Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,675	0.5	-11.1
Nifty-50	10,800	0.3	-11.2
Nifty-M 100	15,364	0.4	-10.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,145	-1.1	-2.6
Nasdaq	10,344	-0.9	15.3
FTSE 100	6,190	-1.5	-17.9
DAX	12,617	-0.9	-4.8
Hang Seng	10,600	-1.2	-5.1
Nikkei 225	22,615	-0.4	-4.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	42	0.0	-36.1
Gold ($/OZ)	1,795	0.6	18.3
Cu (US$/MT)	6,185	0.8	0.6
Almn (US$/MT)	1,601	0.0	-10.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.9	0.3	5.0
USD/EUR	1.1	-0.3	0.5
USD/JPY	107.5	0.2	-1.0
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.04	-0.8
10 Yrs AAA Corp	6.7	-0.05	-0.9
Flows (USD b)	**7-Jul**	**MTD**	**CYTD**
FIIs	0.11	-0.16	-2.71
DIIs	-0.10	0.15	12.12
Volumes (INRb)	**7-Jul**	**MTD***	**CYTD***
Cash	692	577	513
F&O	14,595	16,800	14,745

Note: *Average

Today's top research idea

Cummins: All hopes on CPCB-IV, but will end markets support?

- The shift to CPCB - IV would imply higher input cost, necessitating price hikes. However, the key end markets – Manufacturing, Real Estate, Retail, and Hospitality – are likely to remain under pressure; the ability to pass on the input price hikes may prove challenging, in our view.
- Macro headwinds remain too strong for the industry to witness double-digit growth on a sustainable basis in the domestic market. Exports remain too volatile to predict the growth trajectory.
- Other income, largely driven by dividend and rental income, constituted 43% of PBT in FY20 and supported the company's overall RoEs. Adj. for the same, RoEs fell to 8.7% in FY20 from a reported 15.5%, indicating the pain in the core business.
- With core RoICs of 11–12% and core RoEs of <10%, we believe the stock deserves to trade at a significant discount to its historical trading multiples from the perspective of economic value addition. We downgrade Cummins to Sell with lower TP of INR330 (from INR360).

Research covered

Cos/Sector	Key Highlights
Cummins	All hopes on CPCB-IV, but will end markets support?
Bajaj Finance	Strong performance on fees and deposits
Titan Company	Jewelry recovering well; other businesses struggle
EcoScope	Global inflation? You got to be kidding!

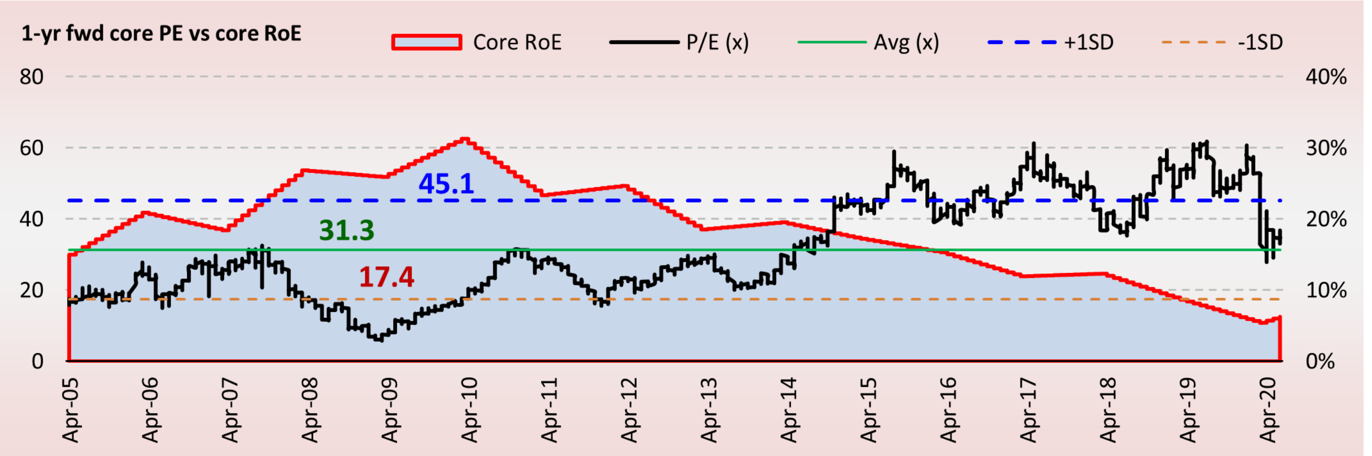
Piping hot news

Finance Minister Nirmala Sitharaman asks heads of 23 CPSEs to boost capex plans

Finance Minister Nirmala Sitharaman asks heads of 23 CPSEs to boost capex plans During the meeting, which included the ministries of petroleum and natural gas, coal, power, mines, the department of atomic energy and the managing directors of 23 CPSEs.

