Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	44,180	0.5	7.1
Nifty-50	12,938	0.5	6.3
Nifty-M 100	18,924	1.5	10.7
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,568	-1.2	10.4
Nasdaq	11,802	-0.8	31.5
FTSE 100	6,385	0.3	-15.3
DAX	13,202	0.5	-0.4
Hang Seng	10,640	0.9	-4.7
Nikkei 225	25,728	-1.1	8.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	0.9	-34.9
Gold ($/OZ)	1,872	-0.4	23.4
Cu (US$/MT)	7,070	0.3	15.0
Almn (US$/MT)	1,985	1.2	11.4
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.2	-0.4	3.9
USD/EUR	1.2	-0.1	5.7
USD/JPY	103.8	-0.4	-4.4
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	0.00	-0.7
10 Yrs AAA Corp	6.6	0.00	-1.0
Flows (USD b)	**18-Nov**	**MTD**	**CYTD**
FIIs	0.41	2.92	6.66
DIIs	-0.38	-2.54	6.81
Volumes (INRb)	**18-Nov**	**MTD***	**CYTD***
Cash	723	630	554
F&O	26,351	24,109	17,837

Note: *Average

Today's top research idea

Wipro: Operational restructuring to fund investments

- The key focus of Wipro's Analyst Day was on operational changes and steps undertaken to accelerate revenue growth. The company expects the shift to four Strategic Market Units and two Global Business Lines to help streamline operations and increase its focus outside of the US.
- Creation of a global account executive (GAE) role would help WPRO better address long-standing issue in client mining and retention.
- We are less sure of the utility of delineating clients by region (unlike by industry at peers) as this could impact its ability to tap into global accounts and seamlessly utilize sectoral strength across regions.
- With the new strategy operationalizing from Jan'21, any near-term impact would be closely monitored and could impact the stock's valuation.

Research covered

Cos/Sector	Key Highlights
Wipro	Operational restructuring to fund investments
SBI Life	Protection trends remain robust; cost leadership continues
Gujarat State Petronet	A decade old – A decade new: a huge opportunity
Textile	Earnings visibility improves across players

Chart of the Day: Wipro (Operational restructuring to fund investments)

Simplified operating model of the company

Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Pfizer says vaccine shot is 95% effective in final trials

Pfizer says that more interim results from its ongoing coronavirus vaccine study suggest the shots are 95% effective and that the vaccine protects older people most at risk of dying from covid-19…

2

Direct tax settlement scheme fetches ₹72,480 cr so far to exchequer

Businesses, including state-owned firms, have so far paid ₹72,480 crore to the government under the Vivad Se Vishwas scheme, which allows them to settle direct tax disputes by paying the disputed arrears at concessional terms and avoid prosecution. The total amount of public sector tax disputes being settled under the scheme alone is a massive ₹1,00,195 crore, a government official said on condition of anonymity…

3

Domestic air passenger volume falls 57 pc to 52.71 lakh in October

Domestic air passenger volume fell 57.21 per cent to 52.71 lakh in October over the year ago period, as airlines continued to operate at a much lower capacity, the Directorate General of Civil Aviation's (DGCA) data showed on Wednesday…

4

Need to reverse trend of steel import for meeting domestic demand: Pradhan

There is a need to reverse the trend of meeting domestic steel demand with imports according to Union Steel Minister Dharmendra Pradhan…

5

Vedanta Group submits EOI to buy government's entire stake in BPCL

Anil Agarwal-led Vedanta Group said on Wednesday that it has submitted an expression of interest (EoI) for buying 52.98 per cent government stake in Bharat Petroleum Corporation (BPCL)….

6

Digital gold sees new demand from smaller cities

The ongoing pandemic and rise in gold prices have prompted consumers to look at the relatively new digital gold category with a fresh lens. With digital payment firms lapping on to the opportunity, new shoots of demand are coming from smaller towns and cities…

7

Hero MotoCorp retails 14 lakh units in festive sales

Hero MotoCorp on Wednesday said it retailed more than 14 lakh units of motorcycles and scooters during the just concluded festive season…

Wipro

BSE SENSEX	S&P CNX
44,180	12,938

CMP: INR345 TP: INR385 (+12%) Neutral

Operational restructuring to fund investments

Stock Info

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	1972.8 / 26.9
52-Week Range (INR)	382 / 160
1, 6, 12 Rel. Per (%)	-9/42/29
12M Avg Val (INR M)	2899

Financials Snapshot (INR b)

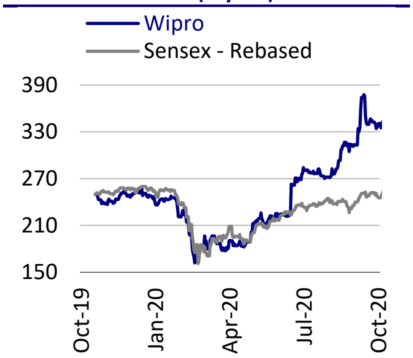
Y/E Mar	2020	2021E	2022E
Sales	613	624	676
EBIT Margin (%)	17.1	18.4	18.5
PAT	98	101	110
EPS (INR)	16.6	17.6	19.1
EPS Gr. (%)	8.5	5.9	8.6
BV/Sh. (INR)	97.9	100.3	107.8
Ratios			
RoE (%)	17.3	17.8	18.4
RoCE (%)	12.8	13.3	13.7
Payout (%)	133.6	93.0	61.1
Valuations			
P/E (x)	20.8	19.6	18.1
P/BV (x)	3.5	3.4	3.2
EV/EBITDA (x)	13.6	11.9	10.6
Div Yield (%)	5.5	4.1	2.9

