Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	40,544	0.3	-1.7
Nifty-50	11,897	0.2	-2.2
Nifty-M 100	17,023	0.6	-0.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,443	0.5	6.6
Nasdaq	11,516	0.3	28.4
FTSE 100	5,889	0.1	-21.9
DAX	12,737	-0.9	-3.9
Hang Seng	9,988	0.1	-10.6
Nikkei 225	23,567	-0.4	-0.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	42	0.7	-36.8
Gold ($/OZ)	1,907	0.2	25.7
Cu (US$/MT)	6,879	1.8	11.9
Almn (US$/MT)	1,819	-1.0	2.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	73.5	0.1	2.9
USD/EUR	1.2	0.5	5.4
USD/JPY	105.5	0.1	-2.9
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	-0.01	-0.6
10 Yrs AAA Corp	6.7	-0.01	-1.0
Flows (USD b)	**20-Oct**	**MTD**	**CYTD**
FIIs	0.22	0.47	4.29
DIIs	-0.22	-0.19	9.09
Volumes (INRb)	**20-Oct**	**MTD***	**CYTD***
Cash	500	543	549
F&O	16,858	24,583	16,986

Note: *Average

Today's top research idea

Hindustan Unilever: Outlook improving; Maintain as top pick

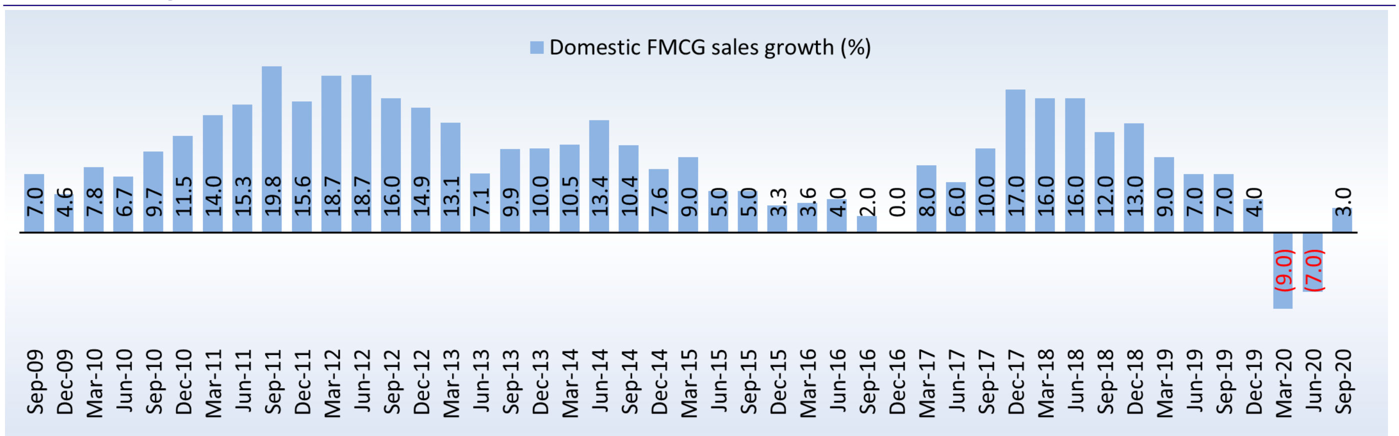
- In 2QFY21, 80% of Hindustan Unilever's (HUVR) portfolio grew 10% while discretionary categories (15% of portfolio) declined 25% and out-of-home categories (5% of sales) also declined 25% YoY. These numbers are significantly better than the corresponding 1QFY21 numbers with outlook becoming better going forward.
- HUVR did well to grow EBITDA margins (including GSKCH) by 30bp YoY and restrict like-for-like margin decline to only 60bp YoY despite (a) faster rebound in adspends (-5% YoY), (b) sharp increase in palm oil costs and (c) mix deterioration. Margin outlook is better going forward as share of discretionary portfolio will increase sequentially.
- We remain positive on HUVR encouraged by: (a) robust earnings growth potential owing to its portfolio and execution strengths, and (b) significant synergies in FY22E as a result of GSKCH. Maintain Buy.

Research covered

Cos/Sector	Key Highlights
Hindustan Unilever	Outlook improving; Maintain as top pick
Britannia Industries	Sales momentum uncertain; ICDs remain overhang
Hindustan Zinc	High interim dividend a positive
Granules India	Making strong headway
L&T Infotech	Good growth; outstanding margin performance
Mahindra CIE	Below est.; weak operating performance due to weaker revenues and EU restructuring expenses
Shopper Stop	Sluggish recovery
IEX	S/A EBITDA up 8% YoY, led by higher volumes
EcoScope	What to make of the better-than-expected growth?
Preview 2QFY21	HEALTHCARE: Sales growth yet to pick up meaningfully

Chart of the Day: Hindustan Unilever (Outlook improving; Maintain as top pick)

Domestic sales growth of 3% in 2QFY21



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

UPI transactions clock 1.01 billion transactions in first 2 weeks of October

Unified Payments Interface (UPI)-based payments clocked more than 1.01 billion transactions, up 10% sequentially, in the first 15 days of October, official data showed. Such transactions were worth ₹19.19 billion, as compared with ₹17.57 billion during…

2

Jio Platforms, Qualcomm successfully test 5G solutions

Qualcomm and Reliance Jio on Tuesday announced they have aligned efforts on 5G in order to fast-track development and rollout of indigenous 5G network infrastructure and services in India. Leveraging Qualcomm's technology, Jio has indigenously developed a 5G RAN (Radio Access Network) product that has achieved ultra-high throughputs, and the product is already tested by a Tier-1 carrier in the US, Mathew Oommen, president, Reliance Jio Infocomm said…

3

Retail inflation eases marginally for farm, rural workers in September

The retail inflation for farm workers and rural labourers eased only marginally to 6.25 per cent and 6.1 per cent, respectively in September as food prices remained high. The retail inflation for farm workers and rural labourers is measured in terms of Consumer Price Index-Agricultural Labourers (CPI-AL) and Consumer Price Index-Rural Labourers…

4

Major boost to Atmanirbhar Bharat, easier entry for local companies in road projects

India is set to make it easier for local companies, especially new entrants, to bid for road projects as the government gives a big push towards Atmanirbhar Bharat Abhiyan. Major changes in the eligibility criteria for projects built on the engineering, procurement and construction (EPC) mode…

5

Government bans sale of gas, coal-bed methane to self

The government has banned natural gas and coal-bed methane (CBM) producers from buying their own produce in the newly notified gas marketing freedom guidelines. The government on October 15 notified the Natural Gas Marketing Reforms that give producers the freedom to discover the market price of gas through a standard e-bidding process. The notification, which follows the Cabinet Committee on Economic Affairs approving gas reforms, also gives them the liberty to market or sell the gas produced to anyone including affiliates…

6

Motherson Sumi to acquire Bombardier's Mexico-based electrical wiring biz

Motherson Sumi Systems Ltd – one of the country's largest automotive component manufacturers – on Tuesday announced signing of a sale and purchase agreement to acquire the Electrical Wiring Interconnection Systems business of Canadian firm…

7

Sebi pulls up Prabhat Dairy for non-cooperation with auditor; asks it to deposit Rs 1,292 cr

The Securities and Exchange Board of India (Sebi) has asked Prabhat Dairy to deposit Rs 1,292 crore into an interest bearing escrow account until a dispute is resolved about paying shareholders the proceeds from the sale of an operating…

20 October 2020
2QFY21 Results Update | Sector: Consumer

Hindustan Unilever

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	HUVR IN
Equity Shares (m)	2,345
M.Cap.(INRb)/(USDb)	5103.5 / 69.7
52-Week Range (INR)	2603 / 1749
1, 6, 12 Rel. Per (%)	-1/-35/0
12M Avg Val (INR M)	7688

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	387.9	451.1	505.3
Sales Gr. (%)	1.5	16.3	12.0
EBITDA	96.0	115.3	136.4
EBITDA mrg. (%)	24.8	25.6	27.0
Adj. PAT	67.4	81.6	100.1
Adj. EPS (INR)	31.2	34.8	42.7
EPS Gr. (%)	11.1	11.5	22.7
BV/Sh.(INR)	37.2	208.9	209.4
Ratios			
RoE (%)	86.0	28.6	20.4
RoCE (%)	119.8	39.1	27.5
Payout (%)	96.2	103.1	119.4
Valuations			
P/E (x)	69.6	62.4	50.9
P/BV (x)	58.4	10.4	10.4
EV/EBITDA (x)	48.3	43.1	36.4
Div. Yield (%)	1.2	1.6	2.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	61.9	61.9	67.2
DII	10.8	8.3	6.7
FII	14.5	14.8	12.4
Others	12.7	15.0	13.7

FII Includes depository receipts

CMP: INR2,172 TP: INR2,620 (+21%) Buy

Outlook improving; Maintain as top pick

- HUVR's 2QFY21 health, hygiene and nutrition portfolio (80% of the portfolio) grew 10% YoY (v/s ~6% in 1QFY21), discretionary categories (15% of portfolio – skin care, cosmetics, deodorants) declined 25% YoY (v/s ~-45% in 1QFY21), and out-of-home categories (5% of sales) declined 25% YoY (v/s ~-70% in 1QFY21).
- The company is seeing (a) ad-spends inching up (-5% YoY; ahead of expectations), (b) sharp increase in palm oil costs, and (c) mix deterioration. Thus, HUVR did well in growing its EBITDA margins (including GSKCH) by 30bp YoY and restricting like-for-like margin decline to only 60bp YoY. Margin outlook for HUVR has also improved as share of its discretionary portfolio to total sales should increase sequentially.
- Outlook for the company is gradually improving. The discretionary part of its portfolio (15% of sales) is seeing gradual recovery. In a period of relative normalcy, we believe that HUVR (as has been the case in recent years) is likely to post superior earnings growth, leading us to **maintain Buy rating.**

Performance better than expectations

- **Net sales grew 16.1% YoY to INR114.4b** (est. INR109.2b). EBITDA grew 17.4% YoY to INR28.7b (est. INR27.3b) and PBT grew 16.4% YoY to INR27.4b (est. INR26.3b). PAT (bei) was up 11.1% YoY to INR20.4b (est. INR19.3b).
- Domestic consumer business sales grew 3% YoY with underlying volume growth of 1% YoY (excl. GSKCH and v/s our est. of +3%).
- **Margins:** Overall gross margin for the quarter contracted by 150bp YoY to 53%. As % of sales, flat operating expenses YoY at 13.1%, lower ad spends (down 220bp YoY to 10%) and higher staff cost (up 50bp YoY to 4.9%), led to EBITDA margin expansion of 30bp YoY to 25.1%.
- **Segmental performance:** Home Care (29% of total sales for 2QFY21) revenues were down 1.6% YoY with margins expanding 280bp YoY to 20.4%. Personal Care sales (40% of total sales) were flat YoY with margins expanding by 30bp YoY to 29.3%. Food & Refreshment sales (30% of total sales) were up 82.9% YoY with margins expanding 60bp YoY to 16.5%.
- 1HFY21 sales/EBITDA/PAT growth stood at 10.2%/8.3%/9.1% YoY.
- Cash and cash equivalents (incl. investments) stood at INR53.1b as of Sep'20, down 30.4% YoY/15.3% vs Mar'20.
- CFO and FCF for 1HFY21 were both down 19% YoY to INR39b and INR36.5b, respectively.
- The company has declared an interim dividend of INR14 per share for FY21.

