Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	33,304	2.7	-19.3
Nifty-50	9,826	2.6	-19.2
Nifty-M 100	13,685	3.1	-20.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,056	0.4	-5.4
Nasdaq	9,552	0.7	6.5
FTSE 100	6,166	1.5	-18.2
DAX	11,587	0.0	-12.5
Hang Seng	9,834	2.9	-11.9
Nikkei 225	22,062	0.8	-6.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	37	1.7	-43.9
Gold ($/OZ)	1,740	0.5	14.6
Cu (US$/MT)	5,458	2.0	-11.2
Almn (US$/MT)	1,509	-1.1	-15.3
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.5	-0.1	5.8
USD/EUR	1.1	0.3	-0.7
USD/JPY	107.6	-0.2	-0.9
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	0.01	-0.8
10 Yrs AAA Corp	7.1	-0.20	-0.5
Flows (USD b)	**1-Jun**	**MTD**	**CYTD**
FIIs	0.21	1.53	-5.32
DIIs	-0.06	1.29	11.39
Volumes (INRb)	**1-Jun**	**MTD***	**CYTD***
Cash	663	667	480
F&O	11,003	11,003	14,188

Note: *Average

Today's top research theme

India Strategy: Chart-book –Evaluating markets through key charts

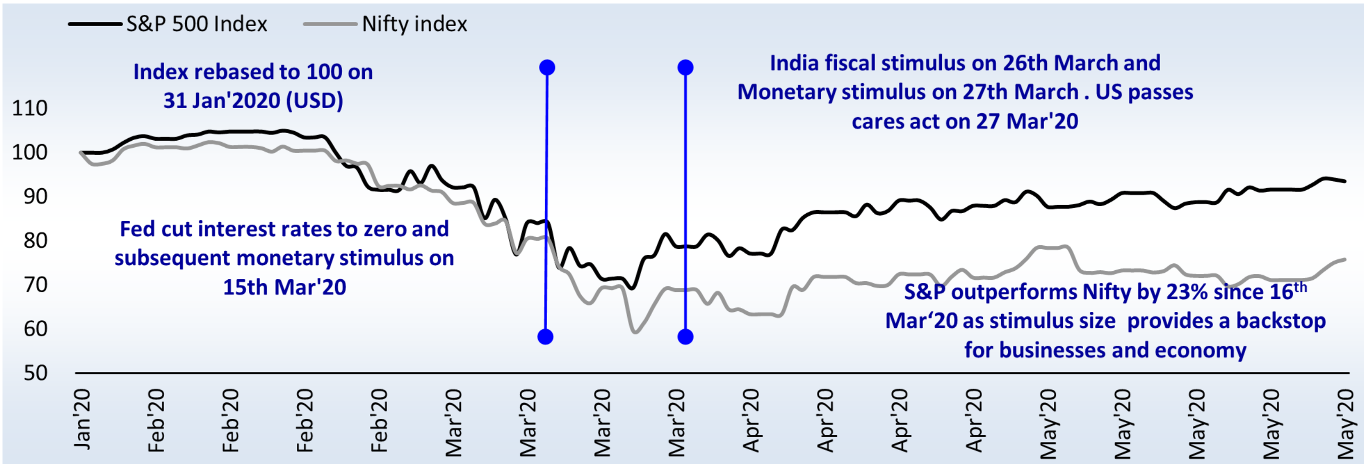
- Indian equity markets have corrected significantly since Feb'20 due to headwinds from the COVID-19 outbreak across multiple countries. Despite the recent up-move, India has underperformed global markets due to the absence of any meaningful fiscal support so far.
- After hitting a low of 7,610 on 23rd Mar'20, the Nifty bounced back more than 29% from its lows. As on 1st Jun'20, the Nifty was down ~21% to 9,826 from its 52-week high of 12,362.
- In this version of Chartbook 3.0, as India moves toward gradual opening up of the economy, we have looked at key data-points (Power demand, E-way bill data, Google mobility, etc.), which showcases the increase in economic activity and performance comparison from a global standpoint, and includes corporate bytes on the economy opening up .