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	74.0	74.0	74.0
DII	6.5	7.6	7.0
FII	8.8	8.2	8.8
Others	10.7	10.1	10.2

FII Includes depository receipts

Stock Performance (1-year)



We attended Wipro (WPRO)'s Analyst Day, wherein the management shared its plan for operational transformation and steps to improve growth. Here are the key highlights from the meet:

- The key focus of Wipro's Analyst Day was on operational changes and the steps undertaken to accelerate revenue growth. The company expects the shift to four Strategic Market Units (SMUs; focused on sales) and two Global Business Lines (GBLs; focused on delivery) to help streamline operations and increase its focus outside of the US. It is also de-prioritizing some sectors (Hospitality, Airlines, Public Sector, etc.) and regions (Asia, Africa, and South America – 2-3% of revenues) to increase the focus on high-growth businesses.
- In our view, streamlining P&L to four SMUs (v/s 20 P&Ls earlier) should free up internal resources to invest in growth initiatives, which is positive. In addition, the creation of the global account executive (GAE) role would help WPRO better address the long-standing issue in client mining and retention.
- We are less sure of the utility of delineating clients by region (unlike by industry at peers) as this could impact its ability to tap into global accounts and seamlessly utilize sectoral strength across regions.
- With the new strategy operationalizing from Jan'21, any near-term impact would be closely monitored and could impact the stock's valuation.

Successful restructuring the key monitorable

- WPRO is undertaking the drastic restructuring of its business, reducing the layers, and splitting the business by region. It expects this to result in a much more agile and nimble organization, which will accelerate growth.
- It will drive this through prioritizing high-growth sectors and markets, large deals, and strategic partnerships. To achieve this, WPRO has also created the position of Chief Growth Officer.
- While prioritized efforts in targeted markets would ease the operating model to a certain extent, execution around the verticals within the geographical markets still seems to be an overhang.

New operating model to help sustain margins

- WPRO believes the recent structural changes in the organizations would give it a boost in the value chain, thereby increasing its pricing power.
- This, coupled with the operational efficiencies involving offshore mix, utilization, automation, etc. would help sustain current margins.

Valuation and view

- In the past few years, WPRO has underperformed Tier-I companies on growth, partly due to its high exposure to challenged verticals (e.g., Healthcare and ENU). Changes at the company level have further constrained growth. However, its recent 2QFY21 result and management outlook are encouraging.

- The stock is currently trading at 18x FY22E EPS. We value WPRO at 20x FY22E EPS (30% discount to TCS). We maintain our Neutral rating as we await further evidence of execution of WPRO's refreshed strategy and a successful turnaround from its growth struggles over the last decade, before turning constructive on the stock.

Trends playing out post the pandemic

- Technology has now become key to survival and is driving resilience for businesses across the globe. It is now necessary at the front end as well as the backend for companies to improve efficiency and optimize costs.
- This accelerated transformation has turned out to be a big opportunity for the IT industry, which is structural and here to stay. WPRO is well-placed to leverage these transformation journeys.
- Currently, less than 3% of WPRO's workforce operates from the office. The company has on-boarded 18,000 employees virtually in the last seven months. The management believes this hybrid model will become the new reality and companies would not have 100% of their workforce working from an office in the long run.
- Keeping these trends in focus, Mr Rishad Premji highlighted WPRO's obsession for growth with a much stronger external market orientation and to form an agile and nimble organizational structure, which will help improve its response time.

Evolving technology market dynamics

- Technology is enabling business and operating model transformation, and 85% of incremental spends will be in Digital. Cloud has become a priority for over 46% of organizations.
- The shift to the new is very pronounced. Companies are moving from traditional IT to next generation technologies, which are expected to lead the industry in the coming time.
- Digital, Cloud, Data Engineering and Cyber Security are key areas for incremental tech spend. Digital technologies are set to grow by 15–20% over the next five years. 5G, AI, Robotics, and Blockchain are also expected to witness explosive growth in the near future.
- While the Americas will continue to be large, Europe and APMEA will contribute 58% to incremental revenue, whereas verticals such as BFSI, Retail & Consumer, Energy & Utilities, and Manufacturing are expected to contribute 56% to incremental growth.

Wipro's refreshed strategy

- Management set five key strategic priorities
  - To accelerate growth
  - To strengthen clients and partnerships
  - To lead with business solutions
  - To build talent at scale
  - To create a simplified operating model

- The company has prioritized specific sectors in markets to drive growth. Efforts and investments would be focused on these targeted markets to build or sustain market leadership.
- There will be continued focus on American/UK markets. However, the management has renewed its ambition of building a strong growth in Europe, the Middle East, and Asia. Within verticals, BFSI, Life Sciences, Heavy Industries, and Consumer will be the focus.
- Currently, 70% of revenue comes from WPRO's large customers. The focus is to accelerate growth by assigning a GAE who will represent and present the best of the company to the account.
- The company is also building a specialized large deal team to help in large deal creation, solutions, structuring, and finally winning to aid its growth objective.
- WPRO has an ambitious program to hire deep subject matter experts and go-to-market leaders over the next three years, and localize the talent pool.
- Lastly, the company has simplified its operating model into four SMUs and two GBLs. This is to ensure adequate sector and domain focus.