Highlights from management commentary

- Rural demand is much better than urban. Metropolitan demand is still muted.

- Purchases in winter season by the channel usually picks up in September, but has been delayed. However, management is not worried about winter season demand.
- The 30bp margin expansion was driven by (a) 90bp gain as a result of the GSKCH merger, and (b) 60bp YoY decline in base business margins.
- Nabha and Rajahmundry plants of GSKCH had temporary COVID issues. If not for these, sales would have been even better for GSKCH. Secondary sales were not affected but primary sales were.

Valuation and view

- As mentioned in our Corner Office note and detailed note on the Annual Report, the structural and near-term investment case for HUVR remains strong.
- The company's earnings growth has gained further momentum in recent years (17% EPS CAGR in the past three years v/s ~12% CAGR over 10 years). This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years. HUVR's best-of-breed analytics and execution ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth.
- Gain in market share (90% of the portfolio) has increased penetration in 70% of the portfolio compared to pre-COVID levels. Further, launch of 100 SKUs in the past six months, continued cost savings and extension of its significant lead over peers on analytics only strengthens the medium-term investment case.
- We remain positive on HUVR from a medium-term perspective encouraged by: (a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths, and (b) significant synergies in FY22E as a result of GSKCH. These factors suggest premium multiples are likely to sustain. Valuing the company at 55x Sep'22E merged EPS, we arrive at a **TP of INR2,620, implying a 21% upside.**

Quarterly performance (Standalone) **(INR b)**

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Domestic volume growth (%)	5.0	5.0	5.0	-7.0	4.0	14.0	16.0	25.0	2.0	14.8	10.5	
Net sales	101.1	98.5	98.1	90.1	105.6	114.4	115.8	115.3	387.9	451.1	109.2	4.8%
YoY change (%)	6.6	6.7	2.6	-9.4	4.4	16.1	18.0	28.0	1.5	16.3	10.8	
Gross Profit	54.7	53.7	53.2	48.4	54.7	60.7	61.6	61.3	209.9	238.4	57.2	
Margin %	54.0	54.5	54.2	53.7	51.8	53.0	53.2	53.2	54.1	52.8	52.4	
EBITDA	26.5	24.4	24.5	20.7	26.4	28.7	30.2	30.0	96.0	115.3	27.3	5.3%
YoY change (%)	17.6	21.0	19.5	-11.0	-0.1	17.4	23.5	45.0	11.1	20.1	11.6	
Margins (%)	26.2	24.8	24.9	22.9	25.0	25.1	26.1	26.0	24.8	25.6	25.0	
Depreciation	2.1	2.4	2.3	2.6	2.4	2.5	2.6	2.8	9.4	10.4	2.6	
Interest	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.1	1.1	0.3	
Other income	1.5	1.8	1.4	2.7	1.6	1.5	1.6	1.8	7.3	6.5	1.9	
PBT	25.6	23.6	23.3	20.5	25.3	27.4	28.9	28.7	92.9	110.3	26.3	4.2%
Tax	8.1	5.2	6.4	5.8	5.3	6.5	8.0	8.8	25.5	28.7	7.0	
Rate (%)	31.5	22.2	27.4	28.3	21.0	23.8	27.8	30.8	27.4	26.0	26.7	
PAT bei	17.5	18.3	16.9	14.7	18.7	20.4	20.9	19.8	67.4	81.6	19.3	5.5%
YoY change (%)	11.7	20.4	20.7	-7.6	7.0	11.1	23.3	17.4	10.9	21.0	5.2	
Reported Profit	17.6	18.5	16.2	15.2	18.8	20.1	20.9	19.8	67.4	79.6	19.3	

E: MOFSL Estimates

20 October 2020

2QFY21 Results Update | Sector: Consumer

Britannia Industries

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	854.9 / 12.4
52-Week Range (INR)	4015 / 2101
1, 6, 12 Rel. Per (%)	-11/-3/6
12M Avg Val (INR M)	2235

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	116.0	133.6	144.8
Sales Gr. (%)	4.9	15.2	8.4
EBITDA	18.4	25.3	25.4
Margins (%)	15.9	18.9	17.6
Adj. PAT	14.1	19.1	18.8
Adj. EPS (INR)	58.6	79.3	78.1
EPS Gr. (%)	21.8	35.2	-1.5
BV/Sh.(INR)	183.1	174.5	180.0
Ratios			
RoE (%)	32.6	44.4	44.1
RoCE (%)	24.1	29.6	29.1
Payout (%)	59.7	80.0	80.0
Valuations			
P/E (x)	60.6	44.8	45.4
P/BV (x)	19.4	20.3	19.7
EV/EBITDA (x)	45.5	33.3	33.1
Div. Yield (%)	1.0	1.8	1.8

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	50.6	50.6	50.7
DII	11.5	12.7	13.6
FII	16.0	14.7	15.2
Others	21.9	22.1	20.6

FII Includes depository receipts

CMP: INR3,552 TP: INR3,715 (+5%) Neutral

Sales momentum uncertain; ICDs remain an overhang

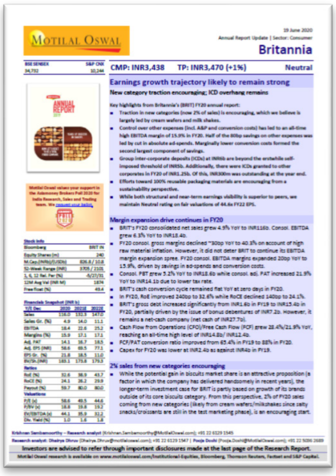
- Britannia Industries (BRIT) has been aided by a confluence of positive factors in 1HFY21, such as high in-home consumption (biscuits constitute 75–80% of sales), reduction in ad spends, decline in material costs, and low promotional spends (owing to strong demand). These are likely to drive the strongest topline growth since FY12 (15.2% in FY21E) and the highest PAT growth since FY16 (35.2% in FY21E).
- Sales momentum is tapering after an extraordinary spurt of ~27% in 1QFY21. Moreover, extraordinary earnings growth in FY21 presents a significant hurdle from an FY22/FY23 perspective as none of these factors present a structural positive. Furthermore, material costs could result in high volatility in earnings for BRIT – it has one of the lowest gross margins among peers (40.3% in FY20).
- While we like the structural story, (a) expensive valuations (45.4x FY22), (b) sustained concerns related to elevated group inter-corporate deposits (ICDs) – now at around INR7b (v/s INR6b at end-FY20 when they crossed their own erstwhile stated threshold of INR5b), and (c) an uncertain earnings outlook beyond FY21 have led us to maintain our **Neutral** rating.

Sales below expectations; EBITDA and PAT broadly in-line

- **BRIT's consol. sales increased 12.1% YoY to INR34.2b** in 2QFY21 (v/s est. INR36.3b). Standalone sales grew 11.4% YoY to INR32.3b. Base business volumes increased 9% (our est.: +15.5%).
- Consol. EBITDA grew 37.2% YoY to INR6.8b (v/s est. INR6.9b), and consol. PBT increased 34.3% YoY to INR6.7b (v/s est. INR6.9b). Consol. adj. PAT grew 22.7% YoY to INR5b (v/s est. INR5.2b).
- **The consol. gross margin expanded 240bp YoY to 42.5%.** Management revealed that moderate inflation was seen in key raw material prices.
- As a percentage of sales, lower staff cost (-10bp YoY) and lower other expenses (-110bp YoY) imply the EBITDA margin expanded 360bp YoY to 19.8%.
- 1HFY21 sales/EBITDA/PAT grew 19%/57%/55.4% YoY.
- Borrowings as of Sep'20 stood at INR24.5b, up 80.8% YoY and 62% vs Mar'20. Net debt stood at INR3.7b as against net cash of INR5.4b/INR15b as of Sep'19/Mar'20.

Highlights from management commentary

- Sales saw double-digit growth in July, but weak growth in August. Sales growth was back at healthy levels in September (high single digits). Management believes it is difficult to predict growth amid such volatility.
- Volume growth stood at ~9% for the quarter. Adjacencies are growing moderately faster than Biscuits.
- Just 2–3% RM inflation was seen in 2QFY21. Outlook on RM is positive, but unlikely to be deflationary.
- Group ICDs as of September stood at INR7b. They were at INR6b at the end of FY20 and INR5b at the end of FY19.


Britannia

CMP: INR3,438 TP: INR3,470 (+1%) Neutral

Earnings growth trajectory likely to remain strong

Valuation and view

- Changes to the model have resulted in a 2.6%/1.9% reduction in FY21/FY22 EPS.
- The strongest topline growth for BRIT since FY12 (15.2% in FY21E) and the highest PAT growth since FY16 (35.2% in FY21E) are likely to be driven by a confluence of positive factors. These include: (a) high in-home consumption (biscuits constitute 75–80% of sales), (b) reduction in ad spends, (c) decline in material costs, and (d) low promotional spends (owing to strong demand).
- Sales momentum is tapering after an extraordinary spurt of ~27% in 1QFY21. Moreover, extraordinary earnings growth in FY21 presents a significant hurdle from an FY22/FY23 perspective as none of these factors present a structural positive. Furthermore, material costs could result in high volatility in earnings for BRIT – it has one of the lowest gross margins among peers (40.3% in FY20).
- We like the structural story, particularly as new category traction has been impressive in FY20 (as highlighted in our AR analysis note). However, we maintain our **Neutral** rating on account of various factors: (a) expensive valuations at 45.4x FY22, (b) sustained growth in group inter-corporate deposits (ICDs) – now at around INR7b (v/s INR6b at end-FY20 when they crossed their own erstwhile stated threshold of INR5b), (c) an uncertain earnings outlook beyond FY21, and (d) likely impact on ROCEs going ahead despite very strong earnings growth in FY21 due to increased capex and the continued presence of high cash and debt levels on the books. Our TP of INR3,715 is set at 45x Sep'22 EPS.