Research covered

Cos/Sector	Key Highlights
India Strategy	Chart-book—Evaluating markets through key charts
Oil & Gas	Crude oil prices – Low not for long
Auto May-20 wholesales:	1. Escorts; 2. Mahindra & Mahindra; 3. Maruti Suzuki; 4. Hero MotoCorp; 5. TVS Motor; 6. Ashok Leyland; 7. Eicher Motors
United Spirits	Weak results; tough times to continue
Voltas	Long-term story intact despite COVID-19 led jolt
Amara Raja	Above est.; Mix drives margins; Downgrade to Neutral
MCX	Precious metals to drive volumes
VMART	Hit by COVID-19, but strong liquidity, market position to aid
Other Notes	KSCL | LEMONTRE | EXPERT SPEAK (Cement)

Chart of the Day: India Strategy (Chart-book –Evaluating markets through key charts)

S&P 500 outperforms Nifty by 23% in 10 weeks



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Union Cabinet approves MSME, farmer and street vendor stimulus packages

The Union Cabinet on Monday approved the modalities and road map for implementing the micro, small and medium enterprises (MSMEs), farmer and street vendor package that was last month announced as part of the ₹20 trillion stimulus to restart a teetering economy...

2

Moody's downgrades India's ratings to Baa3, maintains negative outlook

Moody's Investors Service on Monday downgraded India's foreign currency and local currency long-term issuer ratings to Baa3 from Baa2, citing the country's policymaking institutions will be challenged in enacting and implementing policies which effectively mitigate the risks of a sustained period of relatively low growth...

3

Bank credit to non-banks rose by ₹5,000 cr to ₹8.12 tn in Apr: RBI

Bank loans to non-banking finance companies rose by ₹5,000 crore in April to touch ₹8.12 trillion, RBI data showed, at a time non-food credit fell by ₹1.1 trillion. However, this is sharply lower than the March figures, when bank lending to NBFCs grew by ₹1.15 trillion, the biggest surge since January 2008...

4

CNG price in Delhi hiked by Re 1 per kg

CNG price in the national capital and adjoining cities on Monday was hiked by Re 1 per kg to make up for the additional cost incurred to keep stations coronavirus ready. Indraprastha Gas Ltd (IGL), the firm that retails CNG to automobiles and piped natural gas to household kitchens...

5

Uday Kotak to sell 2.83% stake in Kotak Mahindra Bank; sale to fetch over Rs 6,800 cr

Billionaire banker Uday Kotak, who has had a long run-in with the Reserve Bank over his excess personal holding in Kotak Mahindra Bank, will be selling 2.83 per cent stake worth over Rs 6,800 crore in the lender on Tuesday. The stake sale would help bring down his stake in the country's fourth largest private sector lender to the RBI-mandated 26 per cent...

6

Over one-third MSMEs start shutting shop as recovery amid Covid-19 looks unlikely: AIMO survey

About 35% of micro, small and medium enterprises and 37% of self-employed individuals have started shutting their businesses, saying they saw no chance of a recovery in the wake of the Covid-19 outbreak...

