Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,738	1.1	-10.9
Nifty-50	10,813	1.0	-11.1
Nifty-M 100	15,362	0.4	-10.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,152	-0.6	-2.4
Nasdaq	10,548	0.5	17.6
FTSE 100	6,050	-1.7	-19.8
DAX	12,489	0.0	-5.7
Hang Seng	10,782	0.3	-3.5
Nikkei 225	22,529	0.4	-4.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	42	-2.4	-36.7
Gold ($/OZ)	1,804	-0.3	18.9
Cu (US$/MT)	6,300	1.1	2.5
Almn (US$/MT)	1,637	0.2	-8.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.0	0.0	5.1
USD/EUR	1.1	-0.4	0.6
USD/JPY	107.2	-0.1	-1.3
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.8
10 Yrs AAA Corp	6.7	0.00	-1.0
Flows (USD b)	**9-Jul**	**MTD**	**CYTD**
FIIs	0.03	-0.24	-2.71
DIIs	-0.11	0.15	12.12
Volumes (INRb)	**9-Jul**	**MTD***	**CYTD***
Cash	557	592	515
F&O	32,574	19,433	14,918

Note: *Average

Today's top research idea

TCS: Miss amidst a challenging environment; Positive outlook!

- TCS' reported revenue (CC) / EBIT / PBT/ PAT declined 6%/2%/11%/14% YoY which was slightly below our estimates. However, in our view, this is not worrying given the unprecedented damage global economies have witnessed.
- The management undertook the best possible efforts to optimize cost (SG&A = 12.3% of sales v/s 13.5% in 4Q) and cash conversion (OCF/PAT = 133% v/s 109% in 4Q), which provided great comfort. Deal wins (USD6.9b ex-Phoenix deal; +21% YoY) were stronger than our expectations (USD5.5–6.0b). More importantly, continued traction in large deals, a healthy pipeline, and better resilience in BFSI are encouraging factors.
- Management hinted that the worst impact of COVID-19 was behind and maintained its earlier outlook of flattish revenue (INR, YoY) by Dec'20. Rich multiples (22x FY22E EPS) leave limited upside in the stock, in our view. Accordingly, we remain NEUTRAL on the stock despite being positive on the company.

Research covered

Cos/Sector	Key Highlights
TCS	Miss amidst a challenging environment; Positive outlook!
Financials - 1QFY21 Preview	Caution to prevail; Earnings to remain muted
Consumer	Benign commodity cost trend continues
India Life Insurance	Private players' individual WRP down ~7% YoY in Jun'20

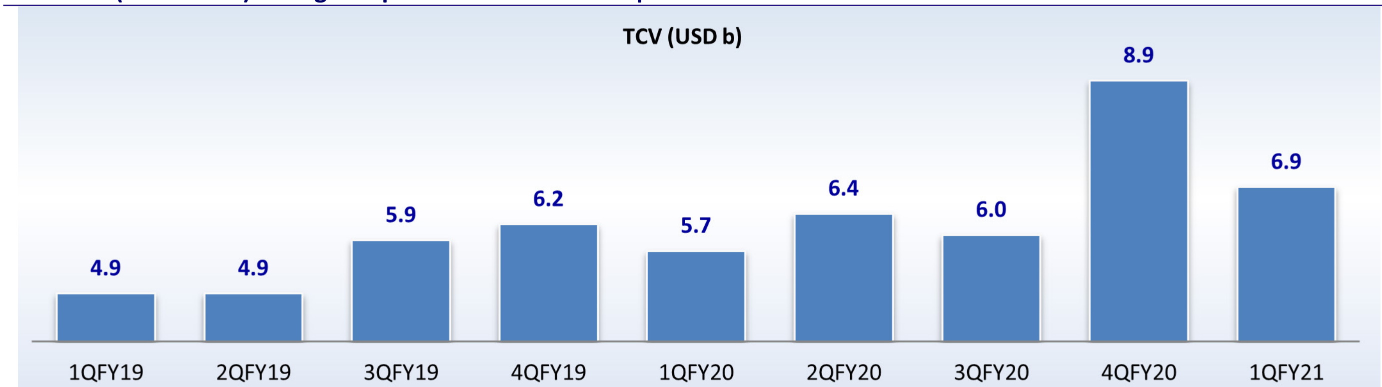
Piping hot news

Govt to announce measures to boost demand; fiscal, monetary headroom available: Sanjeev Sanyal

Asserting that economic activity is steadily coming back on track, Principal Economic Adviser Sanjeev Sanyal on Thursday said the government will undertake measures to boost demand and there is both monetary and fiscal headroom available.

Chart of the Day: TCS (Miss amidst a challenging environment; Positive outlook!)

Deal wins (ex-Phoenix) during the quarter were robust despite COVID-19



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Govt to announce measures to boost demand; fiscal, monetary headroom available: Sanjeev Sanyal

Asserting that economic activity is steadily coming back on track, Principal Economic Adviser Sanjeev Sanyal on Thursday said the government will undertake measures to boost demand and there is both monetary and fiscal headroom available….

2

India plans to raise $2.7 billion selling stakes in two firms (Coal India, IDBI Bank)

India is considering a plan to raise as much as Rs 20,000 crores ($2.7 billion) by selling stake in the world's largest coal producer, and a bank to fund a stimulus program aimed at boosting the virus-battered economy, officials with knowledge of the matter said. The proposal involves a share sale depending on the market sentiment, said the officials, who asked not to be identified, as the discussions are private.

3

BP pays $1 billion for 49% stake in fuel retail JV with Reliance

UK's BP has paid Reliance Industries $1 billion for 49% stake in a fuel retail joint venture, closing a transaction the two companies announced last year. Reliance BP Mobility ltd (RBML), the joint venture in which RIL holds 51%, will operate under the Jio-BP brand and leverage Reliance's presence across 21 states and its millions of …

4

Uttar Pradesh govt imposes lockdown from 10 pm tomorrow till 5 am Monday

Uttar Pradesh government today announced that it will be imposed a stricter lockdown in the state from tomorrow 10 pm to Monday 5 am. The 55-hour lockdown announcement comes in the backdrop of rising novel coronavirus cases in the state for a few weeks. All government offices and markets to remain …

5

Gujarat cancels 2018 tariff hike to Adani, Tata, Essar's ultra mega power plants

The Gujarat government has decided to reverse its 2018 decision to amend the power purchase agreements (PPAs) it signed with three producers - Tata Power, Adani Power and Essar Power - to raise the tariffs in order to offset the rising cost of imported coal. On Thursday, the energy and petrochemicals department of the state noted in a press release that "the market trend of Indonesian coal prices (have) changed the scenario and to safeguard the interest of consumers, the government of Gujarat has revoked the regulation dated December 1, 2018 as the same was not fulfilling its objective and purpose."