Consol. Quarterly Perf. (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Base business volume gr. (%)	**3.0**	**3.0**	**3.0**	**0.0**	**21.0**	**9.0**	**7.0**	**10.0**	**2.3**	**11.7**	**15.5**	
Net Sales	**27,004**	**30,488**	**29,827**	**28,677**	**34,207**	**34,191**	**32,809**	**32,438**	**115,996**	**133,645**	**36,281**	(5.8)
YoY change (%)	6.2	6.2	4.9	2.5	26.7	12.1	10.0	13.1	4.9	15.2	19.0	
Gross Profit	**10,912**	**12,247**	**12,185**	**11,377**	**14,248**	**14,540**	**13,780**	**13,087**	**46,721**	**55,654**	**15,238**	
Margins (%)	40.4	40.2	40.9	39.7	41.7	42.5	42.0	40.3	40.3	41.6	42.0	
EBITDA	**3,947**	**4,922**	**5,020**	**4,543**	**7,169**	**6,754**	**6,077**	**5,271**	**18,432**	**25,272**	**6,901**	(2.1)
Margins (%)	14.6	16.1	16.8	15.8	21.0	19.8	18.5	16.2	15.9	18.9	19.0	
YoY growth (%)	1.4	8.3	11.1	4.1	81.7	37.2	21.1	16.0	6.3	37.1	40.2	
Depreciation	448	449	467	485	480	485	500	523	1,848	1,988	537	
Interest	101	161	237	270	256	298	310	317	769	1,181	270	
Other Income	675	682	652	786	937	735	820	892	2,794	3,384	800	
PBT	**4,072**	**4,994**	**4,969**	**4,574**	**7,370**	**6,706**	**6,087**	**5,323**	**18,609**	**25,486**	**6,894**	(2.7)
Tax	1,430	955	1,273	849	1,944	1,750	1,532	1,189	4,507	6,415	1,735	
Rate (%)	35.1	19.1	25.6	18.6	26.4	26.1	25.2	22.3	24.2	25.2	25.2	
Adjusted PAT	**2,642**	**4,038**	**3,696**	**3,725**	**5,427**	**4,956**	**4,555**	**4,133**	**14,102**	**19,071**	**5,159**	(3.9)
YoY change (%)	2.4	33.2	22.9	26.5	105.4	22.7	23.3	11.0	21.9	35.2	27.7	

Hindustan Zinc

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	HZ IN
Equity Shares (m)	4,225
M.Cap.(INRb)/(USDb)	942 / 12.7
52-Week Range (INR)	259 / 122
1, 6, 12 Rel. Per (%)	0/0/0
12M Avg Val (INR M)	233

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	186	207	248
EBITDA	88.5	101.0	127.9
NP	68.1	70.0	90.5
Adj. EPS (INR)	16.1	16.6	21.4
EPS Gr (%)	-14.5	2.9	29.3
BV/Sh. (INR)	95.4	74.2	77.6
RoE (%)	18.4	19.5	28.2
RoCE (%)	23.2	24.0	30.4
Payout (%)	0.0	273.7	100.8
Valuations			
P/E (x)	13.8	13.5	10.4
P/BV	2.3	3.0	2.9
EV/EBITDA (x)	8.2	8.0	6.3
Div. Yield (%)	0.0	17.0	8.1

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	64.9	64.9	64.9
DII	32.2	32.2	32.2
FII	1.0	1.0	1.3
Others	1.9	1.9	1.6

FII Includes depository receipts

CMP: INR223 TP: INR215 (-4%) Neutral

High interim dividend a positive

Slower volume ramp-up limits upside

- Hindustan Zinc (HZ)'s 2QFY21 result was strong, as expected, led by higher silver volumes and prices. Silver EBIT was the highest ever at INR10.8b (+117% YoY; +103% QoQ), contributing 46% to overall EBIT (the second highest ever).
- HZ declared interim dividend of INR21.3/sh, amounting to INR90b (~50% of net cash balance) and implying a dividend yield of ~10%.
- Volume ramp-up, however, has been lagging guidance. Moreover, the pledging of shareholding by promoter Vedanta Ltd is an additional overhang on the stock. Maintain **Neutral**.

EBITDA grows 39% YoY, primarily on higher profitability in silver

- Revenue increased 25% YoY (42% QoQ) to INR56.6b (est. INR58.7b), primarily due to higher silver volumes (203t; +51% YoY), coupled with higher silver prices (+42% YoY). Refined metal volumes also grew 12% YoY to 237kt – zinc by 181kt (+8% YoY) and lead by 57kt (+30% YoY).
- EBITDA grew 39% YoY (and 87% QoQ) to INR29.5b on strong revenue growth as well as lower cost, but was 3% below our estimate due to lower-than-expected volumes.
- Reported CoP declined USD34/t QoQ to USD919/t on account of cost reduction initiatives, coupled with lower coal, metcoke, and cement prices.
- Other income stood at INR3.9b, down 43% QoQ (34% YoY) (our est. INR3.5b).
- Silver contributed 22% to revenues (v/s 13% in 2QFY20) and 46% to EBIT (v/s 32% in 2QFY20). Silver EBIT at INR10.8b was the highest ever.
- PBT at INR26.6b was up 26% YoY (58% QoQ). PAT at INR19.4b was down 7% YoY (est. INR21.3b) due to lower tax rate in the base quarter.
- Net cash balance stood at INR178.3b (v/s INR154.8b in 1QFY21).
- In 1HFY21, EBITDA/PAT for HZ was down 1%/15% YoY to INR45.3b/INR33.0b. Our implied EBITDA/PAT estimate for 2HFY21 stands 31%/25% YoY higher at INR55.7b/INR37.0b.
- 1HFY21 cash flows – OCF post working capital was flat YoY at INR34.5b (INR34.9b in 1HFY20). But, lower capex at INR11.5b (v/s INR17.1b in 1HFY21) led to higher FCF of INR23b (v/s INR18b in 1HFY20).

Volume guidance unchanged; CoP to remain <USD1,000/t in FY21

- Management informed that zinc demand in India has recovered to pre-COVID levels and global demand is also recovering gradually, led by China.
- Management expects the current strength in LME zinc price to be supported by lower mined metal supply, prolonged delays in new capacities, and lower zinc inventory, coupled with strong demand in China.
- Mined metal and finished metal production is guided to be in the range of 925–950kt for FY21 (438kt in 1HFY21), much lower than the earlier guided ramp-up. HZ, however, has guided to achieve a run-rate of 1.2mtpa by the exit of FY21.

- Saleable silver production guidance for FY21 is unchanged at 650t (320t in 1HFY21) despite sales of 203t achieved in 2Q. Silver production was higher in 2Q on account of higher lead production and higher concentrate inventory.
- FY21 growth capex is guided in the range of USD100–140m.
- CoP is likely to remain below USD1,000/t in FY21 (USD965/t in 1HFY21). CoP should rise in 2HFY21 on account of higher mine development costs.

Valuation and view

- We expect EBITDA for HZ to grow at a 20% CAGR over FY20–22E, primarily owing to a ~9% CAGR in refined metal volumes to 1,034kt and higher silver prices.
- LME zinc price has recovered from post-COVID lows and is nearly flat YoY at USD2,438/t; we build-in USD2,265/USD2,350 per t for FY21/FY22E.
- Promoter Vedanta Ltd pledging part of its shareholding in HZ is an additional overhang on the stock.
- We thus remain **Neutral**, with TP of INR215/share, based on 6.0x FY22E EV/EBITDA. The stock trades at 6.3x FY22E EV/EBITDA, which we believe prices in the attractive dividend yield.

Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21E	vs Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Net Sales	**49,870**	**45,110**	**46,720**	**43,910**	**39,890**	**56,600**	**54,541**	**56,074**	**1,85,610**	**2,07,106**	**58,727**	-4
Change (YoY %)	-6.1	-5.6	-15.7	-20.0	-20.0	25.5	16.7	27.7	-12.1	11.6	30.2	
EBITDA	**24,770**	**21,170**	**22,890**	**19,640**	**15,760**	**29,520**	**27,471**	**28,207**	**88,470**	**1,00,958**	**30,280**	-3
Change (YoY %)	-8.7	-9.3	-19.3	-29.6	-36.4	39.4	20.0	43.6	-17.1	14.1	43.0	
As % of Net Sales	49.7	46.9	49.0	44.7	39.5	52.2	50.4	50.3	47.7	48.7	51.6	
Finance cost	290	250	420	160	520	680	1,306	1,306	1,120	3,813	280	
DD&A	5,340	5,950	5,970	5,530	5,440	6,520	6,650	6,783	22,790	25,394	5,950	10
Other Income	4,290	5,900	4,450	4,700	6,840	3,900	4,012	4,141	19,340	18,893	3,483	12
PBT	**23,430**	**20,870**	**20,950**	**18,650**	**16,640**	**26,220**	**23,527**	**24,258**	**83,900**	**90,645**	**27,533**	-5
Total Tax	5,780	60	4,750	5,260	3,050	6,820	5,293	5,458	15,850	20,622	6,195	10
% Tax	24.7	0.3	22.7	28.2	18.3	26.0	22.5	22.5	18.9	22.7	22.5	
Reported PAT	**17,650**	**20,810**	**16,200**	**13,390**	**13,590**	**19,400**	**18,233**	**18,800**	**68,050**	**70,023**	**21,338**	-9
Adjusted PAT	**17,650**	**20,810**	**16,200**	**13,390**	**13,590**	**19,400**	**18,233**	**18,800**	**68,050**	**70,023**	**21,338**	-9
Change (YoY %)	-8.0	14.7	-26.7	-33.4	-23.0	-6.8	12.5	40.4	-14.5	2.9	2.5	

Operational performance

Y/E March	FY20				FY21				FY20	FY21E	FY21E	vs Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Mine prodn. (kt)	213	219	235	249	202	238	251	259	916	950	259	-8
Sales												
Zinc refined (kt)	168	168	172	173	163	181	184	190	680	717	189	-4
Lead refined (kt)	48	44	42	48	45	57	56	58	181	216	59	-3
Silver (tonnes)	155	135	153	144	146	203	164	170	587	683	208	-2
Zinc LME (USD/t)	2,761	2,347	2,392	2,131	1,968	2,340	2,400	2,350	2,408	2,265	2,340	0

Granules India

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	97 / 1.3
52-Week Range (INR)	407 / 103
1, 6, 12 Rel. Per (%)	3/110/283
12M Avg Val (INR M)	766

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	26.0	34.5	39.4
EBITDA	5.5	9.9	11.4
Adj. PAT	3.3	6.3	7.2
EBIT Margin (%)	15.8	24.6	24.5
Cons. Adj. EPS (INR)	13.0	24.7	28.4
EPS Gr. (%)	41.3	89.8	14.9
BV/Sh. (INR)	72.2	92.3	116.5
Ratios			
Net D:E	0.5	0.3	0.2
RoE (%)	19.7	30.1	27.2
RoCE (%)	12.6	22.3	21.9
Payout (%)	8.9	17.4	14.9
Valuations			
P/E (x)	30.0	15.8	13.8
EV/EBITDA (x)	17.5	9.5	8.0
Div. Yield (%)	0.2	0.9	0.9
FCF Yield (%)	1.4	2.2	4.9
EV/Sales (x)	3.7	2.7	2.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	42.0	42.1	42.9
DII	0.2	3.2	3.3
FII	26.3	23.0	14.4
Others	31.5	31.7	39.4

FII Includes depository receipts

CMP: INR392 TP: INR500 (+28%) Buy

Making strong headway

Superior product mix drives profitability

- Granules India (GRAN) continued to break its own record with another quarter of remarkable performance across revenue/EBITDA/PAT. This is largely on account of strong traction in formulations (FDs), intermediates (PFIs), and the addition of new customers in the API segment.
- We raise our EPS estimate by 21% for FY21/22E to factor in: (a) niche ANDA launches, (b) a superior product mix, c) geographic expansion, and d) better operating leverage. We also introduce FY23 estimates. We raise the PE multiple to 16x (from 15x earlier) to factor in product diversification and improved return ratios. Accordingly, we arrive at TP of INR500 on a 12M earnings basis. Reiterate **Buy**.