7

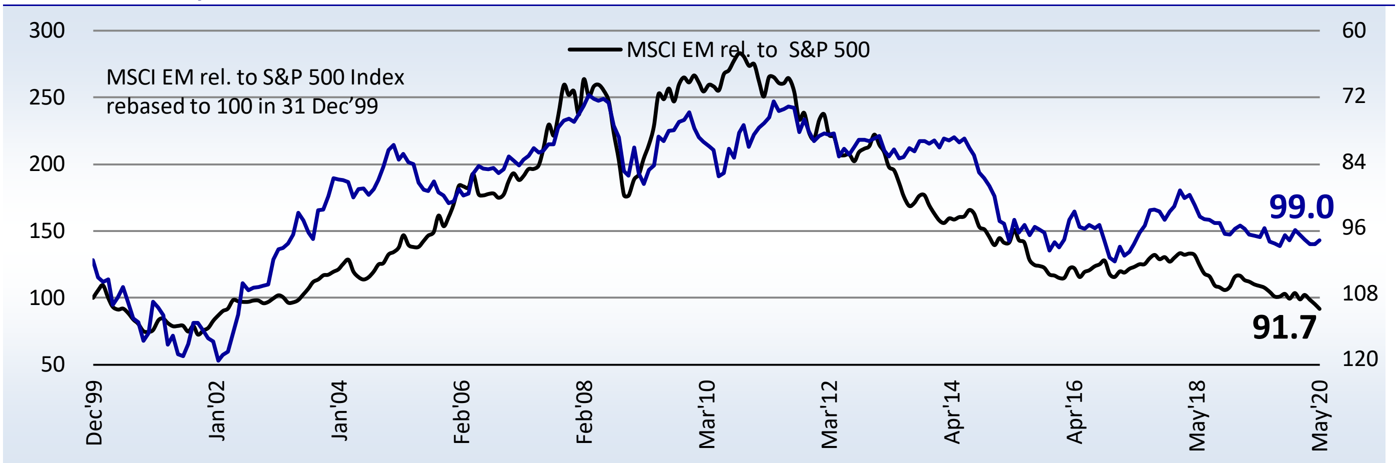
Amfi says normalcy back in debt MFs

The Association of Mutual Funds in India (Amfi) said on Monday normalcy has returned in debt markets and mutual funds if one goes by the inflows into debt schemes for the month of May. Net flows in debt mutual fund schemes in May have more than double to Rs 94,224.29 crore from Rs 43,431.55 crore last month...

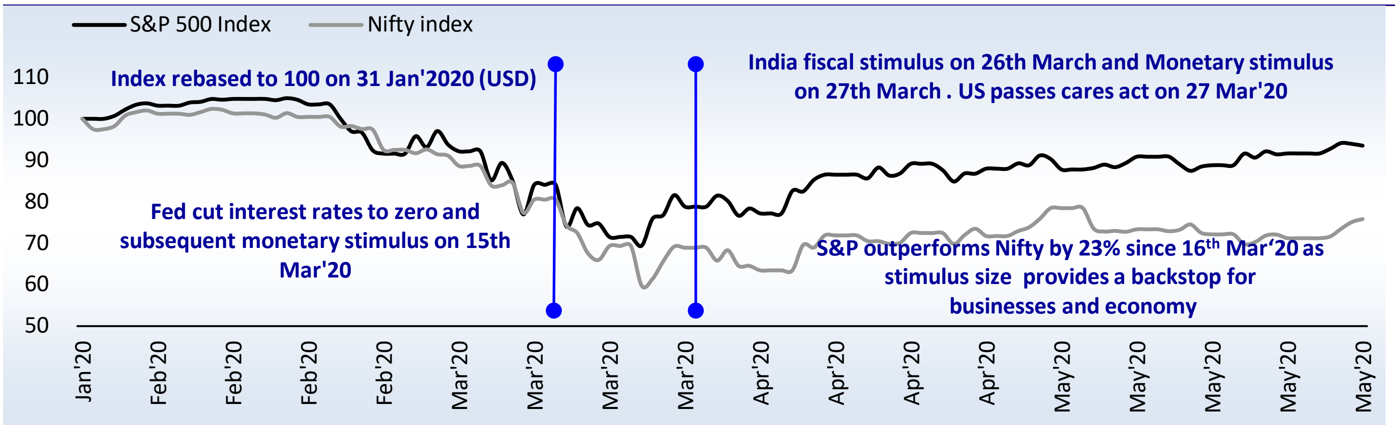
Chart-book –Evaluating markets through key charts

- Indian equity markets have corrected significantly since Feb'20 due to headwinds from the COVID-19 outbreak across multiple countries. Despite the recent up-move, India has underperformed global markets due to the absence of any meaningful fiscal support so far.
- After hitting a low of 7,610 on 23rd Mar'20, the Nifty bounced back more than 29% from its lows. As on 1st Jun'20, the Nifty was down ~21% to 9,826 from its 52-week high of 12,362.
- Our first version of Chartbook 1.0 published in Mar'20 looked at long-term trends in several important investment parameters (Market Movements, Absolute Market-cap Behavior, Past Corrections, Polarization, Multiple Valuation Metrics) across cycles over the last two decades. In Chartbook 2.0, we highlighted the moderation in volatility in Apr'20 v/s Mar'20 and improvement in FII flows.
- In this version of Chartbook 3.0, as India moves toward gradual opening up of the economy, we have looked at key data-points (Power demand, E-way bill data, Google mobility, etc.), which showcases the increase in economic activity and performance comparison from a global standpoint, and highlight India Inc. bytes on the economy opening up.

