Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,594	-0.4	-11.3
Nifty-50	10,768	-0.4	-11.5
Nifty-M 100	15,254	-0.7	-10.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,185	1.0	-1.4
Nasdaq	10,617	0.7	18.3
FTSE 100	6,095	0.8	-19.2
DAX	12,634	1.2	-4.6
Hang Seng	10,541	-2.2	-5.6
Nikkei 225	22,291	-1.1	-5.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	2.1	-35.4
Gold ($/OZ)	1,799	-0.3	18.5
Cu (US$/MT)	6,419	1.9	4.4
Almn (US$/MT)	1,659	1.4	-6.9
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.2	0.3	5.4
USD/EUR	1.1	0.1	0.8
USD/JPY	106.9	-0.3	-1.5
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.8
10 Yrs AAA Corp	6.7	-0.01	-1.0
Flows (USD b)	**10-Jul**	**MTD**	**CYTD**
FIIs	-0.14	-0.40	-2.71
DIIs	-0.06	0.20	12.12
Volumes (INRb)	**10-Jul**	**MTD***	**CYTD***
Cash	577	590	515
F&O	9,877	18,238	14,879

Note: *Average

Today's top research theme

India Strategy - 1QFY21 Preview: An unparalleled quarter

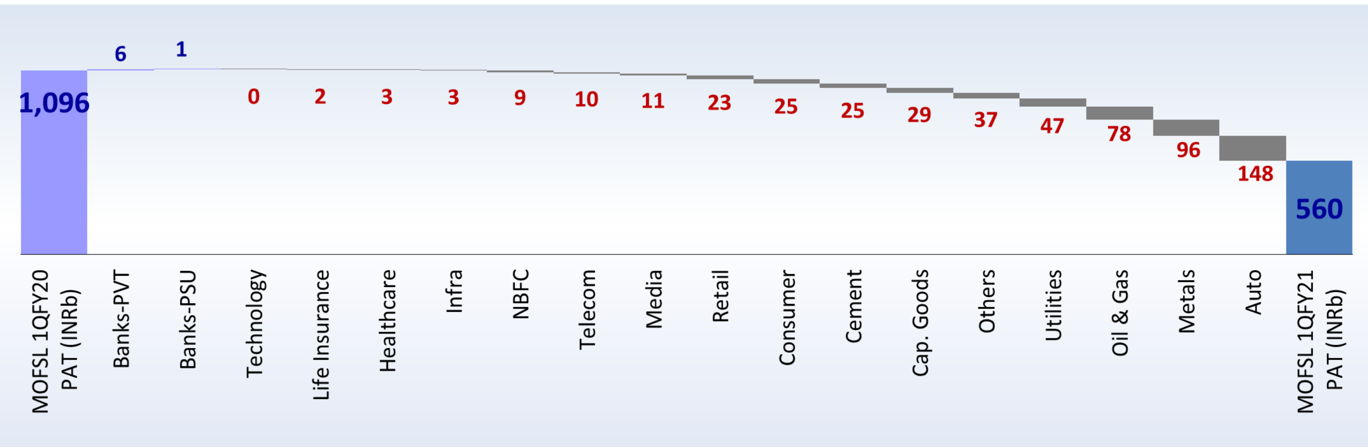
- The fiscal year FY21 has commenced with a roller-coaster ride for the economy and businesses with widespread COVID-19 infections and consequent lockdowns. Since then, a gradual reopening and withdrawal of restrictions began in May'20 and Jun'20. The Government of India's (GOI) focus also shifted from 'saving lives' to 'saving lives and livelihoods'. Quarter-end commentaries of several large BFSI and Consumer companies also suggest month-on-month recovery.
- We estimate MOFSL Universe's 1QFY21 PBT/PAT to decline 52%/49% YoY, with Autos, Telecom, Metals, Capital Goods and Retail posting losses. Private Banks and PSU Banks are the only sectors likely to post marginal growth while Technology is expected to remain flattish. Cement, Utilities, Oil and Gas (O&G), Consumer, Insurance and NBFC sectors are expected to post double-digit declines.
- Nifty sales are estimated to decline 30% YoY, while EBITDA/PBT/PAT should decline 18%/45%/41% YoY in 1QFY21. We expect the remaining quarters of FY21 to show gradual improvements QoQ.
- Our FY21/FY22E Nifty EPS estimates have seen modest upward revision of 3%/1.5% to INR467/INR647 (prior estimates of INR454/637).

Research covered

Cos/Sector	Key Highlights
India Strategy	1QFY21 Preview: An unparalleled quarter
Reliance Industries	Oil-to-chemicals – Gearing up for next orbital change?
Avenue Supermarts	Store closures drag down profit
Tata Motors	JLR – Wholesales decline 44.8% in 1QFY21
SAIL	Operationally in-line; higher realization boosts EBITDA
Expert Speak	FINANCIALS: Retail growth outlook moderates; caution to prevail
Healthcare	IPM in recovery mode led by price hikes
EcoScope	Third consecutive high double-digit IIP decline in May'20

Chart of the Day: India Strategy | 1QFY21 Preview (An unparalleled quarter)

Banks provide modest support while Autos, Metals and O&G drag aggregate earnings



Source: MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Qualcomm Ventures to invest Rs 730 crore in Jio Platforms for a 0.15% stake

Qualcomm Ventures, the investment arm of Qualcomm Incorporated, will invest Rs 730 crore in Jio Platforms for a 0.15 % stake, the companies said in a joint statement on Sunday. This is the 12th investor to pick up a stake in Reliance Industries Ltd's telecom...

2

FDI norms to be eased further, other economic reforms in pipeline: Goyal

The government is looking to further ease the foreign direct investment (FDI) norms with investments being allowed in certain sectors, which continue to have constraints, Commerce and Industry Minister Piyush Goyal said on Saturday. It will also soon come out with a new industrial policy and forest policy. Speaking at the India Global Week 2020 Summit, Goyal said that some reforms in the economic policy were being considered as 'significant items were on the table'...

3

Trai blocks Airtel, Vodafone Idea premium plans, says may affect service quality of others

The telecom regulator has blocked Bharti Airtel Platinum and Vodafone Idea's RedX premium plans that offer faster data speeds and priority services, saying such schemes could lower the quality of mobile services for those who haven't opted for them...

4

Arvind Fashions in talks with Reliance Retail to sell two denim brands

Arvind Fashions Ltd is in talks with Reliance Retail to sell two denim brands -- Newport and Ruf & Tuff, three people familiar with the development said. It is also, separately, in talks with value retailer V-Mart to sell its Unlimited department store chain...

5

RBI governor Shaktikanta Das calls for a resolution corp to revive banks

Reserve Bank of India governor Shaktikanta Das on Saturday called for the setting up of a resolution corporation to revive failed financial firms. Speaking at the State Bank of India economic conclave, Das said this proposal was part of the Financial Resolution and Deposit Insurance Bill 2017, which was later withdrawn...

6

JSW Steel cuts capex plans by 45% to Rs 9,000 crore for FY21

Concerned over uncertain market conditions, JSW Steel has decided to reduce its capex target for 2020-21 by about 45 per cent to Rs 9,000 crore against its earlier plan of spending Rs 16,340 crore...

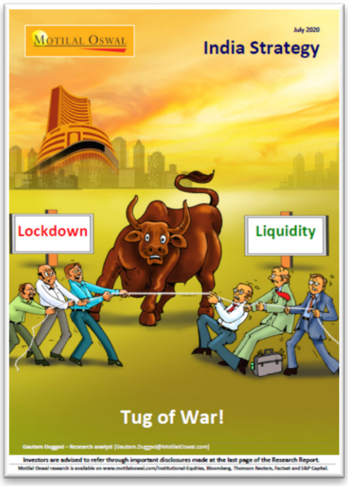
7

Reliance Industries to expand its financial services offerings

Plans are afoot at Reliance Industries Ltd (RIL) to expand its financial services play, some details of which may be shared by chairman Mukesh Ambani at the company's annual general meeting (AGM) on 15 July...