FDs/PFIs drive earnings for the quarter

- GRAN's 2QFY21 sales were up 22.7% YoY to INR8.6b (v/s est. INR7.8b), led by 22% YoY growth in FDs (INR4.3b; 50% of sales), 33% YoY growth in intermediates (INR1.7b; 20% of sales), and 17% YoY growth in API sales (INR2.5b; 30% of sales).
- The gross margin (GM) expanded 930bp YoY to 57.9%, led by a larger share of FDs and PFIs.
- GRAN reversed INR75.3m in other expenses on revision in provisions made for the Metformin recall in 1QFY21.
- Adjusting for the same, the EBITDA margin expanded 850bp YoY to 29% (v/s est. 28%). Improvement in GM was offset, to some extent, by higher employee costs / other expenses (+20bp/+60bp YoY as % of sales).
- EBITDA grew 73.3% YoY to INR2.5b (v/s est. INR2.1b).
- Adjusted PAT grew at a slower rate of 64.8% YoY on a higher tax rate of 24.7% v/s 16.8% in 2QFY20. Adj. PAT came in at INR1.6b for the quarter.
- For 1HFY21, revenue / EBITDA / adj. PAT grew at 23%/71%/57% YoY to INR15.9b/INR4.5b/INR2.8b.

Highlights from management commentary

- GRAN has 32 ANDAs approved (six yet to be launched) and 13 ANDAs awaiting approval. It has guided for seven to eight ANDA filings on an annual basis.
- GRAN expects to launch three products in FY21 with market size of USD1b.
- R&D spend was INR220m and expensed entirely in P&L for the quarter.
- Gross debt stood at INR8.6b v/s INR8.7b in 1QFY21 and capex at INR1b in 1HFY21.

Valuation and view

- We expect an earnings CAGR of 36% over FY20–23E, led by an 18%/28%/14% sales CAGR in FDs/PFIs/APIs and 830bp EBITDA margin expansion (with the addition of high-value products and better capacity utilization).
- In addition to traction in core molecules (high volume / low value), GRAN is building high-value / relatively low-volume products and manufacturing capacities to drive superior growth going forward. We value GRAN at 16x 12M forward earnings to arrive at TP of INR500. Maintain **Buy**.

Quarterly Performance (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	vs Est
Net Sales	**5,953**	**6,995**	**7,040**	**5,999**	**7,356**	**8,581**	**9,018**	**9,573**	**25,986**	**34,527**	**7,777**	10.3%
YoY Change (%)	31.3	20.4	11.4	-2.2	23.6	22.7	28.1	59.6	14.0	32.9	11.2	
EBITDA	**1,186**	**1,436**	**1,632**	**1,219**	**1,987**	**2,489**	**2,642**	**2,826**	**5,473**	**9,944**	**2,146**	16.0%
YoY Change (%)	63.4	42.9	44.0	15.5	67.5	73.3	61.9	131.7	39.6	81.7	**49**	
Margins (%)	19.9	20.5	23.2	20.3	27.0	29.0	29.3	29.5	21.1	28.8	27.6	
Depreciation	287	303	390	390	341	361	380	373	1,370	1,454	360	
EBIT	**900**	**1,133**	**1,242**	**830**	**1,647**	**2,128**	**2,262**	**2,453**	**4,104**	**8,490**	**1,786**	**0.2**
YoY Change (%)	87.1	53.1	43.9	6.1	83.1	87.8	82.2	195.6	43.2	106.9	**58**	
Margins (%)	15.1	16.2	17.6	13.8	22.4	24.8	25.1	25.6	15.8	24.6	23.0	0.1
Interest	69	69	67	66	60	63	60	63	270	245	63	
Other Income	19	87	35	225	56	32	52	101	366	242	50	
PBT before EO expense	**849**	**1,151**	**1,210**	**989**	**1,643**	**2,098**	**2,254**	**2,491**	**4,199**	**8,486**	**1,773**	18.3%
Extra-Ord expense	0	0	320	-378	151	-75	0	75	-57	151	0	
PBT	**849**	**1,151**	**889**	**1,367**	**1,492**	**2,173**	**2,254**	**2,415**	**4,257**	**8,335**	**1,773**	
Tax	272	193	249	444	377	537	582	663	1,157	2,159	452	
Rate (%)	32.0	16.8	28.0	32.5	25.3	24.7	25.8	27.5	27.2	25.9	25.5	
(Profit)/Loss of JV/Asso. Cos.	-255	0	0	0	0	0	0	0	-255	0	0.0	
Reported PAT	**832**	**958**	**641**	**923**	**1,115**	**1,637**	**1,673**	**1,752**	**3,354**	**6,176**	**1,321**	23.9%
Adjusted PAT	**832**	**958**	**871**	**651**	**1,228**	**1,580**	**1,673**	**1,808**	**3,313**	**6,288**	**1,321**	19.6%
YoY Change (%)	60.7	59.0	44.4	4.6	47.5	64.9	92.0	177.9	41.3	89.8	**38**	
Margins (%)	14.0	13.7	12.4	10.8	16.7	18.4	18.5	18.9	12.7	18.2	17.0	

Key performance Indicators (Consolidated)

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
FD	2,857	3,515	3,801	3,440	3,856	4,301	4,752	5,242	13,602	18,151
YoY Change (%)	57.6	55.2	22.8	7.8	35.0	22.4	25.0	52.4	26.8	33.4
PFI	952	1,307	1,126	781	1,379	1,733	1,689	1,730	4,214	6,532
YoY Change (%)	5.1	40.6	4.9	(18.5)	44.8	32.6	50.0	121.5	8.9	55.0
API	2,143	2,174	2,112	1,777	2,121	2,547	2,576	2,560	8,171	9,805
YoY Change (%)	18.2	(16.8)	(1.7)	(10.5)	(1.0)	17.2	22.0	44.1	(0.3)	20.0
Cost Break-up										
RM Cost (% of Sales)	49.6	51.4	49.3	46.5	39.7	42.1	42.8	42.6	50.7	58.1
Staff Cost (% of Sales)	9.6	9.1	9.2	12.3	11.4	9.3	9.7	9.9	10.0	10.0
Other Cost (% of Sales)	20.9	19.0	18.3	20.9	21.9	19.6	18.2	18.1	19.7	19.3
Gross Margins(%)	50.4	48.6	50.7	53.5	60.3	57.9	57.2	57.4	49.3	41.9
EBITDA Margins(%)	19.9	20.5	23.2	20.3	27.0	29.0	29.3	29.5	21.1	28.8
EBIT Margins(%)	15.1	16.2	17.6	13.8	22.4	24.8	25.1	25.6	15.8	24.6

L&T Infotech

BSE SENSEX	S&P CNX
40,544	11,897

CMP: INR2,965 — Buy

Good growth; outstanding margin performance

LTI reported revenue (USD) / EBIT / PAT growth of 11%/49%/27% YoY, v/s our estimate of 10%/30%/18% YoY. For 1HFY21, the company reported revenue (USD) / EBIT/ PAT growth of 10%/39%/22% YoY.

Revenue ahead of estimates

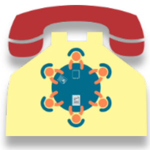
- Sequentially, revenues grew 2.3% (CC) and were ahead of our estimates (1.1% QoQ CC).
- Growth was driven by BFS (+9.5% QoQ CC) and Manufacturing (+5.4% QoQ CC) despite the drag in Insurance (-4.1% QoQ CC), CPG, Retail & Pharma (-2.8% QoQ CC), and Hi-Tech, Media & Entertainment (-5.3% QoQ CC). The Others segment grew sequentially (6.7% QoQ CC), while Energy & Utilities was largely flat (0.6% QoQ CC).
- IMS (8% QoQ CC), Enterprise Solutions (6% QoQ CC), and ADM (3% QoQ CC) expanded, while Analytics (-13% QoQ CC) declined.
- Europe saw a sharper recovery, with growth of 9% QoQ CC, whereas the Americas was largely flattish. RoW (5.9% QoQ CC) and India (2% QoQ CC) also reported growth.

Outstanding margin performance

- Better pricing, utilization, and offshore mix drove robust improvement of 250bp QoQ / 440bp YoY in the EBIT margin to 19.9% (the highest ever). This was ahead of our flattish estimate of 17.5%.
- Attrition declined by 270bp QoQ to 13.5%.
- One large deal win (with a net new TCV of USD40m) was up QoQ, but below the strong trend seen in FY20.
- PAT was up 27% YoY to INR4.6b on the back of strong margin improvement.
- Overall DSO (including unbilled) reduced by 5 days QoQ to 94 days.
- The board has declared the first interim dividend of INR15/share for FY21.

Valuation and view: We would revisit our estimates post the earnings call. Commentary on the near-term outlook, verticals, and deal wins would be keenly watched. Based on current estimates, the stock trades at 29x/25x FY21E/FY22E EPS. Maintain **Buy**.

Conference Call Details



Date: 21st Oct 2020
Time: 17:30 IST
Dial-in details:
+91-22 7195 0000

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	108.8	123.6	145.2
EBIT Margin (%)	16.1	17.6	17.5
PAT	15.2	17.7	20.5
EPS (INR)	86.7	100.9	116.5
EPS Gr. (%)	0.4	16.3	15.5
BV/Sh. (INR)	308.1	367.3	437.5
Ratios			
RoE (%)	31.1	30.2	29.2
RoCE (%)	26.9	27.3	26.8
Payout (%)	32.3	34.7	34.3
Valuations			
P/E (x)	34.1	29.3	25.4
P/BV (x)	9.6	8.1	6.8
EV/EBITDA (x)	24.6	19.6	16.6
Div yld (%)	0.9	1.2	1.4

