Motilal Oswal

9 July 2020

Morning India

Market snapshot

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,329	-0.9	-11.9
Nifty-50	10,706	-0.9	-12.0
Nifty-M 100	15,304	-0.4	-10.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,170	0.8	-1.9
Nasdaq	10,493	1.4	16.9
FTSE 100	6,156	-0.5	-18.4
DAX	12,495	-1.0	-5.7
Hang Seng	10,748	1.4	-3.8
Nikkei 225	22,439	-0.8	-5.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	1.4	-35.2
Gold ($/OZ)	1,809	0.8	19.2
Cu (US$/MT)	6,230	0.7	1.3
Almn (US$/MT)	1,634	2.0	-8.3
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.0	0.1	5.1
USD/EUR	1.1	0.5	1.0
USD/JPY	107.3	-0.2	-1.2
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.8
10 Yrs AAA Corp	6.7	-0.02	-0.9
Flows (USD b)	**8-Jul**	**MTD**	**CYTD**
FIIs	-0.13	-0.40	-2.71
DIIs	-0.11	0.15	12.12
Volumes (INRb)	**8-Jul**	**MTD***	**CYTD***
Cash	703	598	515
F&O	19,454	17,243	14,781

Note: *Average

Today's top research theme

VOICES (4QFY20): Cautious commentary; Uncertainty reduces demand visibility!

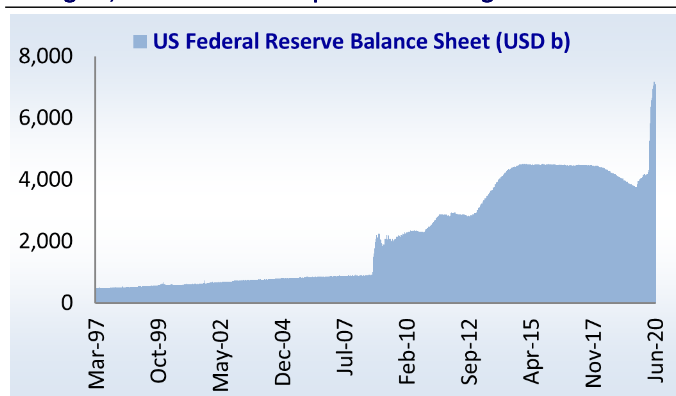
- The 4QFY20 corporate earnings were muted but in line with our expectations for both the Nifty and the MOFSL Universe. Direction of earnings revision for the broader markets still remains downward - with 113 companies in the MOFSL Universe witnessing an earnings cut of >5% and 25 witnessing upgrades of >5%+ for FY21.
- Corporate commentaries expectedly conveyed uncertainty and demand weakness given the disruption due to the COVID-19 pandemic.
- Banks have guided that the COVID-19 outbreak would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. Commentaries of
- NBFCs across suggest that most are sitting on adequate liquidity for another 3-4 months. During the lockdown phase 1.0, disbursements and collections came to a standstill across product segments.
- Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption.
- In Autos, all OEMs refrained from providing guidance for FY21 due to the uncertain demand outlook; however, most expect recovery in 2HFY21. With uncertainty in demand, there is high focus on cutting cost/capex and conserving cash.
- In IT, deal wins were a mixed bag. While TCS and HCL saw strong deal wins, INFO and Tech-M saw some impact. Overall, companies did well in adapting to the current situation by shifting to remote operations with agility and enabling over 90% employees to WFH in a short span of time, thereby reducing the impact.

Research covered

Cos/Sector	Key Highlights
Voices (4QFY20)	Cautious commentary; Uncertainty reduces demand visibility!
Bajaj Auto	Financial strength to help navigate uncertain times
Technology	ISG sounds caution on BFSI deal activity
Economy	BRICS+: 1QCY20: India vis-à-vis other emerging markets (EMs)

Chart of the Day: Economy (Global inflation? You got to be kidding!)

Yet again, the US Fed has expanded on a larger scale in 2020…



Last data is as of week-ended July 1, 2020

…which is also reflected in the record growth in broad money supply as well

Last data is as of week-ended June 22, 2020

Source: US Federal Reserve, CEIC, MOFSL

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

In the news today

Kindly click on textbox for the detailed news link

1

High collections in June show faster business turnaround

Collection efficiency for most non-bank lenders, small-finance banks and micro-finance institutions has improved in June to 50-60% of the levels seen before the lockdown, from as low as 20% in April. Collections were the highest in asset-backed securities and non-MFI loans at nearly 70%...