6

Sebi broadbases investors, relaxes ownership norms for bourses in GIFT City

The Securities and Exchange Board of India (Sebi) has relaxed ownership norms for stock exchanges situated in International Finance Service Centre at GIFT city. The regulator has allowed corporates also to invest in the stock exchange at GIFT City. So far only financial …

7

PNB Housing Finance actively looking to sell down corporate assets and raise focus on mass housing segment

PNB Housing Finance is actively looking to sell down corporate assets and raising focus on the mass housing segment even as disbursement likely to shrink this financial year. The company said there are early signs of real estate sector bottoming out after …

TCS

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	TCS IN
Equity Shares (m)	3,752
M.Cap.(INRb)/(USDb)	8271.6 / 111
52-Week Range (INR)	2302 / 1504
1, 6, 12 Rel. Per (%)	-2/11/9
12M Avg Val (INR M)	7293
Free float (%)	28.0

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	1,569	1,587	1,805
EBIT Margin (%)	24.6	24.5	25.3
PAT	323	315	372
EPS (INR)	86.2	83.9	99.1
EPS Gr. (%)	3.7	(2.7)	18.2
BV/Sh. (INR)	230	228	228
Ratios			
RoE (%)	36.4	36.6	43.5
RoCE (%)	31.0	31.0	36.6
Payout (%)	99.1	104.6	100.3
Valuations			
P/E (x)	25.7	26.4	22.3
P/BV (x)	9.6	9.7	9.7
EV/EBITDA (x)	18.9	18.7	16.1
Div Yield (%)	3.3	3.4	3.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	72.1	72.1	72.1
DII	8.1	8.1	7.8
FII	15.7	15.9	15.8
Others	4.1	4.0	4.3

FII Includes depository receipts

CMP: INR2,204 TP: INR2,300 (+4%) Neutral

Miss amidst a challenging environment; Positive outlook!

Deal wins and commentary on BFSI is encouraging

- For 1QFY21, TCS missed our revenue (USD) / EBIT estimate by 2%/6%. However, in our view, this is not worrying given the unprecedented damage global economies have witnessed. The management undertook the best possible efforts to optimize cost (SG&A = 12.3% of sales v/s 13.5% in 4Q) and cash conversion (OCF/PAT = 133% v/s 109% in 4Q), which provided great comfort.
- Similar to Accenture, underlying trends were resilient. However, as we highlighted in our earlier note, lower exposure to the Healthcare vertical (10% of revenue v/s 18% for the former), which has continued to show strong traction, partly led to higher overall revenue decline.
- Deal wins (USD6.9b ex-Phoenix deal; +21% YoY) were stronger than our expectations (USD5.5–6.0b). More importantly, continued traction in large deals, a healthy pipeline, and better resilience in BFSI are encouraging factors.
- Management believes the worst impact of COVID-19 is behind (both in terms of revenue and profitability) even as some variables such as pricing and working capital cycles warrant a close watch. We expect TCS to be a key beneficiary of the COVID-19-led increase in tech intensity across verticals.

Slight miss on estimates; not a cause for concern

- TCS' reported revenue (CC) / EBIT / PBT/ PAT declined 6.3%/2%/11%/14% YoY.
- As in the case of Accenture, the Healthcare vertical reported robust growth (~14% YoY, CC), led by work related to contact tracing applications, etc.
- The BFSI vertical (-4.9% YoY, CC) remained resilient and outperformed company-level growth. In this vertical, while the UK and Canadian markets remained soft, other geographies surpassed management expectations.
- Retail & CPG (-12.9% YoY) and Manufacturing (-7.1% YoY) were the most severely impacted verticals, weighed by sub-segments such as Travel, Discretionary Retail, etc.
- Barring continental Europe (+2.7% YoY), key geographies such as North America (-6.1% YoY) and the UK (-8.5% YoY) reported declines.
- The gross margin missed our estimates by ~160bp. This appears to be driven by sharper-than-expected negative operating leverage.
- Control on SG&A expenses (12.3% of sales v/s 13.5% in 4Q) was impressive.
- Lower other income and higher ETR also impacted reported profitability.
- Cash conversion (OCF/PAT = 133% v/s 109% in 4Q) reported impressive improvement, led by both billed and unbilled receivables.

Key highlights from management commentary

- Of the revenue decline witnessed in 1QFY21, 20% was attributable to supply-side issues, which should be resolved going forward as economies start up again.

- BFSI turned out more resilient than anticipated. Supply-side issues in this vertical were overcome by Apr'20. Some of the incremental demand is being driven by the ramp-up of IT infrastructure to support the distribution of government stimulus funds across economies.
- In Retail & CPG, while the technology spend to enable the online business channel increased considerably, recovery is expected to take longer.
- Globally, ~1% of employees are currently working from office. Management expects ~5% of employees to return to office by the end of the year.
- 32 projects were virtually ramped-up during the quarter. The company virtually on-boarded people across multiple geographies.
- Management indicated large deal wins during the quarter were very strong, allaying concerns around large deals in the current context. It further added the quarter also saw many small deals.
- Of the deal wins reported in 1Q (USD6.9b), the US geography contributed USD3.3b. The BFSI/Retail vertical contributed USD2.1b/USD0.9b. While deal closures were polarized, the pipeline is said to have a good mix of deals.
- The company hinted that the worst impact of COVID-19 was behind. It maintained its earlier outlook of flattish revenue (INR, YoY) by Dec'20. This translates to ~2% CQGR over the Sep and Dec quarters.
- While positive momentum is witnessed in Europe, management is cautiously optimistic on the situation in the US.
- As demand improves and growth revives, margins are expected to expand. It was suggested that discretionary spend would continue to be optimized.
- Collections improved in 1QFY21, which was a positive surprise. Management believes this was largely driven by a strong balance sheet support lent by governments to businesses across the world. However, it is implied that WC cycles need to be keenly observed.

Valuation and view – Key beneficiary of rising tech intensity

- TCS has a historical track record of adapting to multiple business challenges and technology change cycles. Additionally, it has consistently maintained its market leadership, best-in-class operational metrics, and high return ratios.
- While the peak of COVID-19-led uncertainty may be behind, near-term negative surprises related to demand, pricing, and collections cannot be ruled out.
- Nevertheless, TCS should be able to better navigate through these challenges (v/s the rest of the industry). Over the medium term, we expect TCS to be a key beneficiary of the COVID-19-driven increase in technology intensity across verticals.
- Rich multiples (22x FY22E EPS) leave limited upside in the stock, in our view. Accordingly, we remain NEUTRAL on the stock despite being positive on the company.