EMs have underperformed S&P 500 since a decade



S&P 500 outperforms Nifty by 23% in 10 weeks

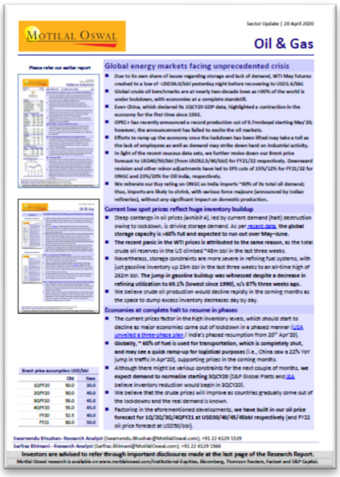


Top ideas

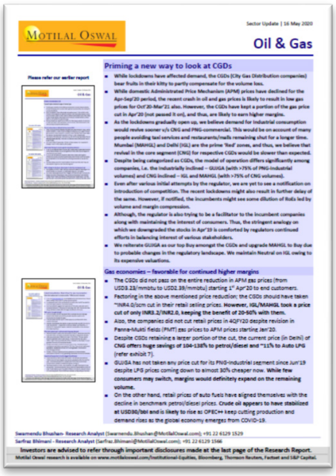
Company	MCap (USD B)	EPS (INR)			EPS CAGR	PE (x)		PB (x)		ROE (%)		Stocks away from (%)	
		FY20E	FY21E	FY22E	FY20-22, %	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	52 Week high	2 Year high
Preferred large cap stocks which we continue to like													
Reliance Inds.	123	68	66	98	20.0	21.5	22.1	2.0	1.9	10	9	**-9**	**-8**
Hind. Unilever	58	31	33	40	12.8	65.9	62.9	55.3	55.1	86	88	**-21**	**-17**
Infosys	43	39	37	43	5.1	17.7	18.8	4.8	4.1	25	22	**-18**	**-18**
Bharti Airtel	41	-7	3	6	NA	NM	186.0	3.9	3.8	-5	2	**-10**	**-8**
ICICI Bank	28	12	19	25	43.5	27.1	17.6	1.9	1.7	7	10	**-40**	**-40**
Preferred large cap stocks which have undergone sharp price correction													
H D F C	37	49	48	51	1.8	33.7	34.6	3.1	3.1	13	11	**-34**	**-33**
Axis Bank	15	6	26	42	163.2	63.5	14.7	1.3	1.2	2	8	**-53**	**-53**
Larsen & Toubro	17	70	62	85	9.6	13.2	15.1	1.9	1.8	14	11	**-41**	**-42**
NTPC	13	13	15	16	10.8	7.4	6.7	0.8	0.8	11	12	**-33**	**-33**
Eicher Motors	6	703	680	878	11.7	23.5	24.3	4.3	3.8	20	17	**-29**	**-46**
Top midcap picks													
L & T Infotech	4.1	87	93	109	12	20.7	19.4	5.8	4.8	31	27	**-12**	**-11**
Alkem Lab	3.7	92	110	131	19	24.5	20.6	4.3	3.7	19	19	**-21**	**-19**
ACC	3.2	72	41	64	-6	17.6	31.3	2.1	2.0	12	6	**-27**	**-28**
Crompton Gr. Con	1.8	7	6	9	11	32.3	37.4	9.6	8.4	30	22	**-26**	**-23**
Aditya Birla Fashion	1.2	1	-4	1	36	168.2	NM	8.5	12.3	4	-36	**-60**	**-69**

Please refer our earlier reports

Global energy markets facing unprecedented crisis



Priming a new way to look at CGDs



Crude oil prices – Low *not* for long

- **The lack of co-operation among OPEC+ countries resulted in Brent slumping to USD15/bbl by Mar'20 end. To add to this, COVID-19-led global demand destruction resulted in Brent plunging to a low of USD11/bbl in April'20, with onland/offshore storage reaching its limit amid continued production.**
- **Latest estimates suggest global demand contraction could be as high as ~8.6mnbopd for CY20, against the initial estimate of 6–7mnbopd. This would be the sharpest decline in growth ever witnessed.**
- **However, lockdowns are being eased across the globe and demand for auto fuels has also seen an uptick. With the easing of product inventories, refiners also appear to have increased their utilization rates, thus increasing demand for crude oil.**
- **On the supply side, production cuts, both intentional (OPEC++) and unintentional (due to poor economies/bankruptcies), appear to be putting upward pressure on oil prices.**
- **Our report highlights what we believe is sustainable oil price (of USD40/50/bbl for FY21/22) for the longer term, and we reiterate Buy on ONGC and Oil India as a result.**

