6 January 2021
MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	48,438	0.5	17.3
Nifty-50	14,200	0.5	16.6
Nifty-M 100	21,534	0.7	25.6
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,727	0.7	14.4
Nasdaq	12,819	0.9	41.0
FTSE 100	6,612	0.6	-13.0
DAX	13,651	-0.6	2.0
Hang Seng	10,774	0.5	-4.8
Nikkei 225	27,159	-0.4	14.8
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	53	5.5	-20.4
Gold ($/OZ)	1,950	0.4	28.5
Cu (US$/MT)	7,995	1.9	29.7
Almn (US$/MT)	2,037	0.4	14.7
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.2	0.2	2.7
USD/EUR	1.2	0.4	9.7
USD/JPY	102.7	-0.4	-5.6
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	5.8	0.00	-0.7
10 Yrs AAA Corp	6.6	0.00	-1.1
Flows (USD b)	**5-Jan**	**MTD**	**CY21**
FIIs	0.13	0.67	0.54
DIIs	-0.07	-0.16	-0.09
Volumes (INRb)	**5-Jan**	**MTD***	**YTD***
Cash	726	618	618
F&O	27,720	20,554	20,554

Note: *Average

Today's top research idea

L&T Infotech: Top-quartile business, but valuation leaves little room

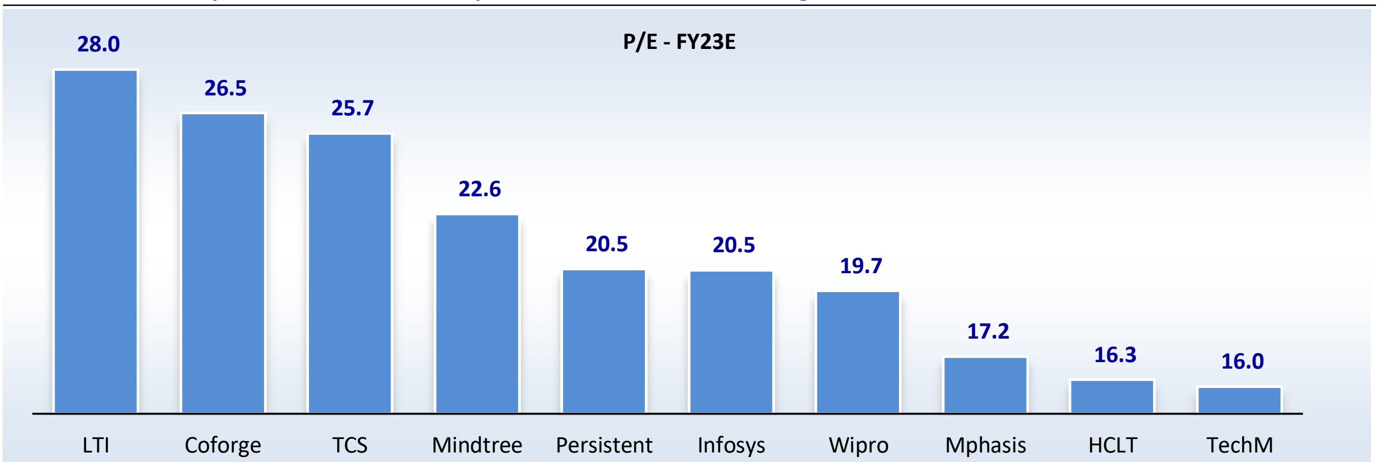
- In our view, LTI is in an enviable position – it benefits from its position as a company with enough scale to compete with larger players, but is still small enough to leverage the array of small deals to grow ahead of its peer group. LTI currently trades at 28.0x our FY23 EPS estimates v/s the sector average of 24x and at a peak relative to its history.
- It is not only the most expensive midcap but also the most expensive IT services company within our Coverage Universe.
- While we remain confident of the company's execution capabilities, we downgrade the stock to Neutral, led by the recent rally in stock price (130% in one year). We value the stock at 26.5x FY23 EPS (+2 ST Dev median P/E).

Research covered

Cos/Sector	Key Highlights
L&T Infotech	Top-quartile business, but valuation leaves little room
Automobiles	3QFY21 Preview: Sharper-than-expected recovery in all segments
Cement	Busy season demand kicking in
Godrej Consumer Products	Strong momentum in the domestic business continues
HDFC Bank	Business growth remains robust; CASA mix improves further
IndusInd Bank	Deposits remain strong, loan growth picks up sequentially
Healthcare	For Dec'20: IPM YoY growth accelerates again

Chart of the Day: L&T Infotech (Top-quartile business, but valuation leaves little room)

In terms of current prices, LTI is the most expensive stock in our IT Coverage Universe



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Oil tops $50 with Saudis pledging to cut production next month

Oil breached $50 a barrel as Saudi Arabia pledged a voluntary oil-production cut next month, while most of the OPEC+ alliance agreed to hold its production steady. Futures in New York rose as much as 5.1%, topping $50 a barrel for the first time since February before easing…

2

Top 8 Indian cities witness 1% rise in property prices in Q4, Magicbricks PropIndex

Property prices across top 8 Indian cities have witnessed an average 1% increase during the October-December quarter led by the under-construction segment, showed Magicbricks PropIndex. While the prices for the much in demand ready-to-move segment remained stable during Q4 of 2020, the under-construction segment prices rose by 2%, amidst the recovery phase…

3

Govt to invite EoIs for strategic divestment of Container Corporation by month end

The government is likely to seek expression of interest for strategic divestment of Container Corporation of India by end of the month, as it pushes forward with its disinvestment drive in the ongoing financial year. Potential bidders will be invited for purchasing about 30% stake in the public sector enterprise…

4

PM Modi promises to double India's natural gas pipeline network in next 6 years

Prime Minister Narendra Modi today inaugurated the 450-km Kochi-Mangaluru natural gas pipeline built at cost of ₹3,000 crore. Speaking at the event, he said that a gas-based economy is crucial for Atmanirbhar Bharat and work is being done in the direction of 'One Nation, One Gas Grid'…

5

Hospitality, travel firms see surge in bookings in holiday season

Rom snow-capped mountains, deserts to wildlife sanctuaries, Indian travellers chose a wide range of holiday destinations to bid adieu to a grim 2020. Hospitality firms across categories, as well as tour operators, have witnessed a jump in bookings during the holiday period between Christmas and New Year. "Some of our hotels including InterContinental Chennai Mahabalipuram and Crowne Plaza Greater Noida recorded over 90% occupancy for the New Year's weekend," said Sudeep Jain, managing director, South West Asia…

6

India's Gold Imports Lowest since 2009

India's gold imports in 2020 slumped to the lowest in more than a decade as the coronavirus pandemic battered demand and logistics, while higher prices kept buyers in the second-largest consuming nation on the sidelines. Overseas purchases fell to 275.5 tons last year, according to a person familiar…

7

Online cosmetics startup Nykaa eyes $3 billion IPO in 2021

Nykaa E-Retail Pvt is planning an initial public offering as soon as this year that could value the Indian online cosmetic retailer at a minimum $3 billion, according to people familiar with the matter. Deliberations are ongoing and details of the offering including the size…

L&T Infotech

BSE SENSEX	S&P CNX
48,438	14,200

L&T Infotech

Stock Info

Bloomberg	LTI IN
Equity Shares (m)	172
M.Cap.(INRb)/(USDb)	722 / 9.2
52-Week Range (INR)	4198 / 1208
1, 6, 12 Rel. Per (%)	19/75/111
12M Avg Val (INR M)	727

Financials Snapshot (INR b)

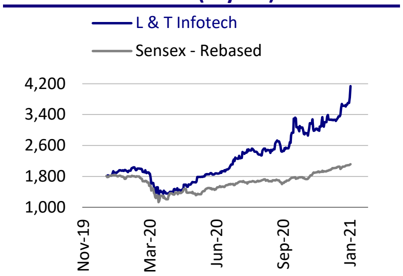
Y/E Mar	FY21E	FY22E	FY23E
Sales	123.7	147.1	168.9
EBIT Margin (%)	18.6	18.8	19.0
PAT	18.3	22.4	26.0
EPS (INR)	104.1	127.0	147.5
EPS Gr. (%)	20.1	22.1	16.1
BV/Sh. (INR)	377.6	460.3	556.8
Ratios			
RoE (%)	30.5	30.5	29.2
RoCE (%)	24.2	24.4	24.0
Payout (%)	35.0	35.0	35.0
Valuations			
P/E (x)	39.7	32.5	28.0
P/BV (x)	10.9	9.0	7.4
EV/EBITDA (x)	25.8	21.3	18.0
Div Yield (%)	0.9	1.1	1.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	74.4	74.5	74.6
DII	6.4	7.3	8.2
FII	11.2	9.8	7.7
Others	8.0	8.5	9.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR4,150 TP: INR3,910 (-6%) Downgrade to Neutral

Top-quartile business, but valuation leaves little room

LTI is up ~130% since its inclusion in our model portfolio (in 3QFY20) and is currently the most expensive (28x FY23 EPS) IT company within our Coverage Universe. While we continue to deem it among the best-in-class IT services companies on execution and management quality, we believe the stock more than factors in the potential; hence, we downgrade the stock to Neutral.

