MOTILAL OSWAL

4 January 2021

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	47,869	0.2	15.8
Nifty-50	14,019	0.3	14.9
Nifty-M 100	21,091	1.2	21.9
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,756	0.0	15.3
Nasdaq	12,888	0.0	41.8
FTSE 100	6,461	0.0	-15.0
DAX	13,719	0.0	2.5
Hang Seng	10,738	0.0	-5.1
Nikkei 225	27,444	0.0	16.0
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	51	0.1	-22.8
Gold ($/OZ)	1,899	0.2	25.1
Cu (US$/MT)	7,749	0.0	25.7
Almn (US$/MT)	1,974	0.0	11.2
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.1	-0.2	2.7
USD/EUR	1.2	-0.7	8.9
USD/JPY	103.2	0.0	-5.1
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	5.9	0.01	-0.6
10 Yrs AAA Corp	6.6	0.04	-1.0
Flows (USD b)	**1-Jan**	**MTD**	**CY20**
FIIs	0.07	0.57	16.61
DIIs	0.01	-0.35	-0.27
Volumes (INRb)	**1-Jan**	**MTD***	**CYTD***
Cash	447	447	447
F&O	9,830	9,830	9,830

Note: *Average

Today's top research idea

Technology Preview 3QFY21: Robust growth expected despite adverse seasonality

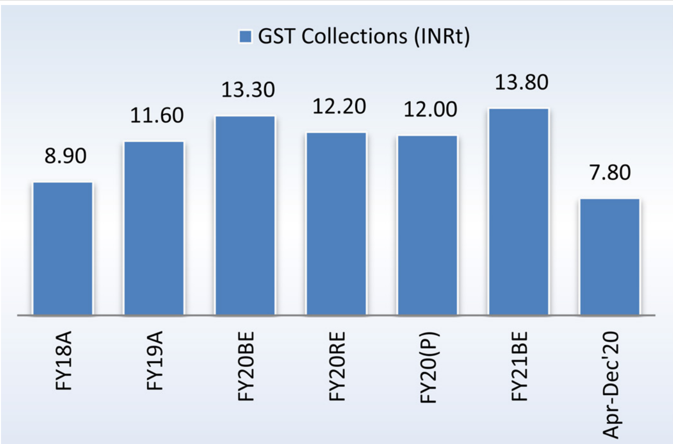
- Recent commentary from both large- and mid-cap IT Services companies during their annual investor meets (Infosys, Wipro, LTI, etc.) point to continued optimism on their CY21 growth outlook, even after adjusting for a low base YoY.
- We expect this optimism to be echoed by other managements during the 3QFY21 earnings season. Despite the high base in 2Q and resumption of wage hikes, we expect limited impact on margins in 3QFY21 due to higher returns from utilization and positive operating leverage.
- A strong QoQ growth (~3%) in a seasonally weak quarter should help sustain the rally in IT stocks despite their premium valuations. Among Tier I players, we like INFO and HCLT on expectations of industry leading growth.
- From the Tier II pack, we prefer PSYS and MPHL given their attractive and industry relevant portfolio.

Research covered

Cos/Sector	Key Highlights
Technology	Preview 3QFY21: Robust growth expected despite adverse seasonality
Mahindra & Mahindra	SsangYong resolution in sight calling off the Ford JV signals seriousness on capital allocation
Federal Bank	CASA mix improves further; loan growth recovers sequentially
Indian Energy Exchange	Strong volume momentum continues
Automobiles	Dec'20: Recovery trend sustaining
EcoScope	GST collections at a 21-month high of 11.6% in Dec'20

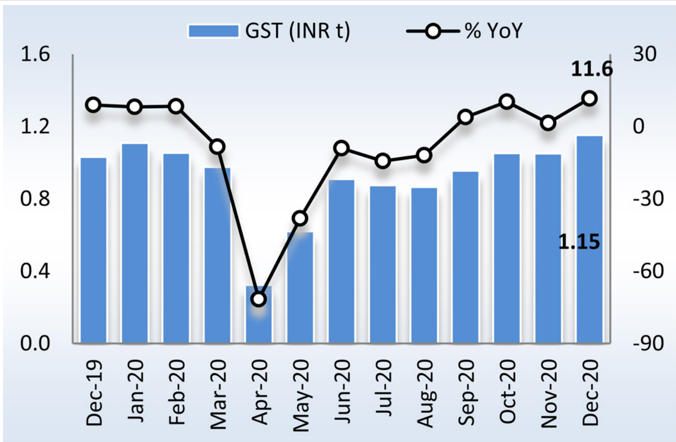
Chart of the Day: EcoScope (GST collections at a 21-month high of 11.6% in Dec'20)

Government collects 57% of its FY21BE



Source: Budget documents , MOFSL

GST collected grew 11.6% YoY in Dec'20



Source: Finance Ministry, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Trump extends freeze on H-1B, other work visas until March 31

US President Donald Trump has extended the freeze on the most sought-after H-1B visas by Indian IT professionals, along with other types of foreign work visas and green cards through March 31 to protect American workers…

2

DCGI approves SII's Covishield and Bharat Biotech's Covaxin for restrictive use in emergency situation

The Drugs controller general of India (DCGI) on Sunday announced formal emergency use approval for Oxford-AstraZeneca and Bharat Biotech Covid-19 vaccines. "Vaccines of Serum Institute of India and Bharat Biotech are granted permission for restricted use in emergency situation," VG Somani, DCGI said…

3

Govt to divest 26% stake in BEML, invites bids till Mar 1

The government will disinvest 26% equity share capital of Bangalore-based public sector enterprise Bharat Earth Movers Limited (BEML) out of its shareholding of 54.03% along with management control…

4

Unemployment rate at 6-month high in Dec despite revival signs

The national unemployment rate and the rural joblessness rate jumped to a six-month high in December, indicating that the economy is not yet ready to absorb a sizeable pool of the labour market despite almost all the sectors opening up…

5

Coal India capex utilisation over Rs 8,000 cr till December, aiming at revised 13,000 cr target

Despite its cash-flow issues, Coal India Ltd has already spent over Rs 8,000 crore as capital expenditure (capex) till December 2020 in the current fiscal, and is looking to meet a revised target of Rs 13,000 crore of such expense by the end of FY'21, an official said on Sunday…

6

Discoms' outstanding dues to power gencos rise 35% to Rs 1.41 lakh crore in November

Power producers' total dues owed by the distribution firms rose over 35 per cent to Rs 1,41,621 crore in November 2020, reflecting stress in the sector…

7

Govt plans OFS for 10% stake sale in RCF

The Union Government plans to sell 10 per cent stake in Rashtriya Chemicals and Fertilisers Ltd (RCFL) through offer for sale (OFS)…

Technology

Result Preview

Coforge
Cyient
HCL Tech
Infosys
L&T Infotech
Mindtree
Mphasis
Persistent
TCS
Tech Mahindra
Wipro
Zensar

Robust growth expected despite adverse seasonality

Expect CY21 demand commentary to remain strong

- Recent commentary from both large- and mid-cap IT Services companies during their annual investor meets (Infosys, Wipro, LTI, etc.) point to continued optimism on their CY21 growth outlook, even after adjusting for a low base YoY. We expect this optimism to be echoed by other managements during the 3QFY21 earnings season.
- Healthy order pipeline, large deal signings, strong earnings from Accenture, and absence of headwinds like a repeat of the COVID-19 led lockdown in 1QFY21 or uncertainty with regard to the outcome of the US Presidential election should drive the outperformance in 3Q v/s management guidance in 2QFY21.
- Multiple mega deal wins in Cloud and Captive (TCS – Postbank and Pramerica, Infosys – Rolls Royce and Daimler, and Wipro – METRO AG) should add incremental growth to an already buoyant organic growth momentum.
- We expect our coverage universe to deliver adjusted sales (USD)/adjusted EBIT/PAT growth of 1%/12%/7% YoY in 3QFY21.

