

Market snapshot



Equities - India	Close	Chg. %	CYTD.%
Sensex	47,354	0.8	14.8
Nifty-50	13,873	0.9	14.0
Nifty-M 100	20,719	1.2	21.1
Equities-Global	Close	Chg. %	CYTD.%
S&P 500	3,735	0.9	15.6
Nasdaq	12,899	0.7	43.8
FTSE 100	6,502	0.0	-13.8
DAX	13,790	1.5	4.1
Hang Seng	10,311	-1.1	-7.7
Nikkei 225	26,854	0.7	13.5
Commodities	Close	Chg. %	CYTD.%
Brent (US\$/Bbl)	51	-0.7	-24.0
Gold (\$/OZ)	1,874	-0.5	23.5
Cu (US\$/MT)	7,771	0.0	26.4
Almn (US\$/MT)	2,026	0.0	13.7
Currency	Close	Chg. %	CYTD.%
USD/INR	73.5	-0.1	3.0
USD/EUR	1.2	0.2	8.9
USD/JPY	103.8	0.2	-4.4
YIELD (%)	Close	1MChg	CYTDchg
10 Yrs G-Sec	5.9	-0.01	-0.7
10 Yrs AAA Corp	6.6	0.00	-1.0
Flows (USD b)	28-Dec	MTD	CYTD
FII	0.22	0.72	16.61
DII	-0.19	-0.55	-0.27
Volumes (INRb)	28-Dec	MTD*	CYTD*
Cash	513	687	572
F&O	16,399	29,475	19,249

Note: *Average

Today's top research idea



Automobiles: Retail, inquiries and bookings reflect sustained optimism

- ❖ Demand in Dec'20 is better than last year. Inventory is lower than normal for PVs and Tractors, leaving headroom for higher inventory filling in coming months.
- ❖ M&HCVs are seeing strong demand from the Infrastructure/Construction segment on the back of resumed government spending on infrastructure.
- ❖ Discounts currently stand ~50% as compared to last year. 2W discounts were higher in entry-level models v/s executive models like Hero Deluxe (at INR1.5k), Bajaj Platina (at INR1.6-2.6k), Pulsar 125 (at INR1.5-2k) and hardly any discounts from TVSL. Year-end discounts in PVs are on the lower side (v/s ~50% last year). The same for CVs have inched up to 15-17% from 13-15% (v/s 20-25% on BS-IV models).
- ❖ In Dec'20, wholesale volumes are estimated to grow at 14.4% for 2Ws on a low base and 5.4% for PVs due to year-end sales. CV volumes are likely to decline by 2.8% (LCV growth of 4.7%, but restricted by a decline of ~11.6% in M&HCVs). Wholesale volumes for Tractors are expected to grow by 38.4% YoY on robust demand and lower base.



Research covered

Cos/Sector	Key Highlights
Automobiles	Retail, inquiries and bookings reflect sustained optimism
Coal India	Exploring new business areas



Chart of the Day: Automobiles (Retail, inquiries and bookings reflect sustained optimism)

Snapshot of volumes for Dec'20

Snapshot of Volumes for Dec 20											
Company sales	YoY			MoM							Residual gr. (%)
	Dec'20	Dec'19	YoY (%) chg.	Nov'20	MoM (%) chg.	FY21 YTD	FY20 YTD	(%) chg.	FY21 estimate	Gr. (%)	
MSIL	1,37,815	1,33,296	3.4	1,53,223	-10.1	9,43,215	11,78,272	-19.9	14,12,401	-9.6	22.1
MM	61,932	57,220	8.2	75,457	-17.9	5,08,884	6,26,245	-18.7	7,37,246	-5.2	50.5
UVs (incl. pick-ups)	33,844	33,019	2.5	38,402	-11.9	2,32,803	3,24,530	-28.3	3,54,270	-12.0	55.6
Tractors	23,387	17,990	30.0	32,726	-28.5	2,61,574	2,42,625	7.8	3,39,654	12.5	31.7
TTMT	49,786	46,903	6.1	49,650	0.3	2,86,994	3,71,887	-22.8	4,56,953	-3.5	67.5
HCVs	10,903	12,114	-10.0	8,772	24.3	44,489	97,396	-54.3	92,038	-26.0	75.8
LCVs	20,870	21,968	-5.0	19,210	8.6	1,09,700	1,74,165	-37.0	1,81,273	-16.2	70.1
HMCL	4,88,572	4,24,845	15.0	5,91,091	-17.3	42,64,620	50,75,208	-16.0	59,75,433	-5.9	34.0
BJAUT	3,46,801	3,36,055	3.2	4,22,240	-17.9	27,77,519	36,23,251	-23.3	40,40,245	-12.5	27.3
AL	12,123	11,168	8.5	10,659	13.7	56,029	99,751	-43.8	1,09,809	-12.3	111.0
TVSL	2,71,821	2,31,571	17.4	3,22,709	-15.8	21,24,021	26,30,548	-19.3	29,50,566	-9.6	30.6
EIM											
RE	62,012	50,416	23.0	63,782	-2.8	4,00,473	5,32,969	-24.9	6,32,252	-9.2	42.2
VECV	4,160	5,042	-17.5	3,710	12.1	22,366	37,092	-39.7	40,554	-16.8	56.4
ESC	7,200	4,114	75.0	10,165	-29.2	73,620	65,910	11.7	1,00,641	17.0	34.4

