be impacted in the near term due to uncertainty in the economic environment, structural drivers are in place for long-term growth. **Ongoing challenges in the industry are likely to aid market share shifts toward large, institution-backed players like ISEC.** Also, its distribution business is expanding with a wider coverage of financial products. While the macro environment is yet to turn around, cost cutting efforts should help maintain profitability. We expect revenue/Opex/PAT at 8%/5%/12% CAGR over FY20-23E. With the capital light nature of its business, we expect ISEC's dividend payout to remain high at 70%. **Initiate with Buy rating and TP of INR460 (22x FY22E EPS).**

Peer comparison – Key metrics

FY19, INR m	ISEC	Kotak Sec.	HDFC Sec.	IIFL Sec.	Axis Sec.
Total Revenue	**17,270**	**17,256**	**7,821**	**8,756**	**1,984**
of which					
Brokerage revenue	9,328	8,681	5,260	5,048	1,597
Distribution revenue	4,639	1,997	1,262	1,804	126
Operating Expenses	9,698	10,932	2,868	6,139	1,529
C/I ratio (%)	56	63	37	70	77
PBT	7,572	6,324	4,952	2,616	455
PAT	**4,907**	**4,076**	**3,298**	**1,714**	**293**

Source: MOFSL, Company

Financials

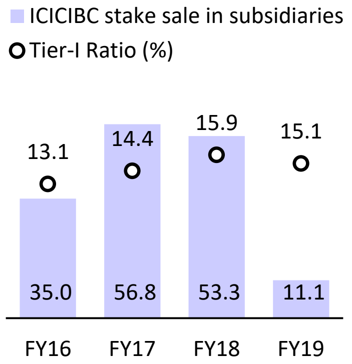
ICICIBC stake sale in various subsidiaries

Subs	Date	% of stake sale	Net gain (INRb)
IPRULIFE	FY19	2.0	11.1
ICICI Lombard	FY18	7.0	20.1
ICICI Securities	FY18	20.8	33.2
IPRULIFE	FY17	12.6	56.8
ICICI Lombard	FY16	9.0	15.5
IPRULIFE	FY16	6.0	19.5

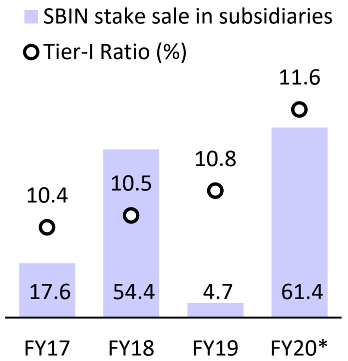
SBIN stake sale in various subsidiaries

Subs	Date	% of stake sale	Net gain (INRb)
SBI LIFE	FY20	4.5	34.8
SBI Cards	FY20	4.0	26.5
SBI General Insurance	FY19	4.0	4.7
SBI LIFE	FY18	8.0	54.4
SBI LIFE	FY17	3.9	17.6

ICICIBC stake sale in subsidiaries, INR b



SBIN stake sale in subsidiaries, INR b



Decoding intrinsic value across cycles; strengthening SOTP offers comfort

SOTP contribution rising steadily; forms 11%-37% of total valuation for major banks

- **COVID-19 pandemic has significantly dented the earnings/asset quality outlook for the banking sector resulting in severe correction in stock prices. Lending being a leveraged business faces significant valuation risks in such an uncertain environment however banking subs which have gained significant scale / profitability are relatively well placed to withstand current environment.**
- **The SOTP story for banks thus provides a significant support to overall valuations and currently subsidiaries of ICICIBC contribute ~22% to our SOTP (~34% as % of CMP) while that of SBIN contribute ~37% (~64% as % of CMP). Also, post AXSB-MAX deal; the proportion of subs in the SOTP value could potentially increase to ~11%. ICICIBC thus trades at a valuation of 1.2x P/ABV (adj. for subs) while SBIN trades at 0.3x P/ABV – the lowest in more than past one decade.**
- **The monetization of subs has helped banks in raising funds and shoring up capital. During FY16-19 ICICIBC monetized INR156b by selling stakes in various subs while SBIN also raised ~INR138b during FY17-FY20 by divesting stake in subs.**
- **The contribution of subs to consolidated profits has thus been increasing steadily with banks facing asset quality challenges while subs reporting better trends and gaining share. During FY19, ICICIBC subs contributed ~21% to the overall profits while SBIN subs contributed ~63% to the consolidated profits of the bank.**
- **We maintain our preference for ICICIBC, HDFCB & SBIN.**

SOTP story getting bigger; ICICIBC/SBIN subs forms ~22%/37% of total SOTP

- Increasing customer awareness towards various financial products like mutual funds, insurance products and credit cards have driven robust earnings performance in the subsidiary businesses of large banks (ICICIBC, KMB and SBIN). These subsidiaries have gained scale and market share in their respective business segments which has led to strong expansion in their market multiples. Hence, banks like SBIN, KMB and ICICIBC have increasingly transformed into an SOTP-based play v/s standalone play. Currently, subsidiaries of ICICIBC contribute ~22% to our SOTP (~34% as % of CMP) while that of SBIN contribute ~37% (~64% as % of CMP).
- Recently, AXSB signed an agreement to enter into a JV partnership with Max Life Insurance. AXSB will acquire 29% stake and will hold 30% stake and thus sprucing up its SOTP story. We value AXSB on an SOTP basis with the contribution of its subsidiaries much lower at ~6% compared to major peers. With this deal, the proportion of its subsidiaries in the SOTP value could potentially increase to ~11%.

Valuation downside for subsidiaries is limited unlike banks; banking stocks corrected in the range between 29%-65% compared to subs (15%-22%)

- Lending being a leveraged business faces significant valuation risks in such an uncertain environment due to asset quality pressure which led to significant erosion of capital in banks. However bank subsidiaries focuses on catering financial needs of customers through various other asset classes like mutual funds, insurance which have gained significant scale / profitability are relatively better placed to withstand current environment compared to banks. Thus we have seen banking stocks have corrected significantly in the range between 29%-65% since Mar'20 while insurance business corrected in the range between 15%-22% while HDFC AMC/SBI Cards corrected by 18%/23% during the similar period.

Monetization of subsidiaries helps raise capital in critical requirements

- Over the last few years corporate banks have been facing asset quality challenges which impacted their earnings, capital position and ability to pursue growth. This had resulted in subdued valuation and ability to access capital markets. Therefore, many banks focused on monetizing stakes in non-core assets to improve their capital position. ICICIBC has monetized by selling stakes in various subsidiaries such as Insurance & Securities businesses and has raised ~INR156b over FY16-FY19 while SBIN sold stakes in Insurance and Card business and raised ~INR138b over FY17-20.

Subs contribution to the consolidated profits is increasing steadily

- Both SBIN & ICICIBC core earnings have been impacted due to asset quality pressures which led to higher credit cost while on the other hand subsidiaries businesses gained momentum and market share in their respective segments. The contribution of subsidiaries to the overall consolidated profits has been increasing in last few years. During FY19, ICICIBC subs contributed ~21% to the overall profits while subs of SBIN contributed ~63% to the consolidated profits of the bank.

Stress testing analysis as a proportion of subs value in the SOTP

- We have attempted a scenario analysis on bank-wise slippages on the basis of the exposure toward vulnerable/stressed segments and the historical delinquency trend. Our scenario analysis suggests that under the base case, the slippages rate is expected to be in the range of 2.6%-4.6% for large banks with the highest being for AXSB and the lowest for KMB. The slippages ratio could increase to 4.6%-6.6% under our stress-case scenario. We thus estimate credit cost to increase sharply for banks over FY21E.
- We further analyzed banks incremental slippages/provisions for FY21E as a percentage of subsidiaries value (post hold co discount). We note that KMB has the lowest proportion of slippages/provisions as a percentage of subs value while AXSB has the highest and therefore could be vulnerable amongst large banks. Slippages /Provisions for ICICIBC stood at ~35%/23% of subs value while for SBIN stood at ~107%/~48% under the base case.

Subs valuation correlated with financial performance of parent bank

- We also believe that the valuation multiple ascribed to the parent entity is also reflective to certain extent on the subsidiaries' valuation as well. In the last one decade, HDFC & KMB bank have traded at a higher multiple compared to its peers due to stable asset quality trends, strong balance sheet and better profitability. The multiples at which subsidiaries of HDFC & KMB are valued are higher in comparison to the subsidiaries of ICICIBC & SBIN.

Valuation & view

- We prefer large banks (ICICIBC, HDFCB & SBIN) over mid-size banks as these banks (a) have better ability to deal with increasing NPA risk, (b) will continue gaining market shares in key business segments and (c) also have increasingly transformed into an SOTP-based play v/s standalone play. For mid-cap banks, while valuations have corrected significantly, they still remain vulnerable to both asset quality challenges and sustainability of funding franchise; credit cost too is likely to increase significantly on higher exposure to risk-prone segments.