INFO to lead sequential revenue growth across Tier I, PSYS in Tier II

- In Tier I, we expect INFO/TCS/HCLT to drive organic growth (4%/3%/3% QoQ, including cross-currency tailwind) despite a high base and season weakness.
- Accenture's recent earnings showed a strong increase in its Outsourcing vertical, indicating demand normalization/recovery. Coupled with strong deal wins across the IT sector, we expect an increase in guidance/positive commentary.
- Among Tier II IT, we expect upbeat revenue traction, with the exception of ZENT. PSYS should lead the pack with mid-single digit sequential growth, led by a recovery in the Alliance business. Some of the positive movements in Tier II growth/guidance may not be surprising given the strong deal momentum.

Margin resilience to continue

- Despite the high base in 2Q and resumption of wage hikes, we expect limited impact on margins in 3QFY21 due to higher returns from utilization and positive operating leverage.
- Sequential EBIT margins of Tier I players should be stable in the (60)-40bp range, but the Tier II universe should see a 0-160bp contraction due to wage hikes.
- A higher negative impact is expected in the next quarter when more companies would see an impact from a wage hike.
- For FY21E, we currently build-in a (5)-7% change in our EPS estimates for our coverage universe. Subject to companies' commentaries, there may be an upside risk to our estimates.

Introducing FY23 estimates and rolling forward P/E based valuation

- We are introducing our FY23 estimates for companies under coverage. On an average, we expect USD revenue growth of ~11% YoY and INR PAT growth of ~12% in FY23E, as Digital-led demand continues to aid the IT Services industry.
- We also roll forward our P/E based valuation to FY23 EPS, as we enter 4QFY21. Our stock preferences remain unchanged after this shift.
- We have also tweaked our FY21E/FY22E EPS estimates as we build in recent deal wins and management commentaries.

- We have raised our FY21E/FY22E EPS estimates for TECHM to INR47.3/56.5 from INR43.8/46.4 on account of a 1-2% increase in EBIT margin estimates, due to expectations of better cost control by the management. We have maintained our Neutral rating on the stock.

Long-term outlook remains attractive, prefer INFO/HCLT/PSYS

- While the sector trades at 40% premium to its 10-year average multiple, we remain positive as we expect the sector to sustain double-digit topline growth in the medium term, led by: 1) larger deals on a full-scale Digital transformation, 2) tail of projects steered by increased focus on workplace management, and 3) higher spend on Cloud migration by large corporates.
- A strong QoQ growth (3% on an average) in a seasonally weak quarter should help sustain the rally in IT stocks despite their premium valuations.
- We continue with our bottom-up stance for sectorial picks. Among Tier I players, we like INFO and HCLT on expectations of industry leading growth. From the Tier II pack, we prefer PSYS and MPHL given their attractive and industry relevant portfolio.

Expect Tier I revenue (USD) to grow by ~3% QoQ

	Revenue (USD m)					Revenue (INR b)				
Company	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**
TCS	5,583	5,424	2.9	5,586	0.0	412	401	2.7	399	3.4
INFO	3,433	3,312	3.7	3,243	5.9	253	246	3.1	231	9.7
WPRO	2,057	1,992	3.3	2,095	-1.8	154	151	1.8	155	-0.6
HCLT	2,575	2,507	2.7	2,543	1.2	190	186	2.2	181	4.8
TECHM	1,294	1,265	2.3	1,353	-4.4	95	94	1.9	97	-1.1
Aggregate	**14,943**	**14,500**	**3.0**	**14,820**	**0.8**	**1,105**	**1,078**	**2.5**	**1,062**	**4.0**
	EBIT margin (%)					**Adjusted PAT (INR b)**				
Company	**3QFY21E**	**2QFY21**	**QoQ (bp)**	**3QFY20**	**YoY (bp)**	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**
TCS	25.6	26.2	-60	25.0	60	86	85	1.8	81	5.7
INFO	25.7	25.3	40	21.9	380	52	49	6.6	45	15.9
WPRO	18.0	18.6	-60	17.6	40	24	25	-1.9	25	-1.1
HCLT	21.0	21.6	-60	20.2	70	32	32	0.5	30	4.1
TECHM	14.0	14.2	-20	12.2	180	11	11	2.4	11	-2.0
Aggregate	**23.3**	**23.1**	**20**	**21.3**	**200**	**205**	**200**	**2.3**	**192**	**6.5**

Source: Company, MOFSL

Expect Tier II revenue (USD) to grow by ~3% QoQ

	Revenue (USD m)					Revenue (INR b)				
Company	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**
LTI	423	405	4.5	394	7.2	31	30	4.0	28	11.0
MTCL	270	261	3.6	275	-1.7	20	19	3.6	20	1.6
MPHL	333	327	1.9	318	4.8	25	24	1.5	23	8.4
COFORGE	161	155	4.1	151	6.3	12	12	2.9	11	10.6
PSYS	143	136	5.4	129	10.8	11	10	5.0	9	14.7
ZENT*	126	126	0.5	138	-8.3	9	9	-0.3	10	-5.0
CYL	139	135	3.0	155	-10.4	10	10	2.3	11	-7.2
Aggregate	**1,602**	**1,550**	**3.4**	**1,567**	**2.3**	**118**	**115**	**2.9**	**112**	**5.9**
	EBIT margin (%)					**Adjusted PAT (INR b)**				
Company	**3QFY21E**	**2QFY21**	**QoQ (bp)**	**3QFY20**	**YoY (bp)**	**3QFY21E**	**2QFY21**	**QoQ (%)**	**3QFY20**	**YoY (%)**
LTI	19.7	19.9	-20	16.2	350	4.8	4.6	6.0	3.8	28.6
MTCL	16.5	16.7	-20	12.0	450	2.5	2.5	-0.7	2.0	27.9
MPHL	16.2	16.2	0	16.3	-10	3.2	3.0	6.3	2.9	8.3
COFORGE	13.0	13.8	-80	13.9	-90	1.3	1.2	3.1	1.3	-1.9
PSYS	11.4	12.1	-70	8.7	270	1.1	1.0	3.3	0.9	19.8
ZENT*	14.7	15.0	-30	NA	NA	NA	NA	NA	NA	NA
CYL	9.4	11.0	-160	9.6	-20	0.9	0.8	6.3	1.1	-18.9
Aggregate	**15.7**	**16.0**	**-30**	**12.8**	**290**	**14.7**	**14.1**	**4.4**	**12.4**	**19.1**

Note: ZENT's estimates exclude MVS business divested in Q3 FY21. Source: Company, MOFSL

MOTILAL OSWAL | MORNING INDIA

2 January 2021

Update | Sector: Automobiles

Mahindra & Mahindra

BSE SENSEX	S&P CNX
47,869	14,019

Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USDb)	911.1 / 12.3
52-Week Range (INR)	764 / 246
1, 6, 12 Rel. Per (%)	-7/12/21
12M Avg Val (INR M)	3398

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	455	447	515
EBITDA	58.0	61.2	67.8
Adj. PAT*	35.8	37.5	42.5
Adj. EPS (INR)	30.0	31.4	35.7
EPS Gr. (%)	-30.3	4.8	13.4
BV/Sh. (INR)	290	316	343
Ratios			
RoE (%)	9.7	9.5	10.4
RoCE (%)	5.9	9.0	9.7
Payout (%)	24	20	26
Valuations			
P/E (x)	24.4	23.3	20.6
P/BV (x)	2.5	2.3	2.1
Div. Yield (%)	0.3	0.7	1.0
FCF Yield*	0.4	3.7	5.3

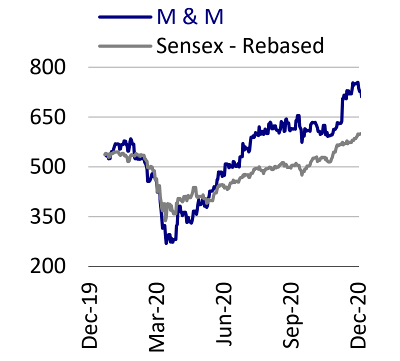
*incl.MVML

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	18.9	18.9	18.9
DII	29.9	28.5	26.7
FII	41.1	41.1	41.5
Others	10.2	11.5	12.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR733 TP: INR840 (+15%) Buy

SsangYong resolution in sight…

…Calling off the Ford JV signals seriousness on capital allocation

MM's management hosted a concall to update on Ssangyong Motor Co (SYMC), its decision to not pursue the Ford JV further, and supply-side issues impacting the Auto business. The SYMC resolution seems near as there is a court deadline (of Feb'21) to get a buyer or proceed with bankruptcy. The decision to not go ahead with the Ford JV has been a surprise as there were credible synergies that were visible. However, the management indicated that the increased investment requirement made this JV a less attractive proposition. Both these decisions signal seriousness of its intent to correct capital allocation even within the Auto business.