Right size, right positioning…

- In our view, LTI is in an enviable position – it benefits from its position as a company with enough scale to compete with larger players, but is still small enough to leverage the array of small deals to grow ahead of its peer group.
- LTI also has a well-diversified portfolio of service lines – ADM, ERP, and IMS contribute 36%, 31%, and 14%, respectively, to total revenues. It has a good presence in all the major verticals, with BFS contributing 30% to total revenues.
- The combination of a size- and industry-relevant portfolio has helped the company win deals (large deal pipeline of USD1.9b) across service lines and geographies. LTI has clocked a 16.3% revenue CAGR in the past three years, among the highest in the IT Services pack.

…with strong execution

- Aligning itself with customers' digital transformation initiatives, LTI has structured its executive focus on cloud and data products.
- This, along with a capable sales team, has allowed it to both mine existing accounts as well as hunt for new accounts (beyond the Top 20 clients).
- We expect LTI to continue to gain from these capabilities and deliver industry-leading revenue growth in the medium term (+14% USD CAGR over FY20–23E).
- This, coupled with strong margin improvement from FY21, would result in 20% INR PAT growth over the same period.

Expect strong performance in seasonally weak quarter…

- LTI is expected to deliver strong sequential growth (4.5% QoQ USD) in a seasonally weak quarter, led by a ramp-up in deal wins in the previous quarter.
- After a strong margin performance in 2Q (EBIT margin up 370bps YoY), we expect stable margin performance in 3Q.

…however, we downgrade to Neutral on punchy valuation

- LTI currently trades at 28.0x our FY23 EPS estimates v/s the sector average of 24x and at a peak relative to its history.
- While we remain confident of the company's execution capabilities, we downgrade the stock to Neutral, led by the recent rally in stock price (130% in one year). We value the stock at 26.5x FY23 EPS (+2 ST Dev median P/E). We revise our TP to INR3,910, implying a 6% downside.

Automobiles

Result Preview

Company
Amara Raja Batteries
Ashok Leyland
Bajaj Auto
Bharat Forge
BOSCH
Ceat
Eicher Motors
Endurance Technologies
Escorts
Exide Industries
Hero MotoCorp
Mahindra CIE
Mahindra & Mahindra
Maruti Suzuki
Motherson Sumi Systems
Tata Motors
TVS Motor Company

Sharper-than-expected recovery in all segments

EBITDA margins to expand for the first time after eight quarters of decline

- **Volume recovery seen in 2Q continued in 3QFY21. Strong momentum was witnessed in retail sales of Tractors and PVs (YoY growth in retails), whereas the same for 2Ws was marginally lower than last year.**
- **On a wholesale basis, we estimate volumes to grow strongly for Tractors (+22% YoY), PVs (+15% YoY) and 2Ws (+19% on a low base of last year). Among CVs, LCVs saw a good recovery (+1.5% YoY), while the decline is getting smaller for M&HCVs (-8% YoY). 3Ws are witnessing a QoQ recovery in volumes.**
- **We expect the recovery in EBITDA margins to continue for the second straight quarter despite the initial impact of commodity cost inflation. The same for our OEM (ex-JLR) universe is likely to expand 190bp YoY to 12.2% (+40bp QoQ), led by price hikes (in 2Ws and Tractors), lower discounts, cost cutting, and operating leverage benefits.**
- **We are revising our FY22E EPS estimates to factor in volume upgrades as well as substantial commodity cost inflation. We upgrade TTMT (+28%), AL (+11%), BHFC (+11%), MSS (+14.5%) and ESC (+6%), whereas downgrade HMCL/MM (-8%).**

Volumes across segments recover, but the divergence in trends visible

Volume recovery, seen in 2Q, continued in 3QFY21. Strong retail momentum was witnessed for Tractors and PVs (YoY growth in retails), whereas 2Ws retails was marginally lower than last year. On a wholesale basis, we estimate volumes to grow strongly for Tractors (+22% YoY), PVs (+15% YoY) and 2Ws (+19% on a low base of last year). Among CVs, LCVs saw a good recovery (+1.5% YoY), while the decline is getting smaller for M&HCVs (-8% YoY). 3Ws are yet to see any material recovery (-31% YoY), though volumes have been better on a QoQ basis. With low starting inventory, both PVs and Tractors witnessed a waiting period due to good retail momentum, whereas 2Ws and CVs saw normalization of inventory in 3QFY21.

Recovery in EBITDA margins to continue for the second consecutive quarter

We expect the recovery in EBITDA margins to continue for the second straight quarter, despite the initial impact of commodity cost inflation. EBITDA margins for our OEM (ex-JLR) universe is likely to expand 200bp YoY to 12.2% (+50bp QoQ), led by price hikes (in 2Ws and Tractors), lower discounts, cost cutting, and operating leverage benefits. However, 2W players like HMCL (-150bp YoY), EIM (-130bp YoY) and BJAUT (-40bp YoY) would see a YoY decline.

Recovery strong, however uncertainties prevail in the near term

Contrary to our expectations, demand recovery has been stronger than expected across segments (excluding 3Ws). This is attributable to pent-up demand, positive agri economics, and a shift to private from public transport. This has led to consistent upgrade in volume estimates. However, we do see near-term uncertainties in the form of: a) supply-side disruption due to a global shortage of semi-conductors, b) sharp commodity cost inflation, led price increases, and c) risk to demand (from a price hike, fading benefit of COVID-19 to private transport, etc.). We expect the volume recovery in all segments to sustain in FY22, with core demand growing 5-7% for 2Ws/PVs/Tractors, supported by the benefit of low base of Apr-Aug'20. For 3Ws and CVs, we expect a sharp recovery in FY22.

Valuation and view

We are revising our FY22E EPS estimates to factor in volume upgrades as well as substantial commodity cost inflation. We upgrade TTMT (+28%), AL (+11%), BHFC (+11%), MSS (+14.5%), and ESC (+6%), whereas downgrade HMCL/MM (-8%). Being a seasonally slow month, Dec'20 saw decent demand (at par YoY) despite discounts being lower by ~50% YoY. Valuations are reflecting a recovery in 4QFY21, leaving a limited margin for safety from any negative surprises. Hence, we prefer companies with: a) higher visibility in terms of a demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. **MM** and **HMCL** are our top OEM picks. Among auto Component stocks, we prefer **ENDU** and **MSS**.

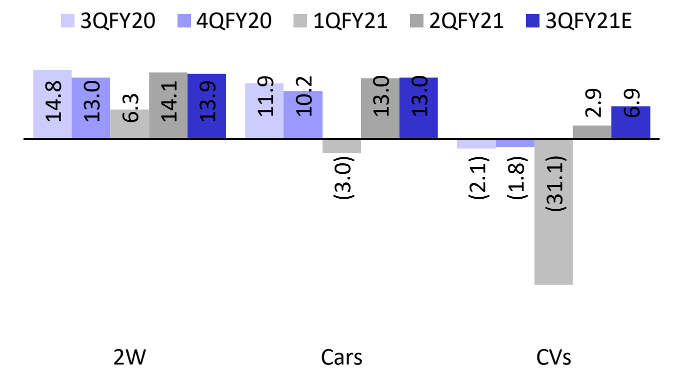
Summary of expected quarterly performance (INR m)