2

Cabinet approves ₹12,450 crore infusion in three insurers; puts merger on hold

The Union Cabinet, headed by Prime Minister Narendra Modi, on Wednesday approved infusion of ₹12,450 crore into three public sector general insurance companies -- Oriental Insurance Co. Ltd, National Insurance Co. Ltd and United India Insurance Co. Ltd. Out of the total amount approved, ₹9,950 crore will be infused in the current fiscal...

3

GST relief to Airtel: Govt moves Supreme Court against High Court's order

The government has moved Supreme Court against Delhi High Court's May 5 order which allowed Bharti Airtel to claim Rs 923 crore as refund of excess Goods and Services Tax (GST) returns filed by the telecom company in July-September 2017. The petition has been filed against four respondents -- Bharti Airtel, the GST Council through its...

4

India's Cipla set to undercut rivals with generic remdesivir: Sources

Indian drugmaker Cipla Ltd has priced its generic version of Remdesivir, Cipremi, at 4,000 rupees ($53.34) per 100 mg vial, according to several sources, making it among the lowest priced versions of the COVID-19 treatment available so far globally. Cipla had earlier said pricing would not exceed 5,000...

5

Cabinet approves setting up ₹1 lakh-cr agri infra fund

The Union Cabinet on Wednesday approved a ₹1-lakh crore Central government sponsored scheme to provide medium-to-long term debt financing facility for investment to build post-harvest management infrastructure and community farming assets through interest subvention, financial support and moratorium on repayment...

6

Sterling & Wilson Solar promoters delay repayments owed to company citing covid

Solar EPC company Sterling & Wilson Solar Ltd (SWSL) on Wednesday informed stock exchanges that Rs500 crore payment due from its promoters, the Shapoorji Pallonji group and Khurshed Daruvala, on 30 June has been delayed as the promoters cited difficulty...

7

IOC resumes work on Rs 1.04 lakh cr worth of projects

Indian Oil Corporation (IOC), the nation's biggest oil firm, on Wednesday said with easing of lockdown restrictions, it has resumed work on projects worth Rs 1.04 lakh crore which will help address future energy demand as well as kickstart the economy. IOC said it is on track to achieve its planned capital...

Voices

BSE Sensex: 36,676 | **S&P CNX: 10,800**

Cautious commentary; Uncertainty reduces demand visibility!

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

- The 4QFY20 corporate earnings were muted but in line with our expectations for both the Nifty and the MOFSL Universe. Nifty EBITDA/PBT/PAT declined 4.8%/28.6%/20.1% YoY (v/s est. -8.8%/-21.2%/-20%). PAT was dragged by Autos, Oil and Gas (O&G), Metals, Private Banks and NBFCs. Our FY21/FY22E Nifty EPS estimates have been cut by 9%/6% to INR454/INR637. We now expect FY21 Nifty EPS to decline by 3.7%. Direction of earnings revision for the broader markets still remains downward – with 113 companies in the MOFSL Universe witnessing an earnings cut of >5% and 25 witnessing upgrades of >5%+ for FY21. Corporate commentaries expectedly conveyed uncertainty and demand weakness given the disruption due to the COVID-19 pandemic.
- Banks have guided that the COVID-19 outbreak would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. Banks will exercise caution while lending in the near term with focus on preserving the balance sheet and keeping liquidity levels high. On the asset quality front, banks expect the incidence of moratorium to show stable/declining trends under moratorium 2.0 as economic activity is picking up. However, they also expect increase in slippages during 2HFY20 from certain retail and SME/business banking segment. Commentaries of NBFCs across suggest that most are sitting on adequate liquidity for another 3-4 months. During the lockdown phase 1.0, disbursements and collections came to a standstill across product segments. However, this has witnessed meaningful improvement over the last one month for most players. HFCs have seen significant decline in customers opting for moratorium phase 2.0, while the same has been modest for VFCs. Most of the managements have re-iterated that rural recovery is likely to be much faster than urban.
- Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption. Further, they are benefiting by focusing on the Health and Hygiene segments, which have gained significance amid the COVID-19 crisis. Most Consumer companies have been able to resume operations at ~70-90% of their normal levels and it is getting better with every passing day. Stringent cost cutting will be a key focus area for all Consumer companies in the near term to fight the current challenging times
- In Autos, all OEMs refrained from providing guidance for FY21 due to the uncertain demand outlook; however, most expect recovery in 2HFY21. With uncertainty in demand, there is high focus on cutting cost/capex and conserving cash. This is evident from the cut in variable/fixed costs and slashing of capex budgets for FY21 across companies.
- In IT, deal wins were a mixed bag. While TCS and HCL saw strong deal wins, INFO and Tech-M saw some impact. Overall, companies did well in adapting to the current situation by shifting to remote operations with agility and enabling over 90% employees to WFH in a short span of time, thereby reducing the impact.
- Capital Goods companies have taken a cautious stance on working capital and gone slow on execution. Most migrant workers are still returning to project sites with execution yet to ramp up fully.
- In Cement sector, managements have indicated that Apr'20 was a washout due to the shutdown of operations till 19th Apr'20. Post this, operations ramped up