SYMC: Resolution in sight…

- The debt default that triggered a rehabilitation process has left SYMC with two options: a) bringing in an investor, or b) accept a pre-package bankruptcy.
- Based on SYMC's application for an Autonomous Restructuring Support (ARS) program, the court granted a deadline of 28 February 2021 to negotiate a revival package, post which a rehabilitation (bankruptcy) process would be initiated. SYMC's labor union is supporting an ARS process.
- MM has been in discussion with one potential investor for a stake stake in SYMC. If the sale goes through, its stake would reduce to ~30%.

…with worst case financial impact of INR16.6b (impairment + loans)

- In both cases, MM would cede majority stake and operational control, and see a reduction in losses. It has already impaired a fair amount for SYMC (net carrying value of INR9.8b) and further impairment would be dependent on the solution attained.
- In case bankruptcy proceedings are initiated, its maximum liability would be INR6.8b against debt guarantees, of which a portion may be recoverable. In a worst case scenario, the maximum financial impact for MM would be INR16.6b (INR9.8b impairment and INR6.8b debt guarantees).
- MM's exit from SYMC wouldn't have any material impact on its SUV business, as the IP is either directly or jointly owned for XUV300 (based on SYMCs Tivoli platform) and the jointly developed powertrain.

Calls of Ford JV due to substantial changes in the operating environment

- Considering the substantial changes in the operating environment, MM and Ford have decided not to pursue this JV.
- This decision was in line with MM's renewed capital allocation policy as the investment requirement had increased beyond original estimates of INR14b, which would have made it difficult for this JV to deliver the targeted RoEs. Since the JV was not yet formed, MM was yet to invest in this JV.

- While the JV has been called off, Ford-MM will continue with their alliance and undertake a fresh review of areas that would be mutually beneficial. Even before the JV plans were crystallized, they were working on five MoUs. Of these, a) one MoU has been implemented in a connected tech area, b) two MoUs are in advanced stage (C segment SUV for Ford and supply of a petrol engine by MM for the Ford Ecosport), and c) two other MoUs have been shelved (Ford Aspire based e-SUV and Mobility solutions).
- This decision to not continue with the JV would have a limited impact on MM's SUV business, given its renewed strategy of focusing on its core rather than having a broad-based presence in the SUV segment.

SUV: Strategy to focus on core and e-SUV

- MM has been reorienting its SUV strategy to focus on its core area of rugged compact to large SUVs. This reorientation started with the recent launch of the new Thar, which despite being a niche product has seen a very strong response (booking of ~6,000 units in Dec’20 and total bookings of 32,000 units despite having a high waiting period). Its upcoming two SUVs (new XUV500 and Scorpio) are based on this renewed strategy.
- Its EV focused SUV strategy is two pronged: a) electrifying existing ICE models (e-KUV, e-XUV300, etc.; part of the capex program), and b) a pure EV platform (needs a new approach and investments).
- It would use some of the funds assigned for the Ford JV for its EV strategy. This is part of its capex guidance for conversion of ICE to EV. For its EV platform, it would need fresh investments.
- It expects reasonable RoEs for its Auto business despite relatively lower volumes per platform. This would be driven by a focused SUV strategy, restructured cost, platform consolidation (to three monocoque platforms), and correction in capital allocation.

Other takeaways

- The management maintained its capex guidance of INR90b, spread over the next three years (v/s INR120b earlier), as it has already invested in platforms, and future investments would be for variants or top hat on these platforms. This capex is for Auto and FES divisions, but doesn't include investments. Investments would be lower than that in the past, but would come back by FY21-end after its exercise on capital allocation is complete.
- A large part of the capex is towards balance capex in two new SUV products in FY22 and the K2 tractor platform. There is very little in new capacity and a large part is in products.
- The management said the exit from SYMC and not pursing the Ford JV would mean some additional capex at MM. From a FCF standpoint, it would be a positive outcome considering investments required in SYMC and the Ford JV.
- Semiconductor shortage is primarily impacting ECUs and the infotainment system. However, the impact is limited to a few SUVs. There is no or limited impact on products like XUV300, 3Ws, LCVs/ICVs, and Tractors. While supply in Dec’20 and Jan’21 (so far) has been better than expected, MM expects 4QFY21 to be impacted by this issue.

- M&HCV business is expected to see an improvement in profitability, based on several initiatives it is taking. Despite MM being a challenger brand in the M&HCV segment, there are few products that consumers like.
- The management is open to returning cash to shareholders (from expected improvement in FCF generation). It has a clear policy of investing its core business (Auto and FES) cash flows within the core business, whereas investments need to be self-sustaining (from dividends and cash flows).

Valuation and view

- Since Apr'20, MM has decided to exit five loss-making businesses as part of its decision to exit non-strategic, loss-making businesses. SYMC has been the biggest pain point and filing for bankruptcy is the last option it has to sell it.
- MM is the best proxy of a rural recovery in the Auto segment, given its strong footing in Tractors and LCVs. For the SUV business, we are not building in any major traction and have not built-in benefits from any upcoming product launches.
- While MM's core business would recover faster, its focus on tightening capital allocation could act as a re-rating catalyst. Hence, we see twin levers of EPS growth and re-rating.
- The stock trades at implied core P/E of 15x/12.9x FY22E/23E EPS. Maintain Buy with a SoTP-based TP of INR840 per share (Mar-23E SoTP-based).

4 January 2021

Update | Sector: Financials - Bank

Federal Bank

BSE SENSEX	S&P CNX
47,869	14,019

Bloomberg	FB IN
Equity Shares (m)	1,995
M.Cap.(INRb)/(USDb)	135.7 / 1.8
52-Week Range (INR)	97 / 36
1, 6, 12 Rel. Per (%)	-4/-7/-39
12M Avg Val (INR M)	1796
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E Mar	FY20	FY21E	FY22E
NII	46.5	54.8	63.0
OP	32.0	39.6	46.0
NP	15.4	15.2	21.3
NIM (%)	3.0	3.2	3.3
EPS (INR)	7.8	7.6	10.7
EPS Gr. (%)	23.4	-1.4	40.1
BV/Sh. (INR)	72.8	79.9	89.4
ABV/Sh. (INR)	64.9	71.3	78.1
Ratios			
RoE (%)	11.1	10.0	12.7
RoA (%)	0.9	0.8	1.0
Valuations			
P/E(X)	8.8	8.9	6.4
P/BV (X)	0.9	0.9	0.8
P/ABV (X)	1.0	1.0	0.9

CMP: INR68 TP: INR80 (+18%) Buy

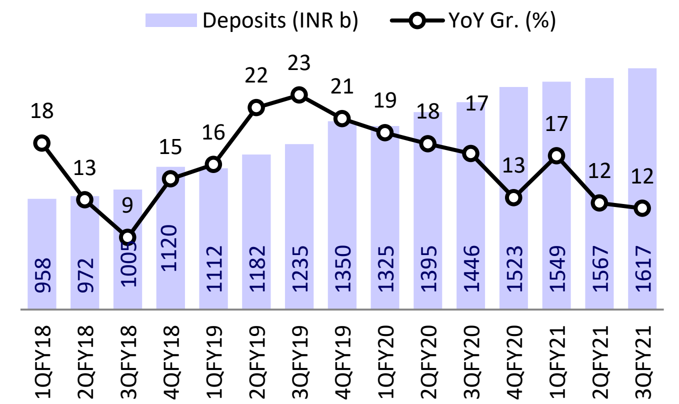
CASA mix improves further; loan growth recovers sequentially

Federal Bank (FB) has released its quarterly update emphasizing its 3QFY21 business numbers. Below are the key highlights:

