Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	37,973	0.0	-8.0
Nifty-50	11,222	0.0	-7.8
Nifty-M 100	16,974	-0.1	-0.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,335	-0.5	3.2
Nasdaq	11,085	-0.3	23.5
FTSE 100	5,907	-0.3	-21.7
DAX	12,826	-0.4	-3.2
Hang Seng	9,282	-1.1	-16.9
Nikkei 225	23,539	0.1	-0.5
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	42	-0.6	-37.4
Gold ($/OZ)	1,890	0.5	24.6
Cu (US$/MT)	6,560	0.2	6.7
Almn (US$/MT)	1,744	1.8	-2.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	73.9	0.1	3.5
USD/EUR	1.2	0.4	4.4
USD/JPY	105.6	0.1	-2.7
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	6.0	-0.02	-0.5
10 Yrs AAA Corp	6.8	0.02	-0.8
Flows (USD b)	**29-Sep**	**MTD**	**CYTD**
FIIs	-0.20	-0.12	4.89
DIIs	0.08	-0.03	8.93
Volumes (INRb)	**29-Sep**	**MTD***	**CYTD***
Cash	531	592	549
F&O	18,390	21,526	16,431

Note: *Average

Today's top research idea

Automobile: Encouraging inquiries across segments in seasonally weak month

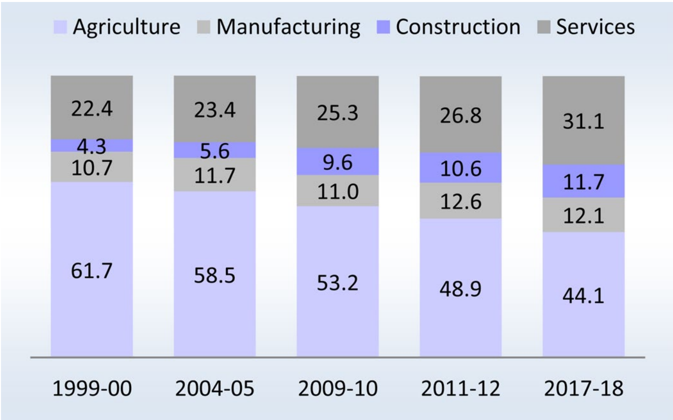
- Momentum in inquiries remained strong across segments (ex-M&HCV), even during the inauspicious periods of Shradh and Adhik Maas. Furthermore, improvement in the supply side on an MoM basis enabled OEMs to start filling up their inventory for the upcoming festive season.
- 2W inventory has reached 30–45 days on the expectation that sales momentum would continue into the festive season and PV inventory would sustain at a comfortable level of 20–30 days. Inquiries were encouraging and better than last year.
- In Sep'20, wholesale volumes are estimated to grow at ~10%/~23% for 2W/PV on account of sustaining demand and inventory refilling. Decline in CV (ex-Tata) was arrested at ~6% YoY – decline was offset by ~10% growth in LCV and slower decline of 19% YoY in M&HCV. Tractor volumes are expected to grow by ~16% YoY.
- While the upcoming festive season is expected to be very good, the sustenance of demand post the festive season is the key parameter to monitor. M&M and HMCL are our top OEM picks. Among the auto component stocks, we prefer MSS and ENDU.

Research covered

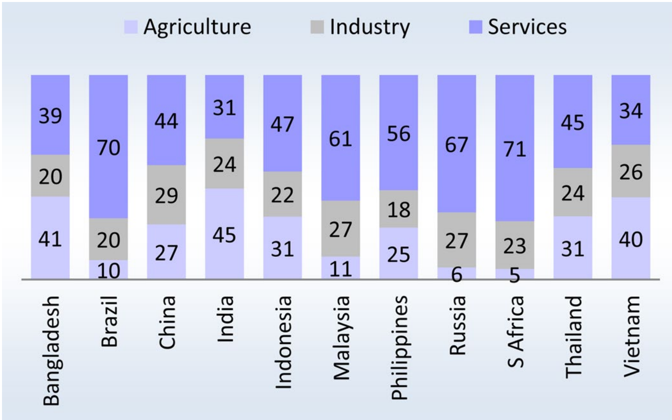
Cos/Sector	Key Highlights
Automobile	Encouraging inquiries across segments in seasonally weak month
Oil & Gas	Unified tariff proposed for developing national gas grid…
Vedanta	Reverse book building for delisting starts on 5th Oct
KNR Construction	BOT asset sale concludes; balance sheet turns net cash
Economy	Panel discussion on 3 historic labor reforms passed by Parliament last week

Chart of the Day: Economy (Panel discussion on 3 historic labor reforms passed by Parliament last week)

Share of agricultural workers has fallen consistently during the past two decades…



…but the farm sector remains the largest employer in India



Industry includes construction activities

Source: NSSO, ILO, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

In the news today

Kindly click on textbox for the detailed news link

1

Govt is said to consider selling 25% stake in LIC in phases

India is planning to seek cabinet's approval to sell 25% stake in the nation's largest life insurer, people with knowledge of the matter said, as Prime Minister Narendra Modi seeks resources to plug a widening budget gap. The government plans to amend...

2

RBI defers Basel III provisions amid covid uncertainty

The Reserve Bank of India on Tuesday deferred implementation of provisions made under Basel III capital due to uncertainty related to Covid crisis. In two separate notifications, RBI said it would push back the final tranche of the capital conservation buffer (CCB) and the implementation of net stable funding ratio by six months. The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times which can be drawn down as losses are incurred during a stressed period. RBI had asked banks to build up CCB of 2.5% in stages. The final stage of 0.625% was to be kept from 30 September 2020. This has been deferred to 1 April, 2020….