Quarterly Perf. (IFRS) (INR b)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	(% / bp)
IT Services Rev. (USD m)	**5,485**	**5,517**	**5,586**	**5,444**	**5,059**	**5,008**	**5,008**	**5,023**	**22,032**	**20,099**	**5,172**	**-2.2**
QoQ (%)	1.6	0.6	1.3	-2.5	-7.1	-1.0	0.0	0.3	5.4	-8.8	-5.0	-207bp
Overall Revenue (INR b)	**382**	**390**	**399**	**399**	**383**	**381**	**381**	**382**	**1,569**	**1,526**	**393**	**-2.5**
QoQ (%)	0.4	2.1	2.3	0.2	-4.1	-0.7	0.0	0.3			-1.6	-246bp
YoY (%)	11.4	5.8	6.7	5.1	0.4	-2.3	-4.5	-4.4	7.2	-2.8	3.0	-258bp
GPM (%)	**40.5**	**40.8**	**41.4**	**42.0**	**39.4**	**41.4**	**41.2**	**41.0**	**41.2**	**40.7**	**41.0**	**-159bp**
SGA (%)	16.3	16.8	16.3	16.9	15.8	16.9	16.4	16.4	16.6	16.4	16.6	-78bp
EBITDA	**100**	**102**	**109**	**110**	**100**	**101**	**102**	**102**	**421**	**406**	**105**	**-4.2**
EBITDA Margin (%)	**26.3**	**26.2**	**27.3**	**27.5**	**26.2**	**26.7**	**26.9**	**26.7**	**26.8**	**26.6**	**26.6**	**-46bp**
EBIT	**92**	**94**	**100**	**100**	**90**	**93**	**94**	**94**	**386**	**371**	**96**	**-5.7**
EBIT Margin (%)	24.2	24.0	25.0	25.1	23.6	24.5	24.7	24.5	24.6	24.3	24.4	-81bp
Other income	14	12	6	5	5	6	6	6	37	23	9	-47.9
PBT	**106**	**105**	**106**	**105**	**95**	**99**	**100**	**100**	**422**	**394**	**105**	**-9.3**
ETR (%)	23.4	23.5	23.0	23.0	25.8	25.8	25.8	25.8	23.2	25.8	23.0	282bp
PAT	**82**	**81**	**81**	**81**	**70**	**74**	**74**	**74**	**324**	**291**	**81**	**-12.6**
QoQ (%)	-0.3	-1.2	1.1	-0.6	-12.9	4.5	1.0	-0.5			-0.4	-1253bp
YoY (%)	10.7	1.7	0.3	-1.1	-13.5	-8.6	-8.6	-8.5	2.2	-10.3	-1.1	-1243bp
EPS (INR)	21.7	21.4	21.6	21.5	18.7	19.5	19.7	19.6	86.2	77.5	21.4	-12.6

Key Performance Indicators

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	2.5	1.6	0.3	-1.4	-6.7				7.1	7.1
Costs (% of revenue)										
COGS	59.5	59.2	58.6	58.0	60.6	58.6	58.8	59.0	58.8	59.3
SGA	16.3	16.8	16.3	16.9	15.8	16.9	16.4	16.4	16.6	16.4
Depreciation	2.1	2.2	2.3	2.4	2.5	2.2	2.2	2.2	2.2	2.3
Margins										
Gross Margin	40.5	40.8	41.4	42.0	39.4	41.4	41.2	41.0	41.2	40.7
EBITDA margin	26.3	26.2	27.3	27.5	26.2	26.7	26.9	26.7	26.8	26.6
EBIT Margin	24.2	24.0	25.0	25.1	23.6	24.5	24.7	24.5	24.6	24.3
Net Margin	21.3	20.6	20.4	20.1	18.3	19.2	19.4	19.3	20.6	19.1
Operating metrics										
Headcount (k)	437	451	447	448	444				448	
Attrition (%)	11.5	11.6	12.2	12.1	11.1				12.1	
Deal Win TCV (USD b)	5.7	6.4	6	8.9	6.9				27	
Key Verticals (YoY CC %)										
BFSI	9.2	8.0	5.3	-1.3	-4.9				5.2	
Retail	7.9	4.8	5.1	4.2	-12.9				5.5	
Key Geographies (YoY CC %)										
North America	7.7	5.3	4.1	0.2	-6.1				4.3	
UK	16.0	13.3	7.5	5.4	-8.5				10.4	
Continental Europe	15.0	16.0	15.9	11.9	2.7				14.6	

Financials: Banks and Insurance

Result Preview

Caution to prevail; Earnings to remain muted

Trend across moratorium book/collection efficiency remains key

- Banking sector earnings are likely to remain muted affected by the COVID-19 outbreak and its resultant impact on growth/asset quality. While the moratorium/standstill benefits continue, we expect banks to further strengthen their balance sheets by making healthy provisions. Moreover, declining interest rates along with higher liquidity on the balance sheets should keep margins under pressure (~10-20bp for Private Banks). **We believe the proportion of loans under moratorium would decline gradually. Thus, collection efficiency trend is an important near-term metric to assess the banking system's health.** Overall, we estimate our banking coverage universe to deliver 20%/4% growth in 1QFY21 PPoP/PAT.
- **Private Banks – prudential provisioning will continue to weigh on earnings:** We **estimate Private Banks to report PPoP growth of ~21% YoY (+7% QoQ), while PAT should grow 4% YoY (+47% QoQ).** The elevated credit cost coupled with suppressed credit growth is likely to put pressure on near-term earnings. However, this may get partly offset by higher treasury income led by decline in G-Sec yields and stake sale in subs for ICICIBC (INR30.5b) and SBIN (INR15b).
  - **Loan growth** in retail should moderate due to the COVID-19 outbreak as discretionary consumer spending declines along with muted wholesale lending trends. **For FY21/FY22E, we expect Private Bank's overall loan growth to decline to 11%/15%,** reflecting the slowdown in systemic loan growth. We estimate AXSB/ICICIBC to deliver 15.4%/10.9% YoY loan growth, while HDFCB should report higher growth of ~21% YoY. KMB/IIB should exhibit moderation in loan growth to 6.6%/3.5% YoY.
  - **Margin trajectory** is likely to decline affected by the sharp cut in repo rate/MCLR across banks. Softening loan growth and higher liquidity on the balance sheet should put further pressure on margins (~10-20bp). We, thus, expect Private Banks to deliver **NII growth of 14% YoY**, led by KMB (18% YoY), RBK (18% YoY) and HDFCB (16%YoY).
  - **Asset quality** trends are likely to stay suppressed as the full quarter was under moratorium. Thus, focus would remain on the proportion of book under moratorium and trends in collection efficiency. The bulk of the impact is likely to be witnessed over 2HFY21. We expect large banks like HDFCB, ICICIBC and KMB to navigate through the current crisis relatively well; however, we remain watchful of other banks like AXSB, IIB and RBL given their high rating downgrades and slowing macros.
- **PSBs' earnings to remain under pressure:** We estimate weakness in the earnings of PSU Banks (PSBs). Besides the dreadful impact of COVID-19, sluggish loan growth due to merger integration, higher proportion of moratorium and delay in the resolution of NCLT accounts are additional earning dampeners. PSBs are expected to deliver **NII growth of 5% YoY and a PAT growth of ~3% YoY to INR31.2b**. We expect PSBs' PPoP to grow ~19% YoY.