- **Growth in gross advances stood ~6% YoY to ~INR1.28t. Sequentially, it reported an uptick in loan growth (2.4% QoQ v/s 1% over 1HFY21). CD ratio was stable ~78.2%.**
- **Deposit base increased to INR1.62t, a growth of ~12% YoY (3.1% QoQ). It reported a strong CASA growth (~23% YoY, 5.6% QoQ) while TD grew ~7% YoY (1.9% QoQ). CASA ratio improved by 80bp QoQ to ~34.5%. We expect margin trajectory to stay stable, aided by improving CASA mix and shedding of high cost certificate of deposits (CDs).**
- **CDs declined 57% YoY (stable QoQ) to INR18.5b, while inter-bank deposits declined 1.3% sequentially. FB has maintained one of the highest liquidity coverage ratio (LCR) at 248.3% (v/s 266% in 2QFY21) compared to its peers.**
- **In a separate filing, the management informed that the bank has received RBI's approval for re-appointment of Mr. Ashutosh Khajuria as the Executive Director for a period of one year** with effect **from 1st Apr'21 to 31st Mar'22.**

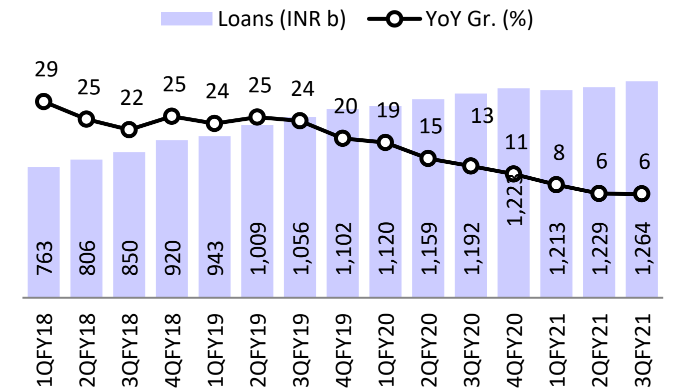
Valuation and view: FB posted a slight increase in sequential loan base, driven by healthy loan growth in its retail asset portfolio, led by gold loans. The bank's liability franchise remains strong. CASA mix is improving, with retail deposit mix over 90%, which is likely to keep margin steady. It has maintained one of the highest LCRs among banks. On the asset quality front, PCR has strengthened to ~66% and the management expects restructuring of up to 3% of loans as collection efficiency has improved to 95% from Sep'20. We expect credit cost to remain elevated as slippages would increase during 2HFY21. We maintain our **Buy** rating with a TP of INR80 per share (0.9x Sep-22E ABV).

Deposits rise ~12% YoY (3.1% QoQ)



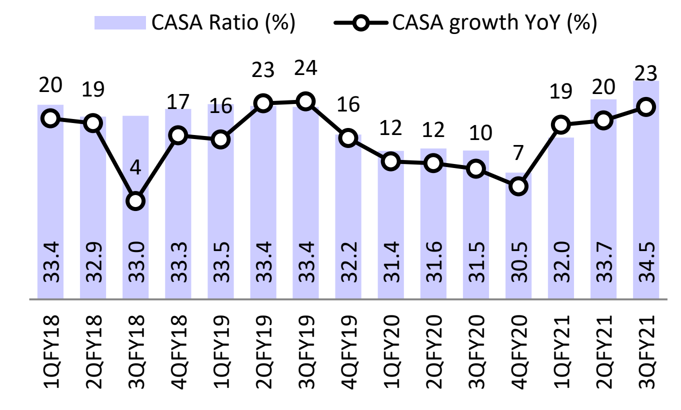
Source: MOSL, Company

Loan growth modest at 6% YoY (2.4% QoQ)



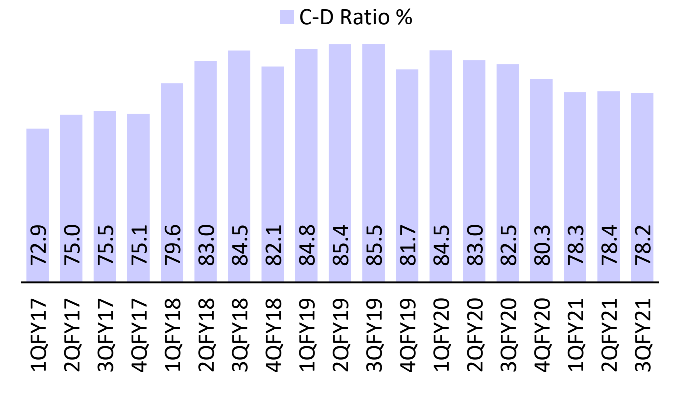
Source: MOSL, Company

CASA ratio improves to 34.5% (v/s 33.7% in 2QFY21)



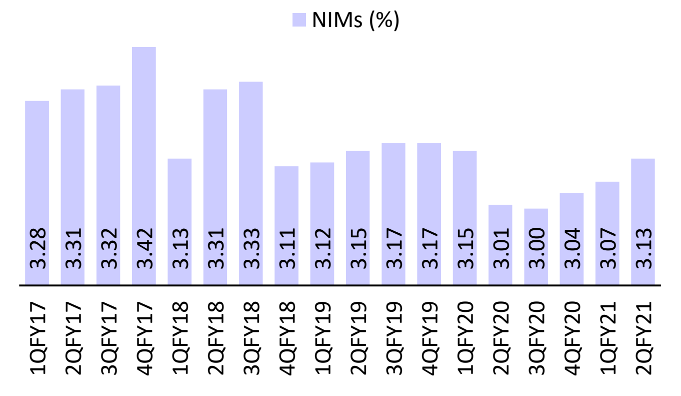
Source: MOSL, Company

CD ratio stands at 78.2%



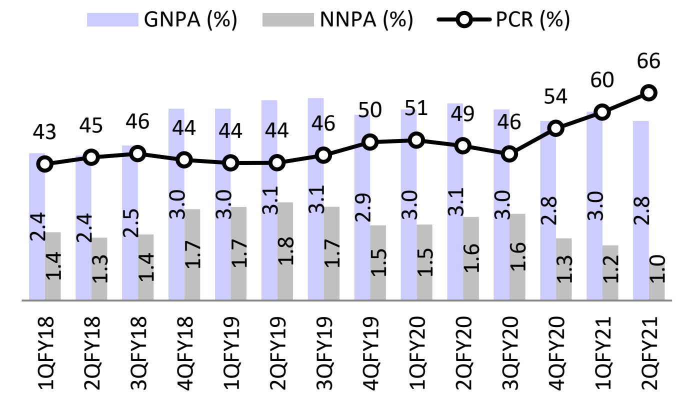
Source: MOSL, Company

NIMs stands at 3.13% v/s 3.07% QoQ



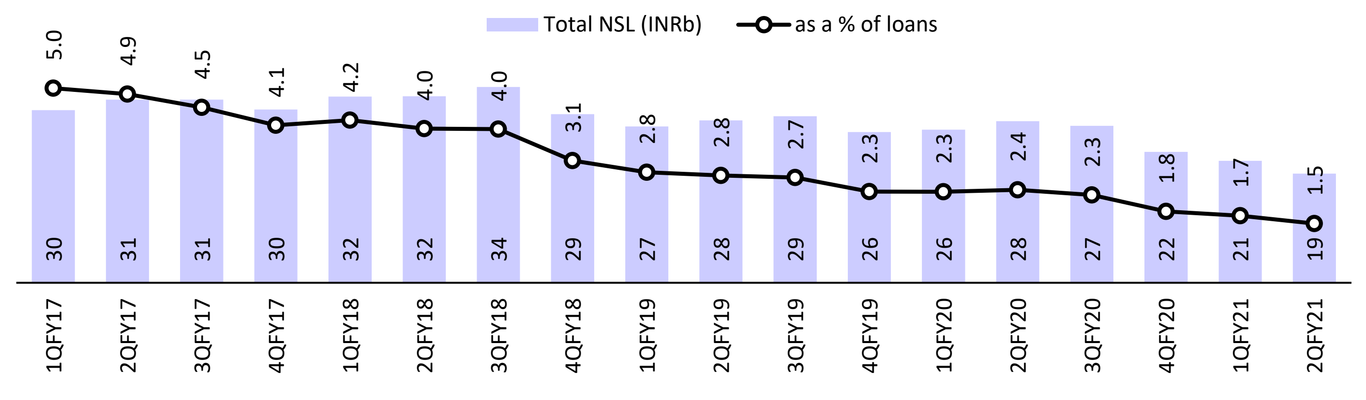
Source: MOSL, Company

PCR improves to ~66%



Source: MOSL, Company

Net stressed loans decline to 1.5% of total loans as of 2QFY21



Indian Energy Exchange

BSE SENSEX	S&P CNX
47,869	14,019

CMP: INR220 TP: INR255(+16%) Buy

Strong volume momentum continues

New product launches aiding market share gains; reiterate Buy

Stock Info

Bloomberg	IEX IN
Equity Shares (m)	298
M.Cap.(INRb)/(USDb)	65.8 / 0.9
52-Week Range (INR)	233 / 111
1, 6, 12 Rel. Per (%)	-6/-13/38
12M Avg Val (INR M)	207
Free float (%)	100.0