Accelerated growth; sustained margins

- Investments in 1) Go-to-market, 2) Business solutions, 3) M&A, and 4) Partnerships are key priorities for accelerating growth. These investments would be commensurate to WPRO's growth ambition.
- WPRO has enough levers at play to sustain its operating margin: 1) Structural, which involves the prioritization of markets and sectors; 2) Pricing power, which is expected to improve as the company goes up the value chain; 3) Operational excellence in terms of automation, offshore mix, and utilizations; and 4) Situational, which includes spends such as travel and discretionary costs, which will reverse as the situation normalizes, but not at pre-COVID levels.
- The management does not intend to compromise on either growth or margins going forward. The focus will also be on keeping the Balance Sheet risk-free and healthy.
- WPRO continues its capital allocation policy of returning at least 45–50% of net income to shareholders.

SBI Life Insurance

BSE SENSEX	S&P CNX
44,180	12,938

Bloomberg	SBILIFE IN
Equity Shares (m)	1,000
M.Cap.(INRb)/(USDb)	857.7 / 11.6
52-Week Range (INR)	1020 / 520
1, 6, 12 Rel. Per (%)	-3/-24/-24
12M Avg Val (INR M)	1693
Free float (%)	39.3

Financial snapshot (INRb)

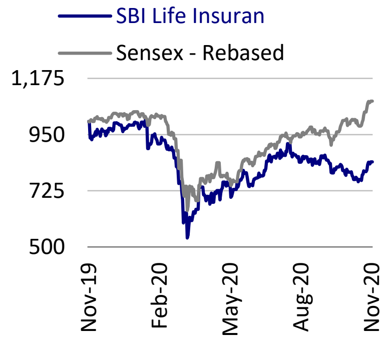
Y/E MARCH	FY20	FY21E	FY22E
Net Premiums	403	469	553
Surplus / Deficit	19.0	30.3	36.0
Sh.PAT	14.2	16.6	18.3
NBP gr- unwtd (%)	20.3	7.0	18.0
NBP gr- APE (%)	10.2	6.2	14.3
Premium gr (%)	23.2	16.0	18.2
VNB margin (%)	18.7	20.5	21.1
RoE (%)	17.4	17.6	16.9
RoEV (%)	17.4	17.2	17.2
Total AUMs (INRt)	1.6	1.9	2.3
VNB	20.1	22.9	26.9
EV per share	263	308	361
Valuations			
P/EV (x)	3.2	2.8	2.4
P/EPS (x)	59.8	51.3	46.4

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	60.7	60.7	62.8
DII	7.1	7.0	6.9
FII	25.8	26.2	23.7
Others	6.5	6.1	6.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR858 TP: INR1,050 (+22%) Buy

Protection trends remain robust; cost leadership continues

Growth steadily revives after seeing trough levels; valuations reasonable

- **SBILIFE posted a rebound in business premium with individual APE growing at 14% YoY in Oct'20 after reporting a consecutive decline for the past many months. During 2QFY21, the ULIP business declined 13% YoY but grew 166% QoQ from the troughs seen earlier. Protection growth remains robust both in individual and group segments and is expected it to remain strong. The revival in credit growth, with parent SBIN indicating that the retail disbursement run-rate is now higher than pre-COVID levels, further augurs well for SBILIFE.**
- **The company reported an improvement in persistency rate across cohorts, with the highest improvement seen in the 61st month (up 340bp YoY to ~61% in 1HFY21). Persistency in the Protection business remains strong. The ULIP business is showing signs of a recovery on improved capital market performance.**
- **SBILIFE is also looking to optimize its product mix in the Protection/Annuity business. This should help VNB margin to further expand to ~22% by FY23E, which should drive 19% CAGR in VNB over FY20-23E. We expect operating RoEV to remain steady ~18%, while EV clocks 17% CAGR over FY20-23E. Maintain Buy with TP of INR1,050/share (2.7x Sep'22E EV).**

APE growth showing improving trends; Renewal growth remains robust

Total APE declined ~3% YoY (grew 113% QoQ) during 2QFY21 as business trends continue to march towards normalcy. ULIP business declined 13% YoY, but improved 166% QoQ from the troughs witnessed during 1QFY21, while Protection trends remains strong. During Oct'20, SBILIFE posted 14% YoY growth in individual APE, while overall APE grew 13% YoY. The company continues to post strong Renewal growth at 29% YoY (way ahead of its peers). SBILIFE's distinct competitive advantage owing to its parent SBIN provides it a long-term structural growth story. With retail disbursements moving towards normalcy, we expect business volumes to revive further in coming months.

NBP (un-weighted) growth trends for SBILIFE better v/s peers

Growth in new business premium (un-weighted) outperformed the industry and peers, which SBILIFE grew ~15% YoY over FY21 YTD (v/s 3.1% for the industry and 12.4% for HDFCLIFE and 10.5% decline for IPRU).Also, Sum assured growth trends remains robust for both IPRU and SBILIFE, which suggests improving trends in the Protection segment.