Chart of the Day: Cummins (All hopes on CPCB-IV, but will end markets support?)

Core PE higher than maximum PE over FY04–14 despite core RoE dropping to single digits



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Tougher lockdown to be imposed in Bengal from July 9

The West Bengal government on Tuesday decided to expand the areas under lockdown and impose tougher restrictions from July 9 to stem the relentless spike in COVID-19 cases, a senior official said. The containment zones and buffer zones around them will be clubbed together and constitute a "broad-based"...

2

Govt steps up aerial spray of pesticide to fight locust swarms

The Union government on Tuesday said it has stepped up aerial spraying capacity of pesticides by deploying Bell helicopter as well as IAF's Mi-17 choppers besides drones to fight crop-threatening desert locusts. This follows the UN body Food and Agriculture Organisation's (FAO) July 3 update warning India to be on high alert during the next four weeks as locusts continue to breed...

3

RIL says Jio Platforms received Rs 43,754 crore from Facebook unit for 9.99% stake

Reliance Industries said on Tuesday its unit Jio Platforms has received the subscription amount of Rs 43,574 crore from Jaadhu Holdings, a wholly-owned unit of Facebook Inc for a 9.99 per cent stake. In a release late on Tuesday, the company said the amount was received after all requisite approvals...

4

Serum Institute-produced Covid-19 vaccine at least six months away, says CEO

An approval for Serum Institute of India's vaccine by the Drug Controller General of India is at least six months away as the company is focussed on following due processes to be sure about its safety and efficacy, chief executive officer Adar Poonawalla said on Tuesday...

5

Equalisation Levy: Govt not considering deadline extension for tax

The government is not considering extending the deadline for payment of Equalisation Levy by non-resident e-commerce players, even though a majority of them are yet to deposit the first installment of the tax, an official said. The 2 per cent Equalisation Levy was introduced in the 2020-21 Budget and has come into effect from April 1, 2020. The deadline for payment of first installment of tax for April-June is July 7. The tax would be levied on consideration received by e-commerce operators from online supply of goods or services...

6

GMR closes stake sale deal in airport biz to France's ADP

GMR Infrastructure Ltd, the company that operates Delhi and Hyderabad airports, today said that it has successfully completed its deal to sell 49% stake in its airports' business to France's Groupe ADP. "As per the revised Share Purchase Agreement, the second tranche of the investment for 24.01%...

7

Motherson Sumi Systems approves group reorganisation plan

Auto component major Motherson Sumi Systems (MSSL or the Company) Thursday said it has approved a group reorganization plan with the objective of creating value for the shareholders. The reorganization realigns interests of all its stakeholders and creates a simplified corporate structure...

Cummins

BSE SENSEX	S&P CNX
36,675	10,800

CMP: INR430 TP: INR330 (-23%) Downgrade to Sell

All hopes on CPCB-IV, but will end markets support?

- **CPCB-IV related opportunity the best (only) bet:** The transition from CPCB-II to CPCB-IV (4th phase of emission standards proposed by Central Pollution Control Board) is touted to be beneficial for Cummins India, led by its access to technology as well as its first-mover advantage. On account of this transition, price hikes are likely to be >20% and may even be higher for certain categories. However, we note that: **(a)** technology access may not be as big a barrier to competitors (KOEL, Mahindra, and Perkins), **(b)** end markets may not be strong enough to absorb such steep price hikes (similar learning from the earlier transition from CPCB-I to CPCB-II), **(c)** the implementation date is set as July 2021, which may be pushed by six to nine months, especially given the COVID-19-led disruption.
- **Input costs to rise, but end markets may not be supportive:** The shift to CPCB-IV would imply higher input cost, necessitating price hikes. However, the key end markets – Manufacturing, Real Estate, Retail, and Hospitality – are likely to remain under pressure, with a sluggish growth outlook over the next two years. Private capex is expected to be weak given the low capacity utilization witnessed even prior to the COVID-19 situation. In such a scenario, the ability to pass on the input price hikes may prove challenging, in our view.
- **Precisely how it panned out last time:** Even the transition to CPCB-II met with a similar fate, with an anticipation of pre-buying, followed by price hikes, and hope of earnings growth. While pre-buying was limited to just 5–10%, weakness in the end markets eventually outweighed the same. Cummins did take a price hike of 10–15% to start with, only to reverse it later. The ultimate conclusion is that end-market fundamentals remain the key driver for margins over the longer run. Given the weak outlook for the end markets and limited pricing power in the Gensets industry, we refrain from being bullish on CPCB-IV opportunities.
- **Core business on structural downtrend until macro supports:** While we acknowledge Cummins' strong parentage and access to superior technology, the company finds itself operating in an industry driven more by macro fundamentals. Currently, macro headwinds remain too strong for the industry to witness double-digit growth on a sustainable basis in the domestic market. Exports (down to 25% of revenue from 30% in FY19) remain too volatile to predict the growth trajectory. Such strong macro headwinds are resulting in sharp deterioration in the core business' return ratios. Cummins' RoEs have almost halved over the past five years to 15.5% in FY20, showing maximum erosion in our coverage universe. The core business' RoIC stood at just 11% in FY20, much lower than Siemens (26%) and ABB (16%), which have worked toward transforming their business models to adapt to changing realities.
- **Other income forms 43% of PBT in FY20:** Other income, largely driven by dividend and rental income, constituted 43% of PBT in FY20 and supported the company's overall RoEs. Adj. for the same, RoEs fell to 8.7% in FY20 from a reported 15.5%, indicating the pain in the core business.