3

Adani, JSPL, Vedanta, 43 others bid for commercial coal mines

Forty six companies including Vedanta Group, Hindalco Adani Group, Jindal Steel & Power, Bharat Aluminium Company and JSW Energy have put in bids in the country's first commercial coal mine auctions. Of the 38 mines on auction, 10 mines have received very good response with 5-6 bidders each, while about 10 more have received…

4

Credit demand from priority sectors drops to 1.9 per cent in June quarter

Despite many efforts by the government to boost credit supply by offering many a scheme to MSMEs and other priority sectors, the same has plunged to a low 1.9 per cent in the June quarter from 10.2 per cent a year ago, says a report. To help small business tide over the impact of the pandemic…

5

Rs 15,000 crore loan sanctioned for projects: Urban Affairs Ministry official

NCR Planning Board has sanctioned over Rs 15,000 crore loan for projects worth Rs 31,000 crore, a top official of the Union Housing and Urban Affairs Ministry said on Tuesday. According to a statement, ministry Secretary Durga Shanker Mishra said that 265 projects worth over Rs 18,500 crore are complete and the rest are under construction…

6

Vedanta's Anil Agarwal seeks $5 billion for turnaround fund

Commodities tycoon Anil Agarwal is seeking at least $5 billion for a fund targeting companies being sold off by the Indian government, according to people familiar with the matter, marking a return to the strategy that made him wealthy. Agarwal is targeting an initial close of $1 billion…

7

Oil majors Rosneft, Saudi Aramco unlikely to bid for BPCL privatisation

Oil majors Rosneft and Saudi Aramco are unlikely to bid in the privatisation of Indian refiner Bharat Petroleum NSE 0.36 % Corp, sources familiar with the matter said, as low oil prices and weak fuel demand curb investment plans. Russia's Rosneft had expressed…

Automobiles

Encouraging inquiries across segments in seasonally weak month…

…inventory build-up for potentially strong festive season

“There has been a good recovery and numbers are increasing. From July onwards, the supply chain that was disrupted was also fixed and production sort of became normal in August. Also, the bounce back has been better in the rural areas as compared to the urban areas.”
Mr Shashank Srivastava – Executive Director, Marketing & Sales, Maruti Suzuki

- **As per the Indian custom, the Sep’20 periods of Shradh (from 2nd to 16th) and Adhik Maas (18th Sep to 16th Oct) are deemed inauspicious. Nevertheless, demand saw positive momentum, and OEMs utilized this period for inventory refilling. Sustained demand recovery was seen owing to a growing preference for personal vehicles, high disposable incomes in the rural markets, and improving recovery in the urban markets. Utilization levels improved on MoM basis at most OEM plants in Sep’20.**
- **Our interaction with leading industry channel partners indicates 2W inventory has reached 30–45 days on the expectation that sales momentum would continue into the festive season and PV inventory would sustain at a comfortable level of 20–30 days. Inquiries were encouraging and better than last year. LCV demand has recovered and is now moving toward growth momentum. M&HCV has seen demand only from the Infrastructure/Construction sector, accounting for ~30% of total sales. While overall consumer sentiment has improved, urban customers remain cautious given an uncertain environment.**
- **Wholesale in Sep’20 is expected to grow on a YoY basis for all segments (ex-M&HCV), driven by sound demand, low starting inventory, a low base, and normalizing production. Demand recovery is skewed toward the semi-urban and rural markets for 2W/PV. Demand in Tractors remains strong, with growth seen in Retail in most of the markets.**
- **3W demand remains very low, further affected by stringent financing norms and a weak business environment for owners/operators.**
- **In Sep’20, wholesale volumes are estimated to grow at ~10%/~23% for 2W/PV on account of sustaining demand and inventory refilling. Decline in CV (ex-Tata) was arrested at ~6% YoY – decline was offset by ~10% growth in LCV and slower decline of 19% YoY in M&HCV. Tractors volumes are expected to grow by ~16% YoY. Wholesale would be much strong than Retail owing to inventory refilling to meet upcoming festive demand.**
- **2W: During this seasonally slow month, OEMs (ex-RE) replenished inventory at the dealer’s end for the upcoming festive season. Inventory has reached 30–45 days. On a like-to-like basis (Shradh period), inquiries and bookings were better v/s last year. We expect wholesale to be flat for RE, majorly due to supply-side constraints and growth of 3.5% in Bajaj (10% growth in dom. 2W) – 10% for Hero and TVS each.**
- **PV: PV retail was better than expected despite the inauspicious Shradh and Adhik Mass periods falling in the month. MSIL is comparatively better placed v/s peers owing to its entry-level portfolio. Volumes are expected to grow by ~28.5% for MSIL (on a low base) and be flat for M&M’s UV (incl. Pick-ups).**
- **CV: OEMs are refilling their inventory across channels with the supply chain normalizing. Demand from Infrastructure/Construction is nearing normal levels, with encouraging inquiries received. Moreover, a good portion of this demand is attributable to small fleet operators closing their businesses and not owing to increased capacity utilization. However, due to stringent norms, financing is proving to be a bottleneck in catering to demand. Demand in the M&HCV Cargo segment is still very low due to excess capacity. LCV and SCV demand remains at 70–90% of pre-COVID levels; however, inventory is very low. We expect wholesale for AL to decline by 1.6% YoY (-20% for M&HCV).**