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

Autos

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

Capital Goods

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

Cement

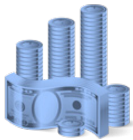
- Industry cement volumes declined ~13% YoY in 4QFY20 due to the nationwide lockdown and plant shutdowns from 24th Mar'20 to combat the COVID-19 pandemic. Managements indicated that Apr'20 was a washout due to shutdown of operations till 19th Apr'20, post which operations ramped up gradually. Cement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

Consumer

- Consumer companies with large staples portfolio seem to be doing well with higher in-home consumption. Further, they are benefiting by focusing on the Health and Hygiene segments, which have gained significance amid the COVID-19 crisis. Most Consumer companies have been able to resume operations at ~70-90% of their normal levels and it is getting better with every passing day. With smaller players affected on the liquidity front, large branded players are poised to improve their market shares. Discretionary portfolios of companies across the board have been affected, including those of largely staple companies. For example, ice creams for HUL and VAHO for Marico have been

affected. However, on an overall basis, these companies are well placed due to their large staples portfolio. On the other hand, companies with major discretionary portfolios are likely to be significantly impacted in 1QFY21 and in some cases for the full-year FY21 as well. The largely benign commodity environment is likely to provide some relief on margins. Stringent cost cutting will be a key focus area for all consumer companies in the near term to fight the current challenging times.

Financials



Banks

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

NBFC

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

Healthcare

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

Media

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

Metals

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

Oil & Gas

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

Retail

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

Technology

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

Telecom

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

Utilities

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

Bajaj Auto

BSE SENSEX	S&P CNX
36,329	10,706

CMP: INR2,853 TP: INR2,895 (+1%) Neutral

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Financial strength to help navigate uncertain times

Premiumisation trend to continue

- **Bajaj Auto's (BJAUT) FY20 annual report highlights the potential impact of COVID-19 on demand with weakness continuing at least till 1HFY21. The company expects the Super-sports segment to grow in FY21.**
- **Also, BJAUT expects the premiumization trend to continue in the long run. The company is well positioned with its portfolio of *Husqvarna*, *KTM*, *Dominar, Pulsar* and the planned *Triumph* launch.**
- **Its competitive positioning in both domestic motorcycles and 3Ws was broadly stable in FY20, however, it lost share in 3W exports from India. Overall, share of exports from Africa increased 6pp to 53%; however, the company witnessed a similar decline in share from South Asia and the Middle East (ME).**
  In FY20, BJAUT started granting employee stock options (ESOPs). Interestingly, BJAUT's ESOP Trust would be buying stocks from the open market for giving shares on exercise of ESOPs.

Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	823.9 / 11.2
52-Week Range (INR)	3315 / 1793
1, 6, 12 Rel. Per (%)	-4/4/8
12M Avg Val (INR M)	1792
Free float (%)	46.3

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	299	263	296
EBITDA	51.0	45.0	51.0
EBITDA Margin (%)	17.0	17.1	17.2
Adj. PAT	54.2	47.7	51.8
EPS (INR)	187	165	179
EPS Gr. (%)	13.3	-11.9	8.6
BV/Sh. (INR)	689	753	819
Ratios			
RoE (%)	26.0	22.9	22.8
RoCE (%)	23.8	20.9	20.8
Payout (%)	77.0	54.6	57.0
Valuations			
P/E (x)	15.2	17.3	15.9
P/BV (x)	4.1	3.8	3.5
Div. Yield (%)	4.2	2.6	3.0
FCF Yield (%)	4.3	5.4	6.0

Outlook: 1HFY21 to be affected by Covid-19

- With partial easing of the lockdown, BJAUT's plants at Chakan, Waluj and Pantnagar have opened, but are far from working at full pace. It expects demand to remain affected for at least the first two, if not three, quarters of FY21.
- FY21 – supposed to be the year of BS-VI transition – has been rocked by the COVID-19 pandemic and its impact on demand. The company sees a distinct possibility of domestic demand remaining constrained, especially in the 100-200cc segment.
- However, the Super-sports segment (>250cc) may see growth due to reasonably large number of relatively well-off people. BJAUT plans to launch products in this segment in FY21.
- It expects marketing to play a critical role in reviving motorcycle demand in the COVID-19 and immediate post-COVID world. The key, according to BJAUT, is how the story of desire is communicated to the segmented markets and how manufacturers can buttress this story with exciting products, prices and financial offers.
- Extract from the annual report, "*We cannot say how Bajaj Auto will fare in this unknown world. But we do know that Bajaj Auto has serious financial muscle to fashion its path to growth.*"