MOTILAL OSWAL | MORNING INDIA

18 May 2020

Update | Sector: Oil & Gas

Reliance Industries

BSE SENSEX	S&P CNX
30,029	8,823

Reliance Industries Limited

Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	9132.9 / 121.8
52-Week Range (INR)	1603 / 867
1, 6, 12 Rel. Per (%)	24/25/36
12M Avg Val (INR M)	17587
Free float (%)	51.1

Financials Snapshot (INR b)

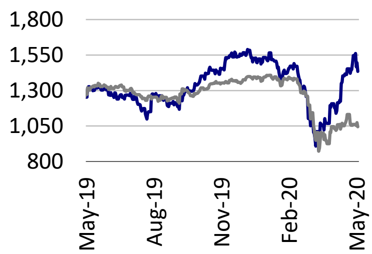
Y/E March	2020	2021E	2022E
Net Sales	5,957	5,358	6,873
EBITDA	879	902	1,197
Net Profit	432	421	622
Adj. EPS (INR)	68.1	66.4	98.1
EPS Gr. (%)	8.4	-2.5	47.8
BV/Sh. (INR)	715.1	776.7	867.2
Ratios			
Net D:E	0.6	0.5	0.3
RoE (%)	10.3	8.9	11.9
RoCE (%)	8.5	7.7	9.9
Payout (%)	11.6	7.3	7.8
Valuations			
P/E (x)	21.2	21.7	14.7
P/BV (x)	2.0	1.9	1.7
EV/EBITDA(x)	13.4	13.0	9.2
EV/Sales (x)	2.0	2.2	1.6
Div. Yield (%)	0.4	0.3	0.4

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	48.9	48.9	46.2
DII	13.6	14.2	12.2
FII	26.3	25.6	25.7
Others	11.2	11.4	16.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,441 TP: INR1,713 (+19%) Buy

Seals fourth stake sale deal in Jio Platforms in a month

Global investor General Atlantic to buy 1.34% stake for INR66b

- **In less than four weeks, Reliance Industries (RIL) has announced a fourth deal in which General Atlantic would invest INR66b in Jio Platforms for 1.34% equity stake at post-money equity value of INR4.91t (in-line) and EV of INR5.2t.**
- **Again, this deal showcases interest of global investors in Jio Platforms. Further, along with the previous three deals – Facebook (FB) (see report), Silver Lake (see report) and Vista (see report) – this deal could help RJio in realization of its digital plans.**
- **With recent capital reorganization, creation of InvIT and the recent stake sales (the four deals), Jio Platforms has virtually turned debt free. Its net debt now stands at INR28b.**
- **We value Jio Platforms by assigning an EV/EBITDA multiple of 13x on FY22E to arrive at a target price of INR855/share.**

Contours of the General Atlantic deal

- RIL has announced that General Atlantic would invest INR66b in Jio Platforms for 1.34% equity stake at post-money equity value of INR4.91t and at enterprise value of INR5.2t.
- Jio Platforms' valuation in this deal is in line with the previous two deals – Silver Lake and Vista Equity Partners (INR4.9t post-money equity) – and is at 12.7% premium to the FB deal (INR4.4t).
- This is the fourth high profile investment in RIL in less than four weeks, during which the company has raised INR672b for 14.8% equity stake.

Reiteration of conviction on Jio Platforms' valuation

- The fourth high profile investment in Jio Platforms (in less than four weeks) reaffirms the global demand for the company and provides a huge thumbs up for its valuation.
- General Atlantic is a global growth equity firm with AUM of USD34b as at 31st Mar'20. The company has a 40-year track record of investing in the technology, consumer, financial services and healthcare sectors. General Atlantic has investments in companies such as Airbnb, Alibaba, Ant Financial Box, Facebook, Uber and other global technology players.
- Similar to the previous deals, Jio Platforms can leverage the experience of General Atlantic to crystalize its digital plans.

RJio transforming into an almost debt-free company

- With this deal, Jio Platforms has turned virtually debt free; its current net debt now stands at INR28b from net debt of INR1.4t in FY19 (net debt to EBITDA reduced from 9.7x in FY19 to virtually nil in FY21E) and peak net debt of INR2.17t before formation of the InvIT structure.

- Post InvIT and capital reorganization efforts, RJio had a net debt of INR410b (prior to the FB deal). With FB's INR147b (rest transferred to RIL) cash infusion, net debt reduced to INR263b. This further declined to INR94b owing to Silver Lake and Vista's combined investment of INR169b. With General Atlantic's current investment of INR66b, the company's net debt would reduce further to INR28b. Prior to the equity stake sales, RJio's debt reduction was a result of two major debt reclassifications – creation of the InvIT structure worth INR707b in FY20 to transfer its tower and fiber assets and the capital reorganization in which the company transferred debt of INR1.08t to the parent company. These moves enabled RJio to create a lean balance sheet structure in line with global technology giants. Further, EBITDA hike opportunity (either through ARPU hike or market share gains) along with these transactions could provide RJio with potential RoCE of 17.6% in FY21E.

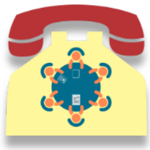
Valuation and view

We expect RJio to garner revenue/EBITDA CAGR of 22%/44% over FY20-22E along with healthy EBITDA margin expansion. Despite the price hike, the company witnessed lower-than-expected ARPU growth in 4QFY20, which was mainly due to longer validity recharge plans. Thus, we believe RJio would accrue full benefit of the price hike in FY21. Additionally, the favorable competitive landscape in the Indian telecom sector should offer healthy incremental EBITDA either through ARPU hikes or market share gains. We maintain our valuation for RJio at INR855/share assigning 13x EV/EBITDA on FY22E.

Bharti Airtel

BSE SENSEX	S&P CNX
30,029	8,823

Conference Call Details



Date: 19th May 2020

Time: 14.30 PM IST

Zoom Dial-in link details:

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Financials & valuations (INR b)

INR Billion	FY20	FY21E	FY22E
Net Sales	875.4	1,041.5	1,138.4
EBITDA	366.1	448.7	500.6
Adj. PAT	-40.7	15.1	23.3
EBITDA Margin (%)	41.8	43.1	44.0
Adj. EPS (INR)	-7.5	2.8	4.3
EPS Gr. (%)	-14.6	-137.0	54.4
BV/Sh. (INR)	141.4	144.2	148.4
Ratios			
Net D:E	1.6	1.3	1.1
RoE (%)	-5.5	1.9	2.9
RoCE (%)	3.3	4.3	5.0
Div. Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	11.6	9.1	7.8
P/E (x)	NM	194.5	126.0
P/BV (x)	3.8	3.7	3.6
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-0.9	4.0	7.4

CMP: INR538 — Buy

Consol. EBITDA up 10% QoQ (in line) on robust India wireless biz

- Consol. revenue at INR237.2b was up 8% QoQ (in-line) due to strong ARPU growth in India wireless business.
- Consol. EBITDA at INR102b was up 10% QoQ on post Ind-AS 116 basis (in-line) due to 27% EBITDA growth in India wireless business.
- Consol. EBITDA margin at 43% improved 80bp (40bp below est.).
- Net finance cost increased 11% QoQ to INR33.1b on higher derivatives cost partly offset by higher finance income. Gross interest cost was up 3% QoQ.
- BHARTI witnessed total exceptional charge of INR70b – (a) INR56.4b toward regulatory cost (one-time spectrum charge) after the recent judgment on VIL, (b) INR8.7b interest provisioning for license fee and spectrum usage charge and INR1.7b related to regulatory charge, (c) INR1.7b toward subsidiary taxes, and (d) INR808m toward accelerated depreciation and other miscellaneous items of INR766m.
- Subsequently, reported PAT loss stood at INR52.4b. Excluding exceptional, adj. PAT stood at INR4.7b (v/s INR10.8b QoQ and est. -INR4b).

India Wireless segment

- Revenue grew 16% QoQ to INR129.5b (5% beat), which could be attributed to strong ARPU increase and healthy 4G subs adds.
- EBITDA was up 27% QoQ to INR50.8b. Incremental EBITDA margin was at 60% (compared to the generally assumed 70%). Total opex increased 7% (excl. license fee) on high network cost.
- ARPU jumped 14% QoQ to INR154 (v/s est. INR147) on the recent price hikes and healthy 4G subs addition, which improved ARPU mix. Cumulative ARPU increase in the last two quarters stood at 20%. In 4QFY20, RJio reported 2% ARPU increase to INR131 while VIL is expected to see 9% ARPU increase to INR131.
- Subscriber adds were flat QoQ at 284m, but 4G subs grew 10% QoQ to 136m – 12.5m fresh adds, garnering healthy >40% est. incremental market share.
- Data traffic jumped 16% QoQ to 6.5b GB (15GB per user). BHARTI's data traffic is about one-third of RJio with potentially ~15-20% (est.) lower capacity, highlighting better network experience and room for improvement.
- MOU was up 8% to 965mins.