	CMP		Sales (INR m)			EBDITA (INR m)			Net profit (INR m)		
Sector	(INR)	Rating	Dec-20	YoY	QoQ	Dec-20	YoY	QoQ	Dec-20	YoY	QoQ
Automobiles											
Amara Raja Batt.	926	Neutral	20,100	15.0	3.8	3,309	16.5	-2.8	1,951	18.7	-3.1
Ashok Leyland	99	Buy	50,303	25.3	77.3	3,385	50.3	320.8	873	199.3	LP
Bajaj Auto	3483	Neutral	89,666	17.4	25.3	15,652	14.5	23.6	13,901	10.2	22.1
Bharat Forge	538	Buy	11,130	3.4	26.3	2,580	7.8	55.4	1,423	11.3	96.3
Bosch	12991	Neutral	29,171	15.0	17.7	3,518	9.8	22.1	2,807	1.7	19.1
CEAT	1094	Buy	20,260	15.0	2.4	2,545	38.9	-13.0	1,030	94.4	-43.4
Eicher Motors	2542	Buy	28,107	18.5	33.1	6,644	12.2	41	5,317	6.6	54.9
Endurance Tech.	1350	Buy	18,884	15.1	8.4	3,073	18.0	7.7	1,598	28.8	9.5
Escorts	1288	Neutral	20,536	25.7	25.2	3,620	70.5	20.3	2,750	79.7	19.6
Exide Inds.	191	Buy	27,249	13.0	-1.0	3,693	15.5	-5.8	2,148	0.7	-6.1
Hero Motocorp	3099	Buy	96,205	37.5	2.7	12,849	23.7	-0.1	9,518	8.1	-0.2
Mahindra & Mahindra	733	Buy	137,341	13.3	19.2	22,032	23.2	10.8	12,781	30.3	-2.5
Mahindra CIE	174	Buy	17,828	3.5	5.2	2,216	3.4	46.9	959	414.3	57.8
Maruti Suzuki	7692	Buy	235,853	13.9	25.8	26,592	26.5	37.5	20,322	29.9	48.2
Motherson Sumi	164	Buy	173,696	10.9	10.8	17,876	44.7	15.1	4,031	49.0	8.4
Tata Motors	186	Buy	714,399	-0.3	33.5	69,951	-2.8	23.5	768	-95.6	LP
TVS Motor	491	Neutral	52,880	28.2	14.8	4,752	30.8	10.5	2,328	28.8	18.6
Sector aggregate			**1,743,609**	**9.1**	**24.0**	**204,285**	**13.8**	**20.9**	**84,504**	**-1.0**	**28.5**

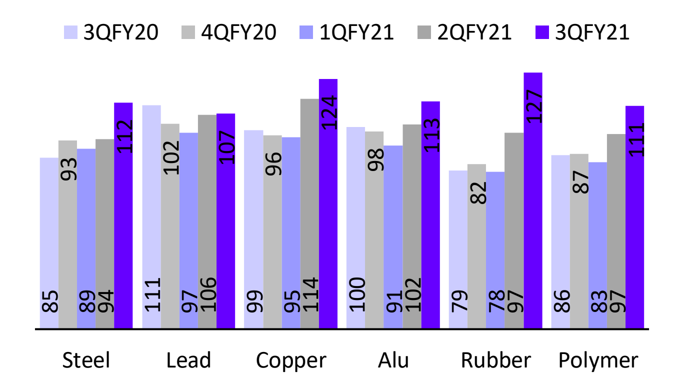
Volume snapshot for 3QFY21 ('000 units)

	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Two-wheelers	6,070	5,100	19.0	5,451	11.3	13,150	16,567	-20.6
Three-wheelers	214	310	-31.0	148	44.5	425	897	-52.6
Passenger cars	676	593	14.0	460	47.1	1,238	1,693	-26.9
UVs and MPVs	431	365	18.0	322	33.7	833	960	-13.2
Total PVs	**1,107**	**958**	**15.5**	**782**	**41.6**	**2,071**	**2,653**	**-21.9**
M&HCVs	55	60	-8.0	27	100.6	88	194	-54.6
LCVs	147	144	1.5	116	26.6	292	405	-27.9
Total CVs	**202**	**204**	**-1.3**	**143**	**40.8**	**380**	**599**	**-36.5**
Tractors	253	207	22.0	235	7.5	634	565	12.3
Total (ex-Tractors)	**7,592**	**6,573**	**15.5**	**6,524**	**16.4**	**16,027**	**20,716**	**-22.6**

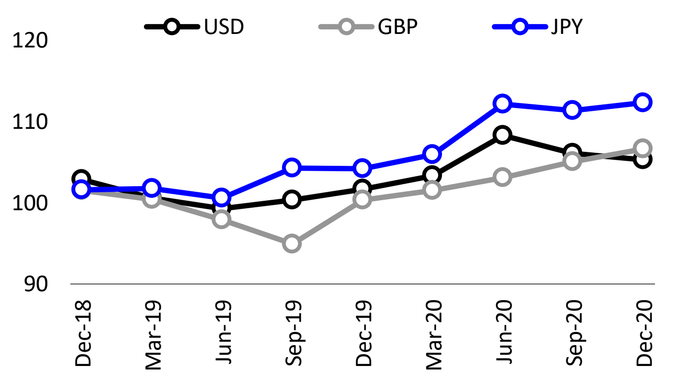
Trend in segment-wise EBITDA margins (%)



Commodity prices reasonably stable

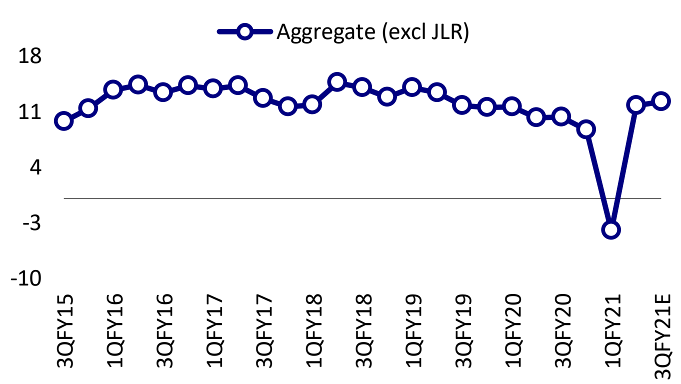


Trend in key currencies v/s INR (average, indexed)



Source: Bloomberg, MOFSL

Margins to contract YoY/QoQ



Source: Company, MOFSL

Revised estimates

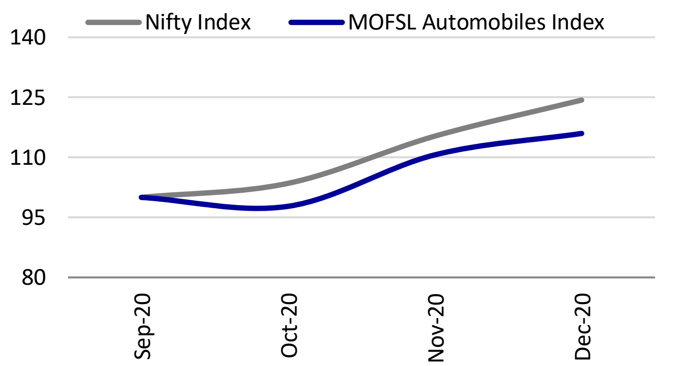
	FY21E			FY22E		
	Rev	Old	Change (%)	Rev	Old	Change (%)
Bajaj Auto	153.9	157.2	-2.1	196.8	197.9	-0.6
Hero MotoCorp	142.2	147.1	-3.3	176.0	190.9	-7.8
TVS Motor Company	9.9	9.8	0.7	20.2	19.9	1.3
Eicher Motors*	50.7	54.0	-6.1	83.5	85.6	-2.4
Maruti Suzuki*	191.8	171.4	11.9	275.5	273.8	0.6
M&M (including MVML)	31.4	32.4	-3.1	35.7	38.8	-8.2
Tata Motors*	-13.9	-14.8	6.0	14.9	11.7	28.0
Ashok Leyland	0.0	0.4	-98.5	4.1	3.7	11.0
Escorts	81.8	78.6	4.1	90.4	85.3	6.0
Amara Raja	37.4	37.2	0.5	41.9	42.3	-0.8
Bharat Forge*	5.2	4.3	20.1	17.1	15.3	11.3
BOSCH	296.8	301.6	-1.6	448.1	429.7	4.3
Ceat	82.5	86.9	-5.1	99.0	97.0	2.1
Endurance Technologies*	30.7	32.3	-5.1	48.3	48.7	-0.9
Exide Industries	8.5	8.0	6.2	10.2	10.6	-3.5
Mahindra CIE*	2.4	3.2	-25.9	10.8	10.8	0.3
Motherson Sumi Systems*	2.0	1.7	13.9	6.8	5.9	14.5