Stock Info

Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USDb)	119.1 / 1.6
52-Week Range (INR)	766 / 282
1, 6, 12 Rel. Per (%)	5/-15/-34
12M Avg Val (INR M)	482
Free float (%)	49.0

Financials Snapshot (INR b)

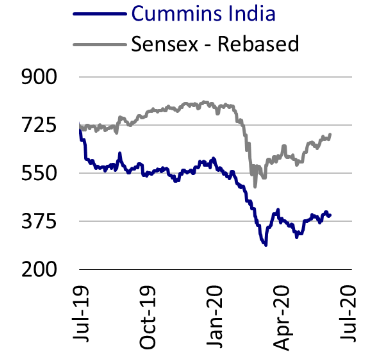
Y/E Mar	2020	2021E	2022E
Sales	51.6	44.4	55.5
EBITDA	5.9	4.7	7.1
PAT	6.4	4.3	6.1
EBITDA (%)	11.4	10.6	12.8
EPS (INR)	23.3	15.4	22.1
EPS Gr. (%)	(10.8)	(33.6)	43.1
BV/Sh. (INR)	150.6	156.8	163.0
Ratios			
Net D/E	0.0	(0.0)	0.0
RoE (%)	15.4	9.8	13.6
RoCE (%)	14.0	9.0	12.3
Payout (%)	90.3	60.0	72.0
Valuations			
P/E (x)	18.5	27.9	19.5
P/BV (x)	2.9	2.7	2.6
EV/EBITDA (x)	20.4	25.0	16.9
Div Yield (%)	3.8	1.7	3.0
FCF Yield (%)	3.0	1.6	0.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.0	51.0	51.0
DII	30.4	31.8	27.2
FII	7.5	6.3	9.1
Others	11.2	10.9	12.7

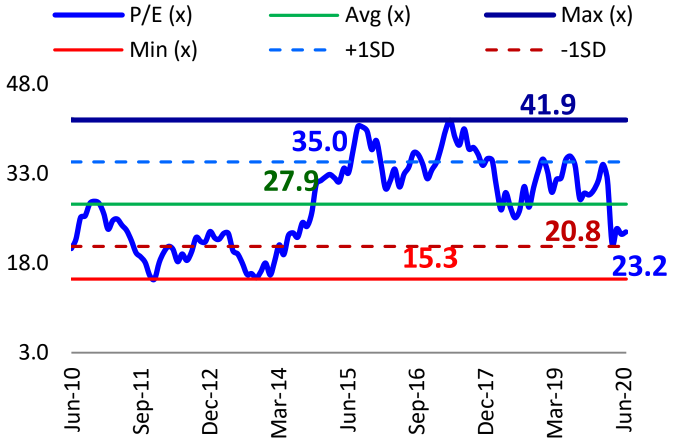
FII Includes depository receipts

Stock Performance (1-year)