India Strategy

BSE Sensex: 36,594 | **Nifty 50: 10,768**



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An unparalleled quarter

41% earnings decline for Nifty in 1QFY21; seven sectors to post losses

- The fiscal year FY21 has commenced with a roller-coaster ride for the economy and businesses with widespread COVID-19 infections and consequent lockdowns. Since then, a gradual reopening and withdrawal of restrictions began in May'20 and Jun'20. The Government of India's (GOI) focus also shifted from 'saving lives' to 'saving lives and livelihoods'. Both the RBI and the GOI introduced limited monetary and fiscal initiatives given the constrained financial backdrop. Already, over the last eight weeks of unlock, we have seen several macro and micro indicators bounce back with some semblance of normalcy returning. Quarter-end commentaries of several large BFSI and Consumer companies also suggest month-on-month recovery. One silver lining is the revival in rural demand. Data and commentary of various managements point toward rural recovery as impact of the pandemic seems lower in rural areas compared to urban centers. The rural recovery should be further supported by (a) the GOI's incremental spending in the rural economy, including substantial hike in MNREGA allocations to INR1t, (b) better-than-expected start to the Southwest monsoons, and (c) strong Kharif sowing.
- In line with global markets and as economic activity began to recover off the Mar'20 lows, the Nifty also bounced back 41% from its Mar'20 lows while still underperforming global markets CYTD'20. FII flows too have seen a reversal – from USD8.4b outflows in Mar'20 to USD4.16b inflows in 1QFY21. The quarter also saw several large fund raises from Reliance Industries/Kotak/Bharti via stake sales/rights issue/QIPs. In Financials, fund raising was witnessed by stake sale in associates/subsidiaries. As we look ahead in FY21, we expect the interplay of health and economic challenges to play a vital role in deciding the direction of the markets. In a quarter characterized by widespread lockdowns and gradual resumption, quarterly earnings per se would have less relevance, in our view. Instead, management commentaries around underlying recovery trends will assume greater importance.
- **1QFY21 Nifty profits to decline 41%:** We estimate MOFSL Universe's 1QFY21 PBT/PAT to decline 52%/49% YoY, with Autos, Telecom, Metals, Capital Goods and Retail posting losses. Private Banks and PSU Banks are the only sectors likely to post marginal growth while Technology is expected to remain flattish. Cement, Utilities, Oil and Gas (O&G), Consumer, Insurance and NBFC sectors are expected to post double-digit declines. Nifty sales are estimated to decline 30% YoY, while EBITDA/PBT/PAT should decline 18%/45%/41% YoY in 1QFY21. We expect the remaining quarters of FY21 to show gradual improvements QoQ.
- **Marginal upward revision in Nifty EPS:** Our FY21/FY22E Nifty EPS estimates have seen modest upward revision of 3%/1.5% to INR467/INR647 (prior estimates of INR454/637). With multiple moving parts and the yet uncertain nature of demand recovery, we believe earnings estimates would remain volatile in the near term with the risks to earnings estimates remaining on the downside.

Sources of exhibits in this report include Bloomberg, SEBI, NSE, Capitaline, Companies, and MOFSL database

- **Key model portfolio changes:** Markets have smartly recovered from the lows, led by heavyweights like Reliance Industries. Valuations too are no longer cheap. The Nifty is now trading at forward P/E of 20.4x, 15% premium to LPA**.** Our model portfolio changes thus reflect (a) a more defensive tilt to our portfolio positioning, and (b) relatively better rural demand indicators v/s urban. We have raised the weights of IT and Telecom further – 100bp addition each to Bharti and Infosys and 200bp addition to TCS and HUL. Bharti is now more than 2x overweight v/s the benchmark in our model portfolio. We have also taken advantage of the recent sharp up-move in Automobile stocks and replaced Maruti and Eicher Motors with M&M and Motherson Sumi, respectively. We have introduced Dabur into our model portfolio after our recent rating upgrade. In mid-caps, we have made some tweaks and added Coromandel and Gujarat Gas.

Top Picks

- **Large-Caps: Reliance, ICICI Bank, Bharti Airtel, M&M, Dabur, Infosys, HUL, HDFC**
- **Mid-Caps: Tata Consumer, ICICI Securities, Alkem, LT Infotech, Gujarat Gas, Motherson Sumi.**

Key sectoral trends/highlights

- **Auto** Universe's PBT/PAT loss is expected at INR140b/INR118b in 1QFY21. Excluding Tata Motors, Auto universe is still expected to post a loss of INR19.7b. All Auto companies in our coverage (barring Amara Raja, Exide, Escorts and Bajaj Auto) are expected to post losses in 1QFY21 as the lockdown impacted volumes and led to supply side issues. The tractor segment was the least impacted indicating lower stress on the rural side. EBITDA for MOSL Auto Universe is expected to be negative for the first time due to operating deleverage.
- **Technology** Universe's aggregate revenue (USD)/revenue (INR)/ EBIT/PAT are estimated to grow -4%/5%/5%/0% YoY. Deal signings in 1QFY21 and commentary around the pipeline are likely to be the key focus areas for investors as this is the latest available proxy for demand. On a sequential basis, Tier I revenue should move in the range of (8.0)%-(4.5)% (CC) and (8.5)%-(4.8)% (USD), with INFY leading and TechM lagging the pack. Across Tier II, revenue should move in the range of (15)%-(3)% (QoQ, CC) and (15)%-(5)% (QoQ, USD), with LTI leading and Cyient lagging the segment.
- **Healthcare** Universe's earnings are expected to decline 5% YoY whiles sales should grow 4% YoY. Among the large-cap names, Dr. Reddy's/Aurobindo are expected to post 22.5%/9.9% YoY profit growth while Cipla/ Sun Pharma/Lupin should post declines of 33.7%/29.7%/24.4% YoY.
- **Private Banks'** Universe should report 21%/-8%/5% growth in PPOP/PBT/PAT growth, respectively. The elevated credit cost coupled with suppressed credit growth is likely to put pressure on near-term earnings. We believe the proportion of loans under moratorium would decline gradually. HDFC Bank and ICICI Bank are expected to post 20%/40% PAT growth while Axis Bank and Kotak Bank are expected to post a profit decline of 20% and 3%, respectively.

- **NBFCs** under our coverage are likely to post PBT/PAT decline of 23%/13% YoY. Focus should remain on collections as moratorium rates have declined for most players in the second phase as compared to the first phase. For example, it reduced from 21% to ~16% for HDFC (retail loans), 27% to 16% for BAF and 75% to ~60% for MMFS. BAF is expected to post its second consecutive quarter of profit decline at 25.6% YoY while HDFC should report growth of 10% YoY. Muthoot Finance is expected to post another strong quarter with a profit growth of 62% YoY.
- **PSU Banks' Universe** is expected to deliver NII/PPoP growth of 5%/19% YoY. PAT should grow ~3% YoY to INR31.2b. 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.
- **Telecom** Universe is expected to report a loss for the 12th straight quarter. While the lockdown has increased data consumption, it is unlikely to lead to major revenue gains. EBITDA is likely to be cushioned due to lower discretionary costs due to the lockdown. The sector is expected to post loss of INR57b in 1QFY21, largely due to Vodafone Idea (likely to post loss of INR63.8b).
- **Consumer** Universe should post PBT/PAT decline of 32.3%/28.9% YoY. Consumer companies are expected to see sharp revenue decline of 20.5% YoY in 1QFY21. Pidilite, United Breweries and United Spirits should post losses while Britannia, Nestle and Tata Consumer are expected to post profit growth of 57%/14.1%/4.4% YoY. Godrej Consumer is expected to be flattish YoY. In 1QFY21, Marico/Dabur/HUL should post profit decline of 16%/13%/2% YoY.
- **Metals** Universe's EBITDA is expected to decline 54% YoY while it should post loss of INR31b for 1QFY21. All the steel companies under coverage are expected to report losses (Tata Steel, JSW, JSPL, Sail).
- **Oil and Gas** Universe should report PBT/PAT decline of 38%/32% YoY, dragged by ONGC which is expected to post PAT decline 91.4% YoY. Reliance Industries is likely to post flattish results with expected PAT decline of 1.5% YoY. CGDs like Gujarat Gas/Mahanagar Gas/Indraprasth Gas are expected to post declines of 85.3%/75.6%/71.5% YoY due to huge volumes loss (52-70% YoY) owing to nationwide lockdown in Apr-May.
- **Cement** Universe is estimated to report decline of 46%/68%/68% in EBITDA/PBT/PAT. EBITDA margins are expected to decline by 400bp to 18.9% due to revenue decline of 35% YoY. All companies within our coverage universe are expected to post YoY PAT declines. Ambuja Cements and Shree Cement are likely to be the least impacted with estimated declines of 28%/35% YoY.
- **Capital Goods** Universe is expected to report 77% EBITDA decline and a loss of INR4b. Revenue is likely to decline 36% YoY with all companies under our coverage expected to post YoY PAT declines. Havells/BEL/L&T/Voltas should post declines of 87%/79%/79%/77% YoY while ABB/Siemens/Blue Star/Thermax are expected to post losses.
- **Utilities** Universe is expected to see PBT/PAT decline of 50%/41% YoY, dragged by Coal India (-75% PBT YoY and -71% PAT YoY). Among the other major names, NTPC is expected report PBT/PAT decline of 47%/26% YoY.