Protection business trends remain strong; individual protection mix increasing

Protection growth remained strong (70% YoY) in 2QFY21, led by both individual and group protection. The share of Protection business improved to 12.5% (v/s 7.1% in 2QFY20 and 8.9% in FY20). The management said growth in individual protection was volume driven, while the ticket size broadly remains the same. The share of individual protection in total APE improved to ~7% (v/s 4.7% in FY20). Group protection trends remain steady despite flat trends in credit life. The pick -up in home loan and other retail disbursements for parent SBIN will allow higher cross-sell of credit life business and support VNB margin.

Cost leadership strengthens further; TER improves to 8.6% in 1HFY21

SBILIFE has one of the lowest cost structures among its peers. It has a lower banca commission rates (v/s peers), which allows it to maintain strong control on cost ratios. The company has steadily reduced its total expense as a percentage of gross written premium (GWP) to 8.6% in 1HFY21 from 9.9% in FY20 and 15.9% in FY13. The management indicated it will continue to invest in growing its agency channel, cost-intensive Protection business and digital initiatives. We expect SBILIFE to maintain its cost leadership, with GWP at 9.8% over FY23E.

Persistency rate inches towards pre-COVID levels; Renewal growth leads peers

The company reported an improvement in persistency rate across cohorts (barring the 49^{th} month), with the highest improvement seen in the 61st month (up 340bp YoY to 60.9% in 1HFY21), which aided growth in the Renewal business (up 29% YoY vs 7% for IPRU and 22% for HDFCLIFE). Among segments, persistency in the Protection segment remains strong, while the same for ULIP is reviving gradually on a buoyant capital market performance. However, persistency based on regular premium declined for the 13^{th} month by 80bp to 83.2%, but improved for the 61^{st} month by 140bp YoY to 50%.

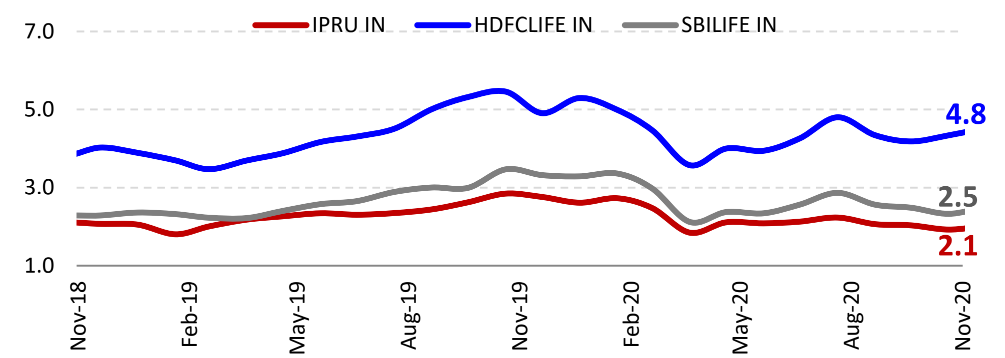
VNB margin remains resilient, estimate margin to expand to ~22%

VNB margin improved to 20.2%, led by an increase in Retail Protection during 2QFY21, though it lagged re-pricing of Protection products. Change in operating and economic assumptions dragged margin. We expect VNB margin to expand in the medium term as SBILIFE further optimizes its product mix with a focus on the Protection/Annuity business, re-bound in premium growth from FY22E onwards and re-pricing of Protection products. We expect VNB margin expansion to touch ~22% and deliver 19% VNB CAGR over FY20-23E.

Valuation and view

SBILIFE continues to report steady growth in the Protection business, while the ULIP business is expected to see a gradual recovery. We expect growth to revive meaningfully from FY22E. The company has reported a sharp improvement in the persistency rate. The improvement in cost ratios has also been commendable. We estimate the VNB margin to touch ~22% by FY23E and deliver 19% VNB CAGR over FY20-23E. We expect operating RoEV to sustain ~18% by FY23E. Maintain Buy with a TP of INR1,050/share (2.7x Sep'22E EV).

One-year forward P/EV chart for various insurers



Source: MOFSL, Company

Gujarat State Petronet

BSE SENSEX	S&P CNX
44,180	12,938

Gujarat State Petronet Ltd.

Stock Info

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	108 / 1.5
52-Week Range (INR)	263 / 146
1, 6, 12 Rel. Per (%)	-8/-41/-23
12M Avg Val (INR M)	163
Free float (%)	62.4

Financials Snapshot (INR b)

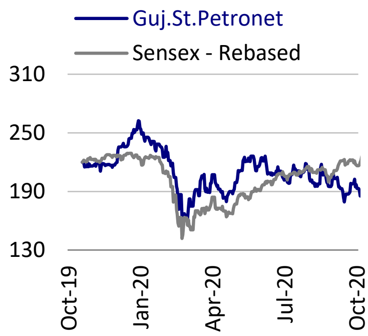
Y/E March	2020	2021E	2022E
Sales	19.4	18.9	20.5
EBITDA	15.7	15.1	16.0
PAT	11.1	9.5	10.0
EPS (INR)	19.7	16.8	17.8
EPS Gr. (%)	39.5	-14.4	5.8
BV/Sh.(INR)	119.2	133.6	149.0
Ratios			
Net D:E	-0.6	-0.6	-0.7
RoE (%)	17.8	13.3	12.6
RoCE (%)	17.5	13.3	12.6
Payout (%)	12.2	14.3	13.5
Valuations			
P/E (x)	9.7	11.4	10.7
P/BV (x)	1.6	1.4	1.3
EV/EBITDA (x)	7.1	7.0	6.1
Div. Yield (%)	1.0	1.0	1.0
FCF Yield (%)	13.5	8.0	7.8

