

Market snapshot



Equities - India	Close	Chg. %	CYTD.%
Sensex	47,746	0.3	15.7
Nifty-50	13,982	0.4	14.9
Nifty-M 100	20,742	0.2	21.3
Equities-Global	Close	Chg. %	CYTD.%
S&P 500	3,732	0.1	15.5
Nasdaq	12,870	0.2	43.4
FTSE 100	6,556	-0.7	-13.1
DAX	13,719	-0.3	3.5
Hang Seng	10,663	2.0	-4.5
Nikkei 225	27,444	-0.4	16.0
Commodities	Close	Chg. %	CYTD.%
Brent (US\$/Bbl)	51	0.4	-23.4
Gold (\$/OZ)	1,894	0.9	24.9
Cu (US\$/MT)	7,834	-0.1	27.4
Almn (US\$/MT)	1,998	0.6	12.2
Currency	Close	Chg. %	CYTD.%
USD/INR	73.3	-0.2	2.7
USD/EUR	1.2	0.4	9.7
USD/JPY	103.2	-0.4	-5.0
YIELD (%)	Close	1MChg	CYTDchg
10 Yrs G-Sec	5.9	-0.02	-0.7
10 Yrs AAA Corp	6.6	-0.02	-1.0
Flows (USD b)	30-Dec	MTD	CYTD
FII	0.25	0.75	16.61
DII	-0.08	-0.44	-0.27
Volumes (INRb)	30-Dec	MTD*	CYTD*
Cash	557	674	572
F&O	30,843	29,276	19,314

Note: \*Average

Today's top research idea



EcoScope: India's debt growth remains subdued in 2QFY21

- ❖ India's non-financial sector (NFS) debt grew 10.5% YoY in 2QFY21, marking the highest growth in five quarters, and outstanding NFS debt stood at INR332t (a fresh high and 174.4% of GDP in 2QFY21) as annualized nominal GDP declined 3% YoY.
- ❖ Within the NFS, general government debt grew at a decade high of 16.5% YoY and non-government non-financial (NGNF) debt grew 5.2% YoY last quarter. Additionally, loan book of NBFCs and HFCs grew faster in 2QFY21, while it expanded slowly for other lenders, including SCBs. Due to COVID-19 related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable, but the increase in India's debt growth in 2020 was the lowest compared to other major nations such as the US, UK, Japan and China. Subdued debt growth with probable adverse impact on household income renders a strong revival highly ambitious.



Research covered

Cos/Sector	Key Highlights
EcoScope	India's debt growth remains subdued in 2QFY21
South Indian Bank	South Indian Bank unfolds its Vision 2024 strategy



Piping hot news

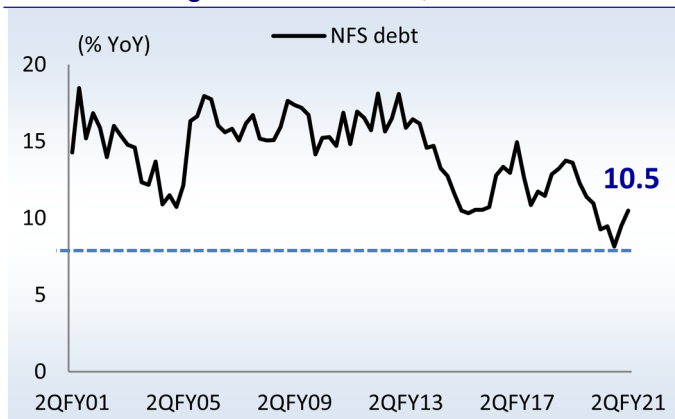
India's current account surplus at 2.4% in September quarter

India's current account surplus narrowed to 2.4% of GDP in September quarter (\$15.5 billion) compared to 3.8% of GDP in June quarter (\$19.2 billion) on account of rising merchandise trade deficit.



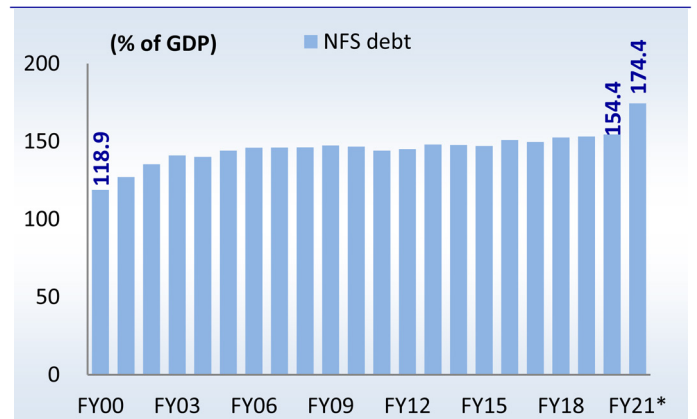
Chart of the Day: EcoScope (India's debt growth remains subdued in 2QFY21)

India's NFS debt grew 10.5% YoY in 2QFY21...