- **Tractors: Demand in this segment remains encouraging due to a good rabi harvest, good reservoir levels, forecast for normal rains, and kharif crop sowing being brought forward by a few days. Dealers were able to increase their inventory (on the back of improved supplies and comparatively lower retail) to prepare for the festive season. We expect tractor volumes to grow ~10% YoY for M&M and 25% for Escorts on a high base.**
- **Valuation and view: While the upcoming festive season is expected to be very good, the sustenance of demand post the festive season is the key parameter to monitor. Valuations reflecting recovery from 2HFY21, leaving limited margin for safety for any negative surprises. Hence, we prefer companies with: a) higher visibility in terms of demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. M&M and HMCL are our top OEM picks. Among the auto component stocks, we prefer MSS and ENDU.**

Snapshot of volumes for Sep-20

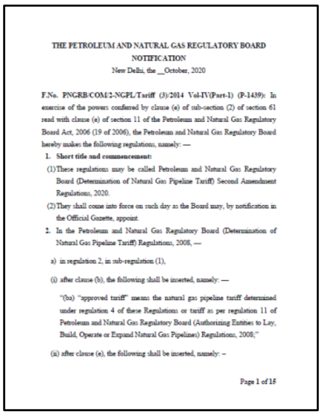
	YoY			MoM							Residual
Company Sales	**Sep'20**	**Sep'19**	**YoY (%) chg**	**Aug'20**	**MoM (%) chg**	**FY21 YTD**	**FY20 YTD**	**(%) chg**	**FY21 estimate**	**Gr. (%)**	**Growth (%)**
Maruti Suzuki	**1,57,574**	**1,22,640**	**28.5**	**1,24,624**	**26.4**	**4,66,861**	**7,40,911**	**-37.0**	**13,45,280**	**-13.9**	**6.9**
Mahindra & Mahindra	**79,935**	**80,354**	**-0.5**	**54,884**	**45.6**	**2,81,207**	**4,09,429**	**-31.3**	**7,05,068**	**-9.4**	**15.0**
UV (incl. Pick-ups)	36,731	34,982	5.0	29,917	22.8	1,21,583	2,13,665	-43.1	3,42,193	-15.0	16.8
Tractors	42,193	37,011	14.0	24,458	72.5	1,57,710	1,58,170	-0.3	3,21,539	6.5	14.0
Hero MotoCorp	**6,73,424**	**6,12,204**	**10.0**	**5,84,456**	**15.2**	**23,35,815**	**35,34,340**	**-33.9**	**58,06,066**	**-9.4**	**20.7**
Bajaj Auto	**4,16,081**	**4,02,035**	**3.5**	**3,56,199**	**16.8**	**14,71,215**	**24,20,765**	**-39.2**	**40,01,934**	**-13.3**	**15.3**
Total Two-Wheelers	3,70,403	3,36,730	10.0	3,21,058	15.4	13,29,946	20,66,867	-35.7	34,82,160	-11.8	14.4
Three-Wheelers	45,678	65,305	-30.1	35,141	30.0	1,41,269	3,53,898	-60.1	5,19,774	-22.1	20.6
Ashok Leyland	**8,638**	**8,780**	**-1.6**	**6,325**	**36.6**	**23,552**	**68,546**	**-65.6**	**1,03,704**	**-17.2**	**41.4**
CV (ex LCV)	3,795	4,744	-20.0	2,589	46.6	9,110	43,534	-79.1	53,430	-32.0	26.4
LCV	4,843	4,036	20.0	3,736	29.6	14,442	25,012	-42	50,274	7.8	65.6
TVS Motor	**3,49,199**	**3,15,912**	**10.5**	**2,87,398**	**21.5**	**11,56,274**	**18,09,027**	**-36.1**	**28,82,500**	**-11.7**	**18.7**
Eicher Motors											
Royal Enfield	59,500	59,500	0.0	50,144	18.7	2,07,247	3,50,178	-40.8	6,23,715	-10.4	20.4
VECV	3,082	3,784	-18.6	2,477	24.4	9,872	24,701	-60.0	39,014	-19.9	21.3
Escorts	**13,569**	**10,855**	**25.0**	**7,268**	**86.7**	**44,309**	**40,801**	**8.6**	**97,200**	**13.0**	**17.0**

Tata Motors: 2QFY21

Company Sales	**2QFY21E**	**2QFY20**	**YoY (%) chg**	**1QFY21**	**QoQ (%) chg**	**FY21 YTD**	**FY20 YTD**	**(%) chg**
Tata Motors	**1,09,983**	**1,05,031**	**4.7**	**25,047**	**339.1**	**1,35,030**	**242,506**	**-44.3**
HCVs	13,428	27,826	-51.7	3,106	332.3	16,534	66,881	-75.3
LCVs	42,217	50,776	-16.9	7,370	472.8	49,587	112,008	-55.7
CVs	**55,645**	**78,602**	**-29.2**	**10,476**	**431.2**	**66,121**	**178,889**	**-63.0**
Cars	40,000	14,587	174.2	10,094	296.3	50,094	32,500	54.1
UVs	14,339	11,842	21.1	4,477	220.3	18,816	31,117	-39.5

Oil & Gas

The Petroleum and Natural Gas Regulatory Board Notification



THE PETROLEUM AND NATURAL GAS REGULATORY BOARD
NOTIFICATION
New Delhi, the __October, 2020

F.No. PNGRB/COM/2-NGPL/Tariff (3)/2014 Vol-IV(Part-1) (P-1439): In exercise of the powers conferred by clause (e) of sub-section (2) of section 61 read with clause (e) of section 11 of the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006), the Petroleum and Natural Gas Regulatory Board hereby makes the following regulations, namely: —

1. Short title and commencement:

(1) These regulations may be called Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Second Amendment Regulations, 2020.