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1

RBI paper argues for retaining 4% inflation target

The inflation target is likely to be retained at 4% in the medium term, a Reserve Bank of India (RBI) working paper suggested on Monday...

2

Transport Minister Nitin Gadkari confirms Tesla's India entry in 2021

Union Minister Nitin Gadkari on Monday confirmed the entry of electric carmaker Tesla into India in 2021 following months of speculation around the world's most valuable automotive company's India plans. Tesla will first start with sales operations in the country and based on the response to its vehicles it will consider local assembly and manufacturing, the Road Transport and Highways Minister told the Indian Express...

3

Centre lifts ban on onion exports from January 1 as prices plunge

India decided on Monday to lift a ban on onion exports from Jan. 1, as prices have fallen sharply in the last few weeks on expectations of a big crop...

4

India's light vehicle market shrinks 22-25% in 2020; drops out of top 5 markets

India's light vehicle market is estimated to report a 22-25% decline in 2020 sales, the steepest among the top 10 global markets where it has been an outperformer for years, according to two top global vehicle forecasting firms...

5

LIC sells 2% stake in pvt lender ICICI Bank via open market transactions

Country's largest insurer Life Insurance Corporation (LIC) has sold 2 per cent stake in private sector lender ICICI Bank through open market transactions...

6

PE firm Apax to acquire 3i Infotech's software products business for Rs1,000 cr

IT services company 3i Infotech on Monday said that its board has approved the slump sale of its global software products business to private equity firm Apax Partners for a sum of Rs1,000 crore...

7

India office leasing continues recovery; Q4 absorption up 52% sequentially

India's office market has started to make steady progress towards a sharp bounce back with rising space pick up brushing aside the hyped concerns of the emergence of work from home model...



Automobiles

“The premium segment of motorcycles would grow faster than others, and BJAUT would be in a very good position to take advantage of this trend. This is true for domestic and our overseas markets”

– **Rakesh Sharma,**
Executive Director,
Bajaj Auto

Retail, inquiries and bookings reflect sustained optimism...