Demand and supply projections

- Against demand growth of 1mnbopd in CY19, COVID-19 has resulted in global institutes such as IEA putting demand destruction at ~8.6mnbopd for CY20 (EIA forecasts de-growth of 8.1mnbopd), the greatest ever witnessed.
- The sharpest decline has been witnessed in aviation and transportation fuels, which account for 58% of the total consumption. However, COVID-19 is also likely to alter transportation trends, with the focus moving away from shared mobility. This would certainly further boost demand for transportation fuels going forward.
- Agreed production cuts by OPEC++ amount to ~8mnbopd (staggered) in CY20. Additionally, few shale oil producers such as Whiting, Diamond Offshore, and Gavilan Resources have already filed for bankruptcy among the others. The US oil rig count has slumped to 301, the lowest since the availability of data (2010).
- US commercial inventories appear to be at 642m bbls, estimated to have swelled up by 7m bbls since Dec'19. As per IEA, the global total crude oil storage capacity is estimated to be ~6.7b bbls, ~4.2b bbls of which is currently utilized.

Global capex cut could result in higher oil prices over next 2–3 years

- Low oil prices, coupled with demand uncertainty, have resulted in large-scale cuts in capex for CY20. Reports suggest ~USD44b (~28%) of capex has been cut for CY20 in North America only.
- Almost 80% of incremental oil production growth in the past five years has come from US shale oil drillers. They need to drill a much higher number of wells as production decline is quite sharp in a typical well. Hence, a large share of capex in the US is put toward sustaining production rather than supporting growth.
- A large part of the incremental production globally is carried out in difficult fields (high temperatures/pressures/ deep or ultra-deep waters), which also require a higher breakeven oil price. The capex cut is also likely to keep new production at bay for longer, which may drive up oil prices going forward.

Decline in global inventories

- Latest data suggests that from the peak of 263.2m bbls in Apr'20, US total petrol inventories declined to 255m bbls for the week ending May'20. Even the utilization rates for US refineries have jumped to 71% for the week ending May'20 (from 67% in Apr'20).
- Tanker rates have plunged from the peak of ~USD250k/day in Apr'20 to USD60k/day as demand for vessels for use as storage has reduced.
- Two big economic powerhouses, China and India, appear to be springing back to life. While Chinese refineries started ramping up their utilization from last month itself, Indian refiners also appear to have ramped up their utilization in the last few days. This suggests normalization in oil demand, which would be reflected in higher oil prices.

Breakeven prices for Middle East countries

- The GDPs of most Middle East countries have a high dependency on oil. Saudi Arabia, the largest oil producer, is estimated to require oil price of USD91/bbl to achieve budget breakeven.
- Iraq, the second largest producer in OPEC, also requires breakeven price of ~USD70–75/bbl for its GDP, while Iran requires breakeven of USD180–190/bbl.
- Outside the Middle East, upstream accounts for 30% of Russia's GDP; hence, higher oil prices are also a necessity for the Russian economy. Hence, despite the non-cooperation prior to the Mar'20 meeting, both Russia and Saudi Arabia agreed for a sharp production cut in their subsequent meeting in Apr'20.

Shale, the biggest loser

- Although there is a lot of confusion related to breakeven prices for shale producers, they still appear to be at the higher end of the cost curve, along with deep/ultra-deepwater production.
- Few companies such as Whiting, Diamond Offshore, and Gavilan Resources have announced bankruptcy. The total debt of USD86b is estimated to be due for payment over CY20–24, and an additional USD123b needs to be refinanced during this period (link).
- The IEA estimates US shale oil production would decline by 3.6mnbopd in 2020 after growth of 4.7mnbopd reported during CY17–19. This production cut would also provide a base to oil prices.