Reliance Industries

BSE SENSEX	S&P CNX
36,738	10,813

CMP: INR1,879 TP: INR2,000 (+6%) Buy

Reliance Industries Limited

Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	12327.1 / 159.1
52-Week Range (INR)	1884 / 867
1, 6, 12 Rel. Per (%)	13/35/53
Avg Val, INRm	3,735
Free float (%)	54.9

Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
Net Sales	5,957	5,582	6,808
EBITDA	879	933	1,218
Net Profit	432	465	674
Adj. EPS (INR)	68.1	73.4	106.3
EPS Gr. (%)	8.4	7.8	44.8
BV/Sh. (INR)	715.1	782.2	878.8
Ratios			
Net D:E	0.6	0.5	0.3
RoE (%)	10.3	9.8	12.8
RoCE (%)	8.5	8.3	10.5
Payout (%)	11.6	8.8	9.1
Valuations			
P/E (x)	27.6	25.6	17.7
P/BV (x)	2.6	2.4	2.1
EV/EBITDA (x)	16.5	15.5	11.3
EV/Sales (x)	2.4	2.6	2.0
Div. Yield (%)	0.3	0.3	0.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	48.9	48.9	46.2
DII	13.6	13.6	11.8
FII	25.9	26.3	26.2
Others	11.6	11.2	15.9

FII Includes depository receipts

Oil-to-chemicals – Gearing up for next orbital change?

- Reliance Industries' (RIL) focus and determination with which it has executed its foray into digital and retail segments is highly commendable. This has resulted in our own equity valuation for digital and retail changing from INR315/share three years back to INR1,385/share currently.
- RIL's digital segment has seen partnerships with global giants like Facebook, Microsoft, Intel and host of well known global private equity players. This has further boosted investor confidence on the company's growth prospects and the possible synergies that could be extrapolated to retail.
- As RIL has achieved a decent foothold in both digital services and organized retail, we believe it would now turn its focus to the 'oil-to-chemicals' project, for which it has signed an MoU with Saudi Aramco. RIL had guided for this project in its 2019 Annual General Meeting.

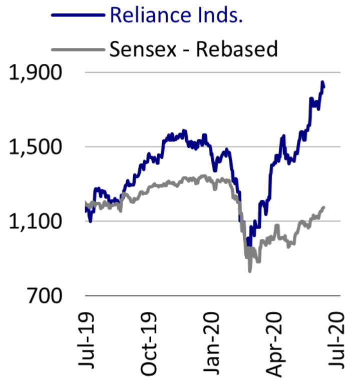
Oil-to-chemicals – the theory…

- In a conventional refinery, only three products (petrol, diesel and ATF) comprising 60-70% of the product slate, command positive margins.
- As refiners increase in size and have access to more capital, they come up with complex projects like delayed coker (or petcoke gasifier). This converts low value products into high value products.
- Globally, a conventional refinery produces ~8% of naphtha, which may be used as chemical feedstock. This rises to 17-20% (examples Petro Rabigh complex of Aramco/Sumitomo, Sadara complex of Saudi Aramco/Dow) in refinery-cum-petrochemical complexes. Comparatively, RIL has 24% conversion rate of 'oil-to-chemicals' currently.
- In FY20, RIL's EBITDA from refining stood at USD6.6/bbl v/s ~USD15.6/bbl in petrochemical.
- A new trend – in favor of increasing the percentage of chemicals in the overall production – is emerging. This is due to the vast difference in profitability combined with an increased threat from electric vehicles to petrol and diesel.

…and few implementations later, as much as 72% conversion possible

- 'Oil-to-chemicals' projects are mainly aimed at increasing the yield of light olefins or aromatics like benzene, toluene and xylene.
- Broadly, three methodologies are used. First, is the direct steam cracking of crude oil, for which, Shell and ExxonMobil have developed technologies. Another is the integrated hydro-processing/de-asphalting and steam cracking, developed by Saudi Aramco. The third is the processing of middle distillates and residues using hydrocracking, implemented at Hengli Petrochemicals, China.

Stock Performance (1-year)



- Most projects have a chemical yield of 40-60%. Saudi Aramco is also working with Chevron Lummus Global for commercializing Aramco's 'thermal crude-to-chemicals' technology, intended to get conversion as high as 72%. Aramco has entered into a MoU with S-Oil for USD6b steam cracker and an olefin downstream project to be completed by 2024.

A possible 15% jump in standalone EBITDA for RIL?

- Currently, chemical conversion stands at 24% for RIL. In its Annual Report, the company has reiterated that discussions with Saudi Aramco are still on. The advancement of Saudi Aramco in this technology could be the main reason RIL is looking at a partnership with the former.
- Currently, the what (% of conversion), when (timeline) and wherewithal (capex) of the targeted 'oil-to-chemicals' for RIL are not clear. However, the domestic retail auto fuel market is pretty saturated with OMCs having ~90% of the retail infrastructure and market with extensive expansion planned. It already exports ~60% of its refined products. 'Oil-to-chemicals' would wean RIL away from an already flooded global refining industry.
- According to our estimate, a 10% rise in chemical production from the current slate and improvement in EBITDA for the refinery-cum-petrochemical complex could be as much as USD476m or 5.7% of the standalone FY22E EBITDA. Most global 'oil-to-chemical' projects appear to have 40-60% conversion. With increase in conversion to 50%, impact on standalone/consolidated e.g. FY22E EBITDA could be 15%/7.6% (*Refer Exhibit 1*). The increase in EBITDA may add another INR108/share to the valuation of RIL.

Valuation and recommendation

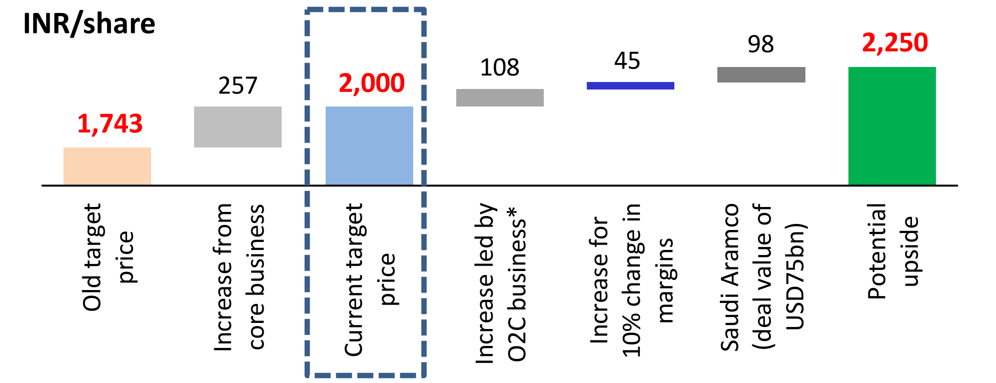
- RIL has attained a dominant position in both digital services and organized retailing. We believe the focus on the 'oil-to-chemicals' project would lead to huge potential upside from the standalone business as well.
- Although the project could take a few years to get completed due to the sheer size of the complex, our estimates suggest that 10% increase in conversion would increase the FY22E standalone/consolidated EBITDA by ~5.7%/2.9%.
- Given the recent closures of raising INR1,159b through stake sale in Jio Platforms as well as INR531b through rights issue, the company would become net debt free once the cash comes in.
- Considering the company would become a net debt free, we have raised the multiple for refining and petrochemical from 6x to 7.5x. Consumption of petroleum products also appears to be normalizing. Making adjustments for the same, our valuation for refining and petrochemical increases from INR617/share to INR791/share.
- Also, for every 10% change in petchem margins or refining GRMs, EBITDA sensitivity stands at 5-6% on standalone and 3% on consolidated basis.
- Currently, RIL's global refinery and petrochemical peers are trading at 8.9x FY21 EV/EBITDA. The stock is trading at 11.3x FY22E consolidated EBITDA and 17.7x FY22E consolidated EPS.
- We value RIL using SOTP. Valuing the standalone refining and petrochemical segments at 7.5x FY22E EBITDA and adding equity valuation of INR885/share for Jio and INR500/share for retail, we raise our target price from INR1,743/share to INR2,000/share. **We reiterate RIL as one of our top picks.**