Financials Snapshot (INR m)

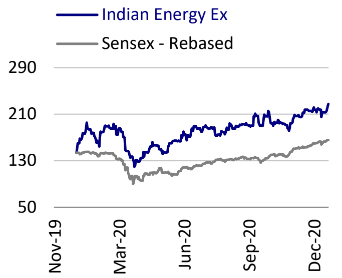
Y/E Mar	2020	2021E	2022E
Net Sales	2,570	2,925	3,497
EBITDA	2,045	2,313	2,839
PAT	1,779	1,886	2,307
EPS (INR)	6.0	6.3	7.7
Gr. (%)	7.8	6.0	22.3
BV/Sh (INR)	13.1	15.0	17.3
RoE (%)	46.8	45.1	47.9
RoCE (%)	44.3	42.8	45.6
P/E (x)	21.9	35.1	28.7
P/BV (x)	10.0	14.8	12.8

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	0.0	0.0	0.0
DII	35.1	33.8	29.2
FII	30.6	31.6	26.9
Others	34.3	34.6	43.8

FII Includes depository receipts

Stock Performance (1-year)



Electricity volumes jump 49% YoY in Dec'20; up 61% YoY in 3QFY21

- Electricity volumes on Indian Energy Exchange (IEX) jumped 49% YoY to 7BUs, led by: 1) continued growth (up 29% YoY) in day-ahead market (DAM) volumes, and 2) strong volumes for the recently launched RTM.
- In 3QFY21, electricity volumes grew 61% YoY to ~20BU. While power demand is recovering, volumes on IEX by itself are impressive. Based on initial data from POSOCO and the Ministry of Power, India's power demand for the quarter is estimated to have risen 6.5% YoY, with a generation of 337BUs. This implies a 5.9% market share for IEX for the quarter (v/s a 4% share in FY20).
- As per our analysis, DAM volumes from the country's northern (Punjab, Rajasthan) and southern (Andhra Pradesh) regions has seen a sharp rise during the quarter. This could partly be attributable to higher growth in peak demand within the northern region. While an uptick in merchant prices (as demand improves) and the large base of 4QFY20 needs to be watched, we conservatively revise our FY21E electricity volume/EPS estimates by 10%/8% given its strong performance. Rolling forward to 30x Dec'22E EPS, we maintain our Buy rating with a TP of INR255/share.

New products faring well; RTM contributes 14% of electricity volumes

- The launch of new products such as the Real-Time Market (RTM) and Green Term Ahead Market (G-TAM) have also provided a fillip. RTM crossed over 1BU in Dec'20 and contributed ~14% of IEX's electricity volumes in 3QFY21. Total, TAM (incl. G-TAM) + RTM now contributes 20% of its volumes.
- While we await industry details for Dec'20, share gains for RTM from DSM (Deviation Settlement Mechanism) had not yet played out during the year, which makes its RTM performance even more noteworthy. As per the management, the opportunity to gain share from DSM remains, and it is working with states to garner the same. The regulator is also keen on reducing DSM volumes, with plans to impose stricter rules/penalties.
- While the shift to DSM may not have yet played out, the RTM has benefited with un-requisitioned surplus (URS) power coming on board. This has aided the supply side (sell bids over 2x buy bids) and kept a check on prices. As per our analysis, 15-20% of volumes sold on RTM has been by NTPC and NLC.

Await resumption of REC trading, launch of LDCs

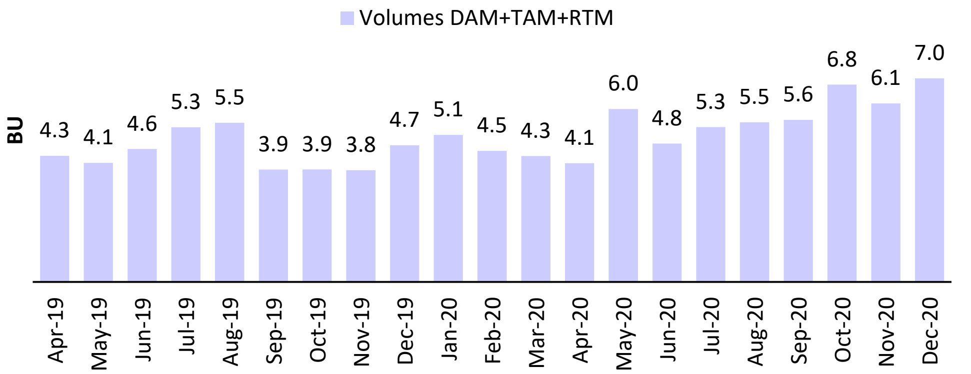
- Trading for RECs, though continues to be suspended since Jul'20. With CERC lowering its forbearance and floor price, generators had petitioned against the same leading to a stay order from APTEL. As per the company, APTEL has concluded its hearing, but an order is yet to be issued.

- The hearing in the SC (scheduled for Dec'20) that would pave the way for launch of longer duration contracts (LDCs) and electricity derivatives has been postponed. While we expect trading in RECs/LDCs to eventually resume/launch, we remain conservative and do not build in incremental volumes from the same for the remainder of FY21 given the continued delays.

Market share gains to drive volumes/PAT CAGR of 16/18% over FY21-23E; Buy

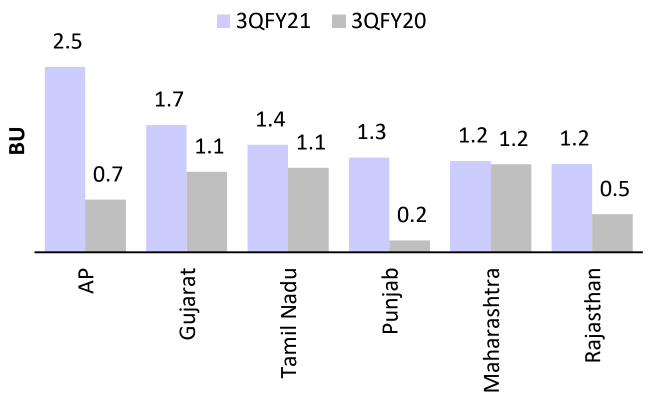
- We revise our FY21E electricity volume estimate upwards by 10% given its strong 3Q performance and lower our REC volume forecast on delays in resumption, resulting in an 8% YoY increase in our PAT estimate.
- Long term potential for IEX remains huge given the nascent market share for exchanges in India's power generation. With new product launches, continuous oversupply in the market, and IEX's competitive positioning, we expect volumes/PAT to increase at 16%/18% CAGR over FY21-23E. Given the strong growth and high return profile (RoEs of ~45%), the stock trades attractively at 25x FY23E EPS. Maintain Buy with a TP of INR255/share at 30x Dec'22E EPS.