(2) They shall come into force on such day as the Board may, by notification in the Official Gazette, appoint.

2. In the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008, —

a) in regulation 2, in sub-regulation (1),

(i) after clause (b), the following shall be inserted, namely: —

"(ba) "approved tariff" means the natural gas pipeline tariff determined under regulation 4 of these Regulations or tariff as per regulation 11 of Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008;"

(ii) after clause (e), the following shall be inserted, namely: –

Page 1 of 15

Excel calculation uploaded on PNGRB's website

Unified tariff proposed for developing national gas grid…

…further comments invited to determine tariff for zone one

- **The Petroleum and Natural Gas Board (PNGRB) has published yet another draft notification, this time for determining the natural gas pipeline unified tariff.**
- **PNGRB has asked stakeholders for their views on determining the tariff for zone one – which shall be a percentage of the second tariff zone. The Open House to be conducted on 23rd Oct, post which the final notification would be released.**
- **In various instances, PNGRB has reiterated that it is working toward streamlining the tariff regulation for trunk pipelines in the country.**
- **As a general guidance, PNGRB has shown the order of magnitude for unified tariff based on FY20 data as per the excel sheet uploaded on its website. Following the same workings, our preliminary calculations suggest that the unified tariff of INR56.8/mmbtu is higher by 15%/48% to implied tariff of GAIL/GSPL respectively.**
- **We maintain Buy on GSPL and GAIL.**

Cynosures of the drafts are as follows…

1. The unified tariff shall be determined and approved by the board every calendar fortnight (1st and 16th of every month).
2. Each pipeline entity shall provide to the board fortnightly information in respect of actual volumes. Such information shall be electronically uploaded by the entity on the platform every fortnight and also sent via email to the board within two days from the end of each fortnight.
3. The first 300km of the pipeline is defined as the first tariff zone for the unified tariff. The remaining length of the national grid system is defined as the second zone for the unified tariff. The length of the spur line shall not be counted for the purpose of determining the tariff zones for the unified tariff.
4. The unified tariff is the weighted average of approved zonal tariffs (denominated in INR/mmbtu and excluding statutory taxes and levies) in respect of the pipelines forming part of the national gas grid system (refer to Exhibit 4). This is considering the quantity of gas transported and quantity of ship or pay.
5. The unified tariff applicable for a fortnight shall be web-hosted by the board on its website within five (5) days from the end of the previous fortnight.

Huge boost to GAIL and GSPL

- We believe stringent directives by the NGT, along with the government's aggressive push to increase gas in the total energy mix to 15% by 2030, would lead to various avenues for growth for gas in the country. Although, the proliferation of the national gas pipeline across the country remains key to achieving the stated objectives.
- The recently launched gas exchange also requires gas swapping to facilitate cheaper/economical gas access to the end consumer. Thus, it becomes all the more crucial to make gas accessible to various parts of the country.
- We believe the unified tariff would eventually encourage new pipeline developments in the country, thereby increasing gas distributors' access to a

larger pool of consumers. This would boost gas demand in the longer run, along with fulfilling the Government of India's plan to expand gas pipeline infrastructure to ~32,000km over the next few years from 17,000km currently.

- Also, India's domestic LNG import capacity is likely to expand to ~60mtpa over next 4-5 years, from 42.5mtpa currently, in line with increasing domestic gas consumption.

We delineate various pipeline projects currently in development by GSPL and GAIL, as follows (along with valuation and view):

- **Maintain Buy on GSPL (TP: INR300) – The proposed tariff of INR56.8/mmbtu is higher by 48% to implied tariff of INR38.5/mmbtu as per our preliminary calculation (refer to Exhibit 2).**
  - The company has already received approval from PNGRB to develop connectivity for an upcoming RLNG terminal at Chhara. It is also working on trunk pipeline projects such as Mehsana–Bhatinda and Mallawaram–Bhilwada.
  - The company currently has total pipeline capacity of ~42mmscmd (v/s ~38mmscmd of volumes in FY20). Also, considering huge potential to carry an additional 15.5mmtpa of gas on its grid from expansion – addition of LNG terminal, (i.e. ~56mmscmd v/s current yearly volumes of ~40-42mmscmd), capex is inevitable.
  - The stock trades at 10.2x FY22 EPS of INR19.9 and 5.4x FY22 EV/EBITDA, at a ~50% discount to its last five-year EPS average.
  - GSPL's investment in GUJGA and Sabarmati Gas constitutes ~70% of its CMP, implying 3x FY22E P/E for the standalone.
- **Maintain Buy on GAIL (TP: INR150) – The proposed tariff of INR56.8/mmbtu is higher by 15% to implied tariff of INR49.4/mmbtu.**
  - Phase-1 of the 753km pipeline from Phulpur to Dobhi (connecting Gorakhpur, Patna, and Barauni) has already been commissioned, along with the six Geographical Areas (GAs) on this length.
  - Phase-II of the 901km pipeline connecting Dobhi to Durgapur and Dhamra to Angul was expected to be completed by the end of the current calendar year, although a bit of delay may be expected due to COVID.
  - Phase-III of the 1,001km pipeline from Bokaro–Angul and Durgapur–Kolkata was also expected to be completed by Dec'20. The Barauni–Guwahati pipeline of 716km is expected to be completed by Dec'21.
  - We have been highlighting (in line with company guidance) how concerns surrounding US LNG would subside with the start of operations at the new fertilizer plants.
  - Also, most potential users in the KG Basin are power plants, which may not be able to take the high cost gas of the KG Basin. Thus, even 70% routing of the KG Basin gas to western coast could boost GAIL's transmission volumes by 29%.
- We continue to believe GAIL could clock a strong performance; we reiterate our Buy rating, with TP of INR150/share. Also, the stock is trading at 5.7x FY22 EPS of INR15.3 and 4.5x FY22 EV/EBITDA – a ~50% discount to its last five-year EPS average – which offers an excellent investment opportunity.