A possible 15% jump in standalone EBITDA for RIL (with increase in O2C conversion to 50% from current 24%)

		Remarks
Incremental Percentage Conversion	26	❖ Current conversion stands at 24%
Total percentage conversion (%)	50.0	
Reduction in refining sales volume (mmt)	19	❖ Calculated on sales of 72.6mmt in FY20
Decrease in refining EBITDA (USDmn)	923	❖ Using blended EBITDA/bbl rather than only petrochem feedstock
Increase in petrochemical production (mmt)	19	❖ Almost similar by weight
Increase in petrochemical EBITDA (USDmn)	2,170	❖ Using blended FY20 EBITDA/bbl of production
Net increase in EBITDA (USDmn)	1,247	
Net increase over FY22 standalone EBITDA (%)	**15.0**	
Net increase over FY22 consolidated EBITDA (%)	**7.6**	

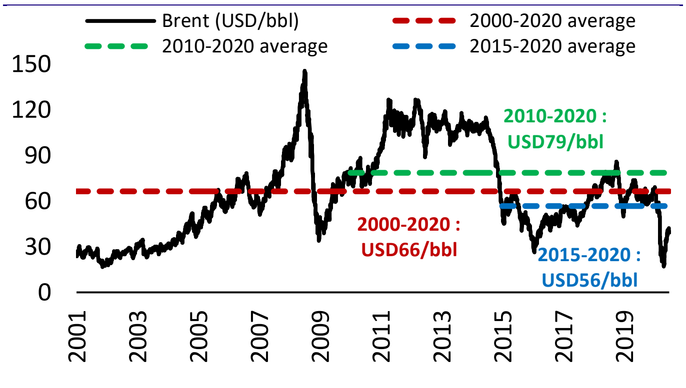
Source: Company, MOFSL

RIL - Potential upside from standalone business



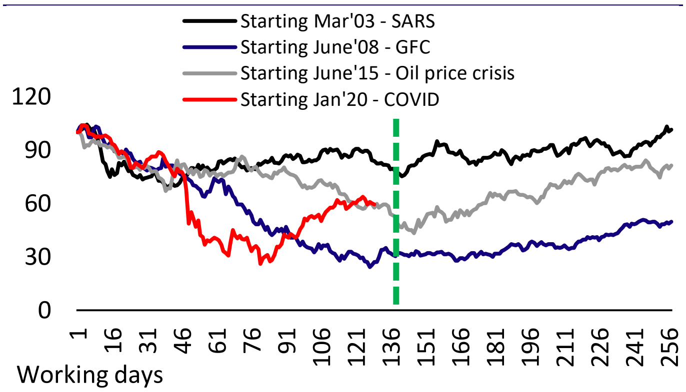
*O2C business value is excluding capex Source: Company, MOFSL

Long-term price average stands above USD55/bbl



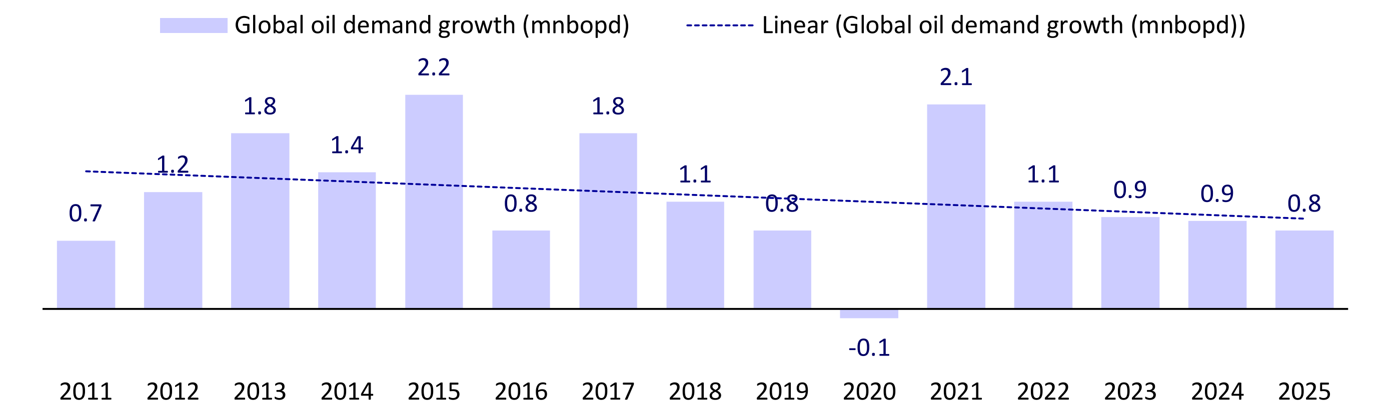
Source: Bloomberg, MOFSL

Indexation price chart – past crude oil crises



Source: Bloomberg, MOFSL

Global oil consumption growth (mnbopd)



Source: IEA, MOFSL

11 July 2020

1QFY21 Results Update | Sector: Departmental Retail

Avenue Supermarts

Estimate changes	↔
TP change	↑
Rating change	↔

Bloomberg	DMART IN
Equity Shares (m)	624
M.Cap.(INRb)/(USDb)	1504.2 / 20
52-Week Range (INR)	2559 / 1346
1, 6, 12 Rel. Per (%)	-10/36/77
12M Avg Val (INR M)	1436

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	248.7	272.2	368.3
EBITDA	21.3	20.3	30.4
Adj. PAT	13.0	12.5	19.2
EBITDA Margin (%)	8.6	7.4	8.3
Adj. EPS (INR)	20.1	19.4	29.6
EPS Gr. (%)	38.9	-3.6	52.8
BV/Sh. (INR)	177.5	197.6	228.3
Ratios			
Net D:E	0.0	-0.1	-0.1
RoE (%)	15.6	10.7	14.4
RoCE (%)	15.5	10.6	14.3
Payout (%)	0	0	0
Valuations			
P/E (x)	116.0	120.3	78.8
EV/EBITDA (x)	71.0	74.2	49.6
EV/Sales (X)	6.1	5.5	4.1
Div. Yield (%)	0	0	0
FCF Yield (%)	-0.3	0.6	0.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	75.0	79.7	81.2
DII	6.6	4.7	3.2
FII	9.6	6.2	5.9
Others	8.8	9.3	9.7

FII Includes depository receipts

CMP: INR2,322 TP: INR2,000 (-14%) Sell

Store closures drag down profit

- Nationwide lockdown led to store closures and the restriction of sales to the Essentials category. As a result, revenue witnessed a 34% drop and estimated same-store sales growth (SSSG) fell -55%; the closure of the margin-accretive non-food section dragged down gross margins by ~220 bps, translating to 81% YoY decline in EBITDA.
- Our channel checks with vendors indicate healthy recovery trends in SSSG, albeit still in the negative single digits, but ~20% of stores remain closed in the western region. We broadly maintain our EBITDA estimate, building recovery in 2HFY21.

Negative SSSG, low GM hurt earnings

- DMart's consolidated revenues fell 33% YoY to INR39b (6% below est.) on sales of mostly essential products witnessed at DMart stores and many stores remaining shut in the initial phase of the nationwide lockdown.
- Gross profit fell 42% YoY (in-line) and gross margins (GM) contracted 220bps YoY to 14.2% (90bp below estimate). This is attributable to the high-margin General Merchandise and Apparel sections of retail stores being closed during the lockdown and stores in some areas (with high local restrictions) continuing to operate sales only for essentials items.
- Other expenses came in higher by 22% YoY to INR3.1b (18% above est.), possibly on account of increased safety measures, higher cost of procurement due to a dent in supply chains, and a shift in focus to online deliveries in many cities.
- Subsequently, loss of INR3b in gross profit directly impacted EBITDA, which fell 81% YoY to INR1.1b (28% below est.); EBITDA margins contracted 740bps to 2.9%.
- PAT declined 89% YoY to INR401m (11% miss) and PAT margins stood at 1% (v/s 6.2% in 1QFY20).