Premiumization to continue, BJAUT to have wide portfolio in this segment

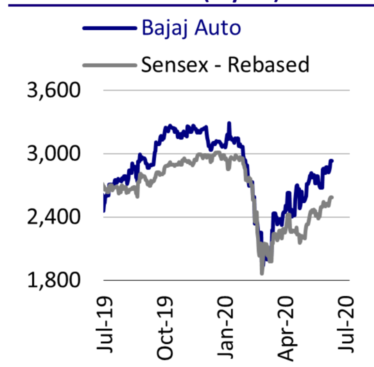
- Despite the weak FY20, the company expects the 'Sports' and 'Super-sports' segments to grow in the long run, driven by affluent customers under 40 years in urban markets.

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	53.7	53.5	51.2
DII	8.8	10.1	7.4
FII	13.9	13.9	15.6
Others	23.6	22.5	25.8

FII Includes depository receipts

Stock Performance (1-year)



- *KTM* and Bajaj Auto have launched *Husqvarna* in FY20. The addition of the *Husqvarna* brand to *KTM* stores should significantly expand volumes in the Super-sport segment.
- With its upper-end *Pulsar, KTM, Dominar, Husqvarna* and the soon to be launched *Triumph*, it expects to continue having a solid presence in these segments.

Domestic motorcycle market share broadly stable

- Overall, BJAUT's domestic motorcycle market share declined 20bp to 18.5%.
- Market share in <125cc segment improved by 20bp to 14.3%, driven by two new models — the *Platina H* and the *Pulsar125*.
- Market share in the Premium segment (150-220cc) improved 60bp to 44.7%.
- Market share in the Super-sport segment (*KTM, Dominar, and Husqvarna*) expanded 270bp to 10.1%, as BJAUT volumes grew 10.9% v/s industry decline of 18.5%. *KTM*'s volumes in India grew 26% (the only major 2W brand to attain double-digit growth in FY20), driven by new products in 125cc and 790cc along with the refreshed *Duke200* and *Duke390*.

3W market share stable in India, attains leadership in diesel as well

- Overall, BJAUT's domestic passenger 3W market share declined 50bp to 63.8%, with share of petrol/alt. fuel increasing by 200bp (to 88%).
- Share of diesel 3Ws was up 300bp (to 40%), where the company attained market leadership. Share of small diesel 3Ws was up 9pp to 89%.
- In FY20, the *Qute-quadricycle* was launched in four states – Kerala, Gujarat, Odisha and Rajasthan. In FY20, the company sold 942 units of *Qute* within India. A partnership with Uber helped in selling 270 *Qutes* in the Bengaluru market, with over 150 such vehicles now running on the Uber platform.

Extract from the AR, "We cannot say how Bajaj Auto will fare in this unknown world. But we do know that Bajaj Auto has serious financial muscle to fashion its path to growth. Enabled by our financial power, if the growth path becomes a reality, it is quite possible that demand effects of COVID-19 may be less overwhelming than what these appear today."

Exports at record high; Decline in share of 3W exports from India

- BJAUT's motorcycle exports grew 10% to 1.87m and its share in exports from India grew 40bp to 59.6%. Motorcycle exports grew in Africa, especially in Nigeria, Ethiopia and Uganda, where it continues to grow by over 20%.
- Motorcycle exports growth in the Middle East (ME) was driven by recovery in Egypt and increasing penetration in newer markets like Iraq. Volumes were stable in Latin America, as decline in Argentina (owing to economic turmoil) was compensated by growth in Mexico and Central America. Exports to South Asia faced headwinds, due to regulatory issues in Bangladesh while Sri Lanka continued to decline.
- 3W exports declined 21.6% to 297k units, impacted entirely by the severe permit restrictions in Egypt. BJAUT's share of 3W exports from India declined by 770bp to 59.4%. New markets entered in the last five years continued to grow handsomely. Philippines, Iraq and Cambodia are among its top-10 markets now, each growing at over 20%.
- BJAUT exports to 79 countries, ranking #1 or #2 in 22 countries. Market mix of overall exports witnessed a change between Africa (+6pp to 53% of exports) and South Asia/ME (-6bp to 22%), whereas LatAM (14%) and ASEAN (11%) were stable.