Vedanta

BSE SENSEX	S&P CNX
37,973	11,222

Bloomberg	VEDL IN
Equity Shares (m)	3,717
M.Cap.(INRb)/(USDb)	520.8 / 7
52-Week Range (INR)	166 / 60
1, 6, 12 Rel. Per (%)	13/92/-9
12M Avg Val (INR M)	2553
Free float (%)	49.9

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	831.7	799.9	887.6
EBITDA	194.1	202.3	240.9
Adj. PAT	32.6	39.9	56.6
EBITDA Margin (%)	23.3	25.3	27.1
Cons. Adj. EPS (INR)	8.8	10.7	15.2
EPS Gr. (%)	-52.7	22.4	41.9
BV/Sh. (INR)	146.9	145.4	145.0
Ratios			
Net D:E	0.7	0.7	0.6
RoE (%)	5.6	7.3	10.5
RoCE (%)	8.4	9.7	12.1
Payout (%)	53.4	119.5	120.4
Valuations			
P/E (x)	16.0	13.0	9.2
P/BV (x)	1.0	1.0	1.0
EV/EBITDA(x)	6.1	6.0	4.4
Div. Yield (%)	2.8	7.6	10.9
FCF Yield (%)	25.1	21.3	21.8

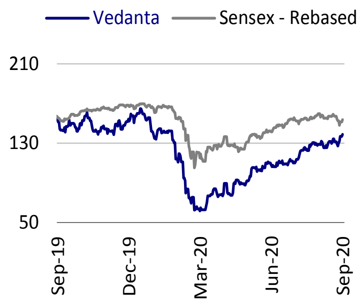
*Attributable EBITDA

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	50.1	50.1	50.1
DII	19.1	18.8	18.4
FII	15.4	15.6	17.4
Others	15.4	15.5	14.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR140 TP: INR148 (+6%) Neutral

Reverse book building for delisting starts on 5th Oct

Vedanta receives SEBI nod for delisting; to dispatch offer letter to shareholders

- Vedanta Resources Ltd (VRL) and other promoter group companies have received stock exchange approval for delisting the shares of Vedanta Ltd. The reverse book-building process for public shareholders to tender their shares would take place over Oct 5–9, which would result in the discovery of the final offer price.
- Excluding ADRs, the promoter group holds 52.33% of the total issued paid-up capital and public shareholders hold 47.67% of the same (Exhibit 2). In order to delist, promoters would have to raise their shareholding to 90%, implying that public shareholders would have to tender ~79% of their holding.
- VRL has secured funding of USD3.15b (Exhibit 1) through: a) the issue of three-year 13% yield bonds of USD1.4b and b) a three-month term loan of USD1.75b. VRL shall use the fundraise to buy out minority stake in VEDL and use the surplus to redeem a portion of VRL's USD670m Jun'21 bonds. Assuming 100% of the fundraise is used to buy out all the public shareholders, the implied potential delisting price amounts to INR137/sh – in line with current market price.
- As per SEBI (Delisting) Regulations, book value shall act as floor price for delisting – INR89/sh has been arrived at (Exhibit 3).
- We value VEDL on SOTP-based target price of INR148/sh. Maintain **Neutral**.

Roadmap ahead – delisting process

- **Offer letter:** VEDL shall now dispatch the Letter of Offer, along with a bid form, to Public Shareholders by **1st Oct 2020.**
- **Bidding period:** The bidding period shall commence on **5th Oct 2020** and end on **9th Oct 2020,** during which shareholders may tender their bids.
- **Discovery of final price:** The price at which equity shares, through eligible bids, take promoter holding to 90% of paid-up equity capital would be determined as the final exit price.
- **Option to accept/reject offer or make a counter-offer:** Upon the discovery of the final exit offer price, the promoter group would have the option either to accept or reject the price. In case the final exit offer price is not acceptable to the promoter group, it could make a counter-offer **within two working days** from the discovery of the final exit offer price, **i.e., 13th Oct 2020**.
- **Post-offer announcement:** The promoter group is required to announce within 5 working days from closure of the bid period, **i.e., 16th Oct 2020,** regarding: a) the success of the delisting offer, along with final exit price, or b) the failure of the delisting offer.
- **Payment of consideration:** If the delisting offer is successful, the promoter would be required to pay the consideration to Public Shareholders within 10 working days of closure of the bidding period, **i.e., 23rd Oct 2020.**

- **Final application:** Following the payment of consideration, the Company would make the final application to the Stock Exchanges. Upon receipt of their approval, Equity Shares would be delisted.
- **Right to remain Public Shareholders:** The rest of the Public Shareholders may tender their Equity Shares to the Promoter up to a period of one year from the date of delisting. And, in such case, the Promoter would accept the Equity Shares at the final exit offer price. Continuing Public Shareholders shall have the rights to vote and receive dividend (as and when declared).