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	37.6	37.6	37.6
DII	30.9	33.6	33.9
FII	15.6	15.5	15.5
Others	15.9	13.2	12.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR192 TP: INR300 (+57) Buy

A decade old – A decade new: a huge opportunity

- **Gujarat State Petronet (GUJS) reported volumes of ~40mmscmd in 2QFY21, taking the company to near full capacity levels of ~42mmscmd.**
- **We discussed volume growth avenues – both immediate and for the future – with the management. The following are key insights from the same:**
  - **GUJS has installed an additional compressor, which facilitated pipeline capacity expansion by ~10%, thus taking total pipeline capacity to ~46mmscmd.**
  - **While GUJGA stated during its recent earnings that volumes are higher than its 2QFY21 average, the benefits have also accrued to GUJS, which is currently operating ~44mmscmd (further supported by strong LNG demand).**
  - **Although, the company believes that volumes would settle down a bit, as festive demand is behind us, it could still average ~42mmscmd in 3QFY21.**
  - **Also, GUJS is in advance stage of renting an additional compressor to install at the pipeline connecting the Mundra LNG terminal, further expanding pipeline capacity by ~0.5mmtpa (~1.8mmscmd).**
  - **In addition to the ongoing capex on various other pipelines, the new expanded capacity of 47-48mmscmd provides opportunity for another 20% volume growth on its last reported numbers. On similar lines, GUJS expects to fulfill its targeted volumes growth of 10% per annum.**
- **Over the last five years, EBITDA grew ~11% CAGR, in line with volumes CAGR of ~10% (to ~38msmcmd in FY20 from 23mmscmd in FY15) despite average implied tariff of ~INR1,215 lower than ~INR1,240 in 2QFY21.**
- **Available LNG regas capacity is expected to jump by 54% to 40mmtpa over the next 2-3 years in Gujarat from the current 24mmtpa, presenting a huge volume growth opportunity for GUJS.**
- **At a 25% holding company discount, the 54% stake in GUJGA provides a valuation of INR152/share for GUJS (i.e. ~80% of CMP), thus implying a mere 2x Sep'22E P/E for the standalone business.**
- **The value of GUJS standalone business is the lowest in its stock price history (refer Exhibit 5), despite record high volumes, thus presenting an excellent investment opportunity. Reiterate Buy.**
- **We value GUJS at 8x Sep'22E standalone EPS to arrive at our target price of INR300.**

Petchem/refining and fertilizer demand – the roadrunner

- India imported ~22.2mmtpa of LNG in 1HFY21, primarily driven by demand from petchem/refining (up 8% YoY) and fertilizer (up 6% YoY); while power was flat YoY and CGD was down 33% YoY. Gujarat is assumed to have received ~90% of India's total LNG imports (GUJS have established pipelines at all three LNG terminals).
  - As per power data (by CEA), total electricity demand in the country is down 7% YoY in FY21 YTD, while gas-based power production is up 13% during the same period.
  - Fertilizer demand is expected to see a huge volume boost (~11-12mmscmd) in FY22 as three fertilizer plants get commissioned along the Jagdishpur-Haldia-Bokaro-Dhamra pipeline (**JHBDPL**), along with connectivity to refiners on the Urja-Ganga pipeline.

- Asian spot LNG prices have cooled off to ~USD6-6.5/mmbtu after touching a high of over USD7.5/mmbtu in the previous month. We believe that spot LNG prices would further normalize as US gas storage volumes touched fresh highs last week, while a second wave of COVID in Europe results in lower imports.

The proximity advantage

- The company has already started laying a pipeline to Swan Energy's LNG terminal in Jafrabad.
- At the start of 2021, GUJS commissioned the Pipavav-Gundala pipeline, which is transporting gas from Hazira/Dahej to various industries and CGDs (Surat, Ahmedabad, Gandhinagar, Bhavnagar, Mehsana, Rajkot, Morbi, etc).
- NGT has classified five industrial clusters in Gujarat (few of the above mentioned names) as severely/critically polluted. A strict action like Morbi could increase transmission volumes for GUJS at these GAs as well.
- GSPL India Gasnet (GUJS holds ~52%) is executing partial stretches of Mehsana-Bhatinda (340km) and Mallavaram-Bhilwara (364km) pipelines. Both have a capacity of 76-77mmscmd and would eventually enable evacuation of gas from upcoming LNG terminals on GUJS' gas grid.
- The company plans to spend ~INR22b over the next 3-4 years as capacity increases from upcoming terminals. This is against net fixed assets (NFA) of INR43b for the HP pipeline when its tariff was decided in 2018.