Africa reports flat EBITDA QoQ

- Africa revenue grew 4% QoQ to INR64.9b (in-line).
- EBITDA grew a meager 1% QoQ to INR28.6b (2% below est.).

Other segments

- Enterprise revenue/EBITDA grew 2%/11% QoQ to INR33.7b/INR13.5b.
- Home revenue/EBITDA grew 3%/-9% QoQ to INR5.7b/INR3b.
- Passive revenue/EBITDA was up 1%/3% to INR16.8b/INR9b.
- Digital revenue/EBITDA dropped 24%/33% to INR6b/INR3.6b with sharp decline in ARPUs.

Capex shoots up – an anomaly in last four quarters

- Capex surged to INR113b (v/s INR51.8b in 3QFY20 and cumulative capex of INR140b in 9MFY20; est. INR200b in FY20), primarily due to India wireless capex of INR70b (v/s INR25.4b in 3QFY20 and INR81.5b in 9MFY20).
- Base station addition saw a huge jump QoQ – 30k sites were added (v/s 12k sites in 3QFY20), taking BHARTI's tally to a healthy 504k base stations (closer to RJio). Unique broadband tower adds too were up 5k to 192k. Part of the increase in capex was toward core fiber addition.

Net debt reduction trend delayed– accounting for AGR payments and high capex

- Net Debt increased by INR35b to INR883b (excluding lease liability). Operating FCF was negative at INR10b after last four quarters' positive FCF as capex doubled. Further, QIP of INR14.4b was more than utilized to service part of the INR160b AGR liability payments. Including the balance AGR liability, Net debt stood at INR1,004b against FY20 (pre Ind-AS 116) EBITDA of INR300-310b, i.e. 3.5x. This should reduce to below 3x in FY21E.

Key positives

- **Strong ARPU growth in a bad market; story back on track:** Delivered strong 14% QoQ ARPU (much ahead of peers) on the recent price hikes and healthy 4G subs adds, driving 8%/10% consol. revenue/EBITDA growth.
- **Winning in 4G market:** Subscriber adds were flat QoQ at 284m, but 4G subs grew 10% QoQ to 136m – 12.5m fresh adds, garnering healthy >40% est. incremental market share.
- **Superior network capacity:** BHARTI's data traffic is about one-third of RJio with potentially ~15-20% (est.) lower capacity, highlighting better network experience and room for improvement. It has 504k base stations (closer to RJio) with 192k unique broadband towers.

Key negatives

- **High capex derailing FCF/deleverage trend and limiting incremental margin**: Capex doubled QoQ to INR113b (v/s INR51.8b in 3QFY20), increasing full year capex by >20%, due to sharp capacity addition in India. This also increased network cost, limiting incremental India wireless margin to 60% v/s potential 70%.
- High exceptional of INR70b toward regulatory costs dampened the bottom line.

Consolidated - Quarterly Earning Model (INR b)

Y/E March	FY19				FY20				FY19	FY20E	4Q	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			FY20E	Var (%)
Revenue	**201**	**204**	**202**	**206**	**207**	**211**	**219**	**237**	**808**	**875**	**233**	2.0
YoY Change (%)	-8.6	-6.2	-0.4	6.2	3.3	3.5	8.5	15.1	-2.2	8.4	12.9	
Total Expenditure	134	142	140	140	125	123	127	135	550	509	132	2.7
EBITDA	**67**	**62**	**62**	**66**	**83**	**89**	**93**	**102**	**258**	**366**	**101**	1.1
YoY Change (%)	-13.3	-21.2	-16.7	-4.3	23.1	41.9	49.0	53.8	-14.3	42.1	52.1	175
Depreciation	51	52	55	55	68	69	69	71	213	277	70	0.4
Net Finance cost	21	30	19	25	32	29	30	33	96	124	29	12.5
Other Income	3	1	0	1	1	4	2	2	5	9	2	-21.8
PBT before EO expense	**-3**	**-19**	**-12**	**-13**	**-15**	**-6**	**-5**	**0**	**-47**	**-26**	**3**	NM
Extra-Ord expense	4	1	-14	-20	15	307	11	70	-29	402	0	
PBT	**-6**	**-20**	**2**	**7**	**-30**	**-313**	**-15**	**-70**	**-17**	**-428**	**3**	NM
Tax	-11	-22	-2	1	-6	-85	-10	-20	-34	-122	1	
Rate (%)	174.1	112.5	-91.1	19.3	20.2	27.1	69.1	29.0	197.4	28.4	40.0	
Minority Interest & P/L of Asso. Cos.	4	1	3	5	5	2	6	3	13	15	6	
Reported PAT	**1**	**1**	**1**	**1**	**-29**	**-230**	**-10**	**-52**	**4**	**-322**	**-4**	NM
Adj PAT	**-3**	**-10**	**-10**	**-12**	**-14**	**-11**	**-11**	**-5**	**-35**	**-41**	**-4**	NM
YoY Change (%)	-174.0	-304.3	-339.7	-1,524.1	366.1	16.4	3.8	-60.4	-350.3	16.6	-67.9	

E: MOSL Estimates

GSK Pharma

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	231.1 / 3.1
52-Week Range (INR)	1745 / 1046
1, 6, 12 Rel. Per (%)	-1/9/28
12M Avg Val (INR M)	89

Financials & valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	32.2	33.5	36.6
EBITDA	6.6	7.1	8.4
Adj. PAT	4.3	5.6	6.5
EBIT Margin (%)	17.8	19.9	21.5
Cons. Adj. EPS (INR)	25.7	32.9	38.4
EPS Gr. (%)	4.3	28.1	16.9
BV/Sh. (INR)	107.5	117.3	132.7
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	23.9	28.0	28.9
RoCE (%)	22.2	29.6	31.1
Payout (%)	93.8	73.2	62.7
Valuations			
P/E (x)	53.0	41.4	35.4
EV/EBITDA (x)	33.4	31.1	26.2
Div. Yield (%)	1.5	1.5	1.5
FCF Yield (%)	1.2	1.4	2.0
EV/Sales (x)	6.8	6.6	6.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	75.0	75.0	75.0
DII	11.4	11.0	11.1
FII	0.3	0.5	1.5
Others	13.3	13.5	12.5

FII Includes depository receipts

CMP: INR1,364 TP: INR1,300 (-5%) Neutral

Benefit of product mix offset by lower operating leverage

Revival in revenue growth delayed by COVID-19-led crisis

- GSK Pharma (GLXO) reported an all-time high gross margin (GM) of 64%. The company has been curtailing low-margin products and focusing on key brands for the past four quarters. The benefit of these actions is now finally reflecting on the margin. GLXO remains focused on the Anti-Infectives, Dermatology, and Anti-Pyretic therapy areas through enhanced MR productivity and better engagement with healthcare professionals.
- However, we reduce our EPS estimate by 2.4%/1% for FY21/FY22 to factor COVID-19-led weakness in Anti-Infectives and other acute therapies. We continue to value GLXO at 37x 12M forward earnings to arrive at a price target of INR1,300 (from INR1,320 earlier). Maintain Neutral .

Superior margins, led by better-than-expected earnings

- Sales grew ~3% YoY to INR7.8b (our est.: INR8.0b), led by better traction in the Anti-Infectives, Dermatology, and Anti-Pyretic therapy areas.
- GM improved sharply by ~460bp YoY and ~610bp QoQ to 64%, supported by a change in the product mix.
- The EBITDA margin improved by a mere ~70bp YoY to 22.4%, weighed by lower operating leverage (employee cost / other expenses up 260bp YoY / 130bp YoY as a percentage of sales), which offset the benefit of a better GM.
- EBITDA increased ~6.4% YoY to INR1.7b (our est.: INR1.4b). Adj. PAT was flat at INR1.3b (our est.: INR1b).
- For FY20, sales stood at INR32.3b (+3% YoY), EBITDA at INR6.6b (9% YoY), and Adj. PAT at INR4.8b (+15% YoY).

Key highlights

- Adjusting for tail-end brand rationalization, sales growth was healthy at 13% for FY20. Furthermore, key brands saw 20% growth on a YoY basis.
- GLXO is exploring options, including the potential sale of the Vemgal site.
- Most of GLXO's top 10 products grew at a healthy rate during the quarter. Its largest product (Augmentin) grew ~20% YoY and its third largest product (Calpol) ~25% YoY.
- Of GLXO's top three therapies (contributing ~55% to overall sales), Pain/Analgesics posted the highest growth with 22.3%, followed by Anti-Infectives (+15% YoY) and Hormones (+10% YoY).
- The Menveo vaccine (launched in Dec'19) for meningococcal disease is showing robust traction, with 30% unit share.