...PV and tractor wholesales remain low due to supply constraints

- Demand in Dec'20 is better than last year. Discounts currently stand ~50% as compared to last year. Inventory is lower than normal for PVs and Tractors, leaving headroom for higher inventory filling in coming months. Wholesales are expected to grow on a low base in Dec'20, catering to the spillover demand from the festive season and inventory refilling (for PVs and Tractors).
- Our interaction with leading industry channel partners reflects optimism. 2W inventory currently stands at 30-45 days, PVs inventory while entering last week of December remain at minimal levels (10-20 days), with a waiting period of 4-6 weeks in fast selling models. M&HCVs are seeing strong demand from the Infrastructure/Construction segment on the back of resumed government spending on infrastructure, whereas inquiries from haulage are better than last year. Demand for Tractors continues to remain strong, with a growth in retails and supplies just meeting demand. Overall consumer sentiment has improved, but the market remains cautious fearing a second COVID-19 wave.
- Wholesales in Dec'20 are expected to grow YoY on a low base for all segments, excluding M&HCV and 3Ws. In Dec'20, wholesale volumes are estimated to grow at 14.4% for 2Ws on a low base and 5.4% for PVs due to year-end sales. CV volumes are likely to decline by 2.8% (LCV growth of 4.7%, but restricted by a decline of ~11.6% in M&HCVs). Wholesale volumes for Tractors are expected to grow by 38.4% YoY on robust demand and lower base.
- 2Ws: Retails sales were largely flat YoY. However, there was inventory stocking at the sub-dealer level due to upcoming price hike in Jan'21. This year, the discounts were higher in entry-level models v/s executive models like Hero Deluxe (at INR1.5k), Bajaj Platina (at INR1.6-2.6k), Pulsar 125 (at INR1.5-2k) and hardly any discounts from TVSL. Dealers are holding an inventory of 1-1.5 months. RE has a waiting period of 4-6 weeks for its bikes, with the same for Meteor at 14-18 weeks. Honda Highness (waiting period of 4-6 weeks) is offering good competition to RE as: 1) Meteor's product quality is on par with Highness, and 2) ICICIBC is offering loans at an interest rate of 5.6% on Honda Highness, decreasing the total cost by INR20-25k v/s RE's Meteor. We expect ~23% growth in wholesales for RE, 15% for HMCL, 7.8% for BJAUT (5% growth in domestic 2Ws) and ~17.4% for TVSL.
- PVs: The strong momentum continues in PV retail sales, with manufacturers restricting year-end discounts on the lower side (v/s ~50% last year). PVs have a high waiting period across OEMs. MSIL is seen losing some sales to other OEMs due to its 3-12 week waiting period (order book of ~1.5 months). There is increased interest in the company's fitted CNG models due to higher petrol prices. Volumes are expected to grow by ~3.4% for MSIL and at a modest 2.5% for MM's UV (including pick-ups) due to supply-chain constraints.
- CVs: Demand for M&HCVs from the Infrastructure segment remains strong as the government has resumed spending on projects and cargo has started to recover with an increase in capacity utilization. Inquiries are better than last year, but transporters are holding back purchases on expectations of higher discounts. TMT and Bharat Benz were better off than competitors on the back of their higher tonnage portfolio. LTV is stable at 80-85%, however discounts have inched up to 15-17% from 13-15%. In higher tonnage segments, discounts are as low as 6-7% due to higher demand from the

Infrastructure segment. LCV and SCV demand was similar to last year as price hikes in Dec'20 and low year-end discounts made customers postpone their purchases to Jan'21. Launch of AL's Bada Dost in the remaining parts of India would further boost its LCV sales. We expect AL's wholesales to grow by 8.5% YoY (-10% for M&HCVs) and that for TTMT to decrease by 6.8% (-10% for M&HCVs and -5% for LCV).

- **Tractors:** Demand for Tractors has sustained due to good rabi sowing and preference for farm mechanization. Both MM and ESC are operating at full capacity. Sales remains skewed towards higher HP tractors due to high demand from the Agriculture segment. Commercial use of tractors is also picking up slowly. Dealers are also holding inventory (10-30 days) depending on the model. We expect Tractor volumes to grow by 30%/75% YoY for MM/ESC due to high demand and low base.
- **Valuation and view:** Despite Dec'20 being a seasonally slow month, it saw decent demand (at par YoY), with discounts lower by ~50% YoY. With pent-up demand largely met, it would be critical for demand to sustain in 4QFY21 and beyond, considering the expected price hikes as well as opening up of public transport in many parts of the globe. Current valuations suggest the recovery is likely to sustain (our base case), leaving a limited margin of safety for any negative surprises. We prefer companies with: a) higher visibility in terms of a demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. MM and HMCL are our top OEM picks. Among auto component stocks, we prefer ENDU and MSS.