1QFY21 earnings estimate (INR b)

PAT (INR b)	1Q FY21E	YoY (%)	QoQ (%)
Pvt Banks			
AUBANK	1.43	-24.9	16.9
AXSB	11.09	-19.1	NM
BANDHAN	7.86	-2.1	52.0
DCBB	0.60	-26.2	-13.0
EQUITAS	0.33	-43.8	-22.8
FB	3.05	-20.6	1.3
HDFCB	66.82	20.0	-3.5
ICICIBC	26.59	39.4	117.7
IIB	7.45	-48.0	136.4
KMB	13.18	-3.1	4.1
RBK	1.23	-54.0	7.4
Pvt Total	**139.64**	**4.0**	**46.8**
PSU Banks			
BOB	5.36	-24.4	5.9
SBIN	25.81	11.6	-27.9
PSU Total	**31.17**	**3.1**	**-23.7**
Banks Total	**170.81**	**3.9**	**25.6**
Life Insurance			
HDFCLIFE	3.34	-21.4	7.0
IPRU	2.21	-22.3	23.3
Life Total	**5.55**	**-21.8**	**13.0**

- **Mid-sized Private Banks – to tackle asset quality challenges:** We expect performance of mid-sized Private Banks to remain under pressure as they face challenges on the asset quality front; however, collection efficiency is showing improving trends. We estimate DCB to report decline of 26% YoY in net earnings while RBK's earnings should be impacted by higher credit cost. Thus, RBK's PAT is expected to decline 54% YoY though PPoP growth may remain strong at 15% YoY. FB is best placed on liability franchise; however, it is likely to report an earnings decline of ~21% YoY as we factor in the higher credit cost.
- **Small Finance Banks – earnings to get impacted on higher provisions:** We expect AUBANK to report PPoP growth of 10% YoY, led by loan growth of 18% YoY. Earnings should decline 25% YoY led by higher credit cost. EQUITAS is expected to report PPoP growth of 29% YoY with earnings decline of 44% YoY.
- **Life Insurers to witness decline in premiums:** IPRU/HDFC Life is estimated to report net premium income decline of 18%/15% YoY, impacted by weak business trends owing to the COVID-19 outbreak. With continued focus on protection business and slowdown in low-margin ULIPs, margin trajectory should improve for these players. Overall, we expect PAT decline of 21-22% for both the insurers.
- **Other monitorables:**
  - **Moratorium 2.0/Collection efficiency –** Management commentary on the moratorium trends under moratorium 2.0 would be the key theme of discussion. Also, the trends in collection efficiency (banks have highlighted improving collection trends over May-Jun'20) as the economy starts to recover would be an important metric to assess the banking system's health in the near term.
  - **Asset quality –** Guidance on asset quality ratios and credit cost for FY21 are important monitorables as the system traverses the negative impact of COVID-19. While recovery has started it is at a slow pace.
  - **Liquidity management/Deposit build-up –** Liquidity being maintained by banks would be a key metric amongst investors. This is especially important considering the RBI's moratorium, which could lead to ALM mismatch – as liabilities would have to be honored while collection would be impacted.
  - **Margin trajectory –** Declining rate environment along with higher liquidity is likely to keep margins under pressure. However, reduction in cost of funds as banks have lowered their interest rate would ease off some pressure. Hence, overall trajectory would be an important monitorable.
  - **Treasury performance –** Treasury performance during the quarter is another vital metric as bond-yields have moderated. Also, few banks – ICICIBC (INR30.5b) and SBIN (INR15b) – sold some stake in subs to raise capital.
  - **Capitalization levels –** As banks would look to absorb the incremental stress due to COVID-19, we believe the CET-ratio could fall significantly, requiring them to raise further growth capital in the near term. Thus, most banks have taken their boards' approval and would raise capital over FY21.

Our top picks – ICICIBC, HDFCB and SBIN

ICICIBC: Financial Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	332.7	371.2	425.1
OP	281.0	340.5	351.5
NP	79.3	112.5	155.1
NIM (%)	3.7	3.6	3.7
EPS (INR)	12.3	17.4	24.0
EPS Gr (%)	135.0	41.6	37.9
ABV/Sh (INR)	152.1	163.3	187.7
Cons. BV/Sh (INR)	191.3	211.0	234.4
Ratios			
RoE (%)	7.2	9.5	11.9
RoA (%)	0.8	1.0	1.2
Valuations			
P/BV (x) (Cons)	1.9	1.8	1.6
P/ABV (x)	1.8	1.6	1.4
P/E (x)	21.9	15.4	11.2

*Adjusted for Investment in subs

ICICIBC (Buy)

- ICICIBC has been following rigorous underwriting in growing unsecured loans (~9% of total loans). On the wholesale front, proportion of A- and above in incremental sanctions stood at 90%. Further, it has one of the highest PCR in the industry. The BB & below book has declined to 2.6%, which along with lowest exposure to the SME segment (~4%) would keep credit cost under control.
- Retail loan mix has increased to 63% (660bp increase over the past two years). This along with one of the strongest deposit franchises amongst Private Banks, CASA of 45% and lowest funding costs should enable it to underwrite profitable business without undue risk.
- Overall, we have lowered our loan assumptions and increased credit cost estimates. We, thus, expect ICICIBC to deliver RoA/RoE of 1.2%/11.9% by FY22E. Adjusted for subsidiaries, the standalone bank trades at 1.4x FY22E ABV.