Valuation and view

- With the focus on key brands, meaningful (290bp) improvement has been witnessed in the EBITDA margin over FY18–20. The benefit of a superior margin profile is expected to be counter-balanced by muted revenue growth (led by slowdown due to COVID-19) and reduced operating leverage. The earnings CAGR of 22% over FY20–22 may look aggressive on account of a significant reduction in the tax rate.
- We reduce our EPS estimate by 2.4%/1% for FY21/FY22 to factor COVID-19-led challenges. Accordingly, we reduce our price target to INR1,300 (from INR1,320 earlier) at 37X 12M forward earnings. We maintain **Neutral** as the valuation adequately factors the upside.

Quarterly performance (consolidated) (INR m)

Y/E March	FY19				FY20				FY19	FY20		Chg.
(Standalone)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**7,357**	**8,163**	**8,254**	**7,508**	**7,880**	**8,820**	**7,786**	**7,758**	**31,281**	**32,244**	**8,047**	**-3.6**
YoY Change (%)	21.2	-2.4	17.3	0.3	7.1	8.0	-5.7	3.3	8.0	3.1	7.1	
Total Expenditure	6,000	6,512	6,882	5,879	6,227	6,880	6,542	6,022	**25,273**	25,671	6,638	
EBITDA	**1,356**	**1,652**	**1,372**	**1,629**	**1,653**	**1,940**	**1,244**	**1,736**	**6,008**	**6,573**	**1,408**	**23.2**
YoY Change (%)	589.2	-14.0	-3.3	5.2	21.9	17.5	-9.3	6.5	18.8	9.4	**-14**	
Margins (%)	18.4	20.2	16.6	21.7	21.0	22.0	16.0	22.4	19.2	20.4	17.5	
Depreciation	114	115	120	137	191	227	183	226	486	827	149	
EBIT	**1,243**	**1,537**	**1,251**	**1,493**	**1,462**	**1,713**	**1,061**	**1,510**	**5,522**	**5,746**	**1,260**	
YoY Change (%)	922.0	-16.7	-2.6	2.6	17.7	11.5	-15.2	1.2	18.0	4.1	**-16**	
Margins (%)	16.9	18.8	15.2	19.9	18.6	19.4	13.6	19.5	17.7	17.8	15.7	
Interest	2	2	1	1	9	9	30	15	6	63	27	
Other Income	180	148	166	527	308	159	165	158	1,023	790	168	
PBT before EO Expense	**1,421**	**1,683**	**1,416**	**2,019**	**1,761**	**1,863**	**1,196**	**1,653**	**6,540**	**6,472**	**1,401**	
Tax	497	557	568	751	626	457	268	385	1,928	2,602	340	
Rate (%)	35.0	33.1	40.1	37.2	35.5	24.5	22.4	23.3	36.3	32.8	24.3	
Adjusted PAT	**924**	**1,126**	**848**	**1,268**	**1,173**	**1,406**	**927**	**1,269**	**4,167**	**4,775**	**1,062**	**19.5**
YoY Change (%)	570.2	-10.1	-5.4	20.2	27.0	24.9	9.3	0.1	25.2	14.6	-16.3	
Margins (%)	12.6	13.8	10.3	16.9	14.9	15.9	11.9	16.4	13.3	14.8	13.2	
One-off Expense/(Income)	83	118	-288	-199	38	-3,622	7,539	-113	-287	3,415	0	
Reported PAT	**841**	**1,008**	**1,137**	**1,468**	**1,135**	**5,028**	**-6,612**	**1,382**	**4,454**	**932**	**1,062**	**30.1**

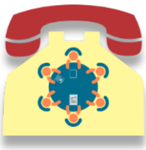
Key performance indicators (consolidated)

Y/E March	FY19				FY20E				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cost Break-up										
RM Cost (% of Sales)	43.1	42.8	46.4	40.6	42.0	41.9	42.1	36.0	43.4	40.6
Staff Cost (% of Sales)	17.1	17.1	15.2	19.5	18.1	16.7	21.4	22.1	17.2	19.5
Other Cost (% of Sales)	20.7	19.9	21.8	18.2	18.9	19.3	20.5	19.5	20.2	19.6
Gross Margins(%)	56.9	57.2	53.6	59.4	58.0	58.1	57.9	64.0	56.6	59.4
EBITDA Margins(%)	18.4	20.2	16.6	21.7	21.0	22.0	16.0	22.4	19.2	20.4
EBIT Margins(%)	16.9	18.8	15.2	19.9	18.6	19.4	13.6	19.5	17.7	17.8

Torrent Power

BSE SENSEX	S&P CNX
30,029	8,823

Conference Call Details



Date: 19th May 2020
Time: 9.30 AM
Dial-in details: +91 22 6280 1149

Financials & valuations (INR b)

Y/E March	2019	2020E	2021E
Net Sales	131.5	136.4	138.2
EBITDA	32.0	35.6	36.4
NP	9.0	11.6	13.3
EPS (INR)	18.7	24.2	27.7
EPS Gr. (%)	-4.6	29.1	14.8
BV/Sh. (INR)	186.6	190.5	211.7
RoE (%)	10.8	12.8	13.8
RoCE (%)	8.5	9.7	10.5
Payout (%)	26.7	48.0	23.4
Div. Yield	1.7	4.0	2.2

CMP: INR 297 **Buy**

EBITDA growth led by lower T&D loss

Strong positioning and healthy balance sheet; Maintain Buy

Torrent Power's 4QFY20 EBITDA was up 17% YoY to INR8.27b on lower T&D loss and the benefit of UnoSugen's PPA, in our view. This was partly offset by the impact of new CERC norms on Sugen. PBT (before exceptional items) was up 39% YoY to INR3.1b. PBT (post exceptions) came in at a loss of ~INR6.93b on account of one-offs worth INR 10b pertaining to impairment for its 1,200MW DGEN power project. At the PAT level, the company reported loss of INR2.7b.

- PLF in Sugen was down 12.7% YoY to 41.6% in 4QFY20. PLF in Amgen stood at 51.8% (v/s 87.2% in 4QFY19).
- T&D loss in Ahmedabad was down to 4.98% in FY20 from 5.61% in FY19. Loss in Surat remained flat at 3.43%.
- T&D loss in Bhiwandi was down to 11.93% in FY20 from 15.13% in FY19. Loss in Agra was down to 12.51% v/s 14.18% (during the same periods).
- PLF for wind-based projects was at 23.62% in 4QFY20 (22.17% in 4QFY19). PLF for solar-based projects stood at 19.30% in 4QFY20 (20.25% in 4QFY19).

We value the stock on an SOTP basis at INR342/sh. Maintain Buy.

Quarterly performance (consolidated) – INR m

Y/E March	FY19				FY20				FY19	FY20	FY20	v/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**35,281**	**34,445**	**32,535**	**29,248**	**37,361**	**38,420**	**30,790**	**29,835**	**131,510**	**136,406**	**28,593**	**4**
YoY Change (%)	15.3	18.2	18.1	4.1	5.9	11.5	-5.4	2.0			-2.2	
Total Expenditure	27,617	24,577	25,171	22,150	29,025	27,870	22,386	21,565	99,515	100,846	21,229	2
EBITDA	**7,664**	**9,869**	**7,364**	**7,098**	**8,337**	**10,550**	**8,404**	**8,270**	**31,995**	**35,561**	**7,364**	**12**
Margins (%)	21.7	28.6	22.6	24.3	22.3	27.5	27.3	27.7	24.3		25.8	
Depreciation	3,018	3,044	3,074	3,130	3,206	3,219	3,268	3,350	12,265	13,043	3,280	2
Interest	2,292	2,247	2,287	2,163	2,477	2,495	2,349	2,224	8,989	9,546	2,294	-3
Other Income	523	441	533	399	545	493	365	373	1,896	1,776	466	-20
PBT before EO expense	**2,877**	**5,019**	**2,537**	**2,204**	**3,199**	**5,329**	**3,152**	**3,069**	**12,636**	**14,748**	**2,256**	**36**
Extra-Ord expense	0	0	0	0	0	0	0	10,000	0	10,000	0	
PBT	**2,877**	**5,019**	**2,537**	**2,204**	**3,199**	**5,329**	**3,152**	**-6,931**	**12,636**	**4,748**	**2,256**	**-407**
Tax	604	884	155	1,956	433	-2,227	-1,055	-4,191	3,598	-7,040	1,510	
Rate (%)	21.0	17.6	6.1	88.7	13.5	-41.8	-33.5	60.5	28.5	-148.3	66.9	
MI and Associates	15	13	12	9	13	12	12	10	49	47	-29	
Reported PAT	**2,259**	**4,122**	**2,370**	**240**	**2,753**	**7,544**	**4,194**	**-2,749**	**8,989**	**11,742**	**775**	**-455**

18 May 2020

4QFY20 Results Update | Sector: Capital Goods

Crompton Gr. Con

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USDb)	124.4 / 1.7
52-Week Range (INR)	301 / 178
1, 6, 12 Rel. Per (%)	-4/0/14
12M Avg Val (INR M)	282