*Consolidated

Industry recovering from COVID-19 impact

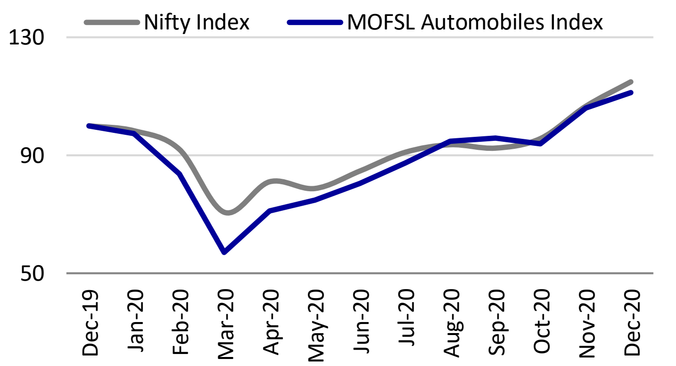
	Volumes ('000 units)			EBITDA margins (%)			Adjusted PAT (INR m)		
	3QFY21E	YoY (%)	QoQ (%)	3QFY21E	YoY (bp)	QoQ (bp)	3QFY21E	YoY (%)	QoQ (%)
BJAUT	1,307	8.7	24.1	17.5	-40	-20	13,901	10.2	22.1
HMCL	1,845	19.8	1.7	13.4	-150	-40	9,518	8.1	-0.2
TVSL	990	20.4	14.0	9.0	20	-40	2,328	28.8	18.6
MSIL	496	13.4	26.1	11.3	110	100	20,322	29.9	48.2
MM	224	3.3	20.9	16.0	130	-120	12,781	30.3	-2.5
TTMT (Standalone)	158	22.3	43.3	7.0	1,220	410	-3,698	-78.3	-68.3
TTMT (JLR) *	114	-22.9	24.4	11.3	50	20	90	-75.8	-22.9
TTMT (Consolidated)				9.8	-20	-80	768	-95.6	-124
AL	33	7.1	71.8	6.7	110	390	873	199.3	-159.8
EIM (RE)	200	9.2	32.7	23.9	-130	110	5,048	3.2	39.9
EIM (VECV)	13	3.3	56.8	8.1	200	120	707	56.9	NA
EIM (Consolidated)				23.9	-130	110	5,317	6.6	54.9
Aggregate (ex-JLR)	**5,266**	**15.1**	**14.4**	**12.2**	**200**	**50**	**61,342**	**66.2**	**53.3**

Relative performance – three-months (%)



Source: Bloomberg, MOFSL

Relative performance – one-year (%)



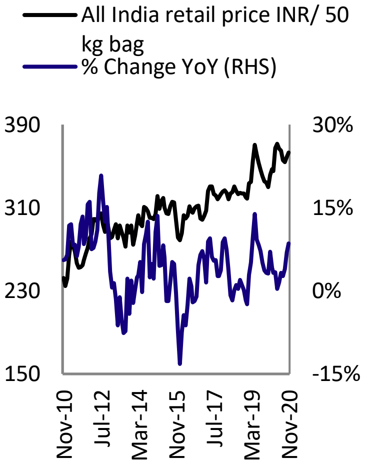
Source: Bloomberg, MOFSL

Comparative valuation

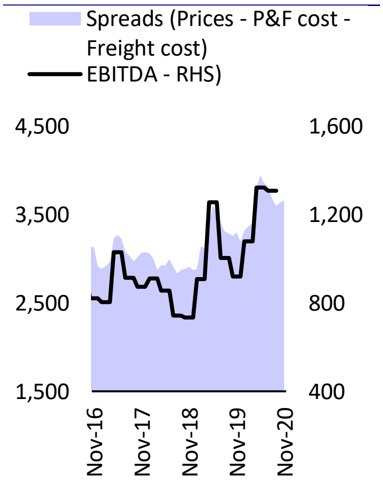
Company	CMP (INR)	Rating	EPS (INR)			P/E (x)			P/B (x)			RoE (%)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Automobiles						**48.8**	**21.5**	**16.8**	**3.4**	**3.0**	**2.7**	**6.9**	**14.0**	**15.9**
Amara Raja Batt.	926	Neutral	37.4	41.9	48.3	24.7	22.1	19.2	3.9	3.5	3.1	16.5	16.6	17.1
Ashok Leyland	99	Buy	0.0	4.1	6.4	17,812	24	15.4	4.0	3.6	3.1	0.0	15.6	21.7
Bajaj Auto	3,483	Neutral	153.9	196.8	214.7	22.6	17.7	16.2	4.7	4.2	3.7	21.4	24.8	24.1
Bharat Forge	538	Buy	5.2	17.1	23.7	103.1	31.5	22.7	4.6	4.1	3.7	4.5	13.8	17.1
Bosch	12,991	Neutral	296.8	448.1	519.6	43.8	29.0	25.0	4.0	3.6	3.3	9.3	13.1	13.7
CEAT	1,094	Buy	82.5	99.0	114.2	13.3	11.1	9.6	1.4	1.3	1.1	11.0	12.0	12.4
Endurance Tech.	1,350	Buy	30.7	48.3	57.3	44.0	28.0	23.5	5.7	5.0	4.4	13.7	19.2	19.8
Eicher Motors	2,542	Buy	50.7	83.5	105.7	50.1	30.4	24.1	6.3	5.4	4.6	13.2	19.2	20.6
Escorts	1,288	Neutral	81.8	90.4	99.1	15.7	14.2	13.0	2.6	2.2	1.9	20.5	17.0	15.9
Exide Inds.	191	Buy	7.9	10.2	12.3	24.2	18.8	15.6	2.4	2.3	2.1	10.1	12.1	13.2
Hero Motocorp	3,099	Buy	140.5	176.0	199.8	22.1	17.6	15.5	4.2	4.0	3.7	19.5	23.4	24.9
Mahindra & Mahindra	733	Buy	30.5	37.6	41.3	24.0	19.5	17.8	2.3	2.1	2.0	9.5	10.4	11.1
Mahindra CIE	174	Buy	2.4	10.8	13.2	72.4	16.1	13.1	1.4	1.3	1.2	1.9	8.3	9.3
Maruti Suzuki	7,692	Buy	174.7	275.5	345.5	44.0	27.9	22.3	4.5	4.0	3.6	10.2	14.3	16.1
Motherson Sumi	164	Buy	2.0	6.8	8.7	83.3	24.2	18.9	4.4	3.9	3.4	5.4	17.2	19.4
Tata Motors	186	Buy	-13.9	14.9	26.4	-13.4	12.5	7.1	1.2	1.1	0.9	-8.2	9.2	14.2
TVS Motor	491	Neutral	9.9	20.2	26.2	49.6	24.3	18.7	6.0	5.0	4.2	12.5	22.5	24.4

Cement

All-India prices up 7% YoY



Cement spreads remain strong in 3QFY21



Busy season demand kicking in

Expect price hikes to follow

Our channel checks indicate the seasonal uptick in demand is playing out as expected, with volumes bouncing back in the last few weeks from the weakness seen in November (due to festive holidays). While prices weakened in December (falling 3% MoM), we expect recovery in the next few weeks as peak season demand sets in. Cost inflation from higher fossil fuel prices (petcoke, coal, and diesel) should be offset, in our view, by price hikes, keeping margins in 4QFY21 at elevated levels. We remain constructive on the sector and expect our Coverage Universe EBITDA to grow 37% YoY in 2HFY21 – as demand and margins remain above consensus estimates. UltraTech is our top large-cap pick and Dalmia Bharat our top mid-cap pick.

- **In 3QFY21, we estimate volumes for our Coverage Universe to grow 7% YoY, with higher growth for North and East based companies (JK Cement, Shree). We expect unitary EBITDA to rise 33% YoY to INR1,225/t (-6% QoQ) on higher cement price (+7% YoY).**
- **As per our channel checks, volumes are growing >10% YoY in the North, East, and Central regions of India. While demand has remained weak in South and Maharashtra, it has recovered strongly from the 15–20% YoY decline seen in 2QFY21.**
- **In 3QFY21, all-India average price rose 7% YoY to INR350/bag, led by a 17% increase in South and 6–7% in North, Central, and West, even as East was flat.**
- **All-India price, however, has been flat QoQ on 3% MoM decline in December across regions. On a QoQ basis, price was +3%/+2%/0%/-1%/-5% in North/Central/West/South/East in 3QFY21. East posted sharp decline – 6%/7%/8%/5% QoQ decline was seen in Bihar/Jharkhand/Odisha/West Bengal due to new capacities and higher inter-regional flow of material from South.**
- **Variable cost has risen in 3QFY21 on account of higher costs of petcoke (+16% YoY), diesel (+14% YoY), and raw material (slag). Despite this, we estimate total costs/t to have declined ~2% YoY due to lower fixed costs as well as operating leverage benefits.**

Volumes expected to be up 7% YoY in 3QFY21

- Cement industry volumes have remained strong on the back of rural housing and a pickup in government spending (particularly in East and North). November demand growth, however, tapered due to festive holidays (Diwali, Chhath) and workers returning to their villages for the same. Our channel checks indicate demand has picked up once again from the second half of December as seasonal improvement in construction activity kicks in.
- Demand in East has been particularly strong, supported by pre-election spending by the state governments in West Bengal and Assam. Odisha, on the other hand, has seen an uptick in industrial infra demand.
- In 3QFY21, we estimate volumes for our Coverage Universe to have grown 7% YoY, with higher growth for North and East based companies – 23% for JK Cement and 14% for Shree. South-based companies India Cement and Ramco are expected to continue to see volume decline of 10% and 5%, respectively.