HDFCB: Financial Snapshot (INR b)

Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	652.1	743.0
OP	487.5	565.0	647.4
NP	262.6	299.7	349.1
NIM (%)	4.2	4.2	4.1
EPS (INR)	48.0	54.7	63.7
EPS Gr. (%)	21.2	13.8	16.5
BV/Sh. (INR)	311.8	356.9	410.3
ABV/Sh. (INR)	300.3	338.4	388.2
Ratios			
RoE (%)	16.4	16.3	16.6
RoA (%)	1.9	1.8	1.9
Valuations			
P/E(X)	23.4	20.6	17.7
P/BV (X)	3.6	3.2	2.7
P/ABV (X)	3.7	3.3	2.9

HDFCB (Buy)

- HDFCB has reported strong business growth in a tough environment where economic activity is getting impacted due to the COVID-19 outbreak. Corporate loan growth remains strong and is compensating well for the softness in its retail portfolio (caused by muted growth in the vehicle segment/credit cards).
- Fee income profile is likely to get impacted due to decline in economic activity on account of COVID-19. However, strong cost controls should drive an improvement in the bank's return ratios. Besides, margins have improved sequentially due to the decline in cost of funds aided by strong/granular liability franchise. Thus, we expect margins to remain largely stable at ~4.3%.
- A strong liability franchise would support margins while higher liquidity levels would enable the bank to ride the current crisis and gain further market share. We, thus, estimate loan book/PAT to deliver CAGR of 15% each over FY20-22E. Management succession remains a big event to watch for. The bank trades at 2.9x FY22E ABV.

SBIN: Financial Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	980.8	1,014.8	1,106.9
OP	681.3	696.2	768.3
NP	144.9	141.5	206.1
NIM (%)	3.0	2.9	2.9
EPS (INR)	16.2	15.9	23.1
EPS Gr. (%)	NM	-2.4	45.7
ABV (INR)	186.7	193.6	224.5
Cons. BV (INR)	266.7	286.2	313.7
Ratios			
RoE (%)	7.2	6.6	8.9
RoA (%)	0.4	0.3	0.5
Valuations			
P/BV (x) (Cons.)	0.7	0.7	0.6
P/ABV (x)	0.5	0.5	0.4
P/E (x)	5.5	5.6	3.9

*Adjusted for Investment in subs

SBIN (Buy)

- SBIN appears well positioned to report strong uptick in earnings. The bank's NPL formation run-rate has moderated significantly from the highs witnessed during FY17-18. This, along with the expected uptick in core operating performance will further propel earnings growth, in our opinion.
- SBIN's exposure to the stressed pool stands at ~2% of total loans while its net stressed loans (excl. NNPA) at ~0.3% are the lowest amongst corporate banks. The proportion of the moratorium book also stands lower than that of most peers at ~23% of the total loans aided by higher exposure to salaried (government and PSU) employees. Further, moratorium availed in the corporate segment too remains low. We, nevertheless, cut our earnings estimate as we expect (a) slippages to stay elevated in 1HFY21, and (b) elevated credit cost.

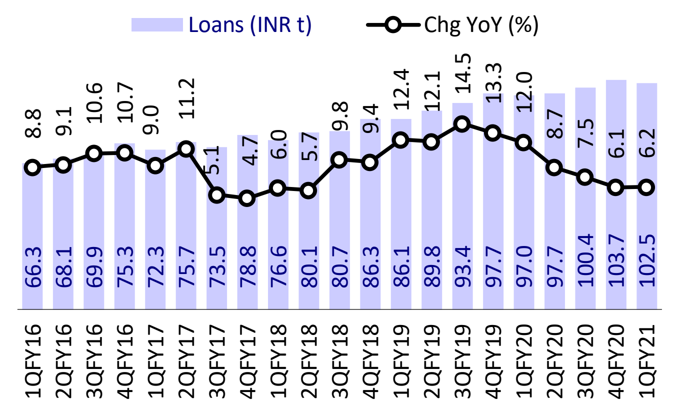
- SBIN inarguably has one of the best liability franchise (CASA mix: ~45%), which puts it in a better position to manage yield pressure while reduction in interest rate on deposits should further support margins.
- SBIN has been strengthening its balance sheet by creating higher provisions toward stressed accounts. The bank has increased its PCR (including TWO) to ~84% in FY20, which should keep credit cost under control. Capitalization level too remains strong with Tier 1 at ~11.0%.
- Subs – SBI MF, SBI Life Insurance, SBI Cards and SBI Cap – have exhibited robust performance over the last few years and could result in value unlocking.
- Overall, we estimate FY22E RoA/RoE of 0.5%/8.9% for the bank. Adj. for subs, standalone bank trades at 0.4x FY22E ABV.

1QFY21 earnings estimates (INR m)

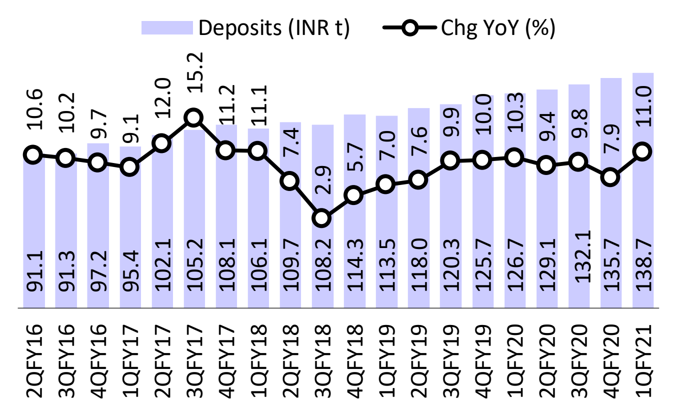
	NII (INR m)			PPoP (INR m)			PAT (INR m)		
Private Banks	**Jun-20**	**YoY (%)**	**QoQ (%)**	**Jun-20**	**YoY (%)**	**QoQ (%)**	**Jun-20**	**YoY (%)**	**QoQ (%)**
AU Bank	5,616	42.0	1.2	3,193	9.8	1.1	1,430	-24.9	16.9
Axis Bank	65,170	11.5	-4.3	60,218	2.2	2.9	11,088	-19.1	NM
Bandhan Bank	17,312	9.9	3.0	14,737	8.8	-3.1	7,864	-2.1	52.0
DCB Bank	3,209	5.3	-0.9	1,921	15.3	-9.4	599	-26.2	-13.0
Equitas Holdings	3,924	16.4	-7.5	1,582	29.1	-16.0	332	-43.8	-22.8
Federal Bank	12,299	6.6	1.1	8,273	5.7	-13.8	3,050	-20.6	1.3
HDFC Bank	153,895	15.8	1.2	131,669	18.1	1.6	66,820	20.0	-3.5
ICICI Bank	87,231	12.7	-2.3	98,497	56.6	33.3	26,594	39.4	117.7
IndusInd Bank	31,702	11.5	-1.9	27,690	6.9	-3.1	7,450	-48.0	136.4
Kotak Mahindra Bank	37,540	18.3	5.5	27,171	13.3	-0.3	13,183	-3.1	4.1
RBL Bank	9,653	18.1	-5.5	7,110	14.9	-7.0	1,228	-54.0	7.4
Pvt Banking Sector	**427,550**	**14.1**	**-0.5**	**382,061**	**20.7**	**6.9**	**139,636**	**4.0**	**46.8**
PSU Banks									
Bank of Baroda	66,848	2.9	-1.7	48,841	14.2	-4.6	5,363	-24.4	5.9
State Bank	243,562	6.2	7.0	160,111	20.9	-13.3	25,808	11.6	-27.9
PSU Banking Sector	**310,411**	**5.4**	**5.0**	**208,952**	**19.2**	**-11.4**	**31,171**	**3.1**	**-23.7**
Banking Sector	**737,961**	**10.3**	**1.8**	**591,012**	**20.2**	**-0.4**	**170,807**	**3.9**	**25.6**
Life Insurance									
HDFC Standard life	54,882	-14.9	-47.6	3,558	-18.5	25.1	3,337	-21.4	7.0
ICICI Prudential life	50,744	-18.3	-51.6	2,294	-20.1	33.6	2,214	-22.3	23.3
Life Insurance	**105,627**	**-16.6**	**-49.6**	**5,853**	**-19.1**	**28.3**	**5,550**	**-21.8**	**13.0**