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	45.1	40.6	50.5
EBITDA	6.0	5.1	7.0
PAT	4.4	3.8	5.4
EBITDA (%)	13.2	12.6	13.8
EPS (INR)	7.0	6.0	8.6
EPS Gr. (%)	16.9	(13.6)	42.6
BV/Sh. (INR)	23.4	26.9	31.9
Ratios			
Net D/E	(0.2)	(0.3)	(0.4)
RoE (%)	29.8	22.4	26.9
RoCE (%)	28.9	21.8	27.7
Payout (%)	34.4	42.0	42.0
Valuations			
P/E (x)	29.8	34.5	24.2
P/BV (x)	8.9	7.7	6.5
EV/EBITDA (x)	21.4	24.5	17.5
Div Yield (%)	1.0	1.0	1.4
FCF Yield (%)	2.9	2.8	3.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	26.2	26.2	34.4
DII	26.7	26.9	18.9
FII	30.5	30.9	30.5
Others	16.6	16.1	16.3

FII Includes depository receipts

CMP: INR198 TP: INR240 (+21%) Buy

March plays spoilsport in an otherwise strong quarter

16% revenue decline suggests similar COVID-19 impact to that of peers

- CROMPTON was all set to witness one of its strongest quarter (based on Jan-Feb'20 sales) before the onset of the COVID-19 led disruption in Mar'20, which led the sales decline across categories in 4QFY20. While management is optimistic of supply side getting back to normal as the lockdown gradually eases, it still remains cautious on the demand outlook.
- Volume growth was robust during Jan-Feb'20 (33% YoY across ECD and B2C Lighting). Primary sales have resumed from end-Apr'20, and Fans and Pumps have seen good pick-up in the South and East India in May'20.
- We have cut our FY21E/FY22E earnings estimates by 22%/11% to build in the impact caused by the COVID-19 disruption and modest demand outlook ahead. We maintain our **Buy** rating with TP of INR240 (prior: INR270).

Ongoing cost initiatives partly offset impact of sales decline

- Revenue declined 16% YoY to INR10.2b (16% below est.). EBITDA declined 18% YoY to INR1.4b (17% below est.) while EBITDA margin was down 40bp YoY to 13.6% (v/s est. 13.8%).
- Employee cost **declined 8% YoY to INR706m.**
- PBT declined 20% to INR1.34b (23% below est.)**.** Adj. PAT was down 12% YoY to INR1b (23% below est.).
- Given the uncertain economic outlook, the CROMPTON board has deferred dividend for FY20.
- **FY20:** Revenue was flat at INR45b. EBITDA grew 2% YoY to INR6b. EBITDA margin improved marginally to 13.2% (v/s 13.1% in FY19). Adj. PAT grew 17% to INR4.4b as effective tax rate stood at 25.7% (v/s 33.4% in FY19).
- CFO stood at INR4.2b (v/s INR3b in FY19) owing to lower working capital.

Strong volume growth across categories in Jan-Feb'20

- **4QFY20 segmental highlights: ECD –** Revenue at INR7.4b were down 14% YoY, with EBIT margins stable at 20%. **Lighting –** Revenue declined 19% YoY to INR2.8b, with EBIT margins at 7% (-450bp YoY).
- **Robust growth in Jan-Feb'20 across categories**: **ECD** grew 18%, while volume growth stood at 22%. **Fans** volume growth stood at 21%, while market share increased by 80bp YoY. **Domestic pump** grew 19% in volumes. **Appliances** grew 60% YoY in value, with Water heater growing 48% in volume and 97% in value. Mixer grinders/Air coolers grew 54%/83% in value. **Lighting (ex-EESL)** was up 7.5%; volume growth in LED bulbs, batons and panels was 40% and value growth was 15%. Market share in LED lamps grew by 100bp.

Valuation and view

- Even amidst the ongoing disruption, we commend CROMPTON's efforts to further improve its leadership position in the Fans segment and its good start in the new category of Water heaters and Air coolers. CROMPTON's strong FCF generation is under-appreciated at current valuations, in our view. We maintain our **Buy** rating with TP of INR240 (28x Mar'22E EPS).

Quarterly Estimates (INR M)

	FY19				FY20				FY19	FY20	Vs Est.	Var.
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**			**4QE**	**(%)**
Sales	**12,039**	**10,378**	**10,303**	**12,069**	**13,468**	**10,758**	**10,713**	**10,181**	**44,789**	**45,120**	**12,108**	**-15.9%**
Change (%)	20.2	8.1	9.8	7.2	11.9	3.7	4.0	-15.6	9.8	0.7	0.3	
EBITDA	**1,673**	**1,239**	**1,261**	**1,685**	**1,919**	**1,295**	**1,369**	**1,384**	**5,858**	**5,969**	**1,673**	**-17.3%**
Change (%)	29.3	2.7	8.2	2.5	14.7	4.5	8.6	-17.9	10.3	1.9	-0.7	
As of % Sales	13.9	11.9	12.2	14.0	14.2	12.0	12.8	13.6	13.1	13.2	13.8	
Depreciation	31	32	33	33	58	64	64	82	129	268	64	
Interest	152	150	150	143	150	87	87	83	596	407	76	
Other Income	88	98	124	172	173	122	174	119	483	589	206	
PBT	**1,578**	**1,155**	**1,202**	**1,681**	**1,885**	**1,267**	**1,391**	**1,339**	**5,616**	**5,883**	**1,739**	**-23.0%**
Tax	535	386	405	549	660	154	355	341	1,875	1,510	439	
Effective Tax Rate (%)	33.9	33.4	33.7	32.7	35.0	12.1	25.5	25.5	33.4	25.7	25.3	
Adjusted PAT	**1,043**	**769**	**797**	**1,132**	**1,224**	**1,113**	**1,036**	**998**	**3,741**	**4,373**	**1,300**	**-23.2%**
Change (%)	29.9	8.6	14.6	9.7	17.4	44.7	30.1	(11.8)	15.5	16.9	14.8	
Extra-ordinary Income (net)	-	-	-	285	-	-	574	-	285	574	-	
Reported PAT	**1,043**	**769**	**797**	**1,417**	**1,224**	**1,113**	**1,610**	**998**	**4,025**	**4,947**	**1,300**	**-23.2%**
Change (%)	29.9	8.6	14.6	37.3	17.4	44.7	102.1	(29.5)	24.3	22.9	(8.2)	

Segmental sales (INR m)

	FY19				FY20			
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Lighting	2,791	3,250	3,188	3,425	2,739	2,877	2,843	2,770
Electrical consumer durables	9,248	7,128	7,116	8,644	10,729	7,881	7,870	7,411
Total Sales	**12,039**	**10,378**	**10,303**	**12,069**	**13,468**	**10,758**	**10,713**	**10,181**
YoY Growth (%)								
Lighting	9.6	(3.8)	(2.4)	1.4	(1.8)	(11.5)	(10.8)	(19.1)
Electrical consumer durables	23.9	14.6	16.3	9.6	16.0	10.6	10.6	(14.3)
EBIT								
Lighting	188	206	282	393	141	151	196	193
Electrical Consumer durables	1,802	1,348	1,327	1,685	2,173	1,514	1,561	1,482
EBIT Margin (%)								
Lighting	6.7	6.3	8.9	11.5	5.1	5.2	6.9	7.0
Electrical Consumer durables	19.5	18.9	18.7	19.5	20.3	19.2	19.8	20.0

L&T Financial Holdings

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	LTFH IN
Equity Shares (m)	1,996
M.Cap.(INRb)/(USDb)	105.7 / 1.5
52-Week Range (INR)	138 / 46
1, 6, 12 Rel. Per (%)	-14/-20/-34
12M Avg Val (INR M)	1166

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
Total Income	70.3	71.5	75.0
PPP	50.6	51.3	53.7
Adj. PAT	21.7	17.1	23.3
EPS (INR)	10.9	8.6	11.7
EPS Gr. (%)	-2.7	-21.3	36.3
BV/Sh. (INR)	71.9	79.0	89.4
Ratios			
NIM (%)	5.8	5.9	6.0
C/I ratio (%)	28.1	28.3	28.4
RoAA (%)	2.0	1.6	2.1
RoE (%)	15.6	11.3	13.8
Payout (%)	17.8	13.9	13.9
Valuation			
P/E (x)	4.9	6.2	4.5
P/BV (x)	0.7	0.7	0.6
Div. Yield (%)	2.5	1.9	2.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	63.7	63.9	63.9
DII	5.2	4.4	3.0
FII	10.6	12.5	11.4
Others	20.5	19.2	21.7

FII Includes depository receipts

CMP: INR53 TP: INR75 (+42%) Buy

Business performance stable

Increased provisioning for COVID-19 impacts earnings

- LTFH reported 4QFY20 PAT of INR3.8b (-30% YoY), ~20% below our estimates. The miss was largely on account of lower-than-expected total income (8% miss) while opex and credit costs were in line. LTFH reported INR844m in net loss on fair value changes, which led to the topline miss.
- **LTFH created additional provisions of INR3.1b for the impact of COVID-19 during the quarter, of which INR2.1b was as per the RBI's requirement of 5% provisioning against 1-89dpd loans under moratorium.** The provision would be repeated in 1QFY21. While as of Mar'20, ~36% of AUM was under moratorium, a modest increase was seen in April.