Please see Appendix at the end of the report for methodology

...and rose to record 174.4% of GDP



\* 1HFY21 (data for quarter-ending Sep'20)

Source: RBI, MoF, CAG, Bloomberg, company reports, CEIC, MOFSL

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### India's current account surplus at 2.4% in September quarter

India's current account surplus narrowed to 2.4% of GDP in September quarter (\$15.5 billion) compared to 3.8% of GDP in June quarter (\$19.2 billion) on account of rising merchandise trade deficit...

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### Mumbai: Property registrations continue to break records, at all-time high in December

Property registrations in Mumbai, the country's biggest real estate market, have broken all records as the unprecedented rush among the homebuyers continued in the backdrop of all-time low home loan rates, attractive price discounts and reduction in stamp duty charges. Registration of residential sales in the country's financial capital rose 192% from a year ago in December so far to 18,794 deals...

3

### No resolution on key demands, talks with farm unions to go on

The government on Wednesday agreed to two demands of farmers' unions relating to the air quality ordinance and the draft electricity bill. However, a continuing deadlock on the key demand of repealing the farm bills implies that the protests by farmers will continue...

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### Deposits of public sector banks surge amid pandemic stress

Deposits for public sector banks (PSBs) grew at a higher pace than usual despite their lower deposit rates and amid stress on a few private banks...

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### Cabinet approves scheme for increasing ethanol production

The Cabinet Committee on Economic Affairs (CCEA) on Wednesday approved a modified scheme for extending interest subvention for those setting up grain-based along with molasses-based ethanol distilleries...

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### India eyes asset sales to partly fund higher spending next year: Report

India is likely to spend more next fiscal year than this year's budgeted \$415 billion and prioritise infrastructure projects, relying on asset sales of around \$40 billion for some of the funding, two people with knowledge of the plan told Reuters...

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### RCom group owes around Rs 26,000 crore to Indian banks, financial institutions: Company

Debt-ridden telecom firm Reliance Communications on Wednesday said the group owes around Rs 26,000 crore to Indian banks and financial institutions...

## India's debt growth remains subdued in 2QFY21

### Growth in non-government debt close to a record low in the last two decades

- India's non-financial sector (NFS<sup>1</sup>) debt grew 10.5% YoY in 2QFY21, marking the highest growth in five quarters and higher than the record low of 8.2% in 4QFY20. Outstanding NFS debt stood at INR332t, or a fresh high of 174.4% of GDP in 2QFY21 (or 3QCY20), as annualized nominal GDP<sup>2</sup> declined 3% YoY.
- Within the NFS, general government (center + states) debt grew at a decade high of 16.5% YoY, while non-government non-financial (NGNF<sup>4</sup>) debt grew 5.2% YoY in 2QFY21, similar to record low growth of 5% in 1QFY21. Within the NGNF sector, household debt grew at a decent 9.6% YoY in 2QFY21 (v/s 7.8% in the previous quarter) and non-financial corporate (NFC) debt grew 2.4% YoY, similar to the record low growth of 2.3% YoY posted in 4QFY20 and lower than 3.3% growth in 1QFY21.
- An analysis of NGNF debt by lenders suggests that the loan book of NBFCs and HFCs grew faster (compared to that in 4QFY20 and 1QFY21), while it expanded slowly for other lenders, including scheduled commercial banks (SCBs). Lending by SCBs to the NGNF sector grew only 6% YoY last quarter, a record low. While lending by NBFCs and HFCs picked-up in 2QFY21, it was still way lower than the pre-2020 growth levels.
- Due to COVID-19 and related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable. However, the increase in India's debt growth in 2020 – to 174.4% in 3QCY20 from 154% at the end of 2019 – was the lowest compared to other major nations such as the US, UK, Japan and China. NFS debt growth in 3QCY20 was close to the highest in 15 years in the US (at 11.5%), the highest in 24 years in Japan (at 5.4%) and the highest in three years in China (at 13.1%).
- We have [earlier](#) argued that COVID-19 may have an adverse impact on India's household income. Combine that with subdued debt growth, a strong revival looks highly ambitious.