Stricter restrictions, second phase of lockdown could extend COVID-19 impact

- DMart opened two new stores in 1QFY21, taking the total store count to 216. Estimated SSSG was down by 55%.
- DMart Ready sales in Mumbai scaled up well during the lockdown period. In other cities too, DMart began home deliveries, but discontinued this mode once stringent lockdowns were eased and its physical stores were allowed to re-open for business in these areas.
- Management stated that unlike the developed countries where organized retailers saw major customer traffic even in lockdown, this has not been witnessed with the same intensity in India. This is attributed to the enforcement of store shutdowns and restricted movement on account of general and strict social distancing rules within stores.

- Traditional trade (local neighborhood stores) made a roaring comeback and has successfully served the needs of anxious customers. Value offerings and discounts appear to lack priority among consumers during the lockdown, which is hurting the hypermarkets.
- Discretionary consumption continues to be under pressure, especially in the non-FMCG categories. Our channel check suggests this is down 25% for like-to-like (LTL) stores.

Valuation and view

- Unlike other format stores, grocery retailers catering to Essentials are seeing a lower impact of the lockdown as it caters to a large proportion of low-ticket items. DMART's non-discretionary revenue contributes ~72% to total sales (FY20).
- The company's equity funding of INR40b in 4QFY20 strengthened the balance sheet with net cash position, enhancing liquidity in such uncertain times.
- Nevertheless, our channel checks suggest Jul'20 is being impacted by the second phase of lockdown, with nearly 20% of stores being closed once again. The Non-Grocery category is operating at double-digit LTL decline. Thus, there is risk of slow recovery, which could extend well beyond 1HFY21.
- We value D-Mart at an FY22E EV/EBITDA multiple of 42x, maintaining TP of INR2000 (20% discount to the three-year average EV/EBITDA multiple of 53x). This still implies a 14% downside. Maintain Sell.

Consolidated – Quarterly Earnings (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21E	Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var (%)
Revenue	**58,146**	**59,908**	**68,089**	**62,559**	**38,832**	**63,197**	**81,755**	**88,454**	**248,702**	**272,237**	**41,196**	**-5.7**
YoY Change (%)	27.1	22.4	24.4	23.6	-33.2	5.5	20.1	41.4	24.3	9.5	-29.2	
Total Expenditure	52,178	54,733	62,122	58,386	37,714	58,535	74,508	81,206	227,419	251,963	39,646	-4.9
EBITDA	**5,968**	**5,175**	**5,967**	**4,173**	**1,118**	**4,662**	**7,247**	**7,248**	**21,283**	**20,274**	**1,550**	**-27.9**
Change YoY (%)	41.0	-87.6	32.7	12.1	-81.3	-9.9	21.4	73.7	30.3	-4.7	-74.0	
Depreciation	827	919	952	1,046	948	1,034	1,048	1,108	3,744	4,138	971	-2.4
Interest	182	190	176	144	88	68	76	67	691	299	64	38.6
Other Income	110	81	61	349	506	135	135	170	600	946	60	744.3
PBT	**5,069**	**4,147**	**4,900**	**3,333**	**588**	**3,695**	**6,259**	**6,242**	**17,448**	**16,783**	**575**	**2.1**
Tax	1,838	921	1,060	620	187	924	1,565	1,562	4,438	4,238	124	51.1
Rate (%)	36.3	22.2	21.6	18.6	31.8	25.0	25.0	25.0	25.4	25.3	21.5	
Reported PAT	**3,230**	**3,226**	**3,840**	**2,713**	**401**	**2,771**	**4,694**	**4,679**	**13,009**	**12,545**	**452**	**-11.3**
Adj PAT	**3,230**	**3,226**	**3,840**	**2,713**	**401**	**2,771**	**4,694**	**4,679**	**13,009**	**12,545**	**452**	**-11.3**
YoY Change (%)	32	185	55	42	-88	-14	22	73	44	-4	-86	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Store Adds	8	5	7	18	2	4	3	6	38	15
Total Stores	184	189	196	214	216	220	223	229	214	229
Area Addition (m sq ft)	0.3	0.3	0.5	0.8	0.2	0.2	0.2	0.2	1.9	0.8
Gross Margins (%)	16.4	15.4	15.3	13.6	14.2	15.5	15.4	14.5	15.1	15.0
EBITDA Margins (%)	10.3	8.6	8.8	6.7	2.9	8.8	8.6	7.6	8.6	7.6
PAT Margins (%)	5.6	5.4	5.6	4.3	1.0	5.8	5.8	4.6	5.2	4.8

E:MOFSL Estimates

11 July 2020

Update | Sector: Automobiles

Tata Motors

BSE SENSEX	S&P CNX
36,594	10,768

TATA MOTORS

CMP: INR108 **TP: INR126 (+17%)** **Buy**

Stock Info

Bloomberg	TTMT IN
Equity Shares (m)	3,598
M.Cap.(INRb)/(USDb)	353.8 / 4.7
52-Week Range (INR)	202 / 64
1, 6, 12 Rel. Per (%)	-10/-33/-24
12M Avg Val (INR M)	7000
Free float (%)	57.6

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Net Sales	2,611	2,499	2,913
EBITDA	239.1	208.4	381.5
Adj. PAT	-90.9	-115.0	8.3
Adj. EPS (INR)	-25.3	-32.0	2.2
EPS Gr. (%)	NA	NA	NA
BV/Sh. (INR)	175.3	143.3	143.6
Ratios			
Net D/E (x)	1.6	1.9	1.8
RoE (%)	-14.8	-20.1	1.6
RoCE (%)	3.7	-0.3	1.5
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	NA	NA	NA
P/BV (x)	0.6	0.7	0.7
EV/EBITDA (x)	3.7	5.2	2.7
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-8.2	-46.9	17.2

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	42.4	42.4	38.4
DII	13.6	15.1	16.3
FII	16.8	18.3	19.1
Others	27.2	24.2	26.2

FII Includes depository receipts

JLR – Wholesales decline 44.8% in 1QFY21

CJLR wholesales grow by 15%, reflecting robust recovery

- Jaguar Land Rover (JLR)'s wholesale volumes declined 44.8% YoY to ~65.4k units (v/s est.: ~49k) in 1QFY21, whereas volumes for the China JV grew ~15% YoY at ~16.5k units.
- Jaguar volumes fell ~54% YoY to ~18k units (our estimate: 15.6k), whereas Land Rover (LR) volumes contracted ~40% YoY to ~47.5k units (our estimate: 33.4k).
- JLR's 1QFY21 retail sales declined ~42% YoY to ~74k, with LR decreasing ~38% and Jaguar ~52.5%.
- Jun'20 retail sales fell ~25% YoY to 35.3k. This was the first month of retail for many markets, such as the UK. In Jun'20, China (-7.4% YoY) and North America (+2.2% YoY) were particularly encouraging. UK sales were down 31.8%, EU sales 52.5%, and RoW sales 33.1%.
- Over 95% of JLR's retailers worldwide have totally/partially restarted their operations by now; moreover, all of the company's plants have resumed manufacturing, with the exception of the Castle Bromwich facility, which would gradually start up again in August. All plants are operating on single shifts, with social distancing measures in place and production ramping up as demand increases.
- Post the resumption of operations, the Range Rover Sport, the new Range Rover Evoque, and the Land Rover Discovery Sport emerged as the best-selling vehicles. Customer response to the new Land Rover Defender has been overwhelmingly positive, and as retailers have come back on line, there has been a surge of interest in the Land Rover. Deliveries for the Defender have started to ramp up in the quarter, with 1,970 vehicles sold in June. This has come after operations only just resuming in the UK/Europe (May) and the US (June); China operations are scheduled to begin in July.
- JLR ended 1QFY21 with a stronger-than-expected cash position of nearly £2.7b (unaudited) and overall liquidity of around £4.6b, including the company's £1.9b revolving credit facility, which remains undrawn.
- **Mr Felix Brautigam, Chief Commercial Officer, Jaguar Land Rover, stated**, "While the COVID-19 pandemic continues to impact the global Auto industry, we are pleased to see initial green shoots of recovery. We are working alongside our retailers, planning for gradual recovery as lockdowns relax and economies respond. Through the quarter, we continued to introduce new and updated Jaguar and Land Rover vehicles to very positive response."
- The stock trades at 2.7x FY22 EV/EBITDA and 0.7x P/BV. Maintain Buy, with TP of ~INR126 (Jun'22-based SOTP).