Rural disbursements most impacted; NIM stable

- Disbursements in Rural finance declined ~20% QoQ, compared with 6–9% decline witnessed in other segments. The plunge in Rural lending was largely attributed to the Auto segment (Tractors and 2Ws). **Hence, loan growth in the segment declined to 8% YoY in 4QFY20 from 14% YoY in 3QFY20.**
- While NIM on a consolidated basis came in steady at 5.7%, lower disbursements led to ~50bp decline in the fee income margin to 1.2%.
- CoF declined 10bp QoQ to 8.4%. The share of CPs was down 300bp QoQ / 1,000bp YoY to 6%.

Improvement in asset quality

- The GNPL ratio improved 60bp QoQ to 5.4%, with PCR at 59% (+200bp QoQ).
- More importantly, even without the moratorium on 1-89dpd loans, the GNPL ratio would have been only 25bp higher at 5.6%.
- LTFH has INR6.6b worth of provisions over and above the standard asset and NPL provisions; this includes the existing INR3.5b macro-prudential provisions and INR3.1b worth of COVID-19-related provisions this quarter.

Highlights from management commentary

- Rabi crop output is strong. Economic recovery would be led by rural India.
- Credit norms have been tightened across products.
- 75% of the portfolio falls under the Orange and Green zones.

Valuation and view

Over the past year, LTFH has focused on consolidating its loan book and improving the liability franchise. The overall loan book has been largely flat and is expected to remain this way in the near term. On the liability side, the share of CPs is down to 6% YoY from 16% YoY. The proposed consolidation of lending subsidiaries would further simplify the business structure. We estimate a 4% loan book CAGR over the next three years (largely back-ended). Asset quality performance would be the key monitorable going ahead. We cut our FY21/FY22 EPS estimates by 17%/8% to factor in higher credit costs given the extended lockdown. Buy, with TP of INR75 (0.8x FY22E BVPS).

LTFH: Quarterly performance (INR M)

Y/E March	FY19				FY20				FY19	FY20	4QFY20E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Income from Operations	31,061	32,199	33,598	33,042	35,945	36,113	36,289	33,552	1,29,900	1,41,755	35,752	-6
Interest Expenses	15,122	16,495	18,659	18,325	19,229	18,980	18,896	18,031	68,601	75,136	19,007	-5
Net Interest Income	**15,939**	**15,704**	**14,939**	**14,717**	**16,716**	**17,134**	**17,393**	**15,521**	**61,300**	**66,619**	**16,745**	-7
Change YoY (%)	54.6	22.4	30.9	15.2	4.9	9.1	16.4	5.5	29.5	8.7	13.8	
Other income	643	825	852	797	950	1,005	1,052	720	3,117	3,726	891	-19
Total Income	**16,582**	**16,529**	**15,791**	**15,514**	**17,666**	**18,139**	**18,445**	**16,241**	**64,417**	**70,345**	**17,636**	-8
Change YoY (%)	43.3	27.5	32.4	19.4	6.5	9.7	16.8	4.7	30.3	9.2	13.7	
Operating Expenses	5,048	5,236	4,609	4,324	4,435	4,791	5,299	5,261	19,216	19,785	5,296	-1
Change YoY (%)	41.6	21.4	28.0	-16.9	-12.1	-8.5	15.0	21.7	15.2	3.0	21.9	
Operating Profits	**11,535**	**11,293**	**11,183**	**11,190**	**13,231**	**13,349**	**13,146**	**10,980**	**45,200**	**50,560**	**12,340**	-11
Change YoY (%)	44.1	30.6	34.3	43.6	14.7	18.2	17.6	-1.9	37.9	11.9	10.5	
Provisions	4,243	3,317	3,425	3,696	5,804	5,786	5,894	6,421	14,680	23,759	6,366	1
Profit before Tax	**7,292**	**7,976**	**7,758**	**7,494**	**7,426**	**7,563**	**7,252**	**4,559**	**30,520**	**26,801**	**5,974**	-24
Tax Provisions	1,894	2,385	1,949	1,972	1,932	1,084	1,338	711	8,200	5,064	1,078	-34
Profit after tax	**5,398**	**5,591**	**5,810**	**5,521**	**5,494**	**6,479**	**5,915**	**3,849**	**22,321**	**21,736**	**4,896**	-21
Change YoY (%)	71.8	62.2	77.8	104.5	1.8	15.9	1.8	-30.3	74.7	-2.6	-11.3	
Key Operating Parameters (%)												
Rep. Net Inc. (% of Avg Assets)	6.57	6.86	6.79	6.77	7.10	7.33	7.29					
Rep. Cost of funds (%)	8.29	8.33	8.50	8.53	8.59	8.61	8.54					
Cost to Income Ratio	30.4	31.7	29.2	27.9	25.1	26.4	28.7	32.4	29.8	28.1	30.0	236BPS
Rep Credit Cost	1.66	1.66	1.79	1.91	2.39	2.49	2.39					
Tax Rate	26.0	29.9	25.1	26.3	26.0	14.3	18.4	15.6	26.9	18.9	18.1	-246BPS
Balance Sheet Parameters												
Gross Customer Assets (INR B)	863	912	947	991	999	1,003	995	984	991	984	995	-1
Change YoY (%)	24.0	24.1	21.8	16.3	15.7	9.9	5.0	-0.7	16.3	-0.7	0.4	
Borrowings (INR B)	772	868	878	915	929	901	930	939	915	939	926	1
Change YoY (%)	20.6	32.0	28.3	27.8	20.3	3.8	5.9	2.6	27.8	2.6	1.2	
Customer Assets /Borrowings (%)	112	105	108	108	108	111	107	105	108	105	107	
Debt/Equity (x)	6.5	7.0	6.8	6.8	6.6	6.4	6.4	6.4				
Asset Quality Parameters (%)												
GS 3 (INR B)	64.8	61.2	60.3	55.5	54.6	57.5	56.6	49.4	55.5	49.4	58.7	
Gross Stage 3 (%)	7.9	7.1	6.7	5.9	5.7	6.0	5.9	5.2	5.9	5.2	5.9	
NS 3 (INR B)	24.6	23.0	22.6	21.7	22.9	26.3	24.6	20.0	21.7	20.0	25.8	
Net Stage 3 (%)	3.2	2.8	2.6	2.4	2.5	2.8	2.7	2.2	2.4	2.2	2.7	
PCR (%)	62.0	62.5	62.5	60.8	58.1	54.2	56.6	59.6	60.8	59.6	56.1	
Return Ratios (%)												
ROAA	2.4	2.3	2.3	2.1	2.1	2.4	2.2	1.5				
ROAE	18.5	18.5	18.3	16.6	16.0	18.1	16.5	10.4				

E: MOFS Estimates

Tata Chemicals

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	TTCH IN
Equity Shares (m)	255
M.Cap.(INRb)/(USDb)	70.4 / 1
52-Week Range (INR)	344 / 197
1, 6, 12 Rel. Per (%)	14/23/22
12M Avg Val (INR M)	566

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	103.6	103.0	115.9
EBITDA	19.5	18.6	22.1
PAT	8.1	7.2	9.6
EBITDA (%)	18.8	18.0	19.0
EPS (INR)	31.7	28.4	37.6
EPS Gr. (%)	(6.4)	(10.3)	32.4
BV/Sh. (INR)	506	521	543
Ratios			
Net D/E	0.3	0.3	0.3
RoE (%)	6.4	5.5	7.1
RoCE (%)	6.7	5.3	6.4
Payout (%)	42.7	47.7	40.9
Valuations			
P/E (x)	8.7	9.7	7.4
EV/EBITDA (x)	6.1	6.3	5.3
Div Yield (%)	4.0	4.0	4.5
FCF Yield (%)	(5.9)	9.3	8.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	34.6	31.1	30.6
DII	34.2	38.4	37.9
FII	9.3	9.8	10.1
Others	21.9	20.8	21.4

CMP: INR277 TP: INR318 (+15%) Buy

Lower impact from weakness in RM

Miss on EBITDA due to lower-than-expected nos. in India/Africa and Rallis

- Revenue across geographies has been impacted during the quarter due to decline in volumes (in India, Europe, and Africa on supply chain disruption) and in realization (in India, North America, and Africa). This has resulted in 7% decline in consolidated revenue. However, benign energy prices and operational efficiencies have aided operating performance, leading to EBITDA de-growth of 10% only, considering certain TTCH geographies have witnessed decline in realizations.
- We have cut our earnings estimates by 19%/4% for FY21/FY22 – factoring the current supply chain disruption and demand scenario – and arrived at an SOTP-based TP of INR318. Maintain **Buy**.