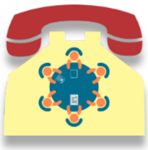
Quarterly Performance (Consolidated) (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY21	(% / bp)
Revenue (USD m)	**357**	**364**	**394**	**410**	**390**	**405**	**417**	**433**	**1,525**	**1,645**	**398**	**1.5**
QoQ (%)	0.8	2.0	8.4	3.9	-4.8	3.6	3.0	4.0	13.0	7.9	2.1	154
Revenue (INR m)	**24,849**	**25,707**	**28,111**	**30,119**	**29,492**	**29,984**	**31,456**	**32,714**	**1,08,786**	**1,23,646**	**29,728**	**0.9**
YoY (%)	15.3	10.3	13.7	21.2	18.7	16.6	11.9	8.6	15.2	13.7	15.6	100
GPM (%)	**33.1**	**31.8**	**31.7**	**32.8**	**32.5**	**34.8**	**32.4**	**31.7**	**32.4**	**32.8**	**32.5**	**234**
SGA (%)	14.7	13.7	13.0	13.6	12.4	12.0	12.4	13.1	13.7	12.5	12.4	(42)
EBITDA	**4,580**	**4,658**	**5,274**	**5,781**	**5,920**	**6,856**	**6,291**	**6,085**	**20,293**	**25,152**	**5,975**	**14.7**
EBITDA Margin (%)	**18.4**	**18.1**	**18.8**	**19.2**	**20.1**	**22.9**	**20.0**	**18.6**	**18.7**	**20.3**	**20.1**	**277**
EBIT	**3,970**	**3,994**	**4,565**	**5,034**	**5,139**	**5,957**	**5,473**	**5,234**	**17,563**	**21,804**	**5,202**	**14.5**
EBIT Margin (%)	**16.0**	**15.5**	**16.2**	**16.7**	**17.4**	**19.9**	**17.4**	**16.0**	**16.1**	**17.6**	**17.5**	**237**
Other income	812	739	433	479	450	174	667	649	2,463	1,940	443	(61)
ETR (%)	25.6	23.9	24.6	22.5	25.5	25.5	25.0	25.0	24.1	25.2	25.0	
Adj. PAT	**3,557**	**3,603**	**3,767**	**4,274**	**4,164**	**4,568**	**4,605**	**4,412**	**15,201**	**17,750**	**4,234**	**7.9**
QoQ (%)	-6.1	1.3	4.6	13.5	-2.6	9.7	0.8	-4.2			1.7	
YoY (%)	-1.5	-10.0	0.3	12.9	17.1	26.8	22.3	3.2	0.3	16.8	17.5	
EPS (INR)	**20.3**	**20.5**	**21.6**	**24.3**	**23.7**	**26.0**	**26.2**	**25.1**	**86.7**	**100.9**	**24.1**	**7.5**

Mahindra CIE

BSE SENSEX	S&P CNX
40, 544	11,897

Conference Call Details



Date: 21th Oct 2020

Time: 12:30 PM IST

Registration: Link

Financials & Valuations (INR b)

INR b	CY19	CY20E	CY21E
Sales	79.1	61.2	76.6
EBITDA (%)	12.2	8.8	12.4
Adj. PAT	3.6	1.1	4.2
EPS (INR)	9.4	2.9	11.1
EPS Growth (%)	-33.2	-68.9	278.3
BV/Share (INR)	123	125	137
Ratio			
RoE (%)	8.0	2.4	8.5
RoCE (%)	6.5	2.4	7.1
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	14.4	46.2	12.2
P/BV (x)	1.1	1.1	1.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-4.4	-1.6	6.3

CMP: INR135 | Buy

Below est.; weak operating performance due to weaker revenues and EU restructuring expenses

- 3QCY20 consolidated revenues declined ~9% YoY to ~INR16.9b (v/s est. ~INR17.4b).
- EBITDA stood at ~INR1.5b (v/s est. INR2b). The EBITDA miss was attributable to lower revenues and restructuring cost in the EU business (INR270m).
- Higher other income in the EU business on the sale of real estate in Jeco boosted PAT to INR607m (+4% YoY).
- India business performance was below estimates, with revenue declining by ~5% YoY to ~INR8.7b (v/s est. ~INR9.3b). The India EBITDA margin stood at 12.6% (v/s est. 12.7%).
- EU operating performance was below est. EU revenues declined ~9% YoY to ~INR8.7b (v/s est. ~INR8.1b), with 22% decline in EUR terms. Reported EBITDA margins stood at 5% (v/s est. 10%), impacted by INR270m restructuring cost in Mahindra Forgings Europe (MFE). This negative impact was partially offset by the sale of real state property in Jeco (INR162m profit).

Key highlights from the presentations:

- In September 2020, CIE increased its stake in MCIE to 60.18% from 58.02%.
- A favorable currency exchange rate restricted EU sales decline to 12% in INR terms (v/s 22% in EUR terms).
- Passenger Vehicle Forgings and Gears (Italy) have a positive outlook for the coming quarters, but Commercial Vehicle Forgings remains challenged.
- **EU Light Vehicles forecast** – IHS Global forecasts Passenger Vehicle production to decline by 23% in CY20 v/s CY19; however, it is expected to increase at a CAGR of 5.1% over CY20–25.
- **EU MHCV forecast** – IHS Global forecasts Europe (Western + Eastern) MHCV sales to decline by at least 30% in CY20; however, production is forecast to increase at a CAGR of 8.4% over CY20–25.
- Based on our current estimates, the stock trades at 12.2x CY21E consol. EPS and 1x P/B.

Quarterly performance (Consol.) (INR m)

(INR m)	CY19				CY20				CY19	CY20E	CY20E
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net Sales	**21,744**	**21,420**	**18,685**	**17,229**	**16,627**	**7,355**	**16,943**	**20,231**	**79,078**	**61,156**	**17,444**
YoY Change (%)	8.9	3.0	-5.7	-12.8	-23.5	-65.7	-9.3	17.4	-1.5	-22.7	-6.6
EBITDA	**2,825**	**2,616**	**2,092**	**2,143**	**1,822**	**-963**	**1,508**	**3,003**	**8,319**	**5,370**	**1,996**
Margins (%)	13.0	12.2	11.2	12.4	11.0	-13.1	8.9	14.8	**10.5**	**8.8**	**11.4**
Depreciation	740	844	789	788	815	518	849	966	3,161	3,148	870
Interest	103	115	198	106	182	167	142	156	523	647	160
Other Income	148	78	42	63	49	179	420	-286	331	362	70
PBT before EO expense	**2,130**	**1,734**	**1,147**	**1,312**	**873**	**-1,468**	**937**	**1,595**	**4,966**	**1,937**	1,036
EO Exp/(Inc)	13	0	-51	84	-1	2	0	0	46	0	0
PBT after EO exp	**2,117**	**1,734**	**1,198**	**1,228**	**874**	**-1,470**	**937**	**1,595**	**4,920**	**1,937**	**1,036**
Tax Rate (%)	28.0	27.2	48.9	88.7	28.3	12.5	35.2	27.2	55.7	42.7	30.0
Adj. PAT	**1,532**	**1,262**	**583**	**186**	**626**	**-1,286**	**607**	**1,161**	**3,564**	**1,110**	**725**
YoY Change (%)	16.2	-9.1	-56.1	-86.8	-59.1	-201.9	4.2	523.2	-33.2	-68.9	24.4
Margins (%)	7.0	5.9	3.1	1.1	3.8	-17.5	3.6	5.7	4.5	1.8	4.2
Revenues											
India	8,524	9,684	9,134	8,704	7,819	2,650	8,560	10,696	35,934	29,725	9,317
Growth (%)	3.0	11.5	5	6.0	-8.3	-72.6	-6	22.9	7.2	-17.3	2.0
EU	13,324	11,735	9,561	8,512	8,807	4,704	8,731	9,179	43,132	31,421	8,127
Growth (%)	13.2	-2.4	-18	-26.8	-33.9	-59.9	-9	7.8	-7.8	-27.2	-15.0
PBIT Margins											
India	11.6	8.2	7.4	6.7	6.8	-23.4	7.5	9.3	8.5	5.3	8.5
EU	9.3	9.0	7.5	8.7	6.0	-14.5	5.0	7.2	8.7	3.0	5.0

E: MOFSL Estimates; AEL merged w.e.f 2QCY19

Shoppers Stop

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	SHOP IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	15.8 / 0.2
52-Week Range (INR)	447 / 131
1, 6, 12 Rel. Per (%)	2/-38/-58
12M Avg Val (INR M)	36
Free float (%)	36.1

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	34.6	20.4	31.4
EBITDA	5.5	1.4	4.7
Adj. PAT	-1.2	-3.5	-1.3
EBIT Margin (%)	15.9	6.9	15.1
Adj. EPS (INR)	-14.7	-41.9	-15.1
EPS Gr. (%)	NM	NM	NM
BV/Sh. (INR)	8.0	-33.9	-49.0
Ratios			
Net D:E	30.8	-7.0	-4.4
RoE (%)	NM	NM	NM
RoCE (%)	16.5	NM	2.8
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	NM	NM	NM
EV/EBITDA (x)	3.1	11.6	3.1
EV/Sales (x)	0.5	0.8	0.5
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	63.9	63.9	63.7
DII	20.8	21.1	18.2
FII	6.7	7.0	7.0
Others	8.6	8.1	11.1

FII Includes depository receipts

CMP: INR180 TP: INR190 (+6%) Neutral

Sluggish recovery

- Shoppers Stop (SHOP)'s revenues were down 65% YoY, impacted by COVID-19, as operational days were down 20% and footfall was down ~60% YoY. Despite this, better-than-expected cost-control measures – with a ~75% reduction in operating expense and rental exemptions – restricted EBITDA loss to INR347m (v/s INR679m expected operating loss).
- The pre-festive season saw healthy demand and an increase in footfall, albeit lower than last year. We cut our revenue/EBITDA estimate for FY21 by 10%/10% due to the prolonged impact of COVID-19. However, we raise our FY22 revenue/EBITDA by 5–6%, factoring FY21/FY22E EBITDA of INR1.4b/INR4.7b.

Limited operating loss on improved cost measures

- Shoppers Stop's standalone revenue fell 65% YoY to INR2.9b (8% beat), weighed by hampered store operations during the quarter. This was attributable to operational days being 20% lower YoY due to lockdown.
- EBITDA loss stood at INR347m (v/s est. loss of INR596m), cushioned by 34%/35% YoY drop in employee/SG&A costs.
- Other income was at INR631m (3.5x YoY), including INR525m adjusted for rent concessions, as provided by MCA. Thus, actual other income stood at INR106m (drop of 42% YoY).
- Shoppers Stop reported exceptional charges of INR100m toward impairment charges for Crossword bookstores (INR200m impairment charges recorded in 4QFY20). This resulted in accumulated loss of INR588m as of Sept'20, against equity investment of INR350m. Thus, net adj. loss stood at INR1.1b (v/s est. loss of INR1.5b).
- SHOP has appointed Mr Venugopal Nair as the new MD & CEO and Additional Director. Mr Nair served as Chief Commercial Officer of Trent and was recently appointed as CEO of Westside.

Highlights from management commentary

- Of INR4.5b savings this year, expect INR2b to be permanent savings and continue next year.
- Festive sales are down 25% v/s last year pre-Dussehra in the eastern region.
- The drop in gross margins is attributable to provisions and the rising share of private label brands; gross margins are expected to return by the start of FY21. The impact on the GM from private labels stands at -265bps.
- The company aims to be debt-free by Mar'21 or Sept'21.

Valuation and view

- The Lifestyle Apparel segment is likely to see a pronounced impact due to various factors. (A) The company caters to higher ticket sizes, and consumers may downtrade in the prevailing economic scenario. (B) Recent trends indicate a growing online traction as consumers move to alternate channels. This may hurt SHOP as it has limited product differentiation. (C) A higher share of stores at malls may get impacted by restricted footfall / slower rental negotiations (v/s the high street).
- Increasing revenue contribution from the 'Personal Shopper' program and beauty products is encouraging. However, declining footfall and slower same-store sales growth (SSSG), even prior to COVID-19, raises concerns related to revenue recovery once the market stabilizes.
- The contribution of private products to revenue is still extremely low. Furthermore, competitors such as Pantaloons, Max, Reliance Trends, FBB, Westside, and Zudio are better placed to attract customers within this price range.
- Shoppers Stop's debt has increased to INR2.15b as operating losses have risen during the lockdown. This would be further accentuated by ~19% equity dilution due to an INR3b rights issue announced recently.
- We value SHOP on an SOTP basis. We assign EV/EBITDA of 7x to standalone (Shoppers Stop) & EV/sales of 1x to Crossword on FY22E, to arrive at TP of INR190. Maintain **Neutral**.