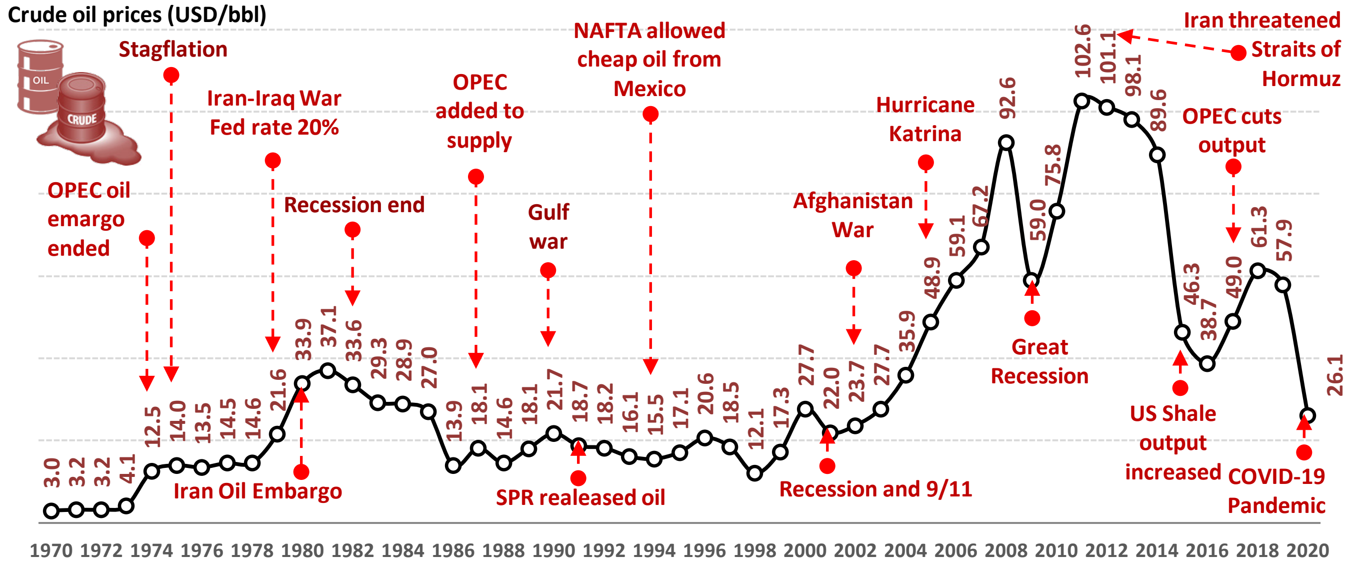
Valuation and recommendations

- As a result of capex cuts, demand revival, and better cooperation among OPEC++ countries, we expect oil prices to stabilize at USD40–50/bbl over the next few months. We expect oil to trade at USD50–60/bbl in the longer run.
- For our projections, we assume Brent of USD40/bbl in FY21 and USD50/bbl in FY22 (both unchanged).
- While no oil production growth is expected for ONGC, the company's efforts to arrest decline from age-old fields (accounting for 60–70% of the total oil production) is commendable. The company is working on 13 projects, which would help it maintain oil production at 24mmtpa (both domestic and JVs).
- Unlike Oil India, ONGC is expected to grow its gas production by ~11%/26% at 27.9bcm/35.2bcm in FY21/FY22. Although domestic gas prices may decline

further from Oct’20, we expect them to be at the bottom during this period. Gas prices would start recovering owing to better global demand.

- According to **recent news**, the government is formulating a structure to give Indian upstream companies some relief in royalty and cess as well as other reliefs. As per our model calculation, 1% change in cess results in 2% consol. EPS change for ONGC.
- We forecast gas price of USD2.8/mmBtu in FY21 and USD3.0/mmBtu in FY22. A change of USD1/mmBtu in gas price would result in a change of 18% in the company’s consolidated EPS.
- ONGC is trading at 3.3x FY22 EV/EBITDA and 4.3x FY22 PE. While for financials projection, we use USD50/bbl, we raise our PE multiple from 8x to 10x expecting further increase in oil prices. We reiterate Buy with a target of INR105. We further highlight that a change of USD1/bbl in oil price impacts the consol. EBITDA by 2%. Reiterate Buy.
- OINL is not expected to show any sharp increase in oil or gas production going forward. OINL is trading at 3.8x FY22 EV/EBITDA and 5.3x FY22 PE. We value it at 8x FY22 adjusted PE and add the value of investments to arrive at a target price of INR105. We further highlight that a change of USD1/bbl in oil price impacts the consol. EBITDA by 3%.

Oil price chart – annotation highlighting major events



Source: MOFSL

Automobiles

Escorts

CMP: INR972 **TP: INR768(-21%)** **Neutral**

Stock Info

Bloomberg	ESC IN
Equity Shares (m)	123
M.Cap.(INRb)/(USDb)	119.1 / 1.5
52-Week Range (INR)	987 / 423
1, 6, 12 Rel. Per (%)	38/71/78

Financials Snapshot(INR b)

Y/E MARCH	2020	2021E	2020E
Net Sales	58.1	59.5	67.4
EBITDA	6.6	6.9	8.3
NP	4.8	5.2	6.5
Adj. EPS (INR)	54.0	51.7	64.0
EPS Gr. (%)	1.4	-4.3	23.8
BV/Sh. (INR)	350.7	458.7	517.8
RoE (%)	16.6	13.5	13.1
RoCE (%)	21.4	17.9	17.3
Valuations			
P/E (x)	18.0	18.8	15.2
P/BV (x)	2.8	2.1	1.9
EV/EBITDA (x)	12.6	11.9	9.5