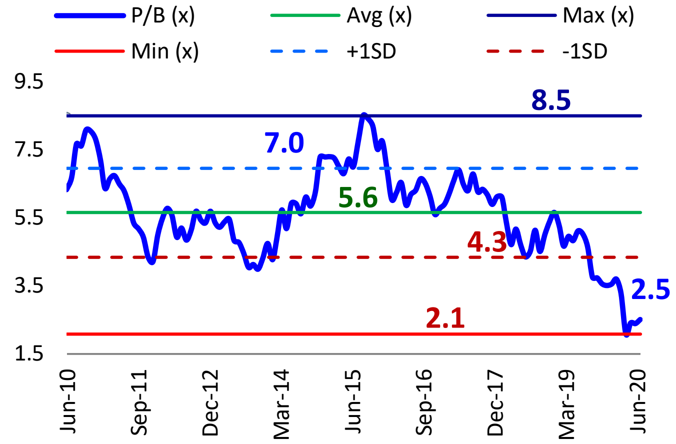
- **Historical valuation may be meaningless if EVA declines:** With core RoICs of 11–12% and core RoEs of <10%, we believe the stock deserves to trade at a significant discount to its historical trading multiples from the perspective of economic value addition. In fact, a comparison of Cummins, Siemens, and Thermax on core RoICs v/s core PE multiples suggests that while the core RoIC differentials of both Cummins and Thermax have deteriorated against Siemens', the same trend is yet to be witnessed in the PE differentials.
- **Downgrade to Sell, with lower TP of INR330:** We downgrade Cummins to Sell with lower TP of INR330 (from INR360) as we lower our target multiple to 15x from 16x earlier. We acknowledge that despite macro headwinds, the company has done a commendable job in FCF conversion, resulting in a strong balance sheet. Rental and dividend incomes have enabled the company to significantly increase dividend payouts over the years, owing to which it has one of the best payout ratios in the Capital Goods sector. However, the lack of growth drivers is yet to be fully factored in the valuations, in our view.

P/E band (x)



Source: Company, MOFSL

P/B band (x)



Source: Company, MOFSL

Bajaj Finance

BSE SENSEX	S&P CNX
36,675	10,800

Stock Info

Bloomberg	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	2012 / 26.9
52-Week Range (INR)	4923 / 1783
1, 6, 12 Rel. Per (%)	33/-6/-3
12M Avg Val (INR M)	13256
Free float (%)	43.8

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Net Income	169.1	171.2	207.8
PPP	112.5	120.7	148.7
PAT	52.6	45.4	70.5
EPS (INR)	87.7	75.7	117.5
EPS Gr. (%)	26.7	-13.7	55.2
BV/Sh. (INR)	540	608	714
Ratios			
NIM (%)	10.5	9.6	10.1
C/I ratio (%)	33.5	29.5	28.4
RoA (%)	3.6	2.6	3.5
RoE (%)	20.2	13.2	17.8
Payout (%)	13.8	10.0	10.0
Valuations			
P/E (x)	38.2	44.3	28.5
P/BV (x)	6.2	5.5	4.7
Div. Yield (%)	0.3	0.2	0.4

CMP: INR3,353 TP: INR3,000 (-11%) Neutral

Strong performance on fees and deposits

Softness in customer addition | Marginal deterioration in asset quality

- **Bajaj Finance's (BAF) FY20 Annual Report highlights the year as a mixed bag. The company witnessed strong loan growth performance, improved granularity of deposits and its growth, and expanded RoA led by strong fee income growth. On the other hand, asset quality weakened slightly with high net slippages (excl. lumpy accounts) ratio (+30bp YoY to 2.07%) and increase in write-offs (+70bp YoY to 1.7%). GNPL / PCR remained stable at 1.6%/60% YoY.**
- **BAF delivered healthy NII/PPoP/PAT growth of 39%/46%/32% in the year. Credit cost increased from 1.6% to 3.1% due to Covid-19 related provisions (2.5% ex-COVID related provisions) and write-offs of some large accounts.**
- **On the business front, BAF saw sharp moderation in new customer addition of +6% YoY to 8.7m, which is concerning. Overall, number of loans distributed declined from 50% YoY levels over the past three fiscals to 17% YoY in FY20. Customer base growth slowed down from 30% YoY levels earlier to 24% in FY20. Cross-selling for new origination increased from 65% in FY19 to ~70% in FY20.**
- **BAF has done well on two fronts – deposits and fee income. Deposit growth was in line with prior years at 60%+. Importantly, granular public deposit base grew 90%+ YoY with near doubling of depositors to 362k. Fee income grew 54% YoY to INR26b, driven by all categories, especially distribution income. Fees to assets improved to 2.0% from 1.7% in FY19 and 1.1% in FY18, driving RoA expansion.**
- **In line with current macros and the evolving pandemic situation, we expect share of rural business (9% of AUM) to rise sharply in FY21. A high share of BAF's business comes from metro cities; post the initial pent-up demand, we are yet to see signs of growth sustaining.**
- **Improvement in the moratorium rate from 27% in April to 16% in June is a key positive – though we await details on bounce rate. In our recent note, we have upgraded EPS estimates by ~15% for FY21/FY22E driven by lower credit costs and better growth expectation. We maintain a Neutral rating with a revised TP of INR3,000 (4.2x FY22E BV).**

CD/2W business sees sharp moderation in volumes

After delivering robust 44% YoY growth in consumer B2B disbursements (by volume) in FY19, growth slowed down to 9% YoY in FY20. **This was driven by 6%/8% YoY growth in CD/2W disbursement volumes while growth in other segments remained healthy.** The EMI Card continues to gain strong traction – 50% of loans were availed on the EMI Card in FY20 compared to 25% three years ago. This is in line with the rise in cross-selling for new loans' generation.