ESOP Trust to buy shares from market to give stock option to employees

- The company has created an ESOP Trust to provide share-based payment to its employees. The Trust would purchase shares of BJAUT from the open market and give it to employees upon exercising of the ESOPs.
- The company treats the Trust as an extension and shares held by the Trust are deemed as treasury shares. Own re-acquired equity instruments (treasury shares) are recognized at cost and deducted from other equity.
- No gain or loss has been recognized in the Statement of Profit and Loss on the purchase, sale, issue or cancellation of the company's own equity instruments.
- In FY20, the trust purchased shares worth INR260m as 287.6k options were granted at an exercise price of INR2,942.65/share. As a result, the company recognized INR100m as share-based payment expense in Employee cost.

New subs in Thailand to focus on ASEAN where BJAUT has weak presence

- BJAUT has created a new subsidiary, Bajaj Auto Thailand (investment of INR110m), to focus on ASEAN markets. This also included BJAUT's first R&D center outside India.
- Focus of this subsidiary is to identify suitable business partners, gather key market insights and manage as well as oversee business operations across the ASEAN region. Thailand is an advanced motorcycle market – it defines as well as leads trends in South East Asian markets.
- The new design center marks the beginning of Bajaj's R&D expanding its designs to trend-defining markets around the globe.

Investment of INR715m in Yulu Bikes (bike-sharing platform)

- BJAUT has made a strategic investment of INR715m in in Yulu Bikes, a Bengaluru-based start-up. Yulu Bikes operates in the lithium-battery powered electric 2W and bicycle space. It also owns a dock-less bike-sharing platform.
- It is focused on sub-5km first-/last-mile connectivity. It expects the shared micro-mobility segment to help reduce congestion and pollution. This coupled with expansion of Mass Rapid Transport Systems like Metros in large cities should further boost demand for flexible last-mile connectivity.

New product launches and R&D

- ***e-Chetak***: BJAUT brought its historic brand back to life with the launch of the next-generation *Chetak* in an electric avatar. The new *Chetak* is made at state-of-the-art dust-free and temperature-controlled facility at Chakan to exacting standards using the best materials and cutting-edge robotic technology.
- ***Dominar250***: The *Dominar400* was priced higher due to its big displacement engine and top-end features. Moreover, the high performance engine was considered too powerful for less experienced riders. To broaden the brand's appeal, a new *Dominar250* was launched at competitive pricing.
- In FY20, it invested INR4.75b in R&D (incl. capitalized R&D) – an increase of 4% over FY19 and constituting 1.6% of revenues (v/s 1.5% in FY19).
- The company has invested in creating a state-of-the-art electric vehicle (EV) test facility in FY20. This new laboratory will be pivotal in its thrust into the EV space. Every component and aggregate in the EV system can be tested for performance and durability at the new facility.

Financial highlights of FY20

- Revenues declined 1.4% in FY20 to ~INR299.2b, impacted by 8% decline in volumes but supported by 7% higher realizations due to mix. EBITDA declined 2% to INR51b. However, higher other income on treasury and lower tax rate due to reduction in corporate tax rate boosted adj. PAT growth to 15% to INR51b.
- FY20 EBITDA margins were stable YoY (at 17%) as revenues declined 1% but gross margins improved 160bp to 29.8%. However, there was cost inflation in all other cost head including staff cost (+11% YoY or 50bps), other variable cost (+50bp), repair cost (+33% YoY) and miscellaneous expenses (+30% YoY).
- Yield on treasury improved 200bp to 9.8% in FY20.
- Core working capital improved by 2 days to -5 days with 10 days reduction in debtor days offset by 7 days in payable days.
- RoE in FY20 improved by 260bp to 26%, driven by lower tax rate and higher dividend payment.
- CFO from operations grew 55% to INR38.6b, driven by reduction in corporate tax rate and reduction in working capital. While capex increased to INR2.8b (from INR1.1b), overall capex intensity remains lowest in the listed 2W space. FCFF grew 50% to INR35.8b.
- Dividend payout increased to 82% of PAT (v/s 47% in FY19). However, this increase might have one-off component driven by change in the tax treatment of dividends. Hence, net cash on balance sheet reduced by INR13b to INR163.7b (80% of capital employed).