Note: For HDFC Life and IPRU Life, NII represents net premium income, PPoP represents shareholder's PBT and PAT represents shareholder's profits

Loan growth moderates to 6.2%



Deposit growth came in strong at ~11.0%



Consumer

Benign commodity cost trend continues

In this edition of our Consumer sector update, we analyze price movement in key commodities and identify the companies under our coverage that could benefit from or be negatively impacted by it. It is relevant to analyze price trends from the perspective of 1QFY21 earnings and beyond as topline growth in the sector is expected to be subdued due to various factors, while the commodity cost impact would be quite sharp in certain cases.

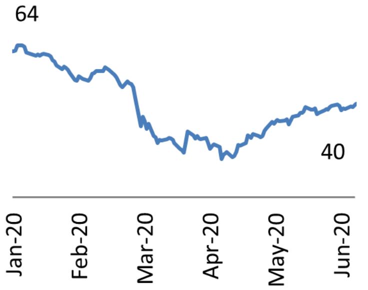
Commodity costs remain largely benign for consumer companies

- Most consumer companies are expected to witness decline in sales growth in 1QFY21, weighed by disruptions witnessed in manufacturing and the supply chain on account of the COVID-19-led lockdown. Channel liquidity issues and urban slowdown, particularly in the discretionary categories, were other factors that led to sales decline. However, we believe lower input cost would offer some relief. Most companies in the sector have curtailed ad spend / new launches due to persisting weak demand. Both these factors are likely to check what would otherwise have been a much sharper EBITDA margin decline given the plunge in sales YoY, significant downtrading, and lower premium and discretionary product sales due to pantry loading.
- **Crude prices plummet:** Crude prices continued their downtrend, declining 37.9% sequentially in 1QFY21 and down even more sharply YoY at 54.2%. However, prices were up 28.7% MoM at USD39.9/barrel (monthly average for June).
- **Agri commodity basket saw moderate inflation/deflation in 1QFY21:** The sugar index was up 2.2% QoQ /1.9% YoY. Copra cost was up 13% YoY/ 1.2% QoQ (YTD May'20).On the other hand; wheat cost declined 13.6% YoY / 2.8% QoQ. Mentha prices declined 18.5% YoY/ 7.6% QoQ. Barley cost was down 16.9% YoY / 27.5% QoQ. However, palm oil cost continued at high levels on a YoY basis (+15.3% YoY), but nosedived sequentially (-14.6% QoQ). Soap makers took price increases in March to combat the palm oil inflation.
- **Non-agri commodity basket, barring gold and PFAD largely saw deflation:** VAM costs fell 28.5% YoY / 14.7% QoQ. Titanium dioxide (TiO_2) costs were down 7.7% YoY / up 2% sequentially. Up to May'20, HDPE costs declined 16.7% YoY YTD, and LLP costs were down 8.6% YoY YTD. Gold prices (MCX Gold) expanded 34% YoY and 5.2% QoQ. Palm fatty acid distillate (PFAD) prices were up 35.5% YoY / down 14.9% QoQ.
- **On a MoM basis, the entire commodity cost basket was up by only 2.4% on average, while plummeting 8.2% QoQ and 3.6% YoY.**

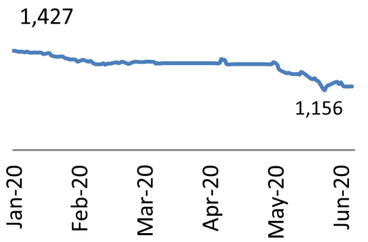
Impact on top picks: HUVR, DABUR, MRCO

- **Hindustan Unilever (HUVR)**: With PFAD costs declining sequentially (up YoY), HUVR is likely to be the key beneficiary. Soap companies took price increases in March 2020. Additionally, packaging costs (crude-related) are also declining significantly, which would support gross margins. Moreover, the company's cost-saving measures, along with a portfolio that could straddle the price pyramid, should aid margin improvement going forward.

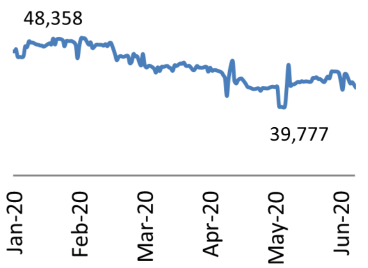
Brent Crude Index



Mentha Oil prices INR/kg



Palm Fatty Acid price (INR/MT)



- **DABUR:** The company is a significant beneficiary of the moderate crude price-related packaging cost as well as benign LLP costs.
- **Marico (MRCO):** Despite a YoY increase in copra costs, it remains benign sequentially. Moreover, other costs continue to decline, aiding overall margin growth.