TATA MOTORS: JLR [Wholesale]

Company Sales	1QFY21	1QFY20	YoY (%) chg	4QFY20	QoQ (%) chg	FY21 YTD	FY20 YTD	(%) chg
JLR	**65,425**	**118,550**	**-44.8**	**126,979**	**-48.5**	**525,402**	**565,306**	**-7.1**
Jaguar	17,971	39,215	-54.2	32,940	-45.4	144,270	177,450	-18.7
Land rover	47,454	79,335	-40.2	94,039	-49.5	381,132	387,856	-1.7

TATA MOTORS: JLR [Retail]

Company Sales	1QFY21	1QFY20	YoY (%) chg	4QFY20	QoQ (%) chg	FY21 YTD	FY20 YTD	(%) chg
JLR	**74,067**	**128,615**	**-42.4**	**109,869**	**-32.6**	**74,067**	**128,615**	**-42.4**
Jaguar	18,787	39,540	-52.5	28,288	-33.6	18,787	39,540	-52.5
Land rover	55,280	89,075	-37.9	81,581	-32.2	55,280	89,075	-37.9

Region-wise Retail Sales

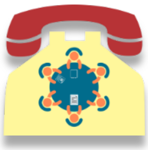
Region	1QFY21	1QFY20	YoY %	4QFY20	QoQ %	FY21 YTD	FY20 YTD	YoY %
North America	20,839	30,691	-32.1	28,476	-26.8	20,839	30,691	-32.1
UK	8,255	27,065	-69.5	28,237	-70.8	8,255	27,065	-69.5
Europe	11,540	28,214	-59.1	23,427	-50.7	11,540	28,214	-59.1
China	23,705	24,324	-2.5	12,154	95.0	23,705	24,324	-2.5
RoW	9,728	18,321	-46.9	17,575	-44.6	9,728	18,321	-46.9
Total JLR	**74,067**	**128,615**	**-42.4**	**109,869**	**-32.6**	**74,067**	**128,615**	**-42.4**

SAIL

BSE SENSEX	S&P CNX
36,597	10,768

CMP: INR 37 — Neutral

Conference Call Details



Date: 13th Jul 2020
Time: 11:00 IST
Dial-in details:
++91 7045 671 311

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	617.1	567.8	658.7
EBITDA	57.2	53.3	90.3
Adj. PAT	-1.9	-11.3	13.5
EBITDA Margin (%)	9.3	9.4	13.7
Cons. Adj. EPS (INR)	-0.5	-2.7	3.3
EPS Gr. (%)	-107.2	289.2	-219.7
BV/Sh. (INR)	100.6	91.6	94.4
Ratios			
Net D:E	1.1	1.3	1.2
RoE (%)	-0.5	-2.9	3.5
RoCE (%)	3.3	2.3	6.5
Payout (%)			
Valuations			
P/E (x)	-81.7	-13.5	11.3
P/BV (x)	0.4	0.4	0.4
EV/EBITDA(x)	10.8	12.1	6.7
Div. Yield (%)			
FCF Yield (%)			

Operationally in-line; higher realization boosts EBITDA

Maintain Neutral

- Standalone revenue declined 2% QoQ to INR162b (our estimate: INR166b) in 4QFY20.
- Volumes declined 8% QoQ (9% YoY) at 3.7mt (our estimate: 3.8mt) due to COVID-19 impacting off-take.
- Realization improved 7% QoQ to INR43,194/t (our estimate: INR43,243).
- EBITDA/t improved 114% QoQ to INR5,218 on higher realization (our estimate: INR5,355).
- The company valued sub-grade iron ore fines inventory lying in mines at INR38b at net realizable value. The company was earlier not valuing this inventory as it was able to neither consume nor sell it. Similarly, it identified and valued scrap and slag lying at various locations at INR7.1b. Thus, the company recognized inventories of INR45.1b under the 'Changes in Inventories' head. We have classified this under exceptional items.
- As a result, adj. EBITDA improved by 96% QoQ to INR19.5b (our estimate: INR20.6b).
- The company reported PAT of INR27.3b. Adj. for exceptional items, adj. PAT stood at INR2.91b (our estimate: INR2.96b).
- Net debt stood at INR534b at FY20-end v/s INR445b at FY19-end. FY20 Net debt to EBITDA stood at 9.3x.
- FY20 rev / EBITDA stood at INR616b/INR57b, down 8%/42%. Adj PAT loss stood at INR4.1b (vs profit of INR24.3b) .
- **We maintain a Neutral rating.**

Quarterly Performance (Standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20	FY20E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Sales (m tons)	3.3	3.5	3.2	4.1	3.2	3.1	4.1	3.7	14.1	14.2	3.8	-2
Change (YoY %)	8.0	-1.8	-14.1	10.4	-0.7	-9.4	26.4	-9.4	0.2	0.8	-6.8	
Realization (INR per ton)	48,631	48,109	48,921	44,788	45,614	44,878	40,443	43,194	47,444	43,328	43,243	0
Change (YoY %)	27.2	25.1	20.4	-1.6	-6.2	-6.7	-17.3	-3.6	16.1	-8.7	-3.4	
Net Sales	**1,59,072**	**1,67,180**	**1,58,358**	**1,85,063**	**1,48,200**	**1,41,274**	**1,65,413**	**1,61,718**	**6,69,673**	**6,16,606**	**1,66,487**	-3
Change (%)	37.4	22.8	3.3	8.6	-6.8	-15.5	4.5	-12.6	16.3	-7.9	-10.0	
NSR to RM Spread (INR/t)	28,993	26,401	29,602	22,151	24,841	24,712	18,495	26,930	26,492	23,538	23,231	
EBITDA	**25,764**	**23,650**	**25,782**	**22,145**	**15,819**	**11,597**	**9,976**	**19,538**	**97,341**	**56,930**	**20,617**	-5
EBITDA per ton (INR)	7,877	6,806	7,965	5,359	4,869	3,684	2,439	5,218	6,896	4,000	5,355	-3
Interest	7,554	7,711	8,251	8,034	7,884	9,404	8,494	9,086	31,549	34,868	8,704	
Depreciation	8,136	8,261	8,547	8,903	8,725	9,011	9,263	10,552	33,847	37,551	9,460	
Other Income	978	1,143	747	2,461	1,828	1,587	1,866	4,570	5,328	9,852	1,550	
PBT (before EO Inc.)	**11,052**	**8,822**	**9,731**	**7,669**	**1,039**	**-5,230**	**-5,914**	**4,469**	**37,273**	**-5,636**	**4,003**	12
EO Income(exp)	-2,774	-342	-233	-546				37,342	-3,894	37,342		
PBT (after EO Inc.)	**8,278**	**8,480**	**9,498**	**7,123**	**1,039**	**-5,230**	**-5,914**	**41,812**	**33,379**	**31,707**	**4,003**	944
Total Tax	2,874	2,943	3,334	2,439	351	-1,802	-1,618	14,560	11,591	11,491	1,041	
% Tax	34.7	34.7	35.1	34.2	33.8	34.5	27.4	34.8	34.7	36.2	26.0	
Reported PAT	**5,404**	**5,537**	**6,163**	**4,684**	**688**	**-3,428**	**-4,296**	**27,252**	**21,789**	**20,216**	**2,962**	820
Adjusted PAT	**7,215**	**5,760**	**6,314**	**5,043**	**688**	**-3,428**	**-4,296**	**2,913**	**24,330**	**-4,123**	**2,962**	-2

Expert Speak

Retail growth outlook moderates; caution to prevail

Approval rates likely to decline across lending segments

We hosted an interaction with Mr Abhay Kelkar, Vice President of TransUnion CIBIL Ltd, to discuss the retail growth outlook and asset quality impact across key lending segments given the COVID-19 outbreak. Here are the key insights:

Mr. Abhay Kelkar (Vice President, Research & Consulting, TransUnion CIBIL Ltd)

Mr Kelkar is a Chartered Account with over 16 years of experience in the Financial Services industry. He has worked across the Consumer Lending, Cards, and SME businesses and managed varied functions, such as analytics, product development, strategy, and risk management.

COVID-19 to impact consumption demand, defer new investments

Over the past few years, consumer credit has been driven by the Unsecured Loans (Credit Cards, Personal Loans), MFI, Business Banking, and Housing segments. Thus, retail credit increased at a 16.4% CAGR over FY16–FY20, with Credit Cards / Personal Loans (PL) expanding at a 30%/25% CAGR over this period. However, the COVID-19 outbreak is expected to alter the retail credit outlook in the near term, weighed by an impact on consumption demand, reduction in discretionary spending, and the postponement of new investments. As per recent RBI data, retail credit growth moderated to ~10.6% YoY, with growth in credit card advances declining to ~1% YoY and growth in personal loans moderating to 12% YoY.