Valuation and view

- FY21 would be another challenging year for the domestic 2W industry as well as for BJAUT due to the COVID-19 pandemic and its impact. As a result, BJAUT should see pressure in its export volumes. Also, the company would face the impact of lower oil prices in some of its key African markets. We estimate volumes to decline by 17% in FY21 and grow 10% in FY22E.
- Leveraging its strong alliance with *KTM* and its latest partnerships with *Husqvarna* and *Triumph*, BJAUT would have the widest range of premium motorcycles on offer. Also, its re-entry into scooters through *e-Chetak* would give it an early-mover advantage in the e-scooter segment.
- Valuations at 17.3x/15.9x FY21/FY22E consol. EPS is a fair reflection of the tepid earnings growth expectation as well as near-term volume weakness. With outlook over the next 6-9 months remaining challenging due to the impact of COVID-19 as well as BS-VI related cost inflation, we estimate BJAUT's EPS to decline at 3.5% CAGR over FY20-22E. Maintain Neutral with TP of INR2,895 (16x Jun'22E consol. EPS v/s 10-year average P/E of 17.3x).

Technology

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ISG sounds caution on BFSI deal activity

Marginal downgrade to earlier outlook

ISG among the leading outsourcing consultants in the world, works with both enterprise buyers and service providers. In its latest edition of the quarterly index call (2QCY20), ISG presented its assessment on deal awards in 2QCY20 and its outlook for 3QCY20. Here are the key takeaways:

Weak deal activity in BFSI disappoints

- Overall annual contract value (ACV) declined ~5% YoY in 2QCY20. Deal activity in Managed Services (-16% YoY) remained a key drag, while As-A-Service ACV increased ~7% YoY.
- The depressed deal activity in Managed Services was attributed to end industries' focus on operational resilience amid the COVID-19 disruption.
- While fewer license deals remained an overhang on the Software-as-a-Service (SaaS) segment (-2% YoY), Infrastructure-as-a-Service (IaaS) providers grew ~11% YoY, led by public cloud adoption.
- Across geographies, the Americas reported ~7% YoY growth, aided by a soft base. EMEA (-9% YoY) and APAC (-24% YoY) reported sharp declines.
- Contrary to consensus expectations, deal activity in Financial Services (overall: 11%; Managed Services: 25%; 1HCY20, YoY) was a major disappointment. This was ascribed to low interest rates and delays witnessed in the shift to the remote work model, led by compliance/security requirements, etc.
- Verticals such as Energy (+9% YoY) and Retail & CPG (+7% YoY) surprised despite severe disruption on both the operational and financial fronts.

Deal activity largely skewed toward small deals

- ISG indicated large deal activity in 2QCY20 was significantly lower than usual. The company added that ~90% deals were in the USD 5–10m ACV bucket as clients were looking at additional/modified scope to enable operational resilience.
- USD 50m+ worth of ACV deals declined by ~75% YoY. A significant share of large deals has been deferred to subsequent quarters due to COVID-19.
- Besides the deflation in deal sizes, the company hinted at the elongation of deal cycles.
- Reduced/Modified scope, requests for price discounts, and the extension of payment terms seem to be the trends in deal renewals.

Marginal downgrade to earlier guidance

- ISG anticipates the number of large transactions to remain depressed as clients focus on business resilience and operational issues.
- While digital transformation is likely to accelerate post-COVID, ISG expects this to happen at a slower pace over 2HCY20.
- As-a-Service spend is likely to shift to cybersecurity, cloud migration, etc.
- In Managed Services, ISG now expects 7.5% YoY decline (v/s 7% earlier) in CY20. As-a-Service is now anticipated to grow 11% YoY (v/s 12% earlier).
- In 3QCY20, deal activity in some of the key verticals – such as Financial Services, Healthcare and Pharma, Travel, Transportation and Hospitality, and Retail and CPG – is expected to plummet.

Valuation and view – Await Indian IT commentary on deal flow

- As Indian IT companies report their 1QFY21 results from this week, we keenly await details on deal signing trends and outlooks.
- Despite near-term uncertainties due to the COVID-19 crisis and the US Presidential elections, we continue to like Infosys/TCS/HCLT among Tier I.
- This is attributable to their robust business models, high return ratios, strong management teams, and reasonable valuations.
- These companies have the legacy of having overcome multiple business challenges and technology change cycles in the past.
- Accordingly, we believe they would be able to adapt and overcome any transient challenges posed by the COVID-19 crisis.