GAs classified as severely/critically polluted by NGT

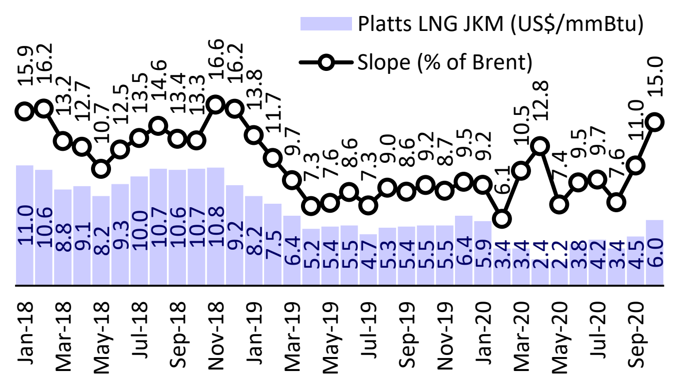
GA awarded	GUJGA
Pre-9th and 10th round	Rajkot
	Ankleshwar
	Bhavnagar
	Vapi
	Tarapur
10th round	Batala

Various consumers along the Mehsana-Bhatinda pipeline route

Sector/Industry/Consumer	Location
Cement plants	Gujarat
Fertilizer plants	Gujarat
Refinery/Petchem units	Gujarat
Gas-based IIPs	Gujarat
Textile mills	
Bulk industrial consumers	
Industrial and CGD projects along the pipeline route	
Jaipur | Udaipur | Jodhpur | Ajmer | Chittorgarh | Alwar | Bhiwadi	Rajasthan
Bhiwani | Rohtak | Sirsa	Haryana
Bhatinda | Patiala | Ambala	Punjab
Chandigarh	Chandigarh

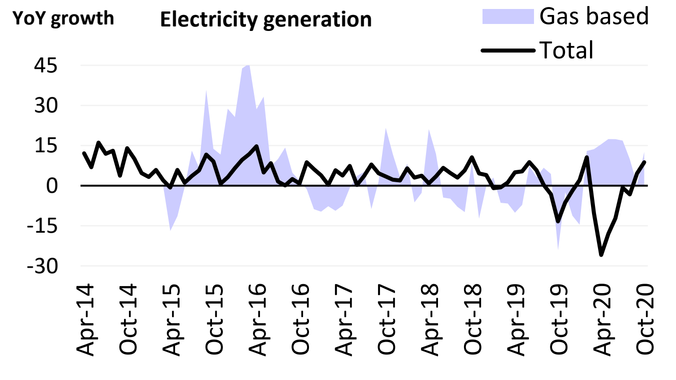
Source: PNGRB, MOFSL

Spot prices climb to ~USD6/mmbtu, implying a slope of ~15%, which we believe should normalize…



Source: Meti, MOFSL

…thus facilitating power consumers as well as other industrial users



Source: CEA, MOFSL

Textiles

Revenue/profitability of Home Textile companies surges on increased demand from US retailers

Aggregate Home Textile companies	Change YoY	Change QoQ
Revenue	4%	87%
EBITDA	-3%	182%
Margin	-127	616
Adj. PAT	-23%	NA

Source: Company, MOFSL

Earnings visibility improves across players

In this note we have tried to analyze the performance of key textile players in 2QFY21 and highlighted the key trends in the sector as mentioned in the conference call. Here are the key insights:

Near-term demand drivers in place

- **Dry pipeline providing demand tailwind:** The Home Textile industry witnessed a strong demand revival during 2QFY21 on high demand from big retailers (selling essentials), who saw their inventory pipeline running dry due to a demand recovery, lower channel inventory, and precautionary buying by big retailers during the COVID-19 pandemic.
- **COVID-19 induced higher consumption of Home Textile products:** Imposition of a lockdown across countries has led to higher consumption of Home Textile products (in the last eight months) – Bedsheets and Towels – as people are spending more time at home, with higher emphasis on hygiene. Increased usage has also led to slight shrinking of the replacement of Bedsheets and Towels.
- **'China+1'**: Increasing geopolitical tensions between the US and China and global companies intending to establish an alternate sourcing destination are likely to benefit Indian textile players going forward.
- **Apparel/Fabric/Yarn players tail-ride on an industry revival:** These players are next in line to benefit from a paradigm shift in demand to India, huge build-up of pent-up demand and benign raw material prices. Expansion of capacity across domestic players points towards higher inquiries from global players.
- **Weak INR is supporting Indian exporters:** The USD:INR is depreciating at a faster pace than the USD:RMB, which has made Indian exporters competitive v/s the Chinese. From Jan-Oct'20, the USD:INR depreciated by 4% to 74.11/USD). On the contrary, the USD:RMB appreciated by 3% to 6.69/USD.
- Against the backdrop of the pandemic and the growing preference for India as a potential supplier, domestic textile players are seeing significant market share gains from China. From Jan-Sep'20, market share (as a % of imports to the US) of China in Terry Towels/Bedsheets reduced by 350bp/510bp to 21%/15%, respectively. Whereas, India's market share in Terry Towels/Bedsheets increased by 360bp/90bp to 43%/50% over the same period.