Snapshot of volumes for Dec'20

Company sales	YoY			MoM					Residual	
	Dec'20	Dec'19	YoY (%) chg.	Nov'20	MoM (%) chg.	FY21 YTD	FY20 YTD	(%) chg.	FY21 estimate	Gr. (%)
MSIL	1,37,815	1,33,296	3.4	1,53,223	-10.1	9,43,215	11,78,272	-19.9	14,12,401	-9.6
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LCVs	20,870	21,968	-5.0	19,210	8.6	1,09,700	1,74,165	-37.0	1,81,273	-16.2
CVs	31,772	34,082	-6.8	27,982	13.5	1,54,189	2,71,561	-43.2	2,73,311	-19.8
Cars	11,500	6,617	73.8	13,826	-16.8	85,108	52,264	62.8	1,18,926	64.7
UVs	6,514	6,204	5.0	7,842	-16.9	47,697	48,062	-0.8	64,716	7.1
HMCL	4,88,572	4,24,845	15.0	5,91,091	-17.3	42,64,620	50,75,208	-16.0	59,75,433	-5.9
BJAUT	3,46,801	3,36,055	3.2	4,22,240	-17.9	27,77,519	36,23,251	-23.3	40,40,245	-12.5
2Ws	3,07,076	2,84,802	7.8	3,84,993	-20.2	25,26,753	30,94,028	-18.3	35,81,895	-9.3
3Ws	39,725	51,253	-22.5	37,247	6.7	2,50,766	5,29,223	-52.6	4,58,350	-31.3
AL	12,123	11,168	8.5	10,659	13.7	56,029	99,751	-43.8	1,09,809	-12.3
CV (ex. LCV)	6,323	7,025	-10.0	5,114	23.6	24,982	61,656	-59.5	59,290	-24.6
LCV	5,800	4,143	40.0	5,545	4.6	31,047	38,095	-19	50,519	8.3
TVSL	2,71,821	2,31,571	17.4	3,22,709	-15.8	21,24,021	26,30,548	-19.3	29,50,566	-9.6
EIM										
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VECV	4,160	5,042	-17.5	3,710	12.1	22,366	37,092	-39.7	40,554	-16.8
ESC	7,200	4,114	75.0	10,165	-29.2	73,620	65,910	11.7	1,00,641	17.0

Coal India

BSE Sensex	S&P CNX
47,354	13,837
Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USD\$)	847.7 / 11.4
52-Week Range (INR)	215 / 110
1, 6, 12 Rel. Per (%)	2/-38/-46
12M Avg Val (INR M)	1930

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	960.8	910.0	1,041.0
EBITDA	219.2	155.0	222.6
Adj. PAT	167.0	111.8	154.9
EBITDA Margin (%)	22.8	17.0	21.4
Cons. Adj. EPS (INR)	27.1	18.1	25.1
EPS Gr. (%)	-4.4	-33.1	38.6
BV/Sh. (INR)	52.2	58.5	71.9

Ratios

Net D:E	-0.7	-0.4	-0.7
RoE (%)	51.9	31.0	35.0
RoCE (%)	56.4	30.7	36.3
Payout (%)	53.3	65.0	47.0

Valuations

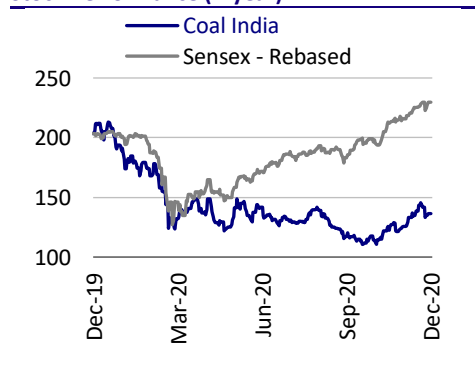
P/E (x)	5.2	7.6	5.5
P/BV (x)	2.7	2.4	1.9
EV/EBITDA(x)	2.3	3.7	1.9
Div. Yield (%)	8.6	8.6	8.6
FCF Yield (%)	-1.7	-3.4	24.1

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	66.1	66.1	69.3
DII	22.0	22.3	19.2
FII	7.2	7.9	8.7
Others	4.7	3.7	2.8

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR138
TP: INR190 (+38%)
Buy

Exploring new business areas

Looking at solar manufacturing, renewables and aluminum

- Coal India (COAL), in a statement to exchanges, said it intends to venture into three businesses: 1) solar power value chain (ingot-wafer-cell-module) business, 2) new and renewable energy, and 3) integrated aluminum complex.
- While media reports suggest investments of INR1t in relation to the same ([here](#)), our interaction with the management indicates that its investment plans are still in the discussion stages.
- In the press release, COAL said the creation of SPVs for these businesses would be subject to: a) obtaining concurrence from NITI Aayog and DIPAM, b) feasibility studies and business analysis, and c) establishment of financial viability.
- We believe its plans remain at a relatively nascent stage and investments, if any, would likely happen in small steps.