Relative Valuation Comparison

	CMP	MCap	EPS (INR)			EPS CAGR %	Div. Yield (%)	PE (x)			ROE (%)		
Company Name	(INR)	(INR b)	FY20	FY21E	FY22E	FY20–22E	FY20	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Cyient	260	29	33.8	24.2	27.9	-9.0	5.0	7.7	10.7	9.3	13.5	9.2	10.1
HCL Technologies	574	1560	40.7	38.8	45.6	5.8	1.4	14.1	14.8	12.6	24.3	19.4	19.0
Hexaware Tech.	339	101	21.8	18.0	22.2	0.9	2.5	15.6	18.8	15.3	24.9	18.5	20.3
Infosys	775	3280	39.0	37.6	43.0	5.0	2.3	19.9	20.6	18.0	25.3	22.2	22.8
L&T Infotech	2,052	357	86.7	94.3	110.1	12.7	1.4	23.7	21.8	18.6	31.1	27.7	26.4
Mindtree	988	163	38.3	51.0	60.0	25.1	1.3	25.8	19.4	16.5	20.0	22.4	22.2
MphasiS	921	172	61.5	59.9	72.5	8.6	3.8	15.0	15.4	12.7	21.4	18.6	20.9
NIIT Tech.	1,538	93	73.5	76.0	97.0	14.9	2.0	20.9	20.2	15.9	20.5	18.6	20.9
Persistent Systems	723	54	44.4	44.4	59.5	15.8	1.7	16.3	16.3	12.2	14.3	12.8	15.1
TCS	2,219	8320	86.2	85.3	97.9	6.6	3.3	25.7	26.0	22.7	36.4	34.1	33.3
Tech Mahindra	582	562	45.9	36.3	44.7	-1.3	2.6	12.6	15.9	12.9	18.5	13.3	14.9
Wipro	224	1270	16.6	15.4	17.7	3.2	0.4	13.4	14.5	12.6	17.3	14.8	15.5
Zensar Tech	129	29	11.8	13.4	15.9	16.1	2.2	10.9	9.7	8.1	13.0	13.1	14.1

Source: Company, MOFSL

BRICS+: 1QCY20: India vis-à-vis other emerging markets (EMs)

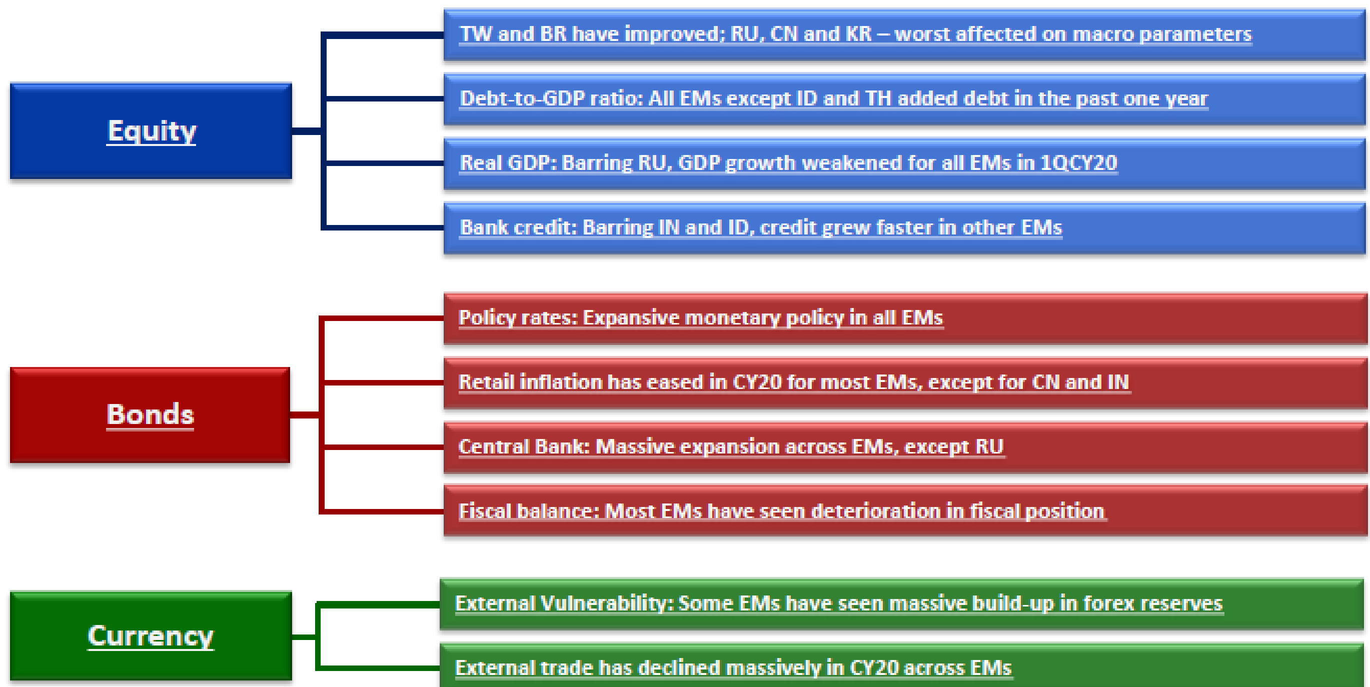
1QCY20: India vis-à-vis other emerging markets (EMs)