Among Home Textile players, ICNT outperforms

- In 2QFY21, major Home Textile companies (WLSI, ICNT, TRID and HSS) reported cumulative revenue growth of 4%/87% over 2QFY20/1QFY21. Indo Count (ICNT) led the pack with 27%/2.2x revenue growth in 2QFY21 over 2QFY20/1QFY21. All players reported strong growth on a sequential basis, led by a revival in demand from end-customers.
- KPR Mill (KPR) reported a revenue growth of 17%/74% over 2QFY20/1QFY21 while Vardhman Textiles' (VTEX) revenue declined 2% YoY but grew 99% QoQ.
- In the backdrop of increased demand, Indian manufacturers are increasing capacities and focusing on increasing utilization levels. ICNT, which is currently operating at 85% utilization levels, plans to carry out greenfield expansion in the next 1-2 years. Welspun India (WLSI) plans to de-bottleneck its existing operations, post which its Towels/Bedsheets capacity is expected to increase by 20%/22% to 108,000MT/110m meter. For Trident (TRID) capacity utilization in Towel and Bedsheets stood at 61% (v/s 56% last year) and 90% (v/s 62% last year), respectively.

- Himatsingka Seide (HSS), which currently operates four manufacturing facilities and 12 brands, completed its three-year capex plan and expanded its Terry Towel/Bedsheet capacity to 25,000MT/61m meter, respectively. Going forward, HSS plans to ramp-up its operations of the newly built Terry Towel unit and focus on improving overall utilization levels. Manufacturing operations, which were previously constrained, led to lower manufacturing throughput, reduced gross margin and lower EBITDA. With operations returning to normalcy, gross and operating margins are expected to return to pre-COVID levels by 2HFY21.
- Home Textile players (aggregate) reported slight margin contraction (130bp YoY) in 2QFY21. On a sequential basis, margin expanded 620bp QoQ to 18%. ICNT outperformed other players, with EBITDA margin expanding 360bp YoY to 17.7%.
- Aggregate Home Textiles players reported a 3% YoY decline in EBITDA, whereas on sequential basis it grew 2.8x.

Key commentary from the conference call

- **WLSI** – i) With increased demand from US retailers, the management aims to debottleneck its existing operations. Post this, Towel capacity is expected to increase by 20% (from 90,000MT at present) and Bedsheet capacity by 22% (from the current level of 90m meter). WLSI plans to undertake brownfield expansion of its Rugs capacity and plans to double it to 20m square meter by FY22. ii) Going forward, cotton prices are expected to stabilize at INR38,000 per candy. Lower cotton prices are expected to improve gross margins of Indian textile players.
- **ICNT**'s order book and volume guidance are backed by strong demand from big box retailers compared to smaller ones as inventory from the former have dried-up.
- The company is operating at 85% utilization levels. Backed by strong demand from the Home Textile segment, the management is planning to undertake brownfield and greenfield expansion.
- **TRID** – On a full-year basis, the company is aiming to achieve an EBITDA margin of 18-20% on a sustainable basis.
- It recorded its highest-ever capacity utilization in the Home Textile segment (45% in Towel in 1HFY21 v/s 56% YoY and in Bedsheet 64% in 1HFY21 v/s 54% YoY). Revenue growth of 48% YoY was recorded in the Bed Linen segment.
- **HSS** – Retail segment, which suffered a significant burn in 1HFY21 (due to the lockdown), is returning to normalcy, with major retail chains opening stores across North America and Europe. Higher demand is due to strong demand pull from customers and inventory stocking demand from large retailers.
- **VTEX** – In the spinning business, the company is able to compete with China in terms of cost and operational efficiency. Growth in the spinning business will be driven by increasing share of value-added products as capacity is already near peak utilization.
- Yarn and cotton prices are reaching pre-COVID levels and are expected to benefit the company as demand has seen a sharp revival.
- **KPR** – The company is expanding its garments segment with new garment capacity of 42m-meter (capacity to increase by 40% to 147m meter) at a capex of INR2.5b. Post expansion, new capacity is expected to add INR5-6b to total revenue.

Valuation and view

- ICNT reported a healthy performance amid a challenging environment on strong demand from the Home Textile segment. It also added new clients during 2QFY21 and registered increased demand from existing clients as well. New brand launch 'Wholistic - Whole Health Sleep Better', which features innovations associated with cleaner living, is expected to gain traction in the near term.
- WLSI recorded Bath Linen volume growth of 13% YoY and 51% QoQ. Bedsheet volumes grew 13% YoY and 2.4x QoQ, which was highest ever achieved in any quarter.
- Additional capacities will be freed up post de-bottlenecking across all three segments. With higher sweating of assets, revenue growth is expected to continue.
- HSS has the highest share of Branded sales as compared to its other Home Textile peers. Demand witnessed a strong revival with the opening of markets in North America and Europe, testimony to this is the 3.6x growth in revenue on a sequential basis. With the commencement of a new unit, robust demand and a strong order book, the Home Textile business is expected to post strong growth in the medium-to-near term.
- With demand returning to pre-COVID levels, VTEX's operations have gained pace and its spinning/fabric business is operating at 97%/65% utilization levels.
- KPR's order book increased as the pipeline of retailers dried up on higher usage of casual wear as work from home (WFH) led to higher time spent at home.
- WFH in majority of the big cities across the world has also contributed to the revival in demand with people spending more on home improvement products as the same has become their primary workplace. The upcoming festival season in the US and Europe is also expected to see strong demand in coming quarters.
- Outlook for the Home Textile business continues to remain positive, with Indian textile players best placed to utilize this opportunity. The same for Yarn and Garments players looks positive, which is due to higher demand for Apparels from the US and Europe and beginning of the festive season.