Diversifying away from coal

- With the government's focus on increasing its renewable footprint and push towards an *Atmanirbhar Bharat*, PSUs such as NTPC and COAL have been looking to diversify away from coal. Concerns over the sustainability of coal and ESG factors have been raised by investors as well. The company has a permanent/contract employee base of ~2,72,000/~71,000. Their possible deployment – if risks to coal significantly heighten – to newer projects could also be pertinent.
- Investments (particularly of the size as indicated in media reports) would likely happen through JVs. This a route well used by COAL in the past and can be crucial given the lack of its implementation experience in the module/renewable business.
- In terms of solar module needs, India is still largely dependent on imports (80-85%). Matching costs globally through local manufacturing would require incentives given the large economies of scale at play globally.

Await a clear roadmap

- While the potential investment can be huge, we still await a clear roadmap on its implementation and timelines. This is not the first announcement from COAL with regard to a possible diversification. In the past, it announced plans for: a) fertilizer projects through JVs such as HURL and TFL, and b) MoU with NLC for the setup of solar and thermal projects.
- The JV with NLC (MoU signed in Oct'18; potential investment of INR120-150b for 3GW solar projects) is yet to take material steps. The HURL fertilizer project (incorporated in Jun'16 at an investment of INR220b) remains under implementation.

**Endurance Technologies: PLI scheme for autos encouraging; 30% of revenues coming from Europe; Ramesh Gehaney, ED & COO**

- Increased prices has led to congestion at the ports
- 30% of revenue comes from Europe; situation in Europe is worrisome
- PLI scheme for autos is encouraging
- The big catch in PLI scheme for autos is that there is a cap for export & revenues to be eligible for PLI scheme
- Currently, only 14% of auto ancillaries are eligible for PLI scheme
- Capex would depend only on order inflow

[→ Read More](#)**Mphasis: Confident of growing above market growth; expect 2021 tech spend to be in mid-single digits; Nitin Rakesh, CEO & Executive Director**

- Seen good expansion in our deal pipeline in the last 3-4 quarters
- Deal pipeline is up almost 100% in last 12 months
- Conversation around the nature of deals has changed; consumption pattern of technology is different from Y2K & GFC
- Had guided for a strong year; on track to achieve it
- Confident above growth being above market growth rates
- Have invested ahead of the curve in quantum computing
- Transformation of enterprises wave will last 5-7 years
- 2021 should be better than 2020 in terms of technology spend. Could see technology spend in mid-single digits in 2021

[→ Read More](#)**Bank of Baroda: Retail loan growth is in double digit; corporate growth is tepid; Sanjiv Chadha, MD & CEO**

- Credit offtake has been moderate to tepid. Retail loan growth has been in double digit for home car loans, car loans at 30%
- Looking at credit growth of 6-7% for FY21
- Seen strong response to ECLGS scheme as the money from this scheme was available at cheaper rates for MSME customers
- 90% of eligible MSME borrowers benefited from ECLGS
- Moratorium is not as same as restructuring. Retail book restructuring is low

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THE ANATOMY OF A STOCK MARKET BUBBLE STARING INDIA IN THE FACE

- On 18 December, the price to earnings (PE) ratio of the Nifty 50 stock market index reached an all-time high of 37.84. This was around 87% higher than the average PE ratio of 20.26 since 1 January 1999.
- The PE ratios of the Nifty 50 and other broader indices continue to remain at extremely high levels. This ratio is essentially the number of rupees that investors are ready to pay for every rupee of earnings over the last 12 months of the stocks that make up any index.
- The average yearly PE ratio of the Nifty 50 has been largely rising since 2013. This basically means that share prices have risen much faster than company earnings. This is true for other indices as well. Interestingly, the overall net profit of listed companies in India hasn't grown in many years. Their overall net profit in 2019-20 was lower than in 2007-08. Of course, 2019-20 profits would have been slightly hit by the covid pandemic, but even the overall net profit for 2018-19 was lower than that in 2010-11.
- The quarterly net profit of listed corporates during July to September 2020 was at its highest level ever. But this was more on account of cost cutting by companies, on their employees as well as on the raw material front. Net-net, this increase in profit brought down the purchasing power of society as a whole, which will hurt future earnings. Further, the PE ratio remains high despite this jump in recent profits.
- The stock market is supposed to discount expectations of future earnings to arrive at current prices, but when share prices have been rising much faster than earnings for more than seven years, it does make one wonder what exactly the market has been discounting.
- Despite this evidence, many stock market participants refuse to believe that the Indian stock market is now in bubble territory. And to give them their due, the word 'bubble' doesn't really have a firm definition.

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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