Initial signs of stress emerging on asset quality

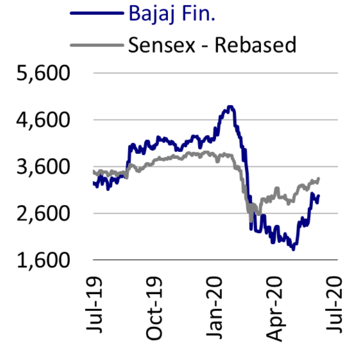
Slippages in FY20 jumped 3x YoY to INR45b driven by higher stress in 2W/LAP as well as some high-ticket slippages. **Excluding the lumpy accounts, the net slippage ratio increased 30bp YoY to 2.07%.** Write-offs also increased 1.3x YoY to INR22b – led by some one-off large ticket write-offs. **Excluding these one-offs, write-offs nearly doubled YoY.** The write-offs include sale of NPLs during

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	56.2	56.2	55.2
DII	10.9	10.5	8.5
FII	21.5	22.5	20.9
Others	11.5	10.9	15.5

FII Includes depository receipts

Stock Performance (1-year)



the year, which too more than doubled to INR7.4b. Regarding the moratorium, INR60b (i.e. 16% of the total moratorium book as at Apr'20) came from SMA accounts. The company made INR4b provisions against these loans.

New initiatives across products, technology and business segments

BAF undertook several new initiatives as well as expanded pilot projects initiated earlier. These include a) entry into the brokerage segment with a new subsidiary (Bajaj Financial Securities), b) facial recognition technology introduced in the corporate office as well as 180 branches (pilot started in select consumer durable stores), c) introduction of a 'Health EMI Card' to cover medical expenses via no-cost EMIs (already covered 20% of 0.54m customer base of lifestyle product) and d) introduction of 'Flexi Personal Loans'. The gold loan book, which started in FY19, nearly doubled to INR16b.

Recovery cost as % of AUM largely stable

Despite asset quality pressures experienced by the company, BAF has maintained stable recovery costs per unit. **Recovery expenses as % of AUM has been largely stable at 65-75bp over the past 5 years.** Overall recovery expenses amounted to INR9.6b. Interestingly, this accounted for ~30% of non-employee operating expenses in FY20 (up from ~20% three years back).

Increasing investments in various businesses

The company invested INR15b in its housing finance subsidiary (started in FY18) and INR1b in the securities brokerage subsidiary (started in FY20). Both investments have been put into Fair Value (FV) through Amortization category. In addition, it invested INR1.5b in RBL Bank, which experienced MTM loss of INR920m. BAF also invested INR373m into Mobikwik via CCPS (overall investment has increased to INR2.6b). Since both these investment have been put in FVOCI (Fair Value through Other Comprehensive Income), MTM impact on the same would reflect in OCI.

Looking at overseas market to diversify liabilities

For the first time, BAF has raised money via External Commercial Borrowings (ECBs) in FY20 – it raised USD575m in the first tranche amounting to 3% of total borrowings. The company already has an approval for USD1.5b MTN program but is yet to mobilize resources for this route. In FY20, its share of capital market borrowings declined from 50% to 38%, led by rise in bank borrowings/Deposits/ECBs by 5%/4%/3%.

Valuation and view

BAF delivered another year of stellar performance in FY20. Given the current liquidity risks, the company focused on long-term borrowings and increased liquidity on the balance sheet (14% of borrowings). It also nearly doubled its public deposit base with tenure of most deposits at over 3 years. While we expect some slowdown in fee income traction for FY21, the long-term story remains intact. Pressure on fees is likely to be compensated by sharp reduction in operating expenses in our view. The lower moratorium rate in June as compared to April is a key positive – hence, we reduced our credit cost estimates by 50/25bp to 3.9/3.1% for FY21/FY22. In our recent note, we have increased our EPS estimates by ~15%. Maintain Neutral with a TP of INR3,000 (4.2x FY22E BV).