Valuation and view

- We have factored in the post-COVID recovery in commodity prices in our estimates. VEDL's cost reduction in Aluminum, completion of capacity expansion in Zinc, and expected ramp-up in Oil & Gas should also support earnings growth in FY22. Over FY20–22E, we estimate an 11% CAGR in EBITDA and 32% CAGR in EPS.
- We value Vedanta on an SOTP basis to arrive at TP of INR148. Maintain **Neutral.**

Funds raised by VEDL promoters

Source	Amount (USD b)	Amount (INR b)*
13% coupon Bond	1.40	103.6
3-month Bank facility	1.75	129.5
Total	**3.15**	**233.1**

Source: Company, MOSL, *USD/INR=74

Shareholding pattern

	No. of Shares (m)	Incl. ADRs	Excl. ADRs
Promoter	**1,864**	**50.1%**	**52.3%**
Public	**1,854**	**49.9%**	**47.7%**
In Equity form	1,697	45.7%	47.7%
Under ADRs	156	4.2%	0
Total no. of shares	**3,717**	**100.0%**	**100.0%**

Source: Company, MOSL

Book value of VEDL

Book value calculation	FY20		
	INR m	No. of shares (m)	Book value per share
As per Shareholders's worth on face of Balance Sheet	5,46,350	3,717	147.0
As per defintion of Net Worth under Sec 2(57) of Companies Act 2013 (excludes capital reserves)	3,32,243	3,717	89.38

Source: Company, MOSL

Section 2(57) of the Companies Act, 2013 reads as:

"Net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

29 September 2020

Update | Sector: Infrastructure

KNR Construction

BSE SENSEX	S&P CNX
37,973	11,222

Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	35.5 / 0.5
52-Week Range (INR)	311 / 172
1, 6, 12 Rel. Per (%)	-3/3/10
12M Avg Val (INR M)	58
Free float (%)	45.0

Financials Snapshot (INR b)

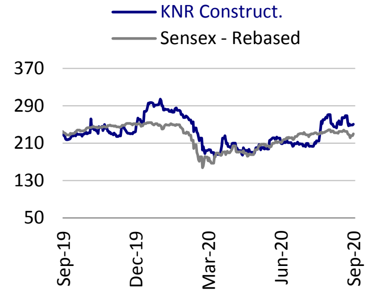
Y/E Mar	2020	2021E	2022E
Sales	22.2	24.2	30.9
EBITDA	4.7	4.7	5.9
PAT	2.0	2.2	3.2
EBITDA (%)	21.1	19.5	19.0
EPS (INR)	14.5	16.0	22.5
EPS Gr. (%)	-18.3	10.3	40.4
BV/Sh. (INR)	115.5	130.3	151.5
Ratios			
Net D/E	0.1	-0.1	-0.2
RoE (%)	13.4	13.0	15.9
RoCE (%)	13.9	13.2	16.3
Payout (%)	6.8	7.5	5.3
Valuations			
P/E (x)	17.4	15.8	11.3
P/BV (x)	2.2	1.9	1.7
EV/EBITDA (x)	8.0	7.1	5.4
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	5.4	7.4	7.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	55.0	55.2	55.2
DII	34.0	32.6	30.2
FII	1.6	1.9	3.2
Others	9.3	10.4	11.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR253 TP: INR310 (+23%) Buy

BOT asset sale concludes; balance sheet turns net cash

- **KNR completes monetization of Walayar road project:** KNR has completed the sale of the Walayar road project to Cube Highways at an enterprise value of INR5.1b. Debt on the project stands at INR1.3b. Thus, the deal's equity value is estimated to be ~INR3.8b or P/Inv of ~1x. While this is almost in line with the announced deal value in Jan'20, part of the proceeds is subject to the fulfillment of certain conditions. In lieu of an equity value of INR3.8b, KNR is likely to immediately realize a payment of INR3.1b, while the remaining INR0.7b would flow in over the next two years. Further NHAI claims and other governmental instrumentalities amount to INR1.7b – a pass-through to KNR as and when realized. We are yet to factor in any arbitration proceeds in our model. Any such realization could further boost the balance sheet.
- **Balance sheet strengthens further; KNR has best balance sheet in Roads sector:** We factor in proceeds of INR3.1b in 1H21, much before our earlier expectation of realization in FY22. KNR has already monetized three of its HAM projects. We expect the balance sheet to strengthen further, with a net cash position of ~INR2b/INR4b by FY21/FY22. The company has the best balance sheet position among the mid-cap road EPC companies. This should support premium valuations for KNR, in our view.
- **Strong order book to support revenue growth:** Given the company's strong order book position (OB/rev: 3.2x) and superior execution capability, we expect a revenue CAGR of 18% over FY20–22E. Owing to a strong balance sheet position, KNR is well-positioned to bid on new projects as and when bidding commences in the Roads sector.
- **Telengana receivables remain key monitorable:** While KNR has continued to surprise with its steady performance, the working capital cycle has seen marginal deterioration. This is primarily on account of pending dues from the Telangana government, which have been stalled since Feb'20 and amounted to INR6.8b by Aug'20. These receivables remain a key monitorable in the near term.
- **Maintain Buy, with higher TP of INR310:** We increase our FY21/FY22E EPS by 6%/4% on account of the early realization of asset monetization, leading to lower interest costs. We forecast a revenue/EBITDA/PAT CAGR of 18%/12%/25% over FY20–22E. Despite the recent increase in receivables, we believe KNR's strong balance sheet gives it a key competitive advantage v/s peers: (a) in bidding for newer projects and (b) in terms of strong execution despite financing challenges in the sector – as the dependency on bank financing is minimal. We maintain our **Buy** rating, with higher TP of INR310 (prior: INR295), based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Panel discussion on 3 historic labor reforms passed by Parliament last week

The Center has stated that there are over 100 state and 40 central laws regulating various aspects of labor such as resolution of industrial disputes, working conditions, social security and wages. To improve ease of compliance and ensure uniformity in labor laws, the Center had recommended consolidation of these complex labor laws into broader groups of (a) industrial relations, (b) wages, (c) social security, (d) safety, and (e) welfare and working conditions. While the Wages Code was passed in the Parliament in Aug'19, Mr. Santosh Gangwar, Minister in Department of Labor and Employment, Government of India, tabled the remaining 3 codes in the Lok Sabha on 19th Sep'20. The same was passed by the Rajya Sabha on 23rd Sep'20. It has now been passed on further for the approval of the President of India.