Performance below expectation

- TTCH's consolidated revenue declined 7% YoY to INR23.8b (est. INR26.7b; ex-consumer), with the EBITDA margin contracting 60bp YoY to 16.8% (est. 18.5%). EBITDA de-grew 10% YoY to INR4b (est. INR4.9b). Adj. PAT declined 24% YoY to INR1.8b (est. INR2.2b). For FY20, revenue remained flat, with EBITDA growth of 9% YoY witnessed; however, adj PAT (from continuing operations) declined 6% YoY.
- **India's** standalone operations revenue/EBITDA declined 15%/23%; this was on account of a 13%/7% drop in soda ash/bicarb volumes and lower realization, offset by 11% volume growth in salt. Despite 18% decline in the Basic Chemistry segment's revenue, EBIT declined by a mere 5% (the EBIT margin expanded 380bp to 27.8%), primarily owing to lower input cost, especially for energy.
- In **North America (NA)**, revenue declined 8% YoY, largely due to decline in realizations (volumes grew 0.5%), whereas EBITDA stood flat YoY. EBITDA/mt declined merely 2% YoY (to USD52), despite realizations declining 10% YoY (to USD204/mt), led by lower energy prices.
- **Europe** witnessed significant improvement in EBITDA (up 1.9x) to INR510mn owing to a change in the sales mix (lower trading volumes) and lower gas prices; revenue declined 4% YoY.
- **Africa's** soda ash volumes/realizations (in USD) declined 5%/15%, leading to revenue/EBITDA decline of 18%/65%; the logistics issue is impacting the overall business.
- **Rallis'** revenue increased 1% YoY; however, EBITDA loss stood at INR120m v/s profit of INR70m posted last year. EBITDA was impacted sharply due to price pressure for some of the products in the international market; operations were also impacted due to the COVID-19-led lockdown as materials movement was affected due to supply chain disruption (revenue of INR300m was deferred to 1QFY21).

Highlights from management commentary

- Currently, the capacity utilization for TTCH NA and India stands at 80–85%, and Europe is reporting 100% utilization. Logistics / Supply chain issues have led to 70–75% utilization at TTCH's Magadi plant.
- Earlier, TTCH had committed capex of INR9b for FY21; however, it has currently scaled down.
- TTCH plans to enter into manufacturing operations for the pharma grade of salt.

Valuation and view

- Plants across locations are now operational, although at lower utilization levels. This is likely to weigh on performance in the near term; on the other hand, lower energy prices are likely to aid operating performance.
- TTCH is incurring capex of INR24b at its Mithapur plant for various categories, expected to come on line in a phased manner. TTCH's cash-cow business (soda ash and sodium bicarbonate) is expected to remain relatively stable; the cash generated from the same would be partially deployed toward the Specialty Chemicals segment.
- We have cut our earnings estimates by 19%/4% for FY21/FY22 – factoring in the current supply chain disruption and demand scenario – and arrived at an SOTP-based TP of INR318. Maintain Buy.

Consol. - Quarterly Earning Model **(INR M)**

Y/E March	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	**27,444**	**29,607**	**25,698**	**25,614**	**28,969**	**27,670**	**26,234**	**23,781**	**1,08,363**	**1,03,492**	**26,701**	**-11**
YoY Change (%)	11.9	10.1	-0.2	0.2	5.6	-6.5	2.1	-7.2	5.5	-4.5	-3.2	
Total Expenditure	22,535	23,586	21,581	21,148	23,046	22,063	21,499	19,779	90,558	86,388	21,769	
EBITDA	**4,910**	**6,020**	**4,117**	**4,466**	**5,923**	**5,607**	**4,735**	**4,002**	**17,805**	**19,492**	**4,932**	**-19**
Margins (%)	17.9	20.3	16.0	17.4	20.4	20.3	18.0	16.8	16.4	18.8	18.5	
Depreciation	1,351	1,417	1,428	1,516	1,635	1,658	1,641	1,739	5,685	6,665	1,660	
Interest	887	921	948	822	944	861	755	855	3,537	3,419	744	
Other Income	1,064	1,233	953	851	879	923	586	756	4,095	3,111	650	
PBT before EO expense	**3,735**	**4,916**	**2,695**	**2,978**	**4,223**	**4,011**	**2,925**	**2,163**	**12,677**	**12,519**	**3,178**	
Extra-Ord expense	0	0	275	-1,646	80	0	208	-62,367	-2,944	-61,997	0	
PBT	**3,735**	**4,916**	**2,419**	**4,623**	**4,143**	**4,011**	**2,717**	**64,531**	**15,621**	**74,517**	**3,178**	
Tax	1,258	1,199	544	130	1,301	255	676	193	2,744	2,197	826	
Rate (%)	33.7	24.4	22.5	2.8	31.4	6.4	24.9	0.3	17.6	2.9	26.0	
MI & Profit/Loss of Asso. Cos.	338	499	74	407	756	799	580	123	1,317	2,257	185	
Reported PAT	**2,140**	**3,217**	**1,801**	**4,087**	**2,086**	**2,957**	**1,462**	**64,215**	**11,559**	**70,063**	**2,167**	
Adj PAT	**2,140**	**3,217**	**2,076**	**2,442**	**2,166**	**2,957**	**1,670**	**1,847**	**8,615**	**8,066**	**2,167**	**-15**
YoY Change (%)	23.9	24.6	-57.3	-21.1	1.2	-8.1	-19.6	-24.3	-29.7	-6.4	-30.3	
Margins (%)	7.8	10.9	8.1	9.5	7.5	10.7	6.4	7.8	8.0	7.8	8.1	

Sum of four quarters for FY19 and FY20 would not add up to the full year's numbers as past numbers have been restated for excluding Consumer Products' numbers.

18 May 2020

Update | Sector: Capital Goods

Blue Star

BSE SENSEX	S&P CNX
30,029	8,823

BLUE STAR

Stock Info

Bloomberg	BLSTR IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	45.1 / 0.6
52-Week Range (INR)	887 / 425
1, 6, 12 Rel. Per (%)	-9/-16/-14
12M Avg Val (INR M)	66
Free float (%)	61.2

Financials Snapshot (INR b)

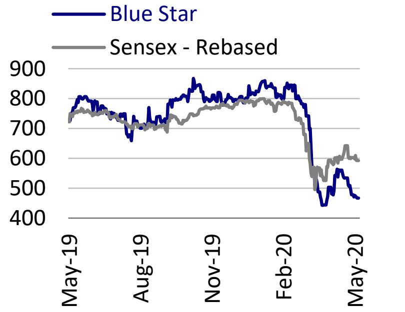
Y/E Mar	2020	2021E	2022E
Sales	53.6	45.0	57.5
EBITDA	2.8	1.9	3.4
PAT	1.5	0.6	1.8
EBITDA (%)	5.3	4.3	6.0
EPS (INR)	15.3	6.5	18.6
EPS Gr. (%)	-21.4	-57.2	184.0
BV/Sh. (INR)	81.2	83.9	91.3
Ratios			
Net D/E	0.2	0.2	0.2
RoE (%)	18.8	7.8	20.4
RoCE (%)	13.6	6.8	14.6
Payout (%)	156.2	60.0	60.0
Valuations			
P/E (x)	30.6	71.5	25.2
P/BV (x)	5.8	5.6	5.1
EV/EBITDA (x)	16.5	24.4	13.7
Div Yield (%)	4.3	0.8	2.4
FCF Yield (%)	8.3	0.5	1.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	38.8	38.8	38.8
DII	22.8	20.7	23.2
FII	8.8	10.6	7.5
Others	29.6	29.9	30.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR468 TP: INR450 (-4%) Neutral

Adopting cost reduction measures to counter COVID-19 challenges

We attended a webinar hosted by the management team of Blue Star (BLSTR). Key takeaways from the same:

Summer season a washout; focus on inventory management

- Blue Star (BLSTR) believes summer season sales to be down ~50%. It expects North-Indian markets to open from 1st Jun'20. The company has maintained its market share in regions where markets have reopened.
- The company has not expected the COVID-19 impact on India to be this severe as it aggressively procured from China in Feb'20. BLSTR was planning for 25% growth in AC sales this summer.
- Current channel inventory is at 75 days for industry and at 60 days for BLSTR.
- The company took 5% price hike in Feb'20; however, the same may not be sustainable in the near term given the weak demand outlook for the remainder of FY21. If needed, BLSTR may reduce pricing as well depending on how demand/competition pans out once the lockdown is lifted.