Electricity volumes on IEX have been on a rising trend, up 61% YoY in 3QFY21



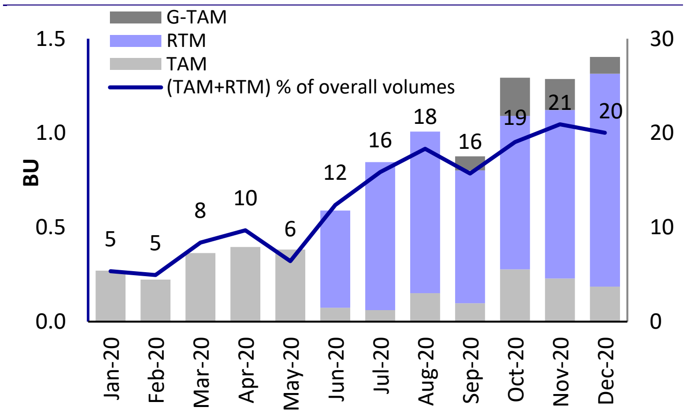
Source: Company, MOFSL

As per our analysis, AP, Punjab, and Rajasthan are key growth contributors to DAM volumes in 3Q



Source: RLDCs, Industry, MOFSL

New product launches have fared well; TAM+RTM now contributes 20% of IEX's electricity volumes



Source: Company, MOFSL

Automobiles

Dec'20: Recovery trend sustaining

PV and Tractor demand strong; CV back on growth path

"While for steel, plastics, the prices have gone up by 30%, for precious metals such as rhodium, the increase is much higher. We have to make a fine balance between financial prudence and demand recovery."
Mr Shashank Srivastava, ED, Maruti Suzuki

PV and CV wholesales were above estimates, whereas 2W and Tractor wholesales were in line. While PV OEMs reported strong demand and long waiting periods, 2W (ex-RE) OEMs remained cautious on demand sustainability and kept inventory in check. PV volumes grew ~18% YoY (above est.) and 2W (ex-BJAUT) volumes 12% YoY (in-line). CV rose 7.7% YoY (above est.), LCV increased 14% YoY (above est.), and M&HCV was flat (above estimate). 3W (ex-BJAUT) volumes recovered, with decline of 22.2% YoY (below estimate).

- **2W (ex-BJAUT) – in-line; 12% YoY growth:** Volumes grew 12.1% YoY. Inventory is at comfortable levels of 30–45 days. TVS grew 17.5% and HMCL 5.3%. RE volumes grew 36.9% YoY (8.2% MoM).
- **PV – above est.; 18.2% YoY growth:** Sustaining demand resulted in volume growth of 18.2% YoY, restricted by supply chain constraints. MSIL volumes grew 20% YoY (+4.6% MoM), while MM volumes (UV, incl. pick-ups) declined 3.7% YoY (-17.2% MoM).
- **CV – above est; 7.7% YoY growth:** CV wholesales outperformed in both the M&HCV and LCV segments. With government infrastructure activity back on track, M&HCV volumes reflected good recovery, with flat volumes YoY (+38% MoM). LCV volumes grew 14% YoY (+14.5% MoM) and AL volumes 14.3% YoY (+19.7% MoM). TTMT CV volumes declined (-3.6% YoY) and VECV fell (-3% YoY).
- **Tractor – in line with est.; 36.4% YoY growth:** Tractor volumes grew ~36.4% YoY, in line with our estimates. Increasing rabi acreage with low inventory on the ground could result in good wholesales in the coming months. MM's Tractor volumes grew 24.6% YoY; ESC's Tractor volumes rose 88% YoY.

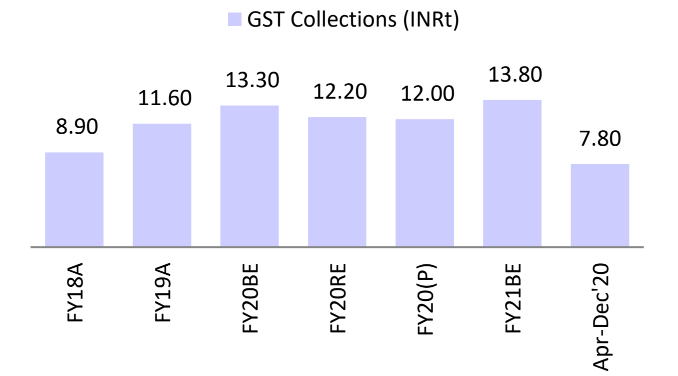
Positive surprise (Var %)	In-line (Var %)	Negative surprise (Var %)
EIM-VECV (+17.6%)	AL (+5%)	Hero MotoCorp (-8.4%)
MSIL (+16.3%)	TVS Motor (+0.1%)	M&M (-7%)
Tata Motors (+13%)		
EIM – RE (+11.3%)		
Escorts (+7.4%)		

Valuation and view: Current demand momentum and low inventory in PV/Tractor suggest stronger wholesales in the coming months. 2W OEMs, on the other hand, are expected to maintain a cautious stance, with no major inventory push. CV is expected to see sustained growth hereafter. With pent-up demand largely fulfilled, 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 recovery is likely to sustain (our base case), leaving limited safety margin 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. **MM** and **HMCL** are our top OEM picks. Among the auto component stocks, we prefer **ENDU** and **MSS**.

GST collections at a 21-month high of 11.6% in Dec'20

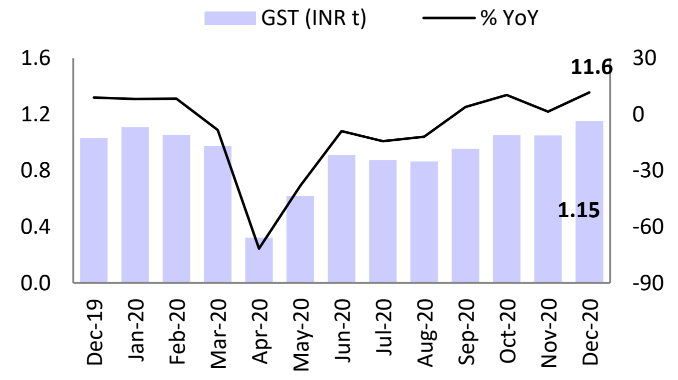
- Goods & Service Tax (GST) collections in Dec'20 grew to a 21-month high of 11.6% at INR1.15t. In absolute terms, GST collections rose sequentially. With this, the total amount of GST collected during Apr-Dec'20 stood at INR7.8t, a contraction of 14.1% YoY.
- As against the target of INR13.8t for FY21, the government has collected INR7.8t so far, which is 56.5% of its FY21BE as against 74.5% (of FY20RE) achieved by this time last year.
- Within the total GST collected last month, CGST amounted to INR213.7b, SGST amounted to INR278b, and IGST amounted to INR574.3b. GST collection on imports rose sharply (27% YoY) to INR270.5b in Dec'20, implying pure domestic collections at INR881.2b (which saw a growth of 7.6% YoY) in Dec'20.
- Daily e-way bill generation in Dec'20 (up to 27 December 2020) was 2m units, which is slightly higher than the level achieved in Nov'20, but lower than the peak of 2.1m units in Oct'20. Nevertheless, it is a strong figure, indicative of a continuous pick-up in economic activity.
- The number of GSTR-3B returns filed stood at 8.7m, the highest ever since the implementation of GST.
- GST collections crossing the INR1t mark for the third time in a row is definitely a positive for indirect tax collections. Growth in GST receipts starting Sep'20, after the enormous contractions seen during Mar-Aug'20, shows a recovery in economic activity and a gradual return to normalcy. Going forward, we believe GST collections would remain fairly stable.