Overall, TransUnion CIBIL expects demand in Asset Finance products, such as Home Loans, Loans Against Properties (LAP), and Auto Loans to moderate given the decline in economic activity, a badly impacted Tours & Travels business, and reduced discretionary spend. On the other hand, the impact on the Credit Cards and Personal Loans segments would be limited compared with that on Asset Finance products. Overall, lenders would turn more cautious and further tighten their underwriting standards.

Approval rates expected to decline across lending segments

TransUnion CIBIL indicated that given the inherent risk in products such as LAP and PL, it expects the approval rates for these products are likely to nosedive. During the Global Financial Crisis (GFC), the volume of inquiries and origination fell by almost 50% YoY across retail products, and approval rates plunged 11–30%, with the highest impact witnessed in the PL and LAP portfolios.

COVID-19 crisis different from others: adequate liquidity with all lenders

The credit bureau believes the current crisis is different from earlier crises (such as GFC) as adequate liquidity is available across lenders. The RBI has undertaken proactive steps such as reducing the CRR rate and announcing auctions of targeted term repos (TLTRO 1.0 and 2.0) to provide sufficient liquidity in the market. Furthermore, the crisis may lead to operational challenges for many lenders, resulting in these companies re-considering and potentially changing their operating models, such as adjusting working hours, adapting the staff mix, and increasing their focus on enabling the digital ecosystem in their working models. **Overall, while the demand rebound took longer in earlier crises, the bureau expects faster growth revival in the current environment as it believes lenders are better shaped to manage the current crisis.** However, some amount of caution is likely to prevail in the near term.

Asset quality impact in unsecured segments to be more v/s asset-backed products

On the asset quality front, TransUnion CIBIL expects unsecured products to be more impacted than asset-backed products as credit card payments rank last among payment priorities, while home loans stand first. Moreover, in Personal Loans, acquisitions by NBFCs / fintech companies are relatively higher from high-risk / low CIBIL score customers and could therefore be more vulnerable in the current environment. In the Auto Loans segment, the migration of drivers, a slowdown in cab services, and a highly impacted Tours & Travels business would lead to some asset quality challenges in the Wheels portfolio. Also, home loans under construction would face asset quality challenges as many borrowers may stop making their payments. Additionally, business acquisitions by banks through direct selling agent (DSA) channels could also witness higher stress; thus, NBFCs could face deeper issues as they have a higher reliance on the DSA network vis-à-vis banks.

Other highlights

- The credit bureau believes there is a strong correlation between: a) growth in LAP inquiries and Index of Industrial Production (IIP) data, b) a rise in housing loan inquires and the share price index, c) an increase in personal loan inquires and household financial liabilities, and d) credit card adoption and gross household wealth.
- TransUnion CIBIL data suggests risk had increased to a certain degree in the LAP and PL portfolios even prior to the COVID-19 crisis.
- Some leading indicators suggest economic activity somewhat revived Jun'20 onward, with the unemployment rate improving to ~12% during this month from ~23.5% in May'20.
- Recent key announcements by the government regarding an economic relief package would help revive impacted areas such as credit guarantee loans to MSMEs, extra credit to farmers, funds for stressed NBFCs, and funds for DISCOMs.

Healthcare

IPM in recovery mode led by price hikes

- Indian pharmaceutical market (IPM) grew 2.4% YoY in Jun'20, after witnessing decline of 11.2%/8.9% in Apr'20/May'20.
- For 1QFY21, IPM contracted 5.9% led by volume decline of 11.8% YoY, which was offset to some extent by price (+4.5%) and new launches (+1.4%).
- On MAT basis, industry grew 6.1% YoY.

Volumes remain in contraction mode; Price growth – the key

- In value terms, secondary sales grew 1.6% YoY for NLEM (~16% of IPM) and 2.6% YoY for non-NLEM (~84% of IPM) in Jun'20.
- While price growth for non-NLEM products stood at 4.8% YoY, volumes declined 4.4% YoY. NLEM products also witnessed a drag in volumes (-1.2% YoY).

Ipca, JB Chemicals and Eris LS emerge as outperformers

- In Jun'20, Ipca (+19.3% YoY), Mankind (+18.7% YoY) and Eris LS (+13.4% YoY) delivered the highest growth.
- Ipca witnessed good traction in Anti-Malaria (+38.1% YoY) and Pain-Analgesic (+34% YoY) therapies. JB Chemicals' growth was backed by both volumes (+5.2%) and prices (+9.4%). Eris LS' growth was supported by Anti-Diabetic (+29.5% YoY) and Cardiac (+21.7% YoY) therapies.
- Sun Pharma's sales grew marginally by 0.8% YoY in Jun'20 against decline of 7.2% YoY in May'20, mainly driven by growth in its key therapies of Cardiac (+9.9% YoY) and Neuro (+7.9% YoY).
- Secondary sales for GSK and Biocon remained the weakest in the month.
- On MAT basis, JB Chemicals/Torrent reported highest price growth of 9.4%/7.9% YoY. Glenmark witnessed the highest growth from new launches (+5.2% YoY).

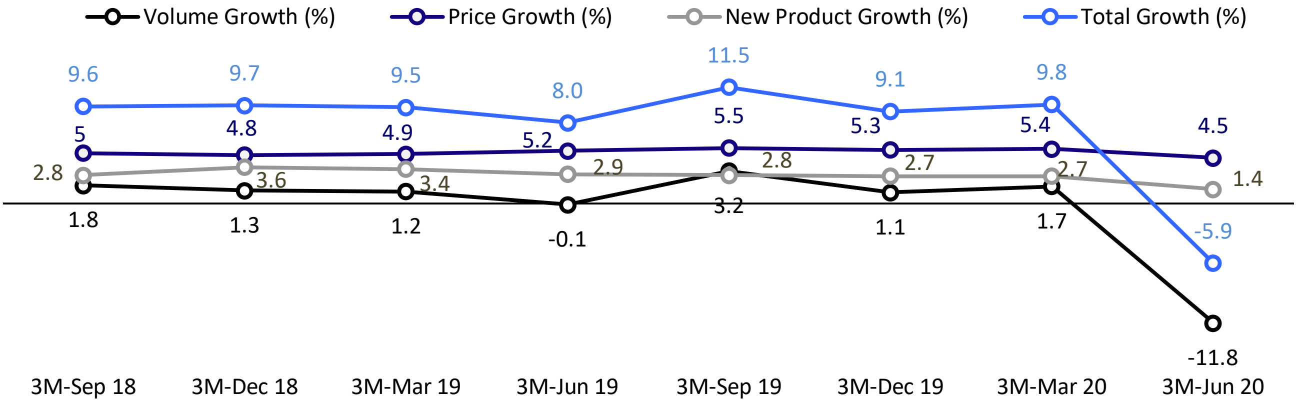
Anti-Malaria, Cardiac and Respiratory witness robust growth

- Cardiac, Anti-diabetic and Respiratory therapies exhibited highest growth of 13.9%, 8.5% and 4.2% YoY, respectively, while Anti-Infective, Gynecology and Pain continued to decline by 9.7%, 2.9% and 1.9% YoY in Jun'20.
- On MAT basis, Anti-Malaria, Cardiac and Respiratory therapies exhibited the highest growth of 11.8%, 11.4% and 11.2% YoY. On the contrary, Anti-Neoplastic/Gynecology witnessed sluggish growth of -1.4%/+0.4% YoY.