Other material beneficiaries: APNT, PIDI, UBBL, HMN

- **APNT and PIDI**: APNT and PIDI are significant beneficiaries of declining vinyl acetate monomer (VAM), Tio2, and crude costs. However, the sales growth outlook is weak for the quarter given the lockdown on account of COVID-19.
- **CLGT**: The company is a significant beneficiary of the moderate crude price-related packaging cost.
- **HMN:** The company is expected to be a key beneficiary of ongoing decline in mentha and packaging costs. A weak growth outlook, however, would likely restrict the potential upside from such benefits.
- **UBBL and GSKCH:** Decline in barley costs is likely to benefit the gross margins of UBBL and GSKCH (now merged with HUVR). UBBL, however, is expected to witness a plunge in sales in the crucial summer quarter on account of lockdown witnessed for a large part of the quarter as well as the continuing closure of bars and pubs.

1QFY21 RM scenario — Commodity costs witnessing moderate inflation/deflation

		1QFY21 Change		MoM
Commodities (%)	**Segment impacted**	**YoY**	**QoQ**	**Change**
Non-Agri commodities				
Brent Crude Index	Paints, Adhesives, Packaging and Logistics	(54.2)	(37.9)	28.7
TiO2 (INR/kg)	Paints	(7.7)	2.0	(11.4)
Titanium Dioxide (CNY/metric tonne)	Paints	(9.9)	(4.9)	(4.0)
India WPI Phthalic anhydride^	Paints	(2.6)	3.2	3.2
VAM prices (USD/MT)^	Polymers and resins for adhesives, paints and end-products	(28.5)	(14.7)	(5.7)
HDPE (INR/Kg)*	Packaging (Plastic bottles)	(16.7)	6.9	2.5
Liquid Paraffin (INR/Lt)*	Hair oils	(8.6)	(4.4)	4.8
Agri commodities				
Malaysian Palm Oil (MYR/MT)	Foods (palm oil from the flesh of the fruit) and others (mainly palm kernel oil)	15.3	(14.6)	13.8
Copra Calicut INR/100Kg *	Hair oil	13.0	1.2	(3.6)
Mentha Oil (INR/kg)	Flavors & Fragrances	(18.5)	(7.6)	(11.8)
Wheat Prices (INR/Quintal)	Food products	(2.8)	(13.6)	-
Sugar index	Food products	1.9	2.2	-
India Wholesale Price Ind. Cashew Nut^	Food products	1.2	(1.2)	(0.4)
SMP Prices (INR/Kg)	Food products	4.8	(18.2)	5.7
NCDEX Barley Spot (INR/quintal)	Beer	(16.9)	(27.5)	(5.1)
Other key commodities				
PFAD (INR/MT)	Soaps	35.5	(14.9)	6.2
MCXGOLd Comdty	Jewelry	34.0	5.2	14.1

#Cal. on qtr. avg. price, ^data till Apr'20, *May'20 Source: Company, MOFSL

India Life Insurance

Insurance Tracker

Private players' individual WRP down ~7% YoY in Jun'20

LIC's individual WRP up ~8% YoY, leading to 1% YoY dip in overall industry

- **Private players' individual weighted received premium (WRP) declined 7.0% in Jun'20 (v/s -32.1% YoY in May'20) while industry posted muted decline of 1.4% YoY (v/s -9.8% YoY in May'20). The overall decline moderated considerably from the levels seen over Mar-May'20. For FY21YTD, private players' individual WRP declined 23.1% YoY and for the industry, it dropped 18.2% YoY.**
- **Amongst listed players, Max Life reported positive trend with growth of 13% YoY while HDCF Life/SBI Life witnessed modest decline of 3%/5% YoY. On the other hand, IPRU Life continued to witness pressure with reported decline of 44% YoY.**
- **Mid-sized players reported positive trends with Tata AIA/ Birla Sun Life/Bajaj Allianz reporting growth of 18%/16%/14% YoY.**
- **LIC too reported positive trend with growth of 7.5% YoY (v/s -3.1% YoY in May'20) in individual WRP. During FY21 YTD, LIC's individual WRP declined 11.2% YoY.**

Private players' individual WRP market share expands to ~58% in Jun'20 (55% as at FY21YTD)

Private players' individual WRP market share expanded ~880bp to ~58% in Jun'20 (v/s 49% in May'20) as private players reported much lower decline of ~7% (v/s an average of 37% over the past three months). During FY21 YTD, HDFC Life (10.1%) remained the largest private insurer in terms of individual WRP, followed by SBI Life (9.9%) and IPRU Life (6.2%). On an un-weighted basis, SBI Life was the largest private insurer with market share of 6.2%, followed by HDFC Life (5.4%) and IPRU Life (3.0%).

Performance of key private players

The combined market share of listed players – SBI Life, ICICI Prudential Life, HDFC Life and Max Life – on an individual WRP basis stood at ~61.4% as at Jun'20 (v/s 62.9% in FY20). Tata AIA, Bajaj Allianz and Birla Sun Life are getting firmly positioned amongst the 5-7th largest private insurers on individual WRP. Amongst the key listed players, on the basis of individual WRP –

- **HDFC Life** reported 3% YoY decline (-19% YoY in FY21YTD); total un-weighted premium declined ~1% YoY (-33.4% YoY in FY21YTD).
- **SBI Life** reported decline of 5% YoY (-35% YoY in FY21YTD); total un-weighted premiums grew 14.7% YoY (-3.0% YoY in FY21YTD).
- **IPRU Life** reported decline of 44% YoY (-49% YoY in FY21YTD); total un-weighted premium declined 37.1% YoY (-32.6% YoY in FY21YTD).
- **Max Life** reported growth of 13% YoY (-4% YoY in FY21YTD); total un-weighted premium grew 17.1% YoY (-1.1% YoY in FY21YTD).

Individual WRP and YoY growth (%)

Individual WRP, INR m	Jun-20	YoY growth
Grand Total	**52,884**	**-1.4%**
Total Public	**22,406**	**7.5%**
Total Private	**30,478**	**-7.0%**
SBI Life	6,380	-5.0%
HDFC Life	5,707	-3.1%
Max Life	3,543	13.3%
ICICI Prudential	3,090	-43.5%
Tata AIA	2,448	18.0%
Bajaj Allianz	1,610	13.6%
Birla Sun Life	1,608	15.6%
Kotak Life	1,155	23.7%
PNB Met Life	915	-9.5%
Reliance Life	665	8.2%

Source: Company, MOFSL

Divergent trends in sum assured – reflects improving business mix

According to our observation, while premium growth continues to decline for most insurers, growth in the sum assured is witnessing divergent trends. **For Private Insurers, while the total un-weighted non-single premium declined 8.3% YoY in Jun'20; on the contrary, the individual sum assured has grown 36.8% YoY. Even for the total un-weighted single premium, growth in the sum assured at 104.1% YoY was much higher than 47.8% YoY growth in premium.** For the total industry, sum assured grew 58.1%/24.1% YoY in Jun'20 (v/s growth of 36.8%/decline of 3.1%) in total un-weighted individual single premium/ non-single premium. LIC, on the other hand, reported decline of 10.8% YoY in sum assured v/s growth of 5.4% YoY in total un-weighted non-single premium. This re-iterates the fact that private insurers have been focusing on the protection business, which has higher sum assured in proportion to the premium. On the other hand, ULIPs have been facing pressure due to volatile capital markets, which generally has a higher average ticket size.