- 2020 is turning out to be a terrible year. With the outbreak of the Coronavirus (COVID-19) pandemic, economic growth across the world has come to a sudden stop. To counter this, almost all countries have doled out large fiscal stimulus. Global trade has halted and inflation has softened in most emerging markets (EMs). The risk-return matrix based on macro indicators (GDP growth, inflation, current account deficit and fiscal deficit) suggest that Russia, China and Korea were the worst affected in 1QCY20, while Taiwan and Brazil improved. The benchmark equity indices declined in most EMs (barring China). The 10-year bond yields have come off from its peak in Mar'20 and all EM currencies have weakened against the USD (except the NTD). However, a silver lining is the sharp rise in forex reserves in most EMs, with India leading the pack.
- This quarterly publication provides a comparative analysis of the macroeconomic conditions in the world's 10 major EMs. Quite often, these economies are clubbed together as a basket, especially in terms of portfolio allocation.

The 10 EMs included in this publication are:

- 1. Brazil (BR), 2. China (CN), 3. India (IN), 4. Indonesia (ID), 5. South Korea (KR), 6. Malaysia (MY), 7. Russia (RU), 8. South Africa (SA), 9. Taiwan (TW), 10. Thailand (TH).

1QCY20: Key highlights



M&M: WE ARE GOING BACK TO A PATH OF A HIGH LEVEL OF FINANCIAL DISCIPLINE; Anish Shah, Joint MD

- Board started a “challenge round” around 2 years ago after losses from subs reached an 107% of the profit in FY20 from 1% in FY17
- The review is not a one-time exercise; this will be constantly reviewed every 6 months to ensure businesses are on track
- Bucketed into 3 categories Category A: companies who have a clear path to 18% of return on equity, Category B: which has an unclear path to profitability but can deliver quantified strategic benefit, Category C: which is neither of A and B and calls for a possible exit, either through an alliance or a sale.
- Taken tough calls on the two-wheeler business, Baby Oye, and Mom and Me among others
- 60% of losses came from SsangYong and Gen Z and taken a call on the same in 4QFY20. MM is not investing in them anymore and by the end of this FY21, the remaining lossmaking subsidiaries will be addressed. If there isn't a clear path, then we will formally shut it down.
- Going back to in many ways is a path to a high level of financial discipline. 2 step approach - Look at lossmaking subsidiaries and get them back on track & Look at low-profit-making companies (RoE of 0-10%) and get them on the path to higher profitability or are they important for us.
- ROE in the last few years has gone down from 20% to 12% driven by losses in the subsidiaries.
- Over the last three years we have generated close to Rs 5,000 crore of cash.
- Need to get back to 20-22% RoE and 30%-plus growth rate in cash generation
- Fixing the lossmaking subsidiaries should help RoE reach 18% and fixing the 0-10% ROE businesses will help deliver 20-22% RoE

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LET'S NOT UNDERESTIMATE INDIA'S FOREIGN POLICY EXPERTISE

- We have in India many armchair foreign policy “experts" who seem to cast their opinions without having an iota of experience on foreign policy formulation or its implementation. One such piece opined that Indian Foreign Service (IFS) bureaucrats, with a few exceptions, are jacks-of-all-trades. From this assumption, for which no proof was advanced nor felt necessary, a conclusion was drawn that the Indian foreign service establishment does not have the ability to provide real inputs for how our governments should conduct foreign policy. Really? Then, how do you explain that for over seven decades, India has been boxing well above its weight in the international arena. How did India get elected to the United Nations (UN) Security Council for 2021-22 with one of the largest positive vote counts ever? This was not the result of luck. This was achieved through the assiduous cultivation of friends and partners, as well as the handing out of favours over decades and then encashing them when required. The question that arises is whether the efforts of India’s foreign service establishment get a fair appraisal from critics. The frame of reference for any such analysis needs to be the long-term interests of the country. This calls for strategic thinking. If you consider the fact that the current Indian ambassador to Russia is a fluent speaker of the country’s language and is on his third assignment to Moscow, with a wide array of contacts and a deep understanding of that civilization and culture, you would acknowledge that the IFS is well specialized in its role. Take another example. India’s ambassador to the United States is doing his third stint at Washington DC over a 35-year career, and this is his fourth posting in that country. He knows the ins and outs of the US political system and has reliable contacts on both sides of the political aisle.

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NOTES

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

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