South – production discipline going strong

- The Cement industry in South has exhibited a strong production discipline in the past year in the face of weak volumes.
- Prices in South were up ~INR58/bag, or 17% YoY, to INR383/bag in 3QFY21. Prices were up 39%/11%/14%/11% YoY in Andhra Pradesh / Tamil Nadu / Karnataka / Kerala.
- On a QoQ basis, prices were down 1% QoQ as hikes in Nov were offset by decline of 6% MoM in Dec in Kerala and 1–2% in other states.

North and Central – only regions with QoQ price hikes in 3QFY21

- Demand is North and Central was strong, particularly in October, when some states saw >20% YoY volume growth. While the ongoing farmer agitation in North caused some logistical issues in November, this has now been resolved.
- Prices in North have risen by 3%/7% QoQ/YoY to INR383/bag, led by sharp hikes seen in October (as demand was strong).
- Prices in Central have also risen by 2%/6% QoQ/YoY to INR351/bag, led by hikes in both Uttar Pradesh and Madhya Pradesh.

West – mixed demand trends; prices remain flat QoQ

- Cement demand in Maharashtra has been among the most impacted in the country due to the COVID-19 pandemic. The state has continued to see some decline in demand, although lower than the ~20% YoY decline in 2QFY21. Demand in Gujarat has been good, with volume growth of 5–10% YoY.
- Price was up 1%/11% QoQ/YoY to INR351/bag in Maharashtra in 3QFY21, but declined 1% QoQ (+3% YoY) to INR348/bag in Gujarat. As a result, prices in West were flat QoQ at INR350/bag (+7% YoY).

East – weakest pricing among the regions

- Demand in East has been the strongest among the regions at >10% YoY, supported by government spending (particularly in West Bengal, Assam, and Odisha) as well as improved labor availability.
- However, due to aggressive expansions undertaken by various players, East has seen the weakest pricing among the regions in the past three years – current prices are the lowest in the last three years. The rest of the country, meanwhile, has seen an over 10% increase in prices in the past three years.
- Price in East has declined ~INR45/bag since May'20. It declined ~5% QoQ in 3QFY21 due to a sharp INR20–25/bag MoM decline across states in Dec.
- In 3QFY21, price in Bihar / Jharkhand / Odisha / West Bengal declined 6%/7%/8%/5% QoQ.

Costs – increase in power and fuel to be offset by lower fixed cost

- Lower petcoke price has been a tailwind for the Cement sector. It aided decline in power and fuel cost for the fifth successive quarter in 2QFY21 (by 18% YoY). However, this is now set to reverse as petcoke price has risen substantially.
- Petcoke price was up 46% YoY to USD98/t in December (up 63% v/s Apr'20). To mitigate the impact of higher petcoke price, cement producers increased the use of imported coal, but even this firmed up by 31% MoM (13% YoY) in

December. We estimate an INR60–70/t, or ~7% QoQ, increase in power and fuel cost in 3QFY21. It would rise further in 4QFY21 as low-cost inventory gets diluted in 3QFY21.

- Diesel price was up 14% YoY in 3QFY21 due to an increase in duties levied by the government. Lower rail freight and steps undertaken by the industry to optimize logistic cost have, however, neutralized the impact of higher diesel price.
- 1HFY21 saw ~10% decline in other expenses due to savings on fixed costs (such as travel, administration, repairs, and advertising and promotions). While these spends should gradually normalize, we expect them to remain low even in 2HFY21. Lower fixed costs and higher operating leverage (from strong volumes) should largely neutralize the increase in power and fuel cost and lead to marginally lower total costs YoY even in 3QFY21.

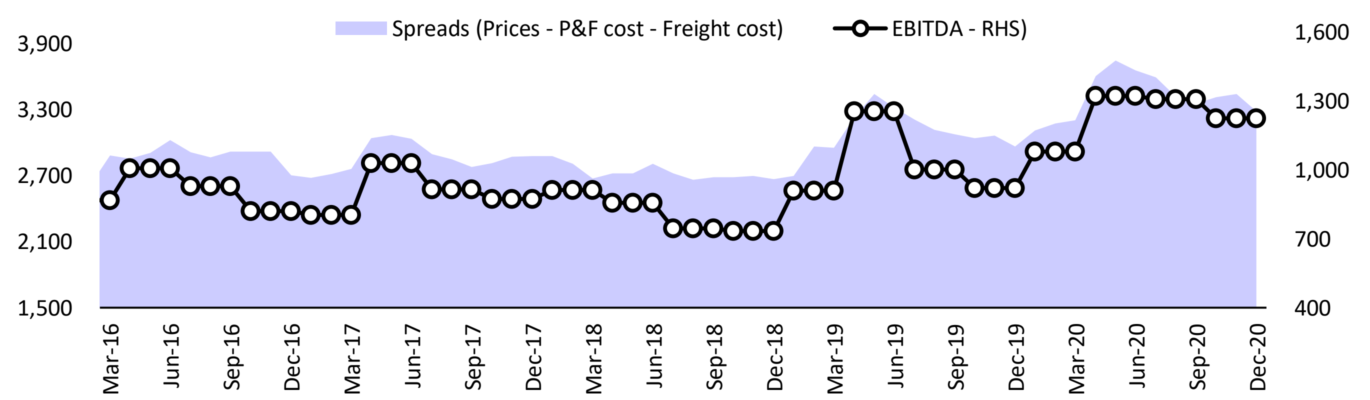
Top picks – UltraTech and Dalmia Bharat

- While we are structurally positive on the industry outlook, we prefer North and Central as these markets have a higher clinker utilization of over 80%.
- We adopt a bottom-up stock-picking approach and prefer companies that: a) are moving down the cost curve, b) have the potential to gain market share, and c) provide valuation comfort.
- UltraTech is our top large-cap pick, while Dalmia Bharat is the top mid-cap pick. We also like ACC as a value pick, but do not see much upside in Shree, Ramco, and Ambuja, whose potential market share gains are already priced in.

Cement: Valuation summary

	Mcap (USD b)	CMP (INR)	TP (INR)	Rating	P/E (x)		EV/EBITDA (x)		EV/t (x)		P/BV	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
UTCEM	21.0	5,343	6,240	Buy	29.6	24.7	14.9	13.1	201	187	3.3	3.0
SRCM	11.8	23,894	24,900	Neutral	34.5	34.8	19.5	16.5	234	218	5.7	4.9
ACEM	6.9	254	250	Neutral	19.3	20.1	11.3	11.4	141	138	1.7	1.6
ACC	4.2	1,645	1,980	Buy	22.0	19.5	9.5	8.2	102	93	2.5	2.2
TRCL	2.6	793	805	Neutral	21.4	22.7	12.5	12.6	133	131	3.3	2.9
DALBHARA	2.9	1,116	1,310	Buy	25.9	25.6	9.0	8.3	107	88	1.9	1.8
JKCE	2.2	2,093	2,250	Buy	25.8	20.3	11.4	9.8	139	135	4.6	3.9
BCORP	0.8	732	935	Buy	9.1	8.9	5.1	6.0	65	67	1.1	1.0
ICEM	0.7	175	168	Neutral	24.9	31.8	10.1	10.9	72	71	1.0	0.9
JKLC	0.5	342	445	Buy	13.1	13.0	6.2	5.8	47	45	2.0	1.7

Cement spreads remain strong in 3QFY21 (INR/t)



Source: MOFSL; EBITDA/t is actual reported for our coverage

Godrej Consumer Products

BSE SENSEX	S&P CNX
48,438	14,200

CMP: INR760 TP: INR790 (+4%) Neutral

Strong momentum in the domestic business continues

Highlights from GCPL's pre-quarterly update for 3QFY21

- **Macros:** Demand trends in categories across key countries that it operates in remained stable.
- **In India,** it expects to deliver **close to low double-digit sales growth**, led by **higher-single digit volume growth**.
  - Expects **Soaps** to deliver strong mid-teen growth.
  - Expects **Hair Colors** to deliver mid-teen growth after following a sharp recovery
  - Expects **Household Insecticides** to deliver high single-digit growth.
  - Robust scale up in its Personal and Home Hygiene categories continue.
- **In Indonesia,** the management expects a **marginal decline in constant currency (CC) sales,** led by challenging macroeconomic variables, a gradual recovery in Air Fresheners, and high competitive intensity in Wet Wipes.
- **In GAUM (Godrej Africa, the US and the Middle East),** growth momentum continued across most of its key countries of operation. It expects to deliver **high teen CC sales growth**, a second consecutive quarter of double-digit sales growth.
- **Within the 'others' geographies,** sales growth in its Latin America business is expected to remain strong in CC terms. SAARC business too continues to deliver healthy sales growth.
- **At the consolidated level, the management expects to deliver close to low double-digit YoY sales growth in 3QFY21.**
- **Valuation and view:** Over FY10-20E, GCPL posted healthy growth on all fronts. However, the slowdown in domestic sales in recent years, the continued inability to scale up margin, and the weak RoCE in the international business has adversely affected the pace of earnings growth. The loss of dominance in Hair Color, the advent of unorganized incense stick players in HI, and weak execution in the Africa business remains points of worry. Although close to double-digit topline performance in 3QFY21 is encouraging, it is on a soft base of 2% sales growth in 3QFY20. We need to watch out for management commentary to determine the sustainability of its performance. **Given the uncertain outlook and inferior RoCE v/s peers, valuations at 40x Dec'22E EPS appear fair.**

Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1,022
M.Cap.(INRb)/(USDb)	776.9 / 10.6
52-Week Range (INR)	772 / 425
1, 6, 12 Rel. Per (%)	0/-29/-6
12M Avg Val (INR M)	1117
Free float (%)	36.8

Financials Snapshot (INR b)

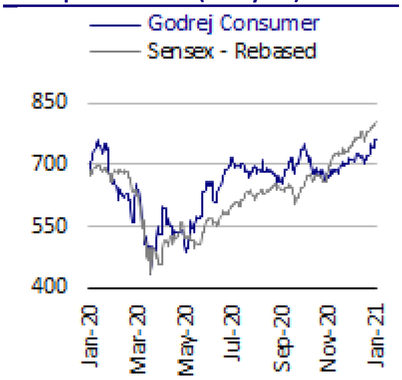
Y/E Mar	2020	2021E	2022E
Sales	99.1	108.7	117.8
Sales Gr. (%)	-3.9	9.6	8.4
EBITDA	21.4	24.3	27.0
Margin (%)	21.6	22.3	22.9
Adj. PAT	14.5	16.7	18.5
Adj. EPS (INR)	14.2	16.3	18.1
EPS Gr. (%)	-2.9	15.4	10.9
BV/Sh.(INR)	77.3	77.7	77.7
Ratios			
RoE (%)	19.1	21.1	23.3
RoCE (%)	15.4	16.1	17.8
Payout (%)	56.5	81.6	83.6
Valuations			
P/E (x)	53.6	46.5	41.9
P/BV (x)	9.8	9.8	9.8
EV/EBITDA (x)	37.5	32.9	29.6
Div. Yield (%)	1.1	1.8	2.0

Shareholding pattern (%)

As on	Sep-20	Jun-20	Sep-19
Promoter	63.2	63.2	63.2
DII	3.1	3.2	2.2
FII	26.8	26.8	27.8
Others	6.9	6.8	6.7

FII Includes depository receipts

Stock performance (one-year)



HDFC Bank

BSE SENSEX	S&P CNX
48,438	14,200

HDFC BANK

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5,504
M.Cap.(INRb)/(USDb)	7855 / 106.6
52-Week Range (INR)	1464 / 739
1, 6, 12 Rel. Per (%)	-4/-2/-4
12M Avg Val (INR M)	15980
Free float (%)	78.8

Financials Snapshot (INR b)

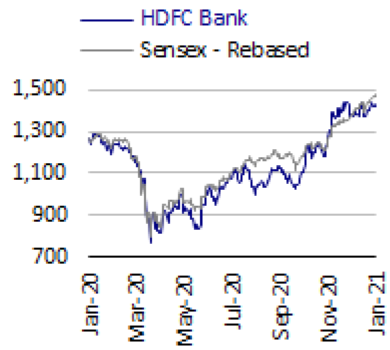
Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	648.1	740.8
OP	487.5	568.1	674.0
NP	262.6	305.1	372.3
NIM (%)	4.2	4.1	4.1
EPS (INR)	48.0	55.6	67.9
EPS Gr. (%)	21.2	15.8	22.0
BV/Sh. (INR)	311.8	357.9	415.5
ABV/Sh. (INR)	300.3	343.6	397.3
Ratios			
RoE (%)	16.4	16.6	17.6
RoA (%)	1.9	1.9	2.0
Valuations			
P/E(X)	29.7	25.6	21.0
P/BV (X)	4.6	4.0	3.4
P/ABV (X)	4.7	4.2	3.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	21.2	21.2	21.3
DII	18.6	18.0	17.3
FII	49.1	48.8	49.4
Others	11.1	12.0	12.1

FII Includes depository receipts

Stock Performance (1-year)



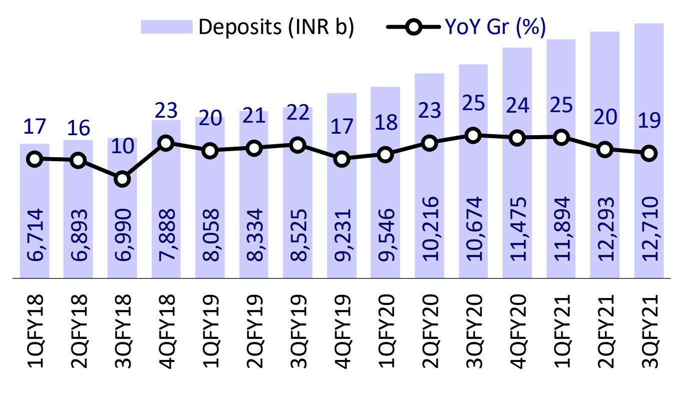
CMP: INR1,426 TP: INR1,650 (+16%) Buy

Business growth remains robust; CASA mix improves further

HDFC Bank released its quarterly update highlighting key business numbers for 3QFY21. The following are the key takeaways:

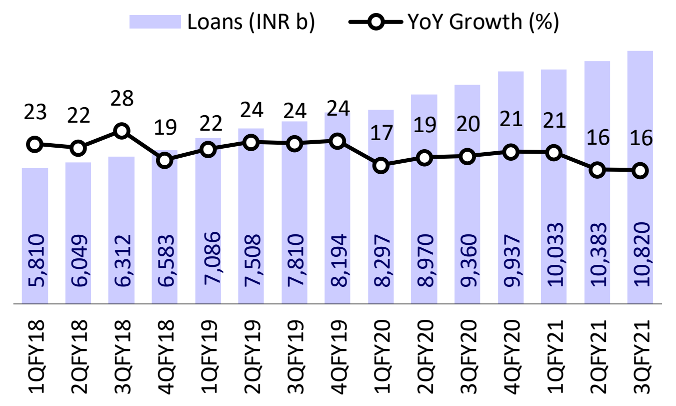
- Business growth showed strong momentum in 3QFY21, with total advances growing ~15.6% YoY (~4.2% QoQ) to ~INR10.8t, aided by a strong festive season. It posted a +8.9% YTD growth over 9MFY21 v/s ~2% for the system.
- The bank's deposit base increased to ~INR12.7t, up 19.1% YoY/3.4% QoQ.
- CASA ratio increased 140bp QoQ (+350bp YoY) to 43%. This implies ~30% YoY (~7% QoQ) growth in CASA deposits, while term deposits grew ~1% QoQ (12% YoY). This would enable HDFCB to maintain a stable margin trajectory, aided by an improving CASA mix and strong loan growth trends.
- During the quarter, it purchased loans aggregating to INR70.8b (INR30.3b in 2QFY21 and INR42.6b in 3QFY20) through the direct assignment route from HDFC.
- **Valuation and view:** HDFCB continues to deliver strong growth in advances, which is likely to support fee income. Deposit trend remains strong, led by CASA, which would continue to support the margin trajectory. Though slippages are likely to increase over 2HFY21, HDFCB carries a high provision buffer which would keep credit cost under control and limit the impact on profitability. Maintain Buy, with a TP of INR1,650 per share (3.6x Sep'22E ABV).