In order to understand the details of the 3 historic labor codes – (a) Code on Industrial Relations, 2020, (b) Code on Social Security, 2020, and (c) Code on Occupational Safety, Health and Working Conditions, 2020 – passed by both houses of the Parliament last week, we invited Mr. Manish Sabharwal – Executive Chairman, TeamLease Services Ltd., Mr. Binay Kumar Sinha – All India Secretary, Bhartiya Mazdoor Sangh and Mr. Irudaya Rajan – Chair Professor, Centre for Development Studies (CDS) Kerala for a panel discussion. Here are the key takeaways from the discussion:

Codes a welcome move as quality of jobs would improve…

One of the panelists, Mr. Sabharwal, was of the view that these codes are important as they would bring about more formalization of jobs in the country. He referred to the decreasing quality of the job industry as a consequence of slapdash labor laws that India previously had. He cited a general problem that employers face in terms of not being able to place more than 20,000 (maximum) employees in one location because of the innumerable compliance/legal processes. This made efficiency/management nearly impossible, which then, inadvertently sabotaged productivity. These complex processes led to higher portion of unorganized employment v/s organized employment.
The new labor codes, according to Mr. Sabharwal, are important legislations in terms of simplification and he believes it would improve India's employment elasticity. He also added that improved formalization would raise manufacturing employment and reduce farm employment. He expects the current reforms to increase the current share of 11% employment in the manufacturing sector to 18-20% in the coming years.
Additionally, he stressed on the fact that the mere passing of these legislations is not the end of the agenda as the states have to be proactive in management of labor laws, according to their specific respective demands. Moreover, a holistic approach of increasing efficiency of labor, which would lead to efficiency of enterprise followed by efficiency of cities, would take care of both quality and quantity of labor. He further stressed on the fact that the state governments must take advantage of these reforms by taking charge to attract more investment.

Few details put together

Out of the 44 labor laws, many got repealed and many got subsumed into 4 labor codes (3 passed last week along with the Wages Code passed in Aug'19). As a result, 2,300 sections have now reduced to just 460 sections and nearly 1,000 central compliances have decreased to around 250 compliances.

…but increase in threshold for preparation of standing orders is uncalled for

The 2019 Bill on Industrial Relations provided that all industrial establishments with 100 workers or more must prepare standing orders on the matters listed in a Schedule to the Code. These matters relate to: (a) classification of workers, (b) manner of informing workers about work hours, holidays, paydays, and wage rates, (c) termination of employment, and (d) redressal of grievance mechanism for workers. The current Bill provides that this would apply to establishments with at least 300 workers. This, Mr. Sinha believes is uncalled for as more than 81% establishments in India have <100 employees, and they will now be left with no labor laws whatsoever. Additionally, he believes that most of the rights (in case of disputes/discussions) have been given to the bureaucrats, while it should be given to trade unions that have employees' best interest at heart. He further added that the recent labor codes have more symbolic value rather than actual benefits for ground employees.

Mr. Sinha, however, made one important suggestion to improve the quality or labor. According to Mr. Sinha, in order to increase formalization of employment, home-based industries should be developed to reduce migration and also to give employees better wages and standard of living.

Other points of discussion

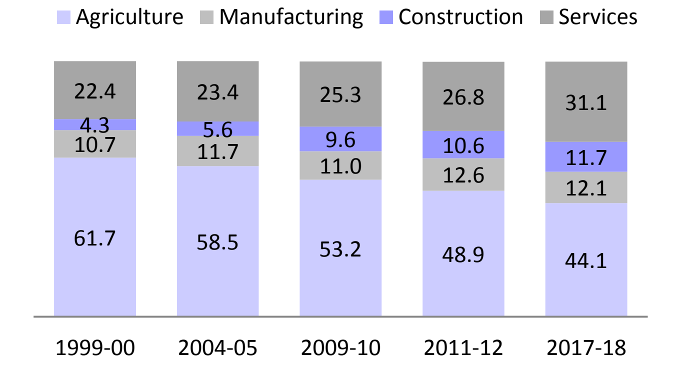
Reverse migration of labor during lockdown: Our third panelist, Mr. Rajan, expressed his concern over the fact that despite having welfare funds (such as the Construction Welfare Fund), migrants suffered massively during the lockdown. He stated that 30% of migrants went from urban to rural areas during the lockdown and his estimates suggest that only 10% are willing to return back to their work states while 20% are still in a wait-and-watch mode.

Recent structural reforms should be viewed in conjunction: It is important to see the recent Farm Bills, National Education Policy and Labor Reforms together as they would together bring about a change in factor market or improve the total factor productivity.

Believe share of contract workers would decline due to these codes: Share of contractual labor has increased from ~25% earlier to ~36% currently. This is because employers look at it as the most feasible solution against the problem of having to provide for various benefits to fixed employees. It is expected that these reforms would reduce the attractiveness of such contractual employment and this share will hopefully decline to 15-20%.