Amongst listed players

- **HDFC Life** reported growth of 31.0% in sum assured as against decline of 3.6% in total un-weighted individual non-single premium.
- **IPRU Life** reported muted decline of 0.6% in sum assured as against decline of 45.5% in total un-weighted individual non-single premium.
- **SBI Life**, however, reported higher decline of 14.8% in sum assured as against decline of 6.1% in total un-weighted individual non-single premium.
- **Max Life** reported much higher growth of 62.5% in sum assured as against growth of 12.3% in total un-weighted individual non-single premium.
- Mid-sized players like **Tata AIA, Bajaj Allianz and Kotak Life** reported much higher growth in sum assured in comparison to total un-weighted individual non-single premium.

Un-weighted new business premium and growth – sorted on Jun'20 basis

INR m	Jun-20	YoY growth	FY21YTD	YoY growth	FY20	YoY Growth
Grand Total	**288,687**	**-10.5%**	**493,354**	**-18.6%**	**2,588,966**	**20.6%**
Total Public	**227,368**	**-12.7%**	**365,300**	**-18.5%**	**1,779,771**	**25.2%**
Total Private	**61,319**	**-1.3%**	**128,054**	**-19.2%**	**809,196**	**11.5%**
SBI Life	15,024	14.7%	30,583	-3.0%	165,918	20.3%
HDFC life	13,467	-0.9%	26,532	-33.4%	173,963	16.2%
ICICI Prudential	5,646	-37.1%	14,995	-32.6%	123,482	20.4%
Birla Sun Life	5,040	137.2%	9,165	79.7%	36,571	-6.6%
Max Life	4,940	17.1%	8,994	-1.1%	55,836	8.2%
Tata AIA	3,389	30.9%	7,151	23.9%	32,411	30.9%
Kotak Life	2,868	-1.8%	5,659	-39.7%	51,058	28.4%
Bajaj Allianz	2,520	-46.2%	7,416	-26.8%	51,787	5.2%
Canara HSBC OBC	2,174	20.9%	4,813	13.0%	15,275	4.6%

Source: Company, MOFSL

OF SMALL TOWNS, BIG CITIES AND HOPES OF AN ECONOMIC REVIVAL

- In Lucknow, stalls selling street food are bustling with customers. People are eating out more at these stalls than at restaurants, probably preferring the open-air environment to air-conditioned spaces. There are reports of a similar trend in Patna, where people still congregate on roadsides, chilling and chatting. Often without masks. In Bareilly, too, the atmosphere is far more relaxed. Of course, shops in different markets are allowed to open on alternate days, so the crowds are not thick. Except in kirana stores that are packed. Again, masks are not as common as they are in, say, Mumbai or Delhi. From all accounts, the panic and fear induced by covid-19 in the metros seems to be missing in smaller cities, even though Lucknow and Patna are state capitals. Lalit Agarwal, chairman and managing director, V-Mart Retail Ltd, which operates value retail chain V-Mart, admits that people in smaller towns are behaving differently from those in big cities. He should know as 50% of his 268 V-Mart outlets are in tier-3 and 4 towns. “Fear of covid-19 is less, especially in tier-3 and 4 towns," he said, adding that his stores in places, such as Bagaha, Gorakhpur and Darbhanga, are doing much better than those in bigger cities. Of course, that is not to say that it is business as usual, but there’s more buzz. On any given day, the company manages to operate only about 180 stores owing to different state-wise restrictions. In June, some of his stores registered wedding-related purchases like sherwanis, formal trousers and shoes. Jewellery chain Tanishq, too, said store reopening and sales recovery were better in non-metros. At a roundtable by Shopping Centres Association of India (SCAI) late last month, P&M Mall in Patna reported a spike in wedding shopping, with saree retailer Meena Bazaar doing well. Pavilion Mall in Ludhiana, meanwhile, said personal care products, children’s wear and toy brands, as well as electronics saw an uptick in demand. Footfall, too, improved from a few hundred to a couple of thousand people per day. Executives of PRM Begraj Group, which operates a mall in Siliguri, confirmed improved sales and said that smaller towns were slightly ahead of the curve than tier-1 cities.

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CHALLENGING THE DRAGON: IS INDIA READY TO BOYCOTT CHINA?

- India and China share a complex history, often fraught with unease and discord; the most recent incident being the border dispute in Ladakh. As the reports of the clash poured in, Indian social media was flooded with appeals to boycott Chinese products and restrict trade with China–a narrative that has gained widespread traction in the last few months. The viral video from Surat in which a group of men can be seen throwing their "Chinese" television from a balcony is a glimpse of this sentiment. This narrative has found widespread support, with several renowned personalities endorsing it. In this article, we take a step back and ask: Can India really afford to challenge the dragon? Using simple economics, we explain why it cannot. China has been India's largest import partner for some years now. During 1990 to 2018, China's share in India's imports has on an average increased and outperformed that of India's other top import partners. While China's share in Indian imports was 15% for the year 2018, that of Saudi Arabia, Switzerland, UAE and the US remained in the range of 4% to 6%. In 2019, 14% of India's total imports came from China. For comparison, less than 1% of Chinese imports are from India. China's share in Indian imports for intermediate inputs, capital goods and final consumer goods is 12%, 30% and 26%, respectively. This implies that a very significant proportion of these goods for India are sourced from China. Restricting the entry of these goods would harm not only Indian consumers, who would have to pay a higher price for a substitute, if any but also its producers, who would have to obtain these inputs from some other source, compromising on efficiency. For instance, Chinese smartphones, that are now accessible to a vast majority of the population due to their price advantage, have revolutionised the market for mobile handsets. The market share of Chinese smartphones in India has been at an all-time high of about 72%. From the point of view of domestic producers, numerous studies in the Indian context have highlighted that the 1991 trade liberalisation episode ensured the availability of a greater variety of inputs for domestic firms, which led to a significant increase in their productivity.

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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:

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