7 July 2020

Update | Sector: Retail

Titan Company

BSE SENSEX	S&P CNX
36,675	10,800

CMP: INR1,016 TP: INR965 (-5%) Neutral

Jewelry recovering well; other businesses struggle

Titan Co. (TTAN) has released its pre-quarterly update for 1QFY21. Here are the key highlights:

COVID-19 disruption: Resumption of operations at most stores

- The company started re-opening its stores, primarily high-street stores, in the non-containment areas from 6th May. Subsequently, a number of malls have received permission to operate; the TTAN stores at these malls have also been re-opened.
- **As of 30th Jun'20, TTAN had re-opened ~83% of its stores across businesses.**
- TTAN has leveraged its digital platform to assist customers with the buying process. The store staff uses video calling to: (a) demonstrate to the customers the safety precautions undertaken at the store and (b) help them shortlist the products they intend to purchase prior to physically visiting the store. 'Live chat' facilities have also made the decision-making process easier.
- Customers are encouraged to visit a store by appointment only to ensure they do not have to wait too long due to the social distancing protocols in place.
- Almost all manufacturing operations have been resumed. However, production levels are low currently given the inventory situation and would be ramped up only gradually when the company sees sales return to normal levels.
- The company has extended financial support to its franchisees and vendors, particularly by providing soft loans at extremely low interest rates.
- It plans to increase focus on its cost optimization program called 'War on Waste', likely to result in sustainable savings. Discretionary cuts are also expected in various expense heads due to the lower level of activity anticipated this year. **TTAN has been able to negotiate fairly significant rental waivers and reductions with the landlords (both high-street and mall owners) for the period of disruption and the next quarter.**

Jewelry: Better-than-envisaged recovery

- Revenue for May and June came in slightly below 20% and was at around 70% v/s the corresponding months in the previous year. The division also sold gold worth INR6.1b at market rates in the bullion market to optimize inventory levels.
- **The division has thus far re-opened around 95% of its Tanishq stores.**
- Recovery has been better than originally anticipated, attributed to: (a) higher wedding jewelry sales (despite many weddings being deferred), (b) sound sales from the Golden Harvest Scheme (GHS), and (c) investment-led demand resulting in higher gold coin sales. Contribution from the gold exchange scheme was not unusually high and stood in line with last year.
- Average ticket prices have also gone up, led by higher wedding jewelry / gold prices.
- **Store re-openings and sales recovery were better in non-metros on account of a lower COVID-19 impact witnessed in these regions.**
- Share of Studded has been lower, primarily weighed by: (a) better recovery in Plain Gold jewelry sales, (b) investment-led demand, and (c) lower sales contribution from key metro markets that normally have a better ratio of Studded demand.

Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	902 / 12
52-Week Range (INR)	1390 / 720
1, 6, 12 Rel. Per (%)	-4/-2/-13
12M Avg Val (INR M)	3440
Free float (%)	47.1

Financials Snapshot (INR b)

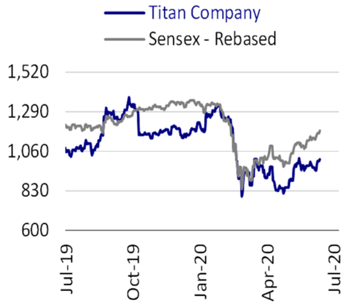
Y/E Mar	2020	2021E	2022E
Sales	210.5	170.7	233.0
Sales Gr. (%)	6.4	-18.9	36.5
EBITDA	24.9	17.1	28.2
EBITDA Margin (%)	11.8	10.0	12.1
Adj. PAT	15.2	10.1	17.6
Adj. EPS (INR)	17.1	11.4	19.8
EPS Gr. (%)	8.9	-33.3	73.8
BV/Sh.(INR)	75.2	74.3	84.2
Ratios			
RoE (%)	23.8	15.2	25.0
RoCE (%)	22.5	13.6	21.7
Payout (%)	40.0	45.0	50.0
Valuation			
P/E (x)	59.5	89.2	51.3
P/BV (x)	13.5	13.7	12.1
EV/EBITDA (x)	36.3	52.8	31.7
Div. Yield (%)	0.7	0.5	1.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.9	52.9	52.9
DII	11.1	9.3	7.4
FII	17.7	18.3	19.2
Others	18.3	19.5	20.5

FII Includes depository receipts

Stock Performance (1-year)



- Steady enrollment and recurring deposits have been reported in the GHS, and refunds have been minimal.
- During the quarter, the division added six Tanishq stores and one Mia store on a net basis, with ~17k sq. ft. of retail space added. These are the stores that were under construction at the end of Mar'20.

Watches: Recovery still far from normal

- Revenue for May and June was at 5% and marginally above 20% v/s the corresponding months in the previous year.
- However, the recovery rate at operational retail stores in June was around 45%.
- The sales recovery rate was the highest in the e-commerce and retail channels (WOT, Fastrack, and Helios) and the lowest in large-format stores.
- During the quarter, the division added six WOT stores and one Helios store, while closing one Fastrack store; on a net basis, it added ~4k sq. ft. of retail space.