Sharp surge in QoQ performance of TRID

(INRm)	2QFY20	1QFY21	2QFY21	Change YoY	Change QoQ
Revenue	13,219	7,079	11,714	-11%	65%
EBITDA	2,527	1,181	2,247	-11%	90%
Margin	19.1%	16.7%	19.2%	7	250
Adj. PAT	1,345	101	1,002	-25%	892%

Source: Company, MOFSL

Exports boost WLSI's performance in 2QFY21

(INRm)	2QFY20	1QFY21	2QFY21	Change YoY	Change QoQ
Revenue	18,249	12,018	19,737	8%	64%
EBITDA	3,913	2,239	3,859	-1%	72%
Margin	21.4%	18.6%	19.6%	-189	92
Adj. PAT	1,985	491	1,797	-9%	266%

Source: Company, MOFSL

Escorts: Looking at a good revenue growth for the next 6 months; Bharat Madan, Group CFO

- Will increase capacity from 1.32 lakh to 1.80 lakh units and ultimately take it to 2 lakh units p.a
- Will invest Rs. 100cr in H2FY21. 1.80 lakh units capacity will be in place by next September-October
- Kubota JV will start production in June next year. It will add capacity of 30,000 units/month
- Expect tractor industry to grow in low double digits. Rabi season is expected to be good this time so industry can see good volumes in Q4
- Retails have been very strong recently. November-December will be used for inventory filling so wholesale numbers will be good
- Construction segment picking up. Railways still slow
- Confident to gain market share with supply chain normalizing

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Consumer demand during festive season

Croma: Ritesh Ghosal, CMO

- Saw a 17% growth YoY in festive season. Growth would have been approx 25%, if there would not have been short supplies in premium products which led to loss in sales
- I-phones seeing good demand. People upgrading in phones & laptops. Larger size refrigerators in demand
- YtD basis just down 7% even after Q1 being a washout
- Online channel will be 10-12% currently which was less than 3% pre covid
- Financing has increased significantly led by cards and then NBFCs. Approx 45% of sales are on financing

Bajaj Electricals: Anuj Poddar, ED

- Saw double digit growth, supplies were short but it's improving. Labor shortage in few pockets of the supply chain causing delays
- Kitchen appliances seeing strong growth
- Expect to cross last year sales in the 10months of the year barring 2months of lockdown
- Urban demand is back in Q3
- Online channel growing at 50%. Retail chains coming up faster
- Raw material prices have shot up significantly

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Phoenix Mills: Expect to close FY21 at around 50% of last year levels; Shishir Shrivastava, MD

- Footfalls have reached at 55% & Consumption at ~104%, of last year levels
- Foootfalls should reach 80% of last year levels by end of FY21
- Expect to close FY21 around 50% of last year levels & FY22 to be at FY20 levels
- Newly opened mall at Lucknow is doing well
- We are continuing with expansion plans
- Most of the debt shall be repaid in Q3. Cash is at Rs. 1,850 cr

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JOE BIDEN'S WORLD ORDER

- Many hope that, when President-elect Joe Biden takes over, liberal international arrangements can be salvaged, and even renewed. That would certainly be desirable. Unfortunately, it is an unrealistic hope. A post-Trump order appears to be more about a return to the inter-bloc competition of 1945 than to post-Cold War liberal euphoria. For starters, the Biden administration will be consumed by the daunting tasks of healing the domestic wounds that Trump has inflicted and correcting America's critical weaknesses, laid bare by the pandemic. The US' recovery from the most divisive presidency in its history will be neither quick nor painless. Reforming America is a prerequisite to restoring its capacity for global leadership.
- The world seems to be returning to a Westphalian order, in which sovereignty prevails over international rules. Trump's "America First" stance fits neatly within such an order. And while China touts international cooperation in some realms, multilateralism is a fundamentally alien concept to it. It would oppose the revival of a world order based on liberal precepts. Other big nationalist powers (such as Brazil, India, Russia, and Turkey) and smaller ones in Eastern Europe (Hungary and Poland) move broadly within the same illiberal realm.
- The Biden administration should aspire to lead the world's democracies in their competition with a rising authoritarian bloc, while upholding the multilateral institutions and structures most essential to peace. To this end, it should immediately abandon its predecessor's connivance with Turkish President Recep Tayyip Erdoğan, and replace his bellicose strategy toward Iran with an effort to reach a revised, durable nuclear agreement. Fortunately, it appears set to do both. At the same time, the Biden administration will need to treat America's alliances more as collective enterprises, which the US ideally leads without dominating. From the allies' side, this shift has already begun, with European leaders, especially French President Emmanuel Macron, increasingly recognizing the need to take Europe's security into their own hands. The US should work with an empowered European Union to contain Russia's revisionism on NATO's borders and end its hybrid war on Western democracies.
- Similarly, to manage its ongoing strategic confrontation with China, the US will need to work with its Asian allies, such as a rearmed Japan and South Korea. With China having all but abandoned its "peaceful rise" strategy, avoiding violent conflict will be a delicate balancing act. More broadly, the US will need to galvanize the world's liberal democracies to forge a bloc capable of standing up to the world's authoritarians. This should include efforts to counter the forces of disintegration within the EU and, potentially, to transform NATO into a broader security alliance of democracies. Crucially, the two blocs would also need to cooperate effectively in key areas of shared interest, such as trade, non-proliferation, climate change, and global health. This will require diplomatic skills that Trump could scarcely imagine, much less muster.

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