Government collects 57% of its FY21BE



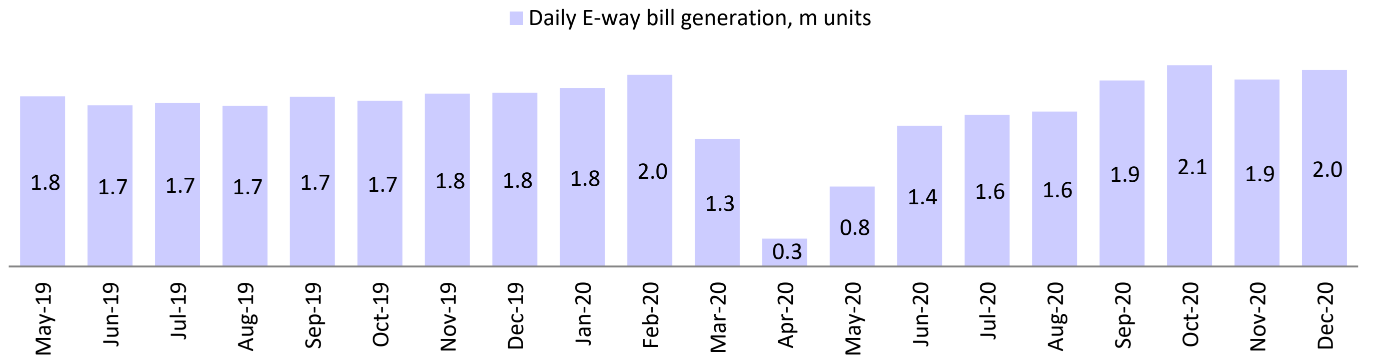
Source: Budget documents , MOFSL

GST collected grew 11.6% YoY in Dec'20



Source: Finance Ministry, MOFSL

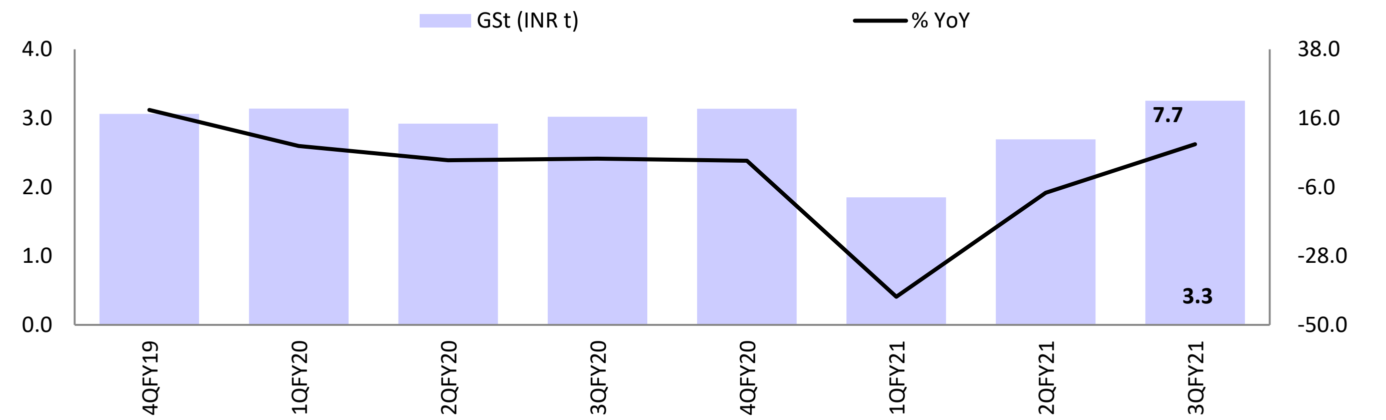
Daily e-way bill generation had moderated, but has started to rise again from Dec'20



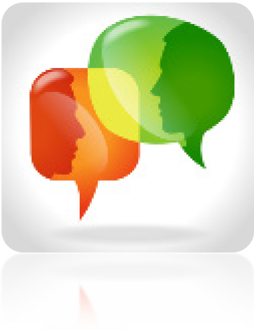
Dec'20 data as of 27 December 2020

Source: CEIC, MOFSL

In 3QFY21, GST collections grew at a seven-quarter high



Source: Budget documents , MOFSL



Dr. Reddy: Hope to launch Sputnik-V COVID vaccine by early April; GV Prasad, Co-Chairman & MD

- Sputnik-V trials are in progress
- Russian trials data is ready, hope Sputnik-V can be launched in late March or early April
- Cannot underestimate the logistics of vaccine
- Storage requirements are easier for Sputnik-V
- Vaccine not an issue of competition, have to make it available to population
- Have to undertake immunisation as soon as possible against COVID-19
- PLI is not going to be a major driver for company

Read More

LIC Housing Finance: See greater demand in real estate; growth seen in Tier II & III cities; Siddhartha Mohanty, MD & CEO

- Issue of liquidity and demand has been addressed in real estate sector
- Consumption demand has gone up in the real estate sector
- Foresee greater demand in the real estate sector
- High growth seen in Tier-II and Tier-III cities as well
- Experiencing high growth; will see double digit growth by end of FY21
- Margins will stabilise or improve in coming days because the way disbursements are happening

Read More

Prestige Estates: Home sales have picked up in last two quarters; Irfan Razack, CMD

- Seeing some positivity coming to real estate sector
- Home sales have picked up in the last two quarters and have done well
- Lot more can be done in real estate sector and lot more will happen
- Several projects launched in Q3
- Hyderabad, Chennai, Bangalore have seen strong response of 35-45%

Read More

Index	1 Day (%)	1M (%)	12M (%)
Sensex	**0.2**	**7.2**	**15.9**
Nifty-50	**0.3**	**6.9**	**15.1**
Nifty Next 50	**0.8**	**6.6**	**15.8**
Nifty 100	**0.3**	**6.9**	**15.1**
Nifty 200	**0.4**	**6.8**	**16.0**
Company	**1 Day (%)**	**1M (%)**	**12M (%)**
Automobiles	**0.9**	**3.2**	**12.9**
Amara Raja Batt.	0.1	0.4	28.6
Ashok Leyland	3.8	7.0	22.3
Bajaj Auto	1.0	7.3	10.7
Bharat Forge	2.4	5.6	10.8
Bosch	1.6	-2.0	-15.0
CEAT	1.3	-6.6	9.9
Eicher Motors	0.5	0.4	15.2
Endurance Tech.	0.1	18.4	24.3
Escorts	2.2	-6.2	112.4
Exide Inds.	0.0	4.1	2.9
Hero Motocorp	-0.3	-0.4	27.4
M & M	1.7	-0.3	36.6
Mahindra CIE	1.1	9.0	5.7
Maruti Suzuki	0.5	8.3	5.2
Motherson Sumi	-0.7	4.2	12.7
Tata Motors	1.5	3.8	1.1
TVS Motor Co.	1.1	-1.9	4.7
Banks-Private	**-0.3**	**3.6**	**-2.9**
AU Small Fin. Bank	2.7	0.1	9.6
Axis Bank	0.4	3.2	-16.8
Bandhan Bank	-0.5	6.0	-20.5
DCB Bank	0.8	7.1	-31.8
Equitas Holdings	0.2	-2.7	-35.7
Federal Bank	2.0	3.7	-23.3
HDFC Bank	-0.8	-0.6	11.4
ICICI Bank	-1.4	8.7	-1.7
IndusInd Bank	0.6	0.5	-39.4
Kotak Mah. Bank	-0.1	6.4	19.1
RBL Bank	0.0	2.4	-33.6
Banks-PSU	**3.2**	**12.9**	**-28.4**
BOB	4.9	20.0	-36.7
SBI	1.7	12.6	-16.4
Company	**1 Day (%)**	**1M (%)**	**12M (%)**
NBFCs	**-0.2**	**5.8**	**4.2**
Aditya Birla Cap	4.8	-4.8	-12.3
Bajaj Fin.	-0.3	8.7	24.8
Cholaman.Inv.&Fn	6.1	9.8	35.9
HDFC	0.4	11.5	5.6
HDFC Life Insur.	0.3	5.6	9.2
Indostar Capital	6.3	12.6	74.9
L&T Fin.Holdings	3.5	10.5	-17.9
LIC Hsg Fin	4.6	11.3	-12.5
M&M Fin.	2.2	6.6	-11.8
Muthoot Fin	0.3	5.2	59.5
Manappuram Fin.	0.8	-3.7	-5.7
MAS Financial Serv.	-1.5	-10.6	7.3
ICICI Pru Life	0.1	9.0	3.7
ICICI Sec	0.7	4.7	12.5
IIFL Wealth Mgt	0.6	3.0	-9.0
PNB Housing	1.0	-2.3	-17.3