India's NFS debt grew 10.5% YoY in 2QFY21 – the highest in the past five quarters and higher than the record low growth of 8.2% YoY in 4QFY20

**India's NFS debt grew 10.5% YoY to touch 174.4% of GDP in 2QFY21:** Our estimates suggest India's NFS debt stood at INR332t in 2QFY21, up from INR314t in 4QFY20 and INR322t in 1QFY21. Around 92% increase in NFS debt in 1HFY21 was attributable to the government sector, as the corporate sector witnessed a marginal decline and households saw a small growth in their outstanding debt (*Exhibit 1*). India's NFS debt grew 10.5% YoY in 2QFY21 – the highest in the past five quarters and higher than the record low growth of 8.2% YoY in 4QFY20 (*Exhibit 2 on the following page*). Due to a decline in annualized GDP, NFS debt rose from 154% of GDP at the end of 2019 to a record high of 174.4% in 2QFY21 (*Exhibit 3*).

### Estimates of India's non-financial sector (NFS) debt

	INR b				% of (annualized <sup>2</sup> ) GDP				% YoY
	FY18	FY19	FY20	2QFY21	FY18	FY19	FY20	2QFY21	2QFY21
Households*	51,869	59,430	65,428	67,070	30.3	31.3	32.2	35.2	9.6
Non-financial corporate (NFC*)	87,981	98,469	100,777	100,590	51.5	51.9	49.5	52.9	2.4
General government (GG)	120,913	132,549	147,925	164,324	70.7	69.9	72.7	86.3	16.5
Central government	77,988	84,681	94,623	107,043	45.6	44.6	46.5	56.2	17.6
State governments <sup>3</sup>	42,925	47,868	53,302	57,281	25.1	25.2	26.2	30.1	14.4
<b>Non-financial sector (NFS<sup>1</sup>)</b>	<b>260,763</b>	<b>290,447</b>	<b>314,130</b>	<b>331,984</b>	<b>152.5</b>	<b>153.1</b>	<b>154.4</b>	<b>174.4</b>	<b>10.5</b>
<b>Non-government non-financial (NGNF)</b>	<b>139,850</b>	<b>157,899</b>	<b>166,205</b>	<b>167,661</b>	<b>81.8</b>	<b>83.2</b>	<b>81.7</b>	<b>88.1</b>	<b>5.2</b>

\*Please see Appendix at end of the report for methodology

Source: Reserve Bank of India (RBI), Ministry of Finance (MoF), Comptroller and Auditor General (CAG), Bloomberg, company reports, MOFSL

<sup>1</sup> Non-financial sector = Non-financial corporate sector + household sector + general government (Center + states)

<sup>2</sup> Annualized nominal GDP = sum/average of last four quarters to smoothen the sharp changes in nominal GDP on quarterly basis

<sup>3</sup> Debt of state governments in 1QFY21 is our estimates based on fiscal deficit of 16 states (21 states in FY19 and 19 states in FY20)

# South Indian Bank

BSE SENSEX 47,746 S&P CNX 13,982



### Stock Info

Bloomberg	SIB IN
Equity Shares (m)	1,810
M.Cap.(INRb)/(USDb)	16.4 / 0.2
52-Week Range (INR)	11 / 5
1, 6, 12 Rel. Per (%)	12/-23/-25
12M Avg Val (INR M)	133

### Financials Snapshot (INR b)

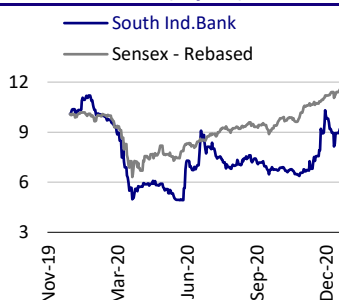
Y/E March	FY20	FY21E	FY22E
NII	23.2	23.8	25.3
OP	16.5	15.8	16.0
NP	1.0	2.8	3.7
NIM (%)	2.7	2.7	2.6
EPS (INR)	0.6	1.6	2.0
EPS Gr. (%)	-57.8	171.2	30.4
BV/Sh (INR)	29.3	30.5	32.0
ABV (INR)	21.0	20.7	21.6
<b>Ratios</b>			
RoE (%)	1.9	5.1	6.3
RoA (%)	0.1	0.3	0.3
<b>Valuations</b>			
P/E (x)	15.7	5.8	4.4
P/BV (x)	0.3	0.3	0.3
P/ABV (x)	0.4	0.4	0.4

### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	0.0	0.0	0.0
DII	1.1	4.6	8.7
FII	8.6	16.0	22.9
Others	90.3	79.4	68.4

FII Includes depository receipts

### Stock Performance (1-year)



**CMP: INR9**

**TP: INR11 (+21%)**

**Buy**

## South Indian Bank unfolds its Vision 2024 strategy

**Strategy driven by improvement in 6Cs; RoA/RoE to improve to over 1%/13%**

The management team of SIB hosted a concall to discuss their Vision 2024 strategy. The medium-term strategy would focus on 6Cs, with an aim to strengthen its financial performance and build shareholder value. By FY24, the bank aims to reach a loan book of INR1t (from INR655b currently), CASA mix of 35%, PCR of over 65% (~38% currently excluding write-offs), NIM of 3.5%, and RoA/RoE of over 1%/13%. Following are the key takeaways from the discussion:

- **Following are the 6Cs that the management has identified** as part of its medium term strategy: i) capital, ii) CASA, iii) cost-to-income, iv) competency building, v) customer focus, and vi) compliance. Capital remains one of the most important pillars of this strategy and SIB aims to shore-up its capital base over the near term.
- **Building liabilities with deepening of NRI/Kerala franchise:** SIB aims to leverage its Kerala franchise and further strengthen its NRI deposit base. It is looking to re-organize its team structure, with a new vertical focusing on Kerala and other parts of the country. It is further looking to partner with exchange houses, banks, and remittance platforms to expand into geographies from where it can tap the NRI business. ‘Fair to customer – Fair to bank’ is the philosophy that the management is going to follow as it looks to diversify its product offerings. Assets and liabilities teams would work closely for creating value for existing customers.
- **Asset strategy – Retail, Agri and MSME to gain focus:** The bank plans to increase its focus on Retail, Agri, and MSME segments and aims to capture a higher wallet share via enhanced customer experience through digital analytics.
  - **Housing and personal loans:** While current growth trends remain muted due to the COVID-19 pandemic, the bank is optimistic on a revival in growth from 1QFY22 onwards. **Personal loans** will likely grow at a faster rate, doubling in 2-3 years, aided by a benign base.
  - **Launch of new retail products:** The bank will revamp its existing retail product suites of HL, LAP, PL, Credit Card, while launching few other retail products like LAS, SBL, IPO funding, Dealer funding, Tractor funding, etc. This would help improve fee income. The bank is targeting fee income-to-asset ratio of 0.5-0.6%.
- **Improved technological usage to help reduce costs; new talent/product experts to drive business verticals:** The management aims to leverage its strong distribution network to increase total business. Rising technological usage would enable it to reduce costs and benefit from improved productivity levels. The bank would hire new talent from outside wherever necessary and there would be product experts to head each business and support verticals.

- **Segregation of business functions and improved analytical capabilities:** SIB aims to further strengthen its capabilities in digital, risk management, and analytics. The data analytics team would play a critical role in business and collections and help mitigate frauds. Underwriting and business functions would also be segregated fully to avoid any conflict of interest and there would be a separate operations team for assets and liabilities.

#### **Valuation and view**

SIB has been delivering muted performance, with higher provisions and opex impacting earnings, while its margin profile remains modest. Business growth remains tepid, impacted by a challenging environment. The focus has been on improving the granularity of the loan book and bank has been consciously increasing the mix of Retail, Agri, and MSME loans. Asset quality trends have been stable, supported by the SC's dispensation however, we remain watchful of slippages/restructuring in coming quarters. We estimate credit costs to stay elevated and project RoA/RoE of 0.3%/6.3% by FY22E. Maintain **Buy**, with revised target price of INR11 (0.5x Sep'22E ABV).



### **Lupin: Expect margin to improve to 20-21%; Ramesh Swaminathan, ED & Global CFO**

- Company made some decent launches in the recent past
- Most markets are yet to recover fully
- Acute therapies are down but chronic therapies have risen
- Overall growth in India still in the range of 2-5%
- Making around \$180 m in the US on a quarterly basis
- Momentum from Albuterol to continue in Q3 and step-up in Q4
- Expect FY22 to be better than FY21
- US drugs got delayed due to issues with the plant
- Company is working on multiple inhalation projects
- India will pick up in Q3 and Q4; expect margin to improve to 20-21%
- Research and development spend has been around 9-9.5%
- Resolution of plants with warning letter will get resolved; it's a matter of time

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### **Gland Pharma: Strong launches lined-up; M&A in mind as growth strategy; Srinivas Sadu, MD & CEO**

- Have a B2B business model & lined-up strong launches
- 2020 was different due to COVID-19, the product mix is different
- Q1 was impacted by COVID; sold a lot of ICU related products in US and other markets
- Strong in anti-infective, around 30% of revenue from that segment
- Have 20-30% of APIs which are backward integrated
- Have mergers & acquisitions in mind as a part of company's growth strategy

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### **Sterlite Tech: Seeing high demand for optic fibre due to China's massive 5G deployment; Anand Agarwal, Group CEO**

- China has deployed 700-1000 base stations in 2020 and they are planning to double in the next year for 5G
- Fibre price do not affect company much
- H2FY21 will be better than H1FY21 and compared to last year
- Sequential momentum to continue in Q3 and Q4
- Broadly maintain FY22 guidance in terms of direction
- Optotech acquisition will close early January, will contribute in Q4FY21
- We will look to augment capabilities in radio & wireless

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