Eyewear: Recovering gradually

- **Revenue for May and June was at 15% and 35%, respectively, v/s the corresponding months in the previous year.**
- **The recovery rate (percentage of revenue to stores opened) was around a little over 60%.**
- The division closed 15 stores during the quarter; on a net basis, this implies a reduction of about 8k sq. ft. of retail space.

New businesses

- *Taneira* – This saw slow recovery at a rate of around 40%, although this appeared to be improving toward the end of the quarter.
- *CaratLane* – This did relatively well in the quarter, with revenue for May and June at 23% and 85%, respectively, v/s the corresponding months last year. CaratLane's offline sales were impacted more as many of its stores are located in malls. However, the online channel did exceptionally well once lockdown restrictions for e-commerce were lifted on the shipment of non-essentials. At the end of 1QFY21, ~75% of its stores were operational.

Other points

- TTAN continues to enjoy the highest rating in both short-term (A1+) and long-term (AAA) borrowings by CRISIL (reiterated recently) and Brickwork Ratings. It successfully issued INR10b worth of commercial papers during Apr–May'20 at extremely attractive rates to meet current funding requirements. As of 30th Jun'20, TTAN had a net cash surplus status, largely owing to the sale of excess inventory in the form of gold to the commodity exchange and certain vendors.
- Titan Engineering and Automation (TEAL) did very well in the quarter, with decent order bookings and revenue decline of just ~19% in 1QFY21.

Valuation and view

- Although recovery in the Jewelry division is encouraging, we are cautious on the near-term demand outlook in light of the ongoing COVID-19 crisis. Furthermore, the likely lower share of High-Value Studded jewelry would weigh on profitability in FY21. Moreover, the management's reluctance to reduce staff cost, while good for long-term growth, would have an adverse impact on near-term profitability.
- While we remain believers in TTAN's structural top-line growth story, which remains one of the best among those of Indian consumer players, valuations are rich at 51x FY22E EPS, leading us to retain our **Neutral** rating.

Global inflation? You got to be kidding!

Disinflationary future is still more real

- In 2008, when Global Central Banks (GCBs) expanded their balance sheets, it was seen as a harbinger of imminent higher inflation. Thus, the 2010s decade was expected to be inflationary. In reality, it turned out to be the most disinflationary since the 1980s. One layer of analysis explains the divergence – the inflationary fears were unfounded because expansion in GCBs was not accompanied by broad money supply (called 'M2' in the US).
- With another round of massive liquidity injection by the US Federal Reserve, the fear of inflation has once again resurfaced. And this time, since M2 has posted record growth (of ~25% YoY), the 2020s decade is expected to be highly inflationary. We, nonetheless, beg to differ. One more layer of analysis would again alter the conclusion significantly.
- Irrespective of the US Fed's size, M2 was bound to rise sharply in the current episode because bank deposits (the primary source of M2, accounting for ~85%) have witnessed truly unprecedented increase post-COVID. The combination of record growth in personal income and record decline in consumption has boosted deposits.
- Credit growth in the US, however, has risen modestly – from an average growth of 6% in the past five years (and ~8% YoY in 2015-16) to 9.4% in the past four months (and 8% according to the recent reading). The ratio of bank loans to M2, therefore, has now declined to below 60% for the first time in more than three decades. Further break-up of bank loans suggest that almost the entire incremental growth is led by 'commercial and industrial' loans, while loan growth to other sectors (including 'consumer' and 'real estate') has remained largely unchanged v/s pre-COVID growth. Not surprisingly then, loans to deposit ratio in the US has plunged to 68.8% in Jun'20, the lowest since the 1970s.
- Broad money supply growth has picked up in other major economies (the Eurozone, the UK and Japan) as well because higher personal savings have boosted bank deposits everywhere. However, like in the US, loans to deposit ratio is also at an all-time low in other major nations.
- Going forward, M2 growth in the US is more likely to remain in double-digit (say, 10-12%) by end-2020. This is because we expect only gradual normalization in consumer spending, and thus, in deposits too, which implies slow recovery as well. Without commensurate loan growth, inflation will remain at bay. In 2021, three possible scenarios could play out, only one of which – with least possibility – will be inflationary:
    1) Under the worst-case scenario, US consumers will not increase their spending and maintain personal savings at high levels (say, 10-15% compared to 7-8% pre-COVID). In such an event, bank deposits would remain high keeping M2 growth also elevated. Nevertheless, with very weak consumer demand, it is highly unlikely for companies to borrow and invest, which means that US economic activity will remain extremely subdued. 2021, thus, would not be very different from 2020 (not our base case). This scenario would actually bring back disinflationary fears.
    2) Most likely, and hopefully, the recent spurt in US personal savings would taper off more speedily over time, as consumers become more confident of their spending. As deposits growth comes off, it will bring down M2 growth too. This is the best-possible outcome and the most likely one as well, which is also unlikely to be inflationary.
    3) Under the third and the least probable scenario, the US Fed will attempt to keep M2 growth high (say, 10%) by replacing the fall in deposits by currency in circulation (CIC), which is the only other source of M2. Since CIC is only ~12% of deposits, the normalization in consumer spending and savings will lead to tapering in deposit growth from double-digit in 2020 to 3-4% (incorporating base effect also) in 2021 and would also imply growth of 60-70% YoY in CIC. Not only will this be super-inflationary, it would also confirm the end of Central Banking as we know it.
- Overall, the 2008 Global Financial Crisis taught us a very important lesson that the expansion in central banks is not necessarily inflationary. The current episode will leave us with another very important teaching – even double-digit growth in M2 may not necessarily be inflationary. What eventually matters is credit growth.
- Lastly, we note that there are some other forces – the permanent disruption in globalization and the unending pursuit of modern monetary theory (MMT) – which may be inflationary in the distant future. However, at present, the Japan-ification of the global economy is a bigger worry than high-or-hyperinflation.