Standalone: Quarterly perfomance (INR m)

Y/E March	FY20				FY21				FY20	FY21	FY21E	Est. Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%)
Total Revenue from Operations	**8,324**	**8,453**	**9,941**	**7,092**	**539**	**2,924**	**7,242**	**8,164**	**33,810**	**18,869**	**2,715**	**8**
YoY Change (%)	NA	2.3	-0.5	-29.0	NA	-64.9	-14.3	-17.9	-2.9	-44.2	-67.4	
Total Expenditure	6,942	7,081	7,966	6,326	1,563	3,271	6,109	6,568	28,315	17,512	3,312	-1
EBITDA	**1,382**	**1,372**	**1,975**	**766**	**-1,024**	**-347**	**1,133**	**1,595**	**5,495**	**1,357**	**-596**	**-42**
EBITDA Margin (%)	16.6	16.2	19.9	10.8	-189.9	-11.9	15.6	19.5	16.3	7.2	-22.0	
Depreciation	884	878	934	1,696	997	941	948	952	4,392	3,838	1,001	-6
Interest	484	474	478	508	552	607	609	607	1,944	2,375	550	10
Other Income	24	181	66	64	1,040	631	300	300	335	2,271	300	110
PBT before EO expense	**38**	**201**	**629**	**-1,375**	**-1,533**	**-1,265**	**-124**	**336**	**-506**	**-2,585**	**-1,848**	**-32**
PBT	**38**	**201**	**629**	**-1,575**	**-1,533**	**-1,365**	**-124**	**336**	**-706**	**-2,685**	**-1,848**	**-26**
Tax	14	255	681	-247	-382	-342	-24	66	703	-682	-362	
Rate (%)	35.8	126.7	108.3	15.7	24.9	25.1	19.6	19.6	-99.5	25.4	19.6	
Reported PAT	**24**	**-54**	**-52**	**-1,328**	**-1,151**	**-1,023**	**-100**	**270**	**-1,409**	**-2,003**	**-1,486**	**-31**
Adj PAT	**81**	**-54**	**-52**	**-734**	**-1,112**	**-1,123**	**-100**	**270**	**-759**	**-2,063**	**-1,486**	**-24**
YoY Change (%)	-17.4	-140.7	-111.1	-343.3	-1,476.6	NM	90.7	-136.8	-175.9	171.8	-1,939.9	

IEX

BSE SENSEX	S&P CNX
40,544	11,897

CMP: INR199 Buy

S/A EBITDA up 8% YoY, led by higher volumes

- IEX's 2QFY21 S/A EBITDA grew 8% YoY to INR575m, broadly in line with our est. of INR575m, on the back of higher volumes.
- We estimate (DAM + TAM + RTM) volumes to have risen 13% YoY in 2Q, but the lack of REC volumes will have impacted revenue. S/A revenue was up 5% YoY to INR708m (4% below our estimate).
- S/A PBT grew 2% YoY to INR616m on account of higher depreciation and lower other income.
- S/A PAT was down 4% YoY to INR467m (5% below our est.) on a lower tax rate.
- At a consolidated level (incl. gas exchange), EBITDA was up 4% YoY, while PAT was down 9% YoY to INR443m.

Conference Call Details

Date: 21st October 2020
Time: 14.30 IST
Dial-in details:
+91 22 6280 1145

Financials & Valuations (INR m)

Y/E March	2020	2021E	2022E
Net Sales	2,570	2,836	3,498
EBITDA	2,045	2,221	2,857
NP	1,779	1,816	2,291
EPS (INR)	6.0	6.1	7.7
EPS Gr. (%)	7.8	2.1	26.2
BV/Sh. (INR)	13.1	14.9	17.2
RoE (%)	46.8	43.5	47.8
RoCE (%)	44.3	41.2	45.5
Payout (%)	41.9	70.0	70.0
Div. Yield	1.3	2.1	2.7

Quarterly Performance (Standalone) – INR m

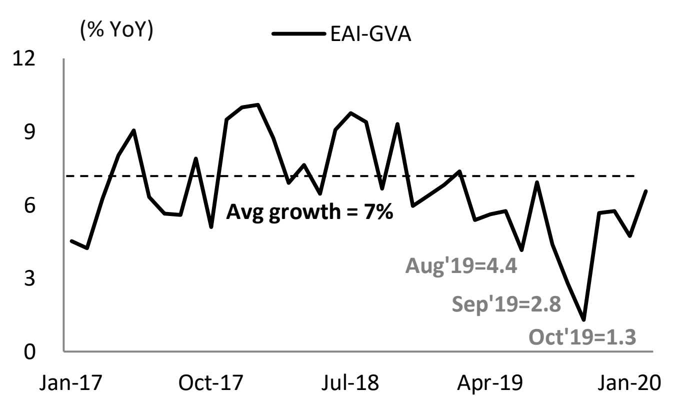
Y/E March	FY20				FY21				FY20	FY21E	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	**606**	**675**	**597**	**693**	**663**	**708**	**703**	**762**	**2,570**	**2,836**	**734**	**-4**
YoY Change (%)	-9.6	0.9	-6.5	22.8	9.5	4.9	17.8	9.9	1.2	10.3		
Total Expenditure	112	142	120	152	174	132	136	173	526	615	136	-3
EBITDA	**494**	**533**	**477**	**542**	**489**	**575**	**567**	**589**	**2,045**	**2,221**	**598**	**-4**
Margins (%)	81.6	79.0	79.9	78.1	73.8	81.3	80.7	77.2	79.6	78.3	81.5	
Depreciation	33	33	41	45	44	41	41	41	152	167	42	-3
Interest	5	5	0	5	5	5	0	-6	16	5	0	
Other Income	91	113	97	100	142	86	77	73	401	379	101	-15
PBT before EO expense	**547**	**607**	**533**	**591**	**582**	**616**	**603**	**627**	**2,278**	**2,428**	**658**	**-6**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**547**	**607**	**533**	**591**	**582**	**616**	**603**	**627**	**2,278**	**2,428**	**658**	**-6**
Tax	151	118	110	119	153	149	151	159	499	612	164	
Rate (%)	27.6	19.5	20.6	20.2	26.3	24.1	25.0	25.4	21.9	25.2	25.0	
Reported PAT	**396**	**488**	**423**	**472**	**429**	**467**	**452**	**468**	**1,779**	**1,816**	**493**	**-5**
Adj PAT	**396**	**488**	**423**	**472**	**429**	**467**	**452**	**468**	**1,779**	**1,816**	**493**	**-5**
YoY Change (%)	-5.5	14.4	-0.7	24.7	8.3	-4.4	6.9	-0.9	7.8	2.1	1.0	

What to make of the better-than-expected growth?

The improvement is likely to be fleeting

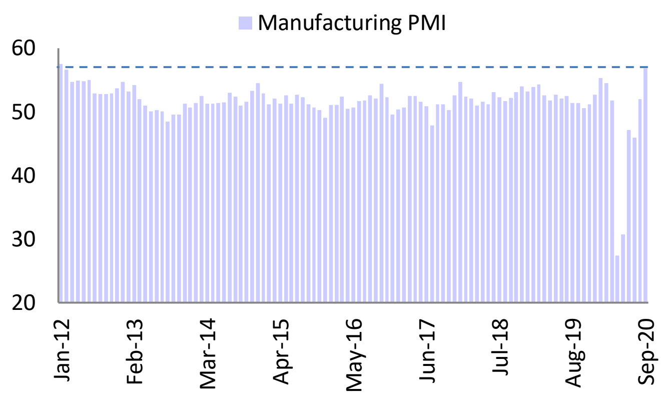
- The International Monetary Fund (IMF) has revised India's FY21 real GDP forecast from -5.8% in Jun'20 to -10.3% this month, which is broadly in line with the Reserve Bank of India's (RBI) projection of -9.8% and market consensus' decline of 9.1%.
- During the past six months, India's growth forecasts have been cut consistently. According to the RBI Survey of Professional Forecasters (SPF), FY21 real GDP decline has been revised from -1.5% in May'20 to -5.8% in Jul'20 to -9.1% last month. Similarly, 2QFY21 real GDP forecasts have seen sharp cuts – from growth of 1.2% YoY in May'20 to a decline of 5% in Jul'20 and to -10% in Sep'20. Even the RBI has projected real GDP contraction of 9.8% YoY in 2QFY21.
- As against the broad consensus of double-digit contraction in real GDP, we have always believed that the decline could be much lower at 7.1% YoY in 2QFY21 and 6.5% for the full-year FY21. However, with better-than-expected incoming data since Aug'20 (a long list of positive surprises is provided on Page#4) we believe there is a serious upside bias to our higher-than-consensus projection for 2QFY21, and thus, FY21.
- How to read these better-than-expected data and are there some special factors leading to this higher growth? We do believe so. Favorable base effect, pent-up demand and strong inventory re-building in the hope of a grand festive season have led to the better-than-expected economic growth in Aug- Sep'20. It is likely that these factors will push the growth even higher in Oct'20, which, in our opinion, will mark the peak.
- Sep'19 was the wettest September in more than a century, which led to weakening of economic activity during this time last year *(Exhibit 1)*. As against an average growth of 7% between Jan'18 and Feb'20, our estimate of EAI-GVA posted growth of 4.4% in Aug'19, 2.8% in Sep'19 and only 1.3% in Oct'19, creating a favorable base for the current months.
- Besides, the 9-year high PMI of 56.8 in Sep'20 for the manufacturing sector reflects hope of a grand festive season *(Exhibit 2)*. This is definitely one of the key reasons for the rapid inventory re-building. Nevertheless, if the festive season fails to meet expectations, there could be serious disappointment Nov'20 onwards. But this is something that we need to wait and watch.

Favorable base effect to make growth look better in Sep'20 and Oct'20...



Please see our recent update on India's Economic Activity Index

...and the hope of a grand festive season has also led to 9-year high PMI for the manufacturing sector



Source: Various national sources, CEIC, MOFSL

Healthcare

Sales growth yet to pick up meaningfully…

…Calibrated operating cost uptick to drive earnings growth

Following a strong performance in 1QFY21, we expect YoY earnings growth momentum to sustain in 2QFY21 as well, albeit at slower rate v/s 1QFY21. We expect sales to grow at a subdued rate of 6.4% YoY, and EBITDA/PAT at 18.3%/18.1% YoY on an aggregate basis for the quarter. Structural cost savings are expected on account of travelling/admin cost related to marketing and a calibrated increase in other cost factors. This is expected to maintain QoQ profitability at the aggregate level for companies under our coverage.