Performance of top companies: June 2020

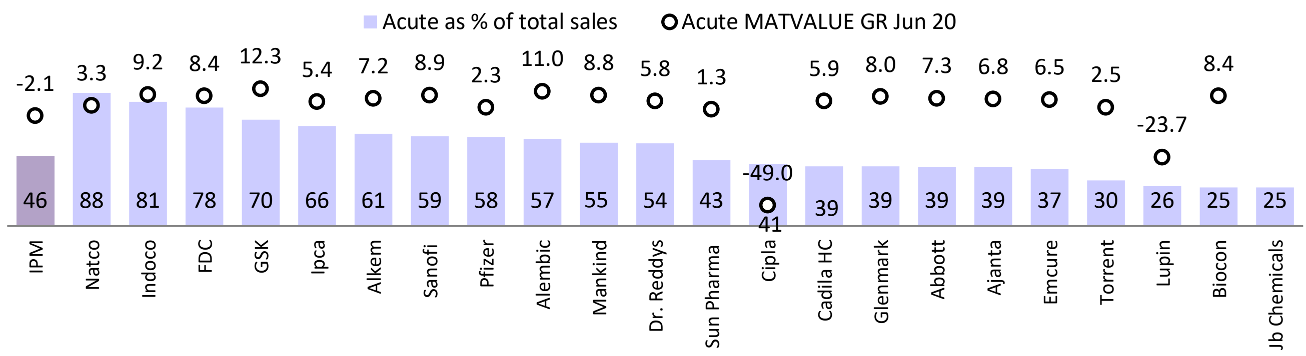
Company	MAT gr (%)	Jun-20 (%)
IPM	**6.1**	**2.4**
Ipca	10.2	19.3
JB Chemicals	16.8	18.7
Eris LS	7.7	13.4
Glenmark	8.8	13.1
Pfizer	11.3	12.4
Astrazeneca	9.5	11.3
Ajanta	5.2	9.3
USV	10.2	8.0
Cipla	3.9	7.4
Merck	2.2	7.4
Torrent	9.4	6.7
Abbott	6.5	5.1
Sanofi India	4.0	4.3
Emcure	9.0	3.9
Mankind	11.8	3.2
Intas	8.7	2.9
Lupin	7.3	1.8
Alembic	0.4	1.7
Dr. Reddys	7.8	1.1
Sun Pharma.	7.5	0.8
Cadila HC	7.6	0.2
Natco	-1.6	0.1
Alkem	6.5	-1.8
Indoco	4.3	-2.7
MSD	1.8	-3.7
FDC	8.2	-5.6
GSK	3.1	-5.6
Biocon	-3.8	-10.6

Volumes decline drastically for the quarter ended Jun'20



Source: AIOCD, MOFSL

Acute as % of total sales and the growth rate on MAT Jun'20 basis



Source: MOFSL, Company

Third consecutive high double-digit IIP decline in May'20

Expect real GDP contraction of ~20% in 1QFY21

- **IIP contracted 34.7% YoY in May'20, broadly in line with our expectation and market consensus. This decline is slower than the 57.6% YoY contraction seen in Apr'20 (revised from 55.5% decline earlier) and growth of 4.5% YoY in May'19.**
- **Just like the previous two months, IIP decline in May'20 was led by across-the-board contraction in all major components. While manufacturing activity declined 39.3% YoY (v/s -67.1% in Apr'20), mining activity fell 21% YoY during the month (v/s -27% a month ago). Power generation contracted 15.4% YoY in May'20 (v/s -23% in Apr'20).**
- **The total 15-sub industries group (accounting for ~58% weight in the index) within manufacturing declined 30% YoY in May'20 from decline of ~58.7% YoY in Apr'20. However, within this group, pharmaceutical production actually rose 2.5% YoY during the month. The growth in pharmaceutical production is in fact better than the average growth of ~1.1% during Jan-Feb'20.**
- **Additionally, infrastructure/construction activity and capital goods production continued declining in the range of 40-60% YoY in May'20. While consumer goods production declined by more than a third in May'20, primary and intermediate goods declined by 20% and 44.1% YoY, respectively.**
- **As detailed in our EAI-GVA/GDP report, May'20 continued to see sharp decline in economic activity. While Jun'20 appears to be a far better month followed by the government's 'Unlock 1.0', which might have led to a gradual pick-up, we expect IIP to decline for another 3-4 months. IIP is expected to contract 20-30% in Jun'20. As for real GDP, we expect a contraction of ~20% in 1QFY21 and decline of ~5% for full-year FY21.**

- **Third consecutive high double-digit IIP decline in May'20...:** Broadly in line with our expectation and market consensus of ~38% fall, IIP declined 34.7% YoY in May'20. This decline is slower than the 57.6% YoY contraction seen in Apr'20 (revised from 55.5% decline earlier) and growth of 4.5% YoY in May'19 (*Exhibit 1*).
- **...driven by across the board contraction:** While manufacturing activity declined 39.3% YoY in May'20 (v/s decline of 67.1% YoY in Apr'20), mining activities contracted 21% YoY (v/s -27% YoY in Apr'20). Additionally, power generation fell 15.4% YoY during the month (v/s -23% a month ago) *(Exhibit 2)*. Within manufacturing, growth in 15 sub-industries (accounting for 58% weight in the index) declined by 30% YoY in May'20 compared to a decline of 58.7% YoY a month ago and growth of 6.5% a year ago *(Exhibit 3)*. Notably, production of pharmaceuticals (accounting for ~5% weight in the IIP index) grew 2.5% YoY in May'20 after declining in the range of 23-54% YoY in the previous two months. Growth in pharmaceutical production is in fact better than the average growth of ~1.1% during Jan-Feb'20.
- **Infrastructure/construction activity and capital goods production still posted huge declines in May'20:** While infrastructure and construction activity declined 42% YoY, capital goods production plunged 64.3% YoY in May'20 as against a contraction of 84.7% and 93.6% witnessed in Apr'20, respectively. Moreover, primary/intermediate goods production also declined 20%/44.1% in May'20 v/s a decline of 26.6%/65.4% a month ago. Fall in consumer goods production nearly halved to 36% YoY in May'20 v/s decline of 69.1% YoY in Apr'20 *(Exhibit 4)*.

TCS: ALONG WITH GROWTH, MARGINS WILL ALSO IMPROVE; V Ramakrishnan, CFO, TCS And Milind Lakkad, CHRO

- Confident of recovery in the coming quarters. It will be very segment and specific country driven, but we expect that to happen across many of the sectors. Along with growth, obviously the margins will also be improving because in the current quarter, the reduction in the margins is directly related to the contraction in the demand and in the revenue. While company was able to get back almost 300 bps outside of anything to do with employee cost but still we had a dip or 1.5% so that is directly related to the drop in revenue so with improvement in the recovery we will also see the improvement in margins.
- Company has the second highest ever invested funds and cash balances when we closed in June. So from a deployment perspective, I do not see any issues. We will continue to invest, we have been investing in our research and innovation, in building capabilities at scale among our employees and also in labs and customer experience areas so we will continue to focus and invest on that.
- For the last quarter, had our regular voluntary attrition and through our operational discipline and internal talent development activities, we ensured that most of the fulfilment for the new demand happens with internal resources. The addition was obviously less than the people who left us and thereby resulted in a negative number for the current quarter. Going forward, like I said earlier, we will continue to get all our 40,000 offers we made in the campuses in India.
- Do not expect pricing realisation to dramatically increase.
- Dividend or return policy has been 80% to 100% of our free cash flow. So, there is no departure from that policy. In the last couple of years, we have been very close to 100% or even slightly higher. We will stay within that range.

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A NOVEL WAY FOR MSMES TO LOWER THEIR RISK PROFILE AND ACCESS FUNDS

- As we continue to grapple with ways to increase resilience in the micro, small and medium enterprises (MSME) sector, the topic of equity capital keeps coming up. Historical efforts at addressing this issue through stock exchanges and equity funds focused on MSMEs have not had much success. One of the measures announced in the Centre’s covid relief package was a fund-of-funds to invest in MSME equity, but it is likely to face similar issues. We want to explore here a significantly different approach that seeks to address the root causes of risk faced by these entities. One role of equity is to provide a buffer to a lender so that shocks to the business do not translate into default. In return, an equity investor has full claim on the residual profits of the business. This claim is typically enforced through active engagement by such an equity investor. This approach assumes that the business has a core of steady revenues that do not get overwhelmed by modest-sized shocks. In the case of MSMEs, this key assumption is not always validated because these businesses are exposed to large (relative to their size) shocks such as payment uncertainties, and supply as well as demand shocks. These businesses would be deemed to have no debt capacity at all, and the resultant level of equity required would be so high that it would render the entire business model unviable. Lenders to MSMEs would confirm that the expected losses are in the range of 4-8%, even for those having diversified loan books, going up to 30% during periods of uncertainty. The underlying failure rates of businesses, particularly in sectors like restaurants and apparel, are also quite high. MSMEs, by definition, cannot shield themselves from these risks on their own, since they are concentrated in a particular neighbourhood (in the context of services) or a specific supply chain (in the context of manufacturing). In fact, this micro-market specialization and localization is the very strength of their business models. If equity cannot be a buffer for risks, and diversification of firms is not feasible, are there ways to fundamentally reduce the incidence of risk for these companies?

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NOTES

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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.

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