Above est. at ~6.6k units, a decline of 3% YoY

Plant level inventory supports wholesales

- Tractor dispatches declined ~3.4% YoY to 6.6k units (v/s est. 2k units) in May'20.
- Domestic sales were flat YoY while exports declined ~59% YoY.
- Management had earlier indicated that it had ~4 weeks inventory at the plant level when the lockdown was announced.
- We are estimating ~3% growth in volumes for FY21E, implying 10% residual growth or monthly run-rate of ~8.1k units.
- The stock trades at 18.8x/15.2x FY21/FY22E EPS. Maintain **Neutral.**

Snapshot of volumes for May-20

	YOY			MoM								
	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY20 YTD	(%) chg	FY20 estimate	YoY (%) chg	Residual Growth (%)	Residual Monthly Run rate	FY20 YTD Monthly Run rate
Escorts	**6,594**	**6,827**	**-3.4**	**705**	**835.3**	**7,299**	**-39.6**	**88,599**	**3.0**	**10.0**	**8,130**	**3,650**
Domestic	6,454	6,488	-0.5	613	952.9	7,067	-38.4	85,660	4.1	11.0	7,859	3,534
Exports	140	339	-58.7	92	52.2	232	-62	3,381	-10	0.0	315	116

Mahindra & Mahindra

CMP: INR461 **TP: INR552 (+20%)** **Buy**

Above est. at ~34k units, a decline of 52% YoY

Both UVs/Tractors surprise positively |Tractors gain from plant inventory

Stock Info

Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USDb)	573.6 / 7.2
52-Week Range (INR)	675 / 246
1, 6, 12 Rel. Per (%)	27/5/-13

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
NetSales	450.8	415.6	481.8
EBITDA	55.4	45.5	61.6
PAT*	35.1	25.9	37.6
EPS(INR)*	29.5	21.7	31.5
Gr.(%)	(31.5)	(26.3)	45.1
BV/Sh(INR)	312	322	342
RoE(%)	10.1	6.3	8.8
RoCE(%)	9.5	6.1	8.4
Valuations			
ConsolP/E(x)	15.6	21.2	14.6
P/BV(x)	1.5	1.4	1.4

*incl.MVML

- MM's tractor volumes declined ~1.5% YoY to ~24.3k units (v/s est. 7k units). We have factored in flat tractor volumes for FY21E, implying ~10% residual growth.
- UVs (incl. pick-ups) declined ~76% YoY to 9.5k units (v/s est. 5.9k units). Domestic passenger UVs declined ~81% YoY while the domestic pick-up segment plunged ~69% YoY. We estimate UV volumes to decline ~20% in FY21E, implying ~4% residual decline.
- 3W volumes increased ~99% YoY to 39 units.
- **Commenting on the performance, Mr. Veejay Ram Nakra, Chief of Sales & Marketing, Automotive Division of M&M Ltd. said,** "Our performance during May has been muted, due to the challenges the industry is facing. We have opened 70% of our dealerships and retail sales have begun. We are seeing initial traction for our small commercial vehicles and SUV brands such as the Bolero and Scorpio. As new lockdown norms are being announced, we are hopeful of demand gaining traction in the coming months."
- **Commenting on the performance, Hemant Sikka, President – FES Sector, M&M Ltd. said,** "The timely relaxation of the lockdown for the Agricultural sector helped ensure the speedy recovery of tractor demand during May. In the near term, farmer sentiment is likely to remain positive due to several developments, including robust Rabi crop production, higher procurement, good price realizations and the forecast of a normal monsoon that bodes well for a good Kharif crop. All these augur well for tractor demand going forward."
- The stock trades at 14.6x FY22E S/A EPS and 1.4x P/B. Maintain **Buy**.