DF on the path to gradual recovery

We expect moderate 1.6% YoY growth in the Domestic Formulations segment at the aggregate level for companies under our coverage in 2QFY21. Growth is expected to be driven by: a) the easing of the COVID-led lockdown, b) longer duration of doctor visits to clinics as well as a better patient–doctor connect, and c) enhanced digital tools used by medical representatives (MR) for better knowledge-based marketing to doctors. Management commentaries indicate the increase in costs, with the easing of the lockdown, would depend on the sales outlook over the near term. Furthermore, structural cost savings are expected on account of reduced travelling expenses as well as an increase in the use of digital tools to educate doctors (instead of physical documents used in the past). The addition of the Wockhardt portfolio and better traction in the Chronic segment are expected to drive 20% YoY growth for DRRD. Strong traction in the 'Fabiflu' medicine for treating COVID is expected to drive 10% YoY growth for GNP. Similarly, the higher off-take of pain-related medicine would drive 9% YoY growth for IPCA. The decreased off-take of medicine for Acute therapies is expected to impact the performances of ALKEM and GLXO for the quarter.

US sales to be back on the growth path after two quarters of YoY decline

We expect US sales to deliver 4.7% YoY growth for 2QFY21 (v/s YoY decline seen in the past two quarters) at an aggregate level for the companies under our coverage. This is largely on the back of new launches and better market share gains in existing products. Particularly, we expect DRRD/Cipla to deliver 21%/12% YoY growth in US sales, led by niche launches. Alkem would deliver 17% YoY growth on superior execution. With the resumption of the supply of Metformin and new launches, we expect LPC's US sales to improve sequentially by 11% for 2QFY21. However, sales growth may remain slow on a YoY basis. The robust base business run-rate for ALPM is expected to sustain in 2QFY21 as well, as competition in key molecules remains on the sidelines. Regulatory constraints are likely to keep TRP's US sales in check. Due to restrictions on international travel, regulatory risk over the medium term has remained low for sites under compliance. Overall, with slower base business erosion and a faster pace of ANDA approvals, we expect a better outlook going forward.

DRRD/DIVI/BIOS/GRAN/LAURUS to deliver better-than-coverage average earnings growth

The higher off-take of APIs and better traction in CRAMS are expected to drive earnings growth for DIVI. A low base for the past year, the addition of the Wockhardt business, and new launches in the US are expected to drive better performance in DRRD. Earnings growth in BIOS is expected to be driven by an improving outlook on biosimilar off-take by hospitals. GRAN/LAURUS would also see growth due to superior execution. Muted performance in the Anti-Infective category / A gradual pick-up in the Pharma business would impact the performance of GLXO/JLS in 2QFY21.

INR appreciates marginally on QoQ basis

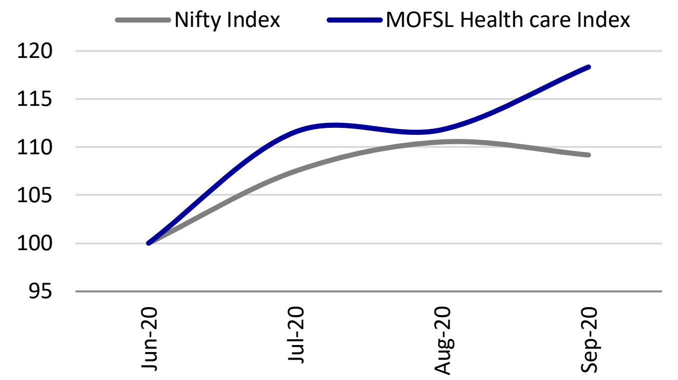
The INR has appreciated against the USD on a QoQ basis (to INR74 on average in 2QFY21), against INR75 in 1QFY21. However, the benefit of favorable currency may be visible on a YoY basis as INR has depreciated against USD YoY by 5% from INR70 in 2QFY20. However, companies' individual hedging policies would lead to a varying impact across companies under our coverage universe.

Summary of quarterly performance (INR m)

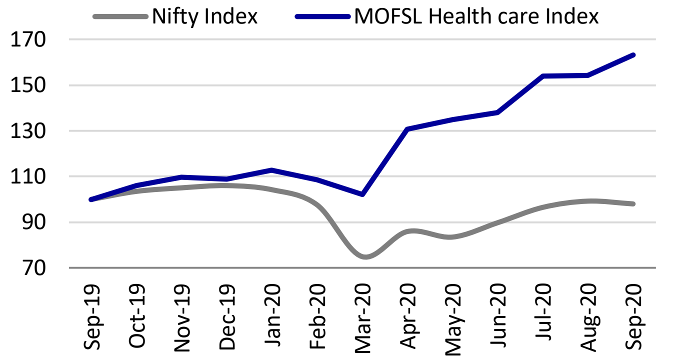
Sector	CMP		Sales (INR M)			EBDITA (INR M)			Net Profit (INR M)		
				Var	Var		Var	Var		Var	Var
	(INR)	RECO	Sep-20	% YoY	% QoQ	Sep-20	% YoY	% QoQ	Sep-20	% YoY	% QoQ
Ajanta Pharma	1601	Buy	7,014	9.1	5.0	2,111	18.8	-5.4	1,396	19.2	-5.5
Alembic Pharma	972	Neutral	13,545	9.2	1.0	3,955	14.5	-2.9	2,763	12.2	-8.4
Alkem Lab	2755	Buy	22,834	0.9	15.5	5,634	18.6	11.1	4,257	8.6	7.5
Aurobindo Pharma	843	Buy	61,843	10.4	4.4	13,420	15.0	1.9	7,883	17.8	-2.4
Biocon	459	Neutral	18,689	18.9	11.8	4,990	23.8	21.0	2,335	11.8	56.9
Cadila Health	414	Buy	36,888	9.6	1.3	8,087	29.3	-0.8	4,554	36.8	0.3
Cipla	779	Neutral	47,108	7.2	8.4	10,976	20.7	4.7	6,139	30.2	6.2
Divis Labs	3128	Buy	16,985	17.5	-1.8	6,618	29.6	-5.5	4,577	26.5	-5.0
Dr Reddy' s Labs	5157	Neutral	47,811	17.2	8.2	11,666	37.6	4.8	6,401	58.4	10.5
Glenmark Pharma	497	Neutral	26,733	-3.3	14.0	4,946	23.9	3.5	2,178	9.3	5.8
Granules India	380	Buy	7,777	11.2	5.7	2,146	49.4	8.0	1,321	37.9	7.6
GSK Pharma	1568	Neutral	7,850	-11.0	21.0	1,586	-18.3	39.0	1,105	-21.4	40.4
IPCA Labs.	2148	Buy	13,644	6.3	-11.1	3,343	25.7	-43.0	2,412	24.6	-45.6
Jubilant Life	754	Buy	21,389	-5.6	13.0	4,363	-6.9	44.4	1,921	-23.0	118.2
Laurus Labs	295	Buy	10,611	48.9	8.9	2,964	117.7	6.5	1,832	233.5	6.7
Lupin	1039	Buy	37,579	-3.2	6.5	5,900	-7.9	16.0	1,981	-41.2	72.3
Strides Pharma	725	Buy	8,274	15.7	5.8	1,671	14.0	10.7	706	34.7	26.0
Sun Pharma	523	Buy	80,544	1.3	7.9	17,720	10.3	7.6	11,689	10.7	2.0
Torrent Pharma	2826	Neutral	21,188	5.7	3.1	6,314	16.7	-4.5	2,954	21.1	-8.0
Healthcare			**508,306**	**6.4**	**6.6**	**118,409**	**18.3**	**3.2**	**68,403**	**17.4**	**3.0**

Source: Company, MOFSL

Relative performance – three months (%)

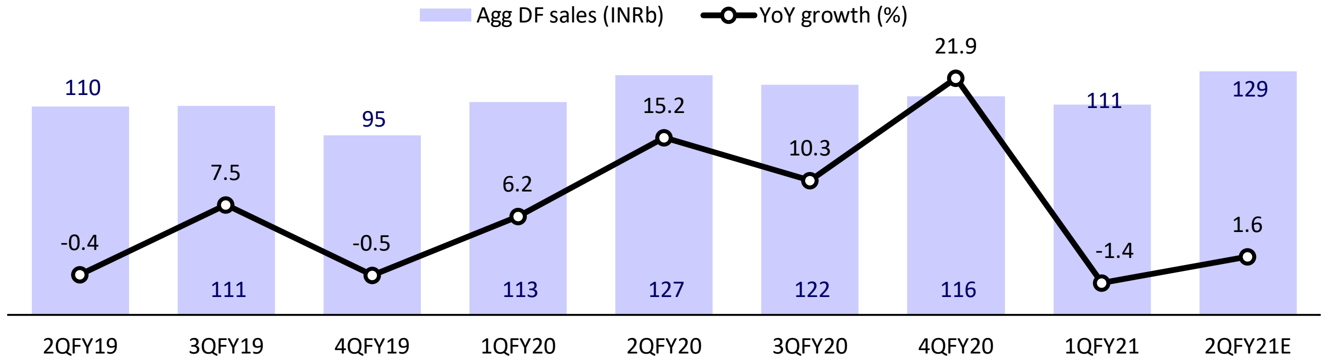


Relative performance – one year (%)



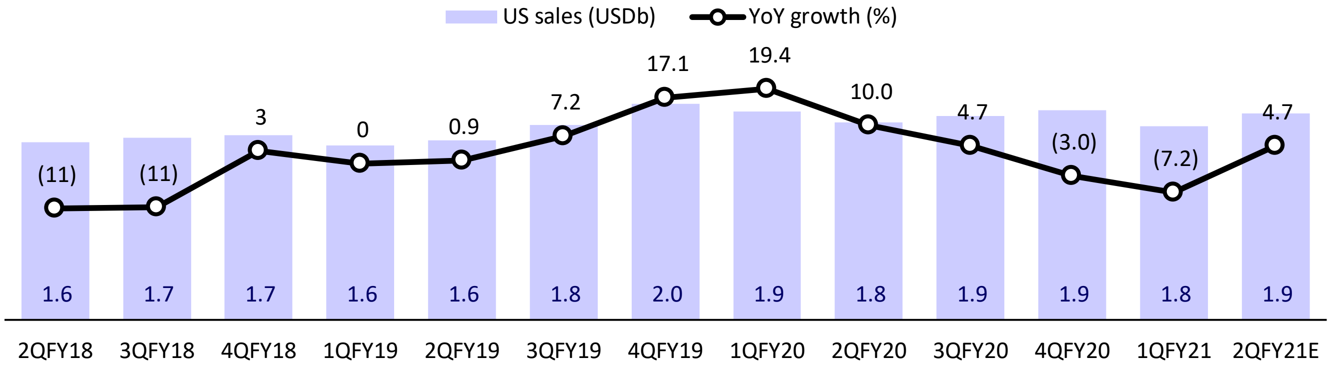
Source: Bloomberg, MOFSL

Unlocking and improved traction in MR–doctor connect is expected to bring back growth in Domestic Formulations in 2QFY21