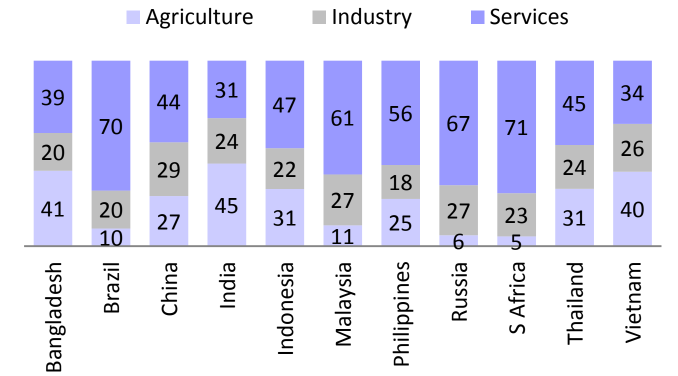
There needs to be a balance between labor and capital employed: While we have only 22,500 companies with paid-up capital of >INR0.1b, we have 63m small and medium enterprises, which have abundant labor but no capital. Therefore, there needs to be a balance between the two in order to increase efficiency.

Share of agricultural workers has fallen consistently during the past two decades…



Industry includes construction activities

…but the farm sector remains the largest employer in India



Source: NSSO, ILO, MOFSL

CEAT: Capacity utilization at near 100%; Kumar Subbiah, CFO

- Demand is a little higher than pre-COVID levels
- Incurred Rs. 2,200 cr (planned Rs. 3,500 cr) of standalone capex and Rs. 150 cr (planned Rs. 500 cr) of specialty capex so far
- As we have crossed minimum revenue threshold we will not see quarterly losses
- Rubber prices are at pre COVID levels

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Shriram Transport Finance: Disbursements in Sept. expected to be at Rs. 2,700 cr; Umesh Revankar, MD & CEO

- Disbursements in August were at Rs. 1,750 cr and in September expected at Rs. 2,700 cr
- April collections were at 25%. This has increased to 90% now
- Industrial activities have opened up and customers have been able to move vehicles. Hence, Customers earnings improving
- Fleet owners able to pass on fuel price hikes, this is resulting in increase in vehicle demand
- Q3 expect to witness strong demand due to festive season. We should be at par with last year's numbers
- Restructuring offered to only Travel & Tourism segment

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BSE: Looking for strategic partners for Star MF; Ashishkumar Chauhan, MD & CEO

- BSE did not participate in the equity derivatives market till 2012, hence lost the opportunity and also lost some market share in equities
- Have launched new index 'Sensex 50', avg. turnover is >1lakh cr per day which is ~$ 15bn in value
- More the IPOs better it is for BSE. Also, more trading in SME segment helps us earn higher revenues as BSE has 2,000 more stocks listed on SME board as compared to the peers
- Have 80% stake in Star MF. The platform did ~Rs. 1.8 lakh cr of investment last year, last month did 73 lakh transactions
- Paying out >95% of operating income as dividends and will continue to do so
- Distributed over Rs. 1,300 cr in the last 3 years by way of dividend & buybacks

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US-CHINA DISPUTE & WTO: OF TRADE WARS AND PAPER VICTORIES

- In a brief and well-reasoned report released on September 15, a World Trade Organisation (WTO) panel held that certain tariffs unilaterally imposed by the United States against China, pursuant to investigations under Section 301 of the US Trade Act, 1974, are inconsistent with the principles of the WTO. The case is of particular interest to India, since we are currently facing a US Sector 301 investigation on taxes applied on digital transactions, which was implemented under the Finance Act, 2020. India has also been consistently subjected to Sector 301 investigations on the laws relating to intellectual property and their enforcement.
- The trigger for the current WTO panel ruling was a S.301 investigation by the US on China's laws and practices affecting intellectual property rights and technology transfer, pursuant to which the US started imposing retaliatory tariffs in an incremental manner beginning June 2018. China did not play by the WTO rules either, and returned the favour with counter-tariffs on imports from the US.
- The American argument before the panel is that the countries were engaged in bilateral negotiations, and hence a WTO panel should not entertain the dispute. This was refuted by China, stating that bilateral negotiations do not address its grievances. The panel noted that the WTO contemplates a "mutually satisfactory" solution, rather than the one based on one party's unilateral assertion that may be satisfactory to it, but not to the other party, and proceeded to hear the dispute.
- Practical effect of the panel report: The WTO panel's ruling is only a paper victory for China. The appellate function of the WTO has been successfully rendered dysfunctional by the US, which has consistently blocked appointment of members for over two years now. And now, to avoid the adoption of the panel report, the US will likely take advantage of the situation it was instrumental in creating, i.e. appeal to a non-existent Appellate Body. The USTR's reaction to the panel ruling was to reiterate the Trump administration's grievance that "the WTO is completely inadequate to stop China's harmful technology practice." The US had initiated consultations on China's IPR policies for which a WTO panel was composed on January 2019; however, the US has not proceeded ahead with the dispute. The EU had challenged some of China's technology transfer policies; it is now pending adjudication at the WTO.
- The WTO is not a panacea for all the problems ailing world trade, but it remains the foremost multilateral system of agreed rules on a vast range of issues, and one that can provide the forum for future rule-making as well. China's policy of internal regulatory controls that seeks to keep out foreign competition, while aggressively seeking market access in other countries for Chinese goods, services and investment, coupled with its vast support for state-owned enterprises engaged in the same, are the challenges that need to be addressed multilaterally. 'Trade wars' and increasing protectionism, however, cannot achieve any real long-term solutions.

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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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