MARUTI SUZUKI: BOOKING TREND IS MORE IN FAVOUR OF SMALLER CARS; Shashank Srivastava, Executive Director, Marketing and Sales

- Showrooms are open now. The enquiry levels were definitely lower than the pre-Covid times by a wide margin. However, June actually was a much more representative month because most of the showrooms were open. In fact, for Maruti Suzuki, almost 2,800 out of the 3,000 showrooms were open; barring those showrooms which are in the containment areas. So the enquiry levels at the retail level as well as the booking level, which is actually a reflection of the demand from the consumer side, are roughly 80-85% of the pre-Covid levels. That is a good bounce back which we have seen in the month of June.
- If you look at the top 40 cities the negative growth is much higher than the rural areas. As a result of that, the percentage of the rural sales in Maruti's portfolio is now roughly about 40-41%, which was about 38.5% last year. So yes, there seems to be a better bounce back in the rural areas.
- If you look at the trends in terms of bookings as well as enquiries, there seem to be some bookings which have come in favour of the smaller cars and that is actually logical also. A lot of people have been commenting on it and different researches have indicated a couple of things on consumer behaviour post Covid, One of them is the shift downwards demand choices. I think that is something which we see very much happening in the current scenario.

Read More

ACCELERATING WORKFORCE INTELLIGENCE AMIDST COVID-19

- The spread of covid-19 has created an overwhelming effect on businesses and society impacting professional and personal lives alike, of individuals in many ways. Many organizations have stepped up efforts and are trying to ramp up production of essential goods and commodities while following safety and hygiene guidelines. The multiple extensions of covid-19 measures have continually increased the probability of virtual workplaces becoming the new norm of working. In this backdrop, it is imperative for organizations to accelerate workforce transformation to operate with less direct exposure while following the edicts of these difficult times. Data by Global Workforce Analytics tells us that only 56% of the workforce holds jobs that are compatible with some remote work. This leaves out large workforce involved in activities such as after sales, factory or plant operations, retail, and other frontline processes. There are many jobs that are compatible with remote working. However, workers face challenges in these assignments too. The biggest emerging challenge for organizations is to reduce cognitive load and enable better collaboration for the remote workforce, while bringing the field workers to the knowledge fold by providing automation, remote work, and training solutions. At the same time, organizations need to ensure safety in their back and front office operations while mitigating business risks. It is crucial for organizations to adopt digitally enabled solutions to accelerate the performance of operations seamlessly while working remotely. Many organizations have been able to transition long before remote working became a norm due to the outbreak of the pandemic. Digital accelerator solutions are enabling the next LEAP (Leadership, Experience, Access, Productivity) for both knowledge and field workers.

Read More

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOFSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

MOFSL, it's associates, Research Analyst or their relative may have any financial interest in the subject company. MOFSL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company in the past 12 months. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the past 12 months. MOFSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the past 12 months , MOFSL or any of its associates may have:

a) managed or co-managed public offering of securities from subject company of this research report,
b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
d) Subject Company may have been a client of MOFSL or its associates in the past 12 months.

MOFSL and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOFSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures. Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Financial Services Limited(SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S:

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore:

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.

CIN No.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579 ;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.* MOFSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Ben