Note: Sectoral performance are of NSE/BSE Indices

Index	1 Day (%)	1M (%)	12M (%)
Nifty 500	**0.5**	**6.8**	**17.1**
Nifty Midcap 100	**1.2**	**6.0**	**23.0**
Nifty Smallcap 100	**1.2**	**8.1**	**22.0**
Nifty Midcap 150	**1.1**	**5.7**	**25.4**
Nifty Smallcap 250	**1.2**	**8.4**	**25.6**
Company	**1 Day (%)**	**1M (%)**	**12M (%)**
Repco Home	3.4	-6.5	-24.3
SBI Life Insuran	-1.0	5.2	-8.2
Shriram City Union	2.0	-0.6	-21.6
Shriram Trans.	2.3	4.6	-3.9
Capital Goods	**1.1**	**10.5**	**11.2**
ABB	1.8	8.3	-4.2
Bharat Elec.	5.3	13.2	26.3
BHEL	7.8	13.7	-11.0
Blue Star	0.4	2.9	-2.6
CG Cons. Elec.	-0.6	17.5	56.2
Cummins	1.3	0.5	5.4
Engineers India	0.8	5.5	-20.1
Havells	-0.6	10.6	40.0
K E C Intl	2.0	-1.0	21.9
L&T	0.7	16.2	-1.0
Siemens	1.7	5.7	7.6
Thermax	-0.4	0.9	-18.8
Voltas	0.6	4.6	27.2
Cement	**0.7**	**6.6**	**26.7**
Ambuja Cem.	0.8	-4.3	27.4
ACC	0.4	-7.0	12.9
Birla Corp.	0.9	-0.8	20.2
Dalmia Bhar.	1.5	-5.0	36.3
Grasim Inds.	0.7	2.8	25.7
India Cem	6.6	15.5	146.5
J K Cements	0.3	-5.8	63.3
JK Lakshmi Ce	0.6	-3.5	18.7
Ramco Cem	-0.2	-10.6	5.6
Shree Cem	-0.3	-3.8	17.8
Ultratech	0.1	7.7	30.2
Consumer	**0.6**	**8.5**	**13.8**
Asian Paints	0.4	24.5	54.7
Britannia	-0.3	-1.7	17.3
Colgate	0.9	5.0	8.1
Dabur	0.0	5.5	16.1
Emami	-0.2	-4.1	35.5
Godrej Cons.	-0.2	4.7	6.9
HUL	-0.3	12.0	23.3
ITC	2.3	10.0	-10.2
Jyothy Lab	0.4	2.5	-1.0
Marico	1.1	8.8	17.6
Nestle	0.3	5.9	24.9
Page Inds	1.9	22.7	19.2
Pidilite Ind.	0.3	14.2	26.0
P&G Hygiene	-0.7	3.1	-3.7
Tata Consumer	2.0	13.7	85.6
United Brew	-0.2	8.7	-7.2
United Spirits	0.7	2.6	-2.5
Healthcare	**0.7**	**7.9**	**61.6**
Alembic Phar	0.7	5.7	89.1
Alkem Lab	1.4	5.8	41.0

Company	1 Day (%)	1M (%)	12M (%)
Ajanta Pharma	1.1	7.8	68.8
Aurobindo	0.8	3.4	102.4
Biocon	0.1	7.5	58.2
Cadila	0.5	5.5	87.8
Cipla	0.8	9.4	73.6
Divis Lab	0.1	6.3	111.4
Dr Reddy’s	0.7	8.6	82.0
Glenmark	1.9	5.5	45.4
GSK Pharma	-0.7	3.8	-1.2
Granules	2.0	-16.2	195.0
IPCA Labs	-0.5	-4.2	91.6
Jubilant Life	0.8	17.2	60.0
Laurus Labs	0.0	9.5	378.1
Lupin	2.4	10.0	29.8
Strides Pharma	0.4	10.6	143.9
Sun Pharma	0.6	10.4	37.3
Torrent Pharma	-0.2	5.4	51.5
Infrastructure	**0.6**	**5.7**	**12.6**
Ashoka Buildcon	0.9	17.8	-9.3
IRB Infra.Devl.	-0.7	-0.2	61.7
KNR Construct.	0.9	14.6	29.3
Media	**0.6**	**8.4**	**-7.5**
PVR	1.7	1.6	-28.1
Sun TV	-0.5	7.7	9.0
Zee Ent.	0.8	15.1	-22.0
Metals	**0.1**	**9.6**	**16.6**
Hindalco	-0.9	4.0	11.2
Hind. Zinc	0.1	5.0	13.9
JSPL	1.6	6.6	62.5
JSW Steel	0.6	8.8	45.2
Nalco	2.8	11.4	2.4
NMDC	1.7	17.3	-9.3
SAIL	0.6	49.2	73.8
Tata Steel	-0.1	9.8	37.5
Vedanta	-0.7	31.9	3.8
Oil & Gas	**0.4**	**4.5**	**-3.9**
Aegis Logistics	1.3	-2.5	30.1
BPCL	0.3	0.7	-22.3
Castrol India	-0.9	-5.0	-5.4
GAIL	0.2	11.6	2.1
Gujarat Gas	0.3	10.8	48.2
Gujarat St. Pet.	-1.2	-4.1	-0.6
HPCL	1.5	4.5	-16.7
IOC	0.6	6.6	-27.3
IGL	1.0	5.1	19.3
Mahanagar Gas	-0.1	0.1	-0.5
MRPL	1.4	12.7	-17.8
Oil India	1.2	8.8	-28.6
ONGC	0.0	14.4	-26.8
PLNG	0.9	-1.8	-6.3
Reliance Ind.	0.1	1.7	32.9
Aditya Bir. Fas.	0.4	3.3	-27.8
Retail			
Avenue Super.	0.9	14.8	52.7
Jubilant Food	0.1	11.5	68.0
Shoppers St.	2.9	11.3	-41.4
Titan Co.	-0.6	16.2	35.0

Company	1 Day (%)	1M (%)	12M (%)
Trent	-1.9	-5.5	27.3
V-Mart Retail	-1.1	14.2	51.8
Westlife Develop	-1.6	2.8	30.5
Technology	**0.8**	**10.3**	**55.6**
Cyient	0.1	7.0	18.5
HCL Tech.	0.5	14.0	66.2
Infosys	0.4	10.8	71.0
L&T Infotech	1.1	10.3	107.7
Mindtree	0.1	17.7	104.5
Mphasis	-0.6	16.9	65.8
Coforge	0.6	10.9	72.6
Persistent Sys	-1.0	24.1	112.4
TCS	2.0	7.4	35.0
Tech Mah	0.5	7.8	28.3
Wipro	0.4	9.9	56.6
Zensar Tech	2.3	6.6	38.5
Telecom	**1.4**	**8.2**	**15.6**
Bharti Airtel	1.1	7.5	13.6
Indus Towers	2.4	8.9	-7.6
Idea Cellular	5.3	11.4	83.3
Tata Comm	-0.5	5.1	174.8
Utiltites	**0.7**	**2.9**	**5.9**
Coal India	-0.1	7.1	-36.1
CESC	1.0	4.7	-16.9
Indian Energy Ex	-3.5	0.9	53.5
JSW Energy	-1.4	6.1	-3.1
NHPC Ltd	1.5	6.2	-3.8
NTPC	-0.3	5.6	-18.5
Power Grid	-0.2	-1.5	-3.1
Tata Power	2.2	12.5	34.2
Torrent Power	1.0	1.1	12.3
Others			
Brigade Enterpr.	0.0	13.1	16.2
BSE	2.3	15.6	26.5
Coromandel Intl	0.0	-1.0	53.9
Concor	1.1	-1.6	-29.6
EPL Ltd	3.5	1.4	47.7
Indiamart Inter.	9.9	37.7	241.8
Godrej Agrovet	0.7	5.7	3.3
Indian Hotels	3.1	3.2	-14.1
Interglobe	-0.6	9.8	28.4
Info Edge	-0.3	13.1	85.4
Kaveri Seed	0.5	7.6	4.4
Lemon Tree Hotel	3.9	14.9	-34.0
MCX	1.0	9.6	47.7
Oberoi Realty	1.3	22.9	13.0
Piramal Enterp.	3.6	4.7	-3.6
Phoenix Mills	1.5	14.1	-6.9
PI Inds.	3.1	-2.8	56.4
Quess Corp	-1.5	3.7	11.1
Security & Intel	-0.2	-8.1	-11.5
SRF	2.1	11.5	65.4
S H Kelkar	2.2	-11.0	10.7
Tata Chemicals	0.5	18.4	62.0
Team Lease Serv.	1.7	-0.2	7.4
Trident	8.6	34.6	59.9
UPL	0.6	8.4	-20.2

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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