Deposit growth remains robust at 19.1% YoY (+3.4% QoQ)



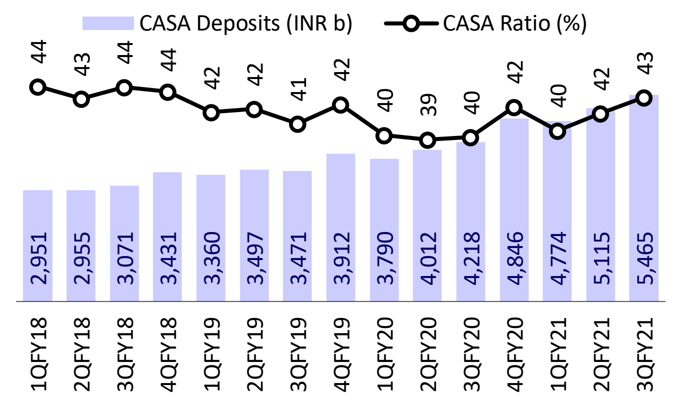
Source: MOFSL, Company

Loan growth came in at 15.6% YoY (+4.2% QoQ)



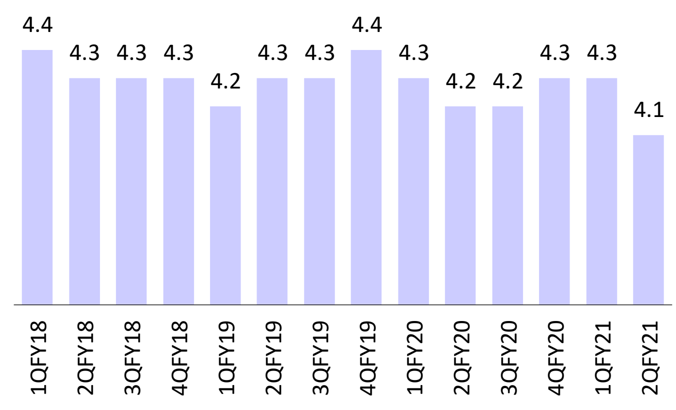
Source: MOFSL, Company

CASA ratio increases 140bp QoQ to 43%



Source: MOFSL, Company

NIM stands at 4.1% as on 2QFY21



Source: MOFSL, Company

IndusInd Bank

BSE SENSEX	S&P CNX
48,438	14,200

IndusInd Bank

Stock Info

Bloomberg	IIB IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	697.7 / 9.3
52-Week Range (INR)	1587 / 236
1, 6, 12 Rel. Per (%)	-7/55/-57
12M Avg Val (INR M)	12935
Free float (%)	86.6

Financials Snapshot (INR b)

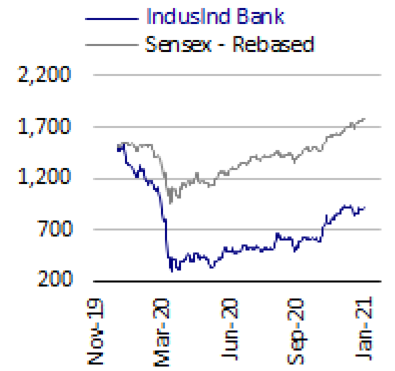
Y/E MARCH	FY20	FY21E	FY22E
NII	120.6	132.6	146.3
OP	107.7	114.1	122.8
NP	44.2	23.8	48.5
NIM (%)	4.6	4.7	4.5
EPS (INR)	68.2	32.8	64.1
BV/Sh. (INR)	497.9	523.0	576.6
ABV/Sh. (INR)	478.2	506.8	556.6
Ratios			
RoE (%)	14.5	6.5	11.7
RoA (%)	1.5	0.7	1.3
Valuations			
P/E (X)	13.5	28.1	14.4
P/BV (X)	1.9	1.8	1.6
P/ABV (X)	1.9	1.8	1.7

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	13.5	13.3	13.0
DII	15.8	13.4	15.6
FII	55.9	56.5	56.6
Others	14.9	16.9	14.8

FII Includes depository receipts

Stock Performance (1-year)



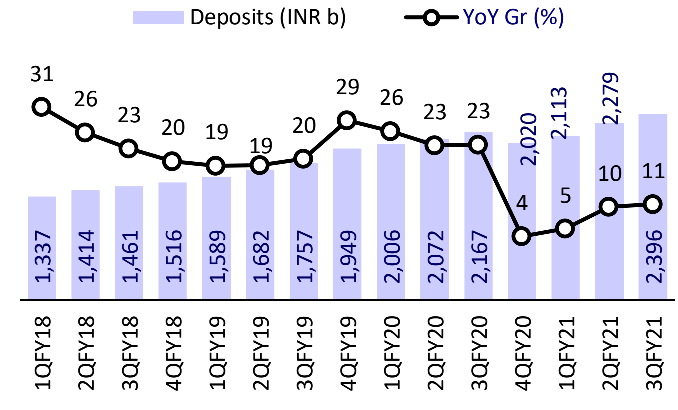
CMP: INR922 TP: INR850 (-8%) Buy

Deposits remain strong, loan growth picks up sequentially

IndusInd Bank (IIB) released its quarterly update highlighting key business numbers for 3QFY21. The following are the key highlights:

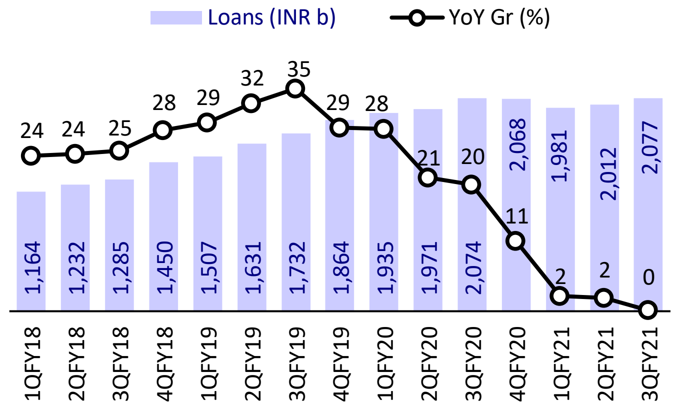
- **Growth in advances remained flat YoY ~INR2.1t. However, the bank reported an uptick in sequential loan growth (3.2% QoQ) aided by festive season and improved demand.**
- **IIB continued to show strong momentum in deposits, which grew by 5.1% QoQ (10.6% YoY) to ~INR2.4t. This was led by CASA deposits, which grew at 5.7% QoQ (5.6% YoY). The CASA mix improved by 20bp QoQ to 40.5%. The CD ratio narrowed to 86.7% v/s 88.3% in 2QFY21.**
- **Retail deposits and deposits from small business customers grew at 13.6% QoQ to INR859b. This implies that the management is continuing to focus strongly on garnering a retail deposit base.**
- **Valuation and view:** We expect loan growth to remain muted over FY21E, led by weak environment and cautious approach by the management, while deposit traction remains strong. Margin is likely to remain in a narrow range. IIB reported overall collection efficiency of 94.7%. The same for MFI stands at ~93% and guided at a restructuring book of low-single digits. The bank has shored up its PCR to ~77% and carries total COVID-related provisions of INR21.5b (1.1% of loans). We, nevertheless, estimate credit cost to remain elevated at 3.7% for FY21E. Maintain Buy with a TP of INR850/share (1.4x Sep'22E ABV).

Sequentially strong deposit growth ~8%



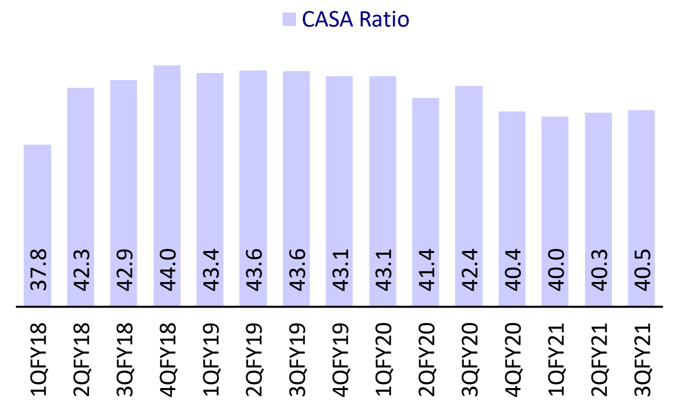
Source: MOFSL, Company

Loan growth picks up sequentially



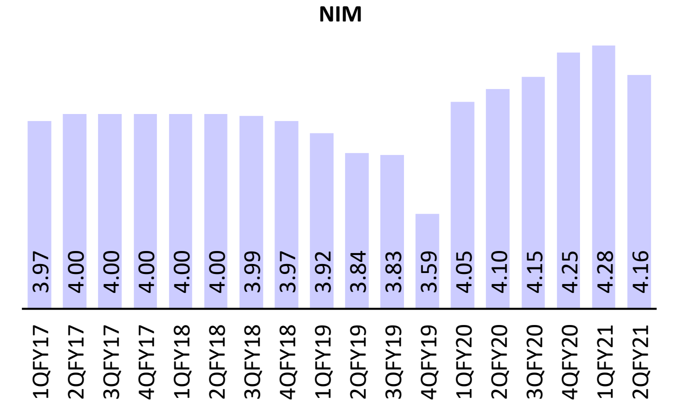
Source: MOFSL, Company

CASA ratio improves to 40.5%



Source: MOFSL, Company

NIMs at 4.16% as of 2QFY21



Source: MOFSL, Company

Healthcare

Performance of top companies: Dec'20

Company	MAT gr (%)	Dec'20 (%)
IPM	3.1	8.5
Ajanta	18.8	18.3
Glenmark	13.6	17.0
Cipla	15.3	16.6
Jb Chemicals	22.4	15.8
Eris LS	18.3	15.7
Cadila	14.0	15.5
Ipca	16.6	12.4
Sanofi India	10.4	11.5
Zydus	11.6	10.6
Intas	10.7	9.2
Lupin	11.4	8.0
Torrent	11.0	7.8
Alkem	8.2	7.7
Abbott	10.0	7.5
Sun Pharma	7.9	6.6
Dr Reddy's	6.2	4.8
Pfizer	7.5	3.2
FDC	5.1	3.2
Alembic	1.2	3.0
Glaxo	3.8	1.6
Indoco Remedies	5.0	0.9
Natco	-23.4	-30.4