Cost control initiatives take center stage; need to maintain liquidity

- **Cut in employee costs:** Management is looking at reducing costs by ~25-35%. There have been salary cuts for employees, including the top management. There has been no deferment of payments though with pay-outs already done for Apr'20.
- **Procurement and logistics cost initiatives:** With raw material being one of the key inputs and a major cost, BLSTR is looking at viability of procuring raw material from Vietnam. The company is also looking at rationalizing logistics cost with the upcoming Sri City plant, which should result in savings.
- **Capex deferral likely:** Management is also evaluating its capex plan for the Sri City plant as strong volumes are not expected in FY21. Sri City plant also offers tax rate incentives if it is made operational before Mar'23. Hence, management would evaluate this proposal gradually.
- **Ad-spends likely to be curtailed:** Ad-spends would definitely be lower in FY21. Management aims to keep ad-spends in line with other MNC competitors. BLSTR would monitor the festive season of *Onam* to gauge sentiment and would accordingly spend on ads.

Projects business to be evaluated continuously

- Management is evaluating credit worthiness across customers and their readiness to complete projects. It is also reassessing every project.
- It is content with ~60-70% of the order book getting executed with key focus on timely receivables. Around 20 project sites have resumed operations. However, most labourers have returned to their native place, and getting them back quickly might be a challenge.
- It will continue to participate in infrastructure and factory led projects, especially in the FMCG sector. Airports too look attractive as new designs might require additional screening points. BLSTR is already executing some projects (hospitals and diagnostic centers).

Valuation and view

We forecast FY20-22E revenue/EBITDA/PAT growth of 3.6%/10.3%/10.3%, with FY21E expected to be a washout year. However, we note that margin volatility (in the case of BLSTR) poses challenges to earnings forecasting. Our SOTP-based TP stands at INR450. Maintain **Neutral**. We prefer Voltas over BLSTR to play the underpenetrated AC market in India.

Expert Speak

OTT threat to normalize soon

Few producers have finalized or are in talks with over-the-top (OTT) media players for movie releases. To discuss the threat from OTT players, PVR's senior management hosted a conference call with analysts. Key insights highlighted below:

- **Medium and large production houses have rescheduled and pushed forward movie release dates. Only few standalone/independent producers under financial pressure are likely to approach the OTT platform for movie releases to monetize their investments.**
- **Via social media platforms, PVR is gauging sentiment patterns and creating customer safety awareness (once cinemas open).**
- **PVR's break-even occupancy rate stands at ~20% (to cover fixed costs). Also, the company's fixed costs are expected to decline in the post COVID-19 world.**
- **The company expects ticket prices to rise further on account of costs due to additional safety measures and increased vacancy.**
- **The company expects some single-screen theatres and smaller cinema chains to shut down due to the current crisis, which in turn would benefit national operators in the longer term.**

Majority of producers in favor of theatrical release

- Historically, theatrical platform has been the most preferred channel for film releases. Hence, demand for cinemas is unlikely to diminish in the long run. PVR remains confident of demand revival for cinemas.

Smaller producers seek OTT channels

- Some standalone/independent producers are facing financial pressure with capital stuck in unreleased movies, and hence, such producers are most likely to approach the OTT platform for movie releases to monetize their investments. Also, exhibitors are disappointed with producers that have opted for OTT release of their movies.
- Medium and large production houses have rescheduled and pushed forward dates of movie releases proving that they completely favor theatrical releases.
- PVR does not plan to penalize or take any harsh action against any producer preferring to launch movies over OTT.
- Box office remains the most important parameter and source of income for producers.
- PVR would not release any movies already streamed on OTT.

Theatres – a barometer for film's success

- OTT platforms pay ~15-20% premium over a movie's cost of production.
- Amount paid by OTTs was a function of fixed amount and variable fee, which depends on a film's performance in theaters (via box office collection, which reflects the success of a film). Currently, with cinemas shut, it is difficult to gauge a film's success, and hence, the fair amount to be paid for an OTT release.
- Also, OTT platforms do not accurately determine the actual success of a film as it is hard to gauge its exclusive collection and popularity, which is easily determined with a theatrical release.

Active customer engagement/precautionary measures to forge strong customer connect

- Expect cinemas/malls to open by Jun-Jul'20 and get fully operational by Jul-Aug'20.
- Via social media platforms, PVR is gauging sentiment patterns and creating customer safety awareness (once cinemas open).

Key measures undertaken for safety/health of customers

- Health and safety measures are top priority for PVR as it helps in maintaining its brand image.

- PVR has put forward guidelines to the government, which includes leaving one empty seat between each customer group (i.e. a family/group of friends can be seated together), which would lead to incremental rise in vacancy rates by a maximum of 20-25%.
- Movies would run in theatres for a longer period to compensate for the demand slowdown.

Occupancy rates to decline and ticket prices to rise

- PVR's break-even occupancy rate stands at ~20% (to cover fixed costs). Also, fixed costs are expected to decline in the post COVID-19 era.
- Ticket prices should rise further on account of costs due to additional safety measures and increased vacancy.
- Rentals are expected to decline until demand revives and PVR is in discussion with landowners currently.
- With a large pipeline of regional movies (e.g. South-Indian movies), PVR might open cinemas in Karnataka, Kerala, etc. if permission is granted.

Cinema remains a challenging business, yet long-term prospects intact

- PVR does not own any properties. All cinemas are on a long-term lease basis, and management is in discussion with landowners over rentals.
- The Cinema industry faces new competition regularly due to newer technologies, but it has emerged stronger every time with novel strategies. However, the situation is currently different as cinemas are completely shut. However, any change in the business model and decline in demand/ consumption pattern in the long term is not expected to impact the industry adversely.
- PVR does not plan to enter into the production business.
- PVR's theatre occupancy rate stands at 26% over week-days and 55% over week-ends; thus, its average occupancy stands at 35%.

Nations that have opened cinemas witnessing strong demand

- The US and most other markets have exclusivity window period of ~3 months v/s India's aggressive 2-month period. Hence, India is quite lenient compared to other nations.
- Few smaller independent chains have already opened up in some states of the US. Cinemas have opened in South Korea and have received encouraging response from customers.

Expect small players to shut shop

- Some single-screen theatres/smaller cinema chains might shut down due to the current crisis, which in turn would benefit national operators in the longer run.
- Revenue contribution for the overall industry – single screens contribute just ~15% with the balance 85% from multiple screens. The four national players contribute ~60% of the Hindi movie revenue collection, reflecting the strong command of larger multiplex chains in India.
- Pay per view model on OTTs would not be as popular and attractive to customers as periodical subscription is comparatively economical with other added benefits.

CIPLA: A BIG OPPORTUNITY IS BEGINNING TO UNLOCK FOR US IN THE US; Umang Vohra, MD & Global CEO

- Company was not able to invoice about Rs 200 odd crore of sales on account of the last week of Covid closure and that is pretty high margin sales. The impact would have been directly on profitability.
- In the last six to nine months, spent a fair amount of cost and effort on the remediation required for Goa which is now completely in numbers. From where we stand, company sees the remediation effort and work for Goa that is required to finish approximately by June or July. The charges have largely been taken in the last quarter.
- Have guided that base business in the US is roughly around 120 to 125 so every new launch company gets should add hopefully above this meaningfully.
- In the first two, three weeks of the lockdown, there was a serious dip because everyone was dealing with the lockdown initially. What we found in week three and four was that activity was resumed by doctors, who started interacting virtually with their patients.
- What has happened in the last week is that the green and orange zones are opening up and we see activity resuming there. Of course, there are sections where the doctors are not meeting as much. For example, dentists and dermatologists because of the risk of this infection being real, are perhaps not meeting as much as interventionists, chest physicians etc. So, it is gradually opening up. As we build more experience out of the green and the orange zones and as the red zones begin to open up, you will see a resumption in activity depending on the zone.

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KEEPING IBC IN ABEYANCE A PREGNANT PAUSE, NEEDS TO BE HANDLED GENTLY

- The one announcement of the Finance Minister Nirmala Sitharaman on Sunday that catches the eye for its focus on micro, small and medium enterprises (MSMEs) is “Further enhancement of ease of doing business through IBC related matters". The government will not initiate any fresh IBC proceeding for a year. Pregnant pause, as with the IBC proposed today, has a lot of entrepreneurs’ expectation riding on the proposal. And hopefully it will deliver positivity in the months ahead. The minimum threshold to initiate insolvency proceedings has been pushed to ₹1 crore from the current Rs1 lakh default. This is with the thought that MSMEs would be largely insulated. Section 240 (A) of the IBC covers the framework of how it is applied on MSMEs. The government has now proposed a special resolution framework for MSMEs to be notified soon. The new definition of MSMEs that was announced earlier this week has brought the concept of looking at both investment as well as the turnover of the firms to classify an MSME. The jury is still out if it would actually benefit or negate the current benefits. One of the negatively-impacted MSME sectors would be those which are labour-intensive, where a relatively small capital expenditure of even a Rs10 crore-Rs15 crore could achieve a turnover of over Rs100 crore.

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

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