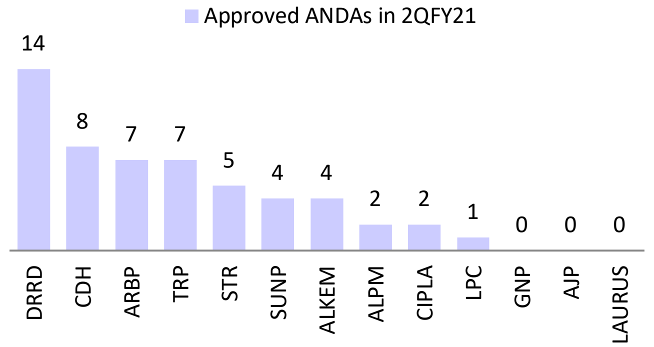
Source: MOFSL, Company

US sales growth to be 4.7% on YoY basis



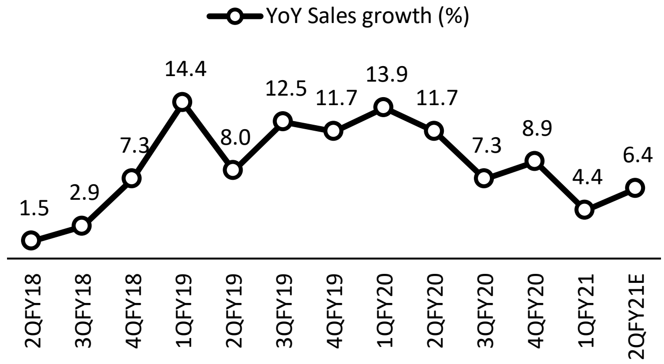
Source: MOFSL, Company

54 ANDAs approved on aggregate basis for 2QFY21



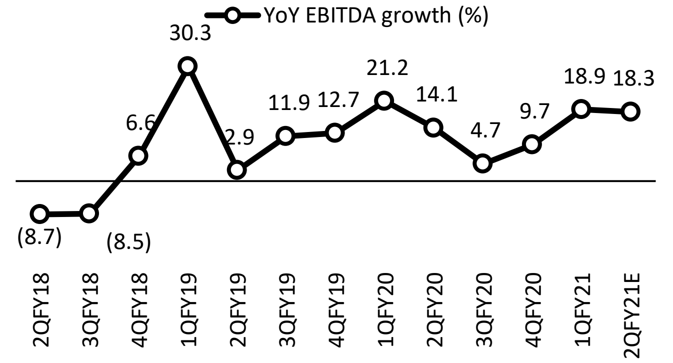
Source: MOFSL, Company

YoY sales growth for 2Q to be slightly better than 1QFY21



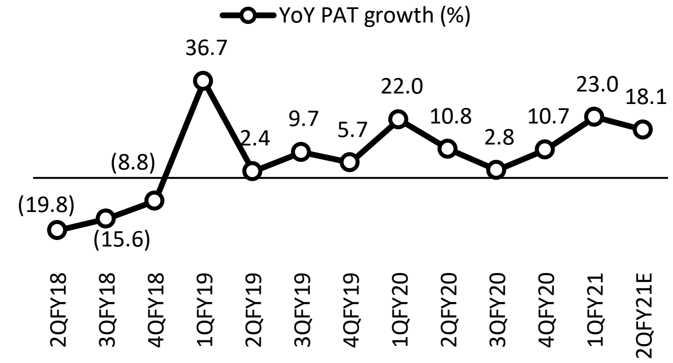
Source: MOFSL, Company

Controlled cost to drive better EBITDA growth...



Source: MOFSL, Company

...as well as PAT growth for the quarter



Source: MOFSL, Company

Comparative valuation

	CMP		EPS (INR)			PE (x)			PB (x)			RoE (%)		
Company Name	**INR**	**Reco**	**FY20**	**FY21E**	**FY22E**	**FY20**	**FY21E**	**FY22E**	**FY20**	**FY21E**	**FY22E**	**FY20**	**FY21E**	**FY22E**
Healthcare						**35.5**	**27.4**	**23.2**	**4.5**	**4.0**	**3.5**	**12.8**	**14.7**	**15.3**
Alembic Pharma	972	Neutral	45.9	51.7	53.1	21.2	18.8	18.3	5.7	4.6	3.9	30.1	27.8	23.8
Alkem Lab	2,755	Buy	95.4	131.5	146.1	28.9	21.0	18.9	5.3	4.5	3.8	19.7	23.2	21.6
Ajanta Pharma	1,601	Buy	51.1	64.0	71.7	31.3	25.0	22.3	5.4	4.6	4.0	18.7	20.0	19.3
Aurobindo Pharma	843	Buy	49.2	56.5	63.7	17.2	14.9	13.2	2.9	2.5	2.1	18.8	18.0	17.2
Biocon	459	Neutral	6.2	8.6	12.0	74.3	53.4	38.2	8.2	7.4	6.5	12.1	14.6	18.1
Cadila Health	414	Buy	14.7	19.0	21.4	28.2	21.8	19.3	4.1	3.3	3.0	11.3	16.9	16.2
Cipla	779	Neutral	19.6	28.6	32.6	39.7	27.3	23.9	3.9	3.5	3.1	9.9	12.8	12.9
Divis Labs	3,128	Buy	48.9	69.7	87.3	63.9	44.9	35.8	11.4	8.9	7.4	18.2	22.2	22.6
Dr Reddy' s Labs	5,157	Neutral	121.3	165.0	186.6	42.5	31.3	27.6	5.5	4.8	4.1	13.6	16.3	16.0
Glenmark Pharma	497	Neutral	24.6	31.5	33.6	20.2	15.8	14.8	2.3	2.0	1.8	11.9	13.8	13.0
Granules India	380	Buy	13.0	20.5	23.4	29.2	18.6	16.3	5.3	4.3	3.5	19.7	25.6	23.9
GSK Pharma	1,568	Neutral	28.2	26.9	33.9	55.6	58.2	46.2	14.6	13.8	12.6	26.2	23.8	27.3
IPCA Labs.	2,148	Buy	51.4	89.0	88.7	41.8	24.1	24.2	7.5	5.9	4.9	19.2	27.3	22.1
Jubilant Life	754	Buy	59.8	48.7	64.8	12.6	15.5	11.6	2.1	1.9	1.6	17.9	12.8	15.0
Laurus Labs	295	Buy	4.8	13.5	14.6	61.9	22.0	20.2	8.9	6.6	5.2	15.3	34.7	28.9
Lupin	1,039	Buy	19.8	26.6	39.4	52.5	39.1	26.4	3.8	3.5	3.2	6.8	9.3	12.7
Sun Pharma	523	Buy	16.4	19.8	24.2	31.9	26.4	21.6	2.8	2.8	2.5	9.1	10.5	12.1
Strides Pharma	725	Buy	15.2	35.3	48.2	47.7	20.5	15.1	2.6	2.3	2.1	5.2	11.8	14.5
Torrent Pharma	2,826	Neutral	55.9	72.8	93.9	50.6	38.8	30.1	9.9	8.1	6.9	21.5	23.0	24.8

Granules India: Will see double than anticipated growth in FY21; Krishna Prasad Chigurupati, CMD

- The good results are a consequence of investments made of Rs. 1,400crs in last 2-3 years and strong ANDAs filings
- New launches have aided top line growth. EBITDA Margin expansion due to change in product mix & improved efficiencies
- FY21 will see double the growth than we anticipated because we got few approvals earlier than expected and taking FY21 as base we expect 30% growth YoY from FY22
- FY21 profit growth will be in range of 25-30%
- Growth mainly driven by finished dosages and not APIs. Market share gains & launches led to gains
- Net Debt is at Rs. 600cr. Don't plan to bring it down due to high working capital (Rs. 500 cr)& capex (Rs. 400 cr) requirements to support growth. Net Debt to EBITDA at 0.7x

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Bata India: Not back to pre COVID levels, hope festive season to push us there; Sandeep Kataria, CEO

- 98% of our stores are open now barring a few isolated ones. We have closed 40 stores already and can close more if they are not profitable
- Opened 15 new stores after unlock has started and is planning to open 30 more by the end of the year
- Seeing much more traffic coming back to offices in cities like Delhi Gurugram, except for Mumbai
- Not back to pre COVID levels yet. Hoping that we will get very close to pre COVID numbers at the end of the festive season
- Seeing demand steadily pick up. With the whole festive season around the corner

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Autocar India: Festive zeal in the auto sector may soon see a slowdown; Hormazd Sorabjee, Editor

- Auto sector has witnessed a very sharp recovery
- Supply chain issues still persists with Tier3&4 suppliers. However, they are still ramping up production
- Expect discounts to come down as the supply rationalizes and demand remains strong
- Pent up demand was already addressed during the 1st phase of unlocking
- People are preferring to buy 4W because they have saved money for over 7 months now and also because of private mobility
- This is expected to be a great Diwali, but post that sustainability of demand is to be looked at
- Demand for more than 1 car per family. New launches & lower end models driving demand

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A PORTABLE WORKFORCE FOR INDIA'S NEW ECONOMY

- Nearly three decades after its biggest economic reforms, India has enacted labour laws that amount to a leap from a bygone era to the gig economy.
- The 41 laws that have been consolidated into four new codes on wage, social security, industrial relations and occupational safety are a response to two inexorable forces: first, the need to bring tens of millions of workers in from the shadows, and formalize their contribution to the economy, which qualifies them for social security. Second, the laws are a recognition that digital immersion in our offices, factories and homes is changing the very nature of work, and we must respond.
- India has borne a high price from the mismatch between its old labour laws and its new economic reality: hiring the right people has been costlier while disparities in rewards for similar work have infuriated employees. The codes will dispose of these and other oddities. Some 470 million workers, many of them women in the unorganised sector, will be positively impacted. This is a fitting calling card for a competitive India in a post-pandemic global economy.
- In the first of the big ideas behind this change, the most eye-catching measure is a new status of employment known as 'fixed term' for 'on demand' workers in, say, manufacturing, or now in the gig economy. In a model of so-called 'portable benefits', fixed-term workers will be entitled to the same social security benefits as those given to permanent employees. Business will gain the flexibility long denied by the cost and rigidity of 'permanent' recruitment, even if the cost will be higher employer contributions to social security. In practice, companies will be able to price and hire labour appropriately, and to reskill or replace if the work becomes obsolete.
- The second big idea is the future of work itself. Life-long learning and upgrading skills (to dovetail with shorter technology cycles) is the new workplace lifeline. In India, this reality is sinking in, and the pandemic has raised the urgency for business to design work and employment accordingly. The codes are especially relevant to India's services economy, as we move towards the next iteration of business organisation, broadly termed Industry 4.0. The invasive expansion of the internet economy will continue to create more services jobs, which contribute 55% of gross domestic product. Platforms have been big creators of services jobs in recent years and that will persist, with the beneficiary's mostly young people.
- Foreign investors considering investments in Indian manufacturing can cheer. The rigidities of recruitment, the reign of labour inspections, and the chess-games of collective bargaining that have often priced out investment, have been replaced with a lexicon that is clear and a compliance regime that is digital, remote, and with risk assessed on the basis of self-declaration and a record of prior violations.
- All investors will cheer the ending of a perverse incentive for 'staying small' though doubtless not for the 'small is beautiful' philosophy advocated by economist Ernst Schumacher. In the old regime, only companies exceeding a threshold of employment were subject to rules that asphyxiated management and crushed free enterprise. The response across manufacturing was to exploit the loopholes.

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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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