For Dec'20: IPM YoY growth accelerates again

- IPM growth increased to 8.5% YoY in Dec'20 v/s 1.0% YoY in Nov'20.
- The Gastro, Cardiac, and VMN therapies posted YoY growth of 16.2%, 14.9%, and 14%, respectively.
- The Anti-Infectives therapy is back on the growth path with a 5.2% YoY increase in Dec'20 v/s flat sales YoY in Nov'20.
- Respiratory sales remained on the downtrend with 8.7% YoY decline in Dec'20.
- NLEM (~17% of IPM) grew 6.3% YoY and non-NLEM (~83% of IPM) 9.0% YoY.

For the quarter ended Dec'20: Price/NP growth offsets volume decline

- For the quarter ended Dec'20, YoY growth stood at 6.4% YoY.
- YoY price growth of 4.9% and NP growth of 3.4% was offset, to some extent, by YoY volume decline of 1.9%.
- The Cardiac, VMN, and Gastro therapies posted YoY increase of 14.5%, 14.5%, and 11%, respectively.
- Decline in Respiratory sales at the rate of 7.4% YoY was observed.
- For the quarter ended Dec, NLEM (~17% of IPM) grew 3.6% YoY and non-NLEM (~83% of IPM) 7% YoY.

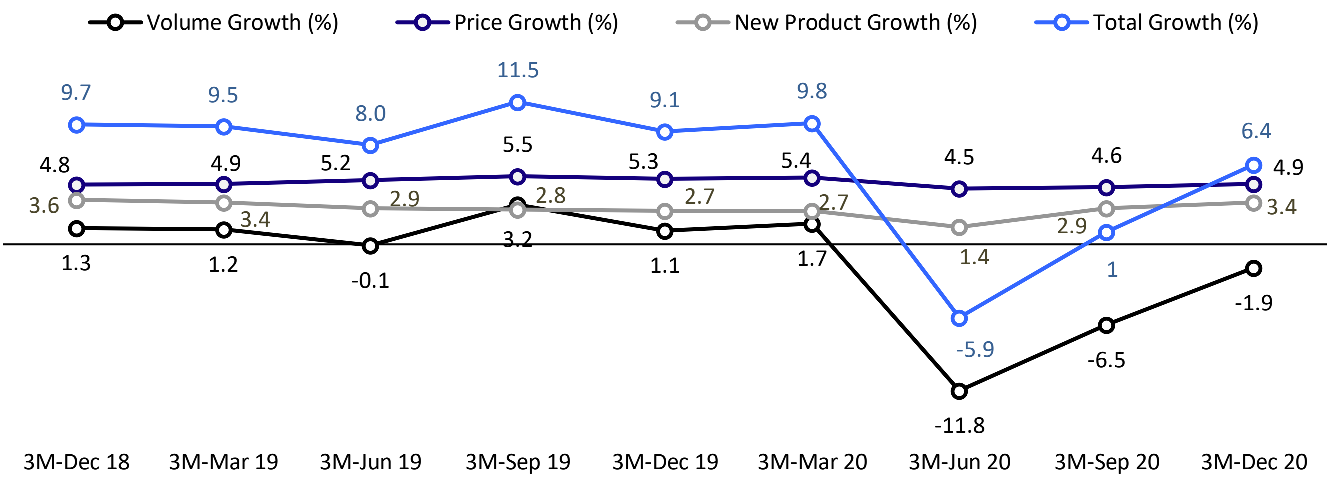
MAT basis, Cardiac/Anti-Diabetic/VMN led growth

- On a MAT basis, industry growth came in at 3.1% YoY.
- Non-NLEM (~83% of IPM) products and NLEM (17% of IPM) products grew 3.1% YoY and 2.7% YoY, respectively.
- Cardiac/Anti-Diabetic/VMN grew 13.4%/7.8%/6.6% YoY.
- Gynaec/Pain/Anti-Infectives sales declined 3.5%/2.8%/2% YoY, impacting overall growth.

JB Chemicals, Ajanta, and Eris LS top performers for Dec'20

- Among the top 20 corporates, JB Chemicals (+22.4% YoY), Ajanta (+18.8% YoY), and Eris LS (18.3% YoY) delivered robust growth for Dec'20.
- Natco posted the highest decline of 23.4% YoY for Dec'20.

Prices and NP grow, while volumes decline for quarter ended Dec'20



Source: AIOCD, MOFSL

Tata Motors: Momentum restored as inventory falls but headwinds on cost side; Shailesh Chandra, President-PV business

- Grew 89% in Q3. Sold 1.38 lakh units since April
- Have already surpassed FY20 sales. Looking at strong growth in FY21
- Lowest inventory at the start of Q4. Will sustain growth momentum in Q4
- Rural sales contributing 37% of total sales. Urban sales have been much stronger in terms of growth
- BS-VI price rise, commodity costs have hit margin
- Foreign exchange and high steel prices have impacted margin. Increase in costs have been to extent of 5% of revenue
- Working on cost reduction but not possible to offset price increase
- Price increase is imminent and will be announced soon
- Doubled capacity utilisation at company
- Petrol engine manufacturing had to be ramped up
- Seeing even output from all three Tata Motors plants

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Ashok Leyland: FY22 to be a growth year; passing on pressure of rising input prices; Anuj Kathuria, COO

- Seeing month-on-month improvement in sales
- Seeing continued demand from intermediate commercial vehicles and tippers
- Q3 was a good quarter for us. Expect demand to remain good going forward
- Road and construction segment demand likely to continue into Q4
- Last mile e-commerce segment continues to see good demand
- Need to see if revival in long haul segment demand sustains
- Fy22 will definitely be better than FY21, given the low base
- BS-VI products are now established in the market
- Raw material inflation is exerting some pressure but don't think it can deter demand

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IDFC First Bank: MSME business back to pre-COVID levels; things changed due to liquidity availability; V. Vaidyanathan, MD & CEO

- Things have sharply changed due to liquidity being available for MSME in last 3 months
- Consumer finance demand is flat on a yearly basis
- Collection efficiency is back to 95-100% of pre-COVID levels for the system
- MSME business is back to 65-68% of pre-COVID levels
- 80,000 retail customers took restructuring worth Rs. 700 crore
- Expect retail restructuring to go up to Rs. 1000 crore by March 2021
- Expect restructuring of 2-2.5% of the book
- Housing & consumption is the biggest credit growth right now
- Will see loan growth from this year onward

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Affle India: Expect strong trends to continue in 2021; Anuj Khanna Sohum, CMD & CEO

- Company saw a bounce back after COVID; have done very well in 2020
- More money is been now allocated towards digital ads
- Top 10 customers ad budget shifting more towards digital over traditional advertising
- Company did very well in 2020; expect strong trends to continue in 2021
- Company growing on all parameters. 50% of business comes from India, 50% comes from Ems
- Company has been growing on cash flows as well
- Q3 was the best quarter of FY21
- We are holding on the pricing currently

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M&M Finance: Light CV picking up due to essential goods transportation; no demand yet in medium, heavy CVs; Ramesh Iyer, VC & MD

- Light CV is picking up due to essential goods transportation
- Not seeing pick-up in medium & heavy commercial vehicles
- Seeing demand in car financing
- Consumers are coming to dealerships, seeing increase in footfalls
- Tractors are seeing good demand due to pick-up in farm income
- December was not as good as October-November due to festive demand earlier
- People will not be able to service their debts on time going ahead
- Earnings of people are not back to pre-COVID levels
- There will be increase in overdues leading to provision increase in bucket 0, 1 & 2

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Westlife Development: Will grow via adjacencies like McCafe; plan to enter tier-II & tier-III cities; Amit Jatia, VC

- Business has been on an uptrend QoQ
- People have continued to consume our products
- Opened four stores in the last few months; have some stores under construction as well
- Will be back to opening 30-35 restaurants per year from next year
- Cities that had opened earlier are at 90-105% of sales
- Will grow via adjacencies like McCafe and other similar kind
- Plan to enter Tier-II and III cities

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