Snapshot of volumes for May-20

Company Sales	YoY			MoM						Residual Growth (%)	Residual Monthly Run rate	FY21 YTD Monthly Run rate
	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY21 YTD	(%) chg	FY21	Gr. (%)			
Mahindra & Mahindra	**33,901**	**70,125**	**-51.7**	**5,505**	**515.8**	**39,406**	**-72.3**	**682,924**	**-17.2**	**-5.6**	**64,352**	**19,703**
UV (incl. pick-ups)	9,472	39,294	-75.9	733	1192.2	10,205	-86.9	322,064	-20.0	-4.0	31,186	5,103
LCV & M&HCV	49	1,558	-96.9	0	NA	49	-98.1	7,329	-35.0	-16.1	728	25
Three-Wheelers	39	4,569	-99.1	0	NA	39	-99.6	51,615	-17.0	-3.2	5,158	20
Tractors	24,341	24,704	-1.5	4,772	410.1	29,113	-45.3	301,915	0.0	9.7	27,280	14,557

Maruti Suzuki

CMP: INR5,789 | TP: INR5,850 (+1%) | Buy

Wholesales below est. at 18.5k units

Domestic sales plunge ~89% YoY and exports by ~49% YoY

- MSIL's May'20 wholesales plunged ~86% YoY to 18.5k units (v/s est. 35k units).
- Domestic volumes plummeted ~89% YoY to 13.9k units (v/s est. 32.7k units).
- Export volumes declined 49% YoY to 4.65k units.
- We are estimating FY21E volumes to decline ~13.8% YoY, implying a residual decline of ~3.3%. We see a downside risk to our volume est., owing to the uncertainty of recovery in 2HFY21.
- The company resumed manufacturing operations (post lockdown) from 12th May'20 at Manesar facility and from 18th May at Gurugram facility. Production has also resumed at Suzuki Motor Gujarat Pvt. Limited (SMG) from 25th May'20.
- The stock trades at 42x/24.8x FY21/FY22E earnings. Maintain **Buy.**

Stock Info

Bloomberg	MSIL IN
Equity Shares (m)	302
M.Cap.(INRb)/(USDb)	1748.7 / 22.4
52-Week Range (INR)	7755 / 4002
1, 6, 12 Rel. Per (%)	9/-2/0

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	756.1	664.1	806.6
EBITDA	73.0	53.4	93.2
Adj.PAT	56.5	39.5	68.1
Adj.EPS(INR)*	188	138	233
EPSGr.(%)	(25.8)	(26.7)	69.3
BV/Sh.(INR)	1,603	1,626	1,725
RoE(%)	11.7	8.0	13.1
RoCE(%)	14.6	10.0	16.7
Valuations			
P/E(x)	30.8	42.0	24.8
P/B(x)	3.6	3.6	3.4
EV/EBITDA(x)	19.0	25.4	14.0

*Cons.

Snapshot of volumes for May-20

	YoY			MoM								
Company Sales	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY21 YTD	(%) chg	FY21	Gr. (%)	Residual Growth (%)	Residual Monthly Run rate	FY21 YTD Monthly Run rate
Maruti Suzuki	**18,539**	**134,641**	**-86.2**	**632**	**2833.4**	**19,171**	**-93.1**	**1,346,218**	**-13.8**	**3.3**	**132,705**	**9,586**
Total Domestic	13,888	125,552	-88.9	0	NA	13,888	-94.7	1,261,968	-16.7	-0.6	124,808	6,944
Export	4,651	9,089	-48.8	632	635.9	5,283	-71.1	84,250	-6.1	10.6	7,897	2,642

Hero MotoCorp

CMP: INR2,327 **TP: INR2,072 (-11%)** **Neutral**

Below est. at ~112.7k units (-83% YoY)

Stock Info

Bloomberg	HMCL IN
Equity Shares (m)	200
M.Cap.(INRb)/(USDb)	464.8 / 6.3
52-Week Range (INR)	3021 / 1475
1, 6, 12 Rel. Per (%)	9/14/3

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	288.2	268.4	301.2
EBITDA	41.6	34.2	41.6
NP	30.8	25.2	30.4
Adj. EPS (INR)	154	126	152
EPS Gr. (%)	(9.1)	(18.2)	20.4
BV/Sh. (INR)	688	699	725
RoE (%)	23.2	18.2	21.3
RoCE (%)	22.4	17.6	20.6
Valuations			
P/E (x)	15.1	18.5	15.3
P/BV (x)	3.4	3.3	3.2
EV/EBITDA (x)	9.3	11.3	9.3

Retail at 160k units; Demand driven by rural/semi-urban areas

- HMCL's volumes declined ~83% YoY to 112.7k units (v/s est. 130.4k units) in May'20.
- All six manufacturing facilities of the company in India – at Dharuhera and Gurugram in Haryana, Haridwar in Uttarakhand, Neemrana in Rajasthan, Halol in Gujarat and Chittoor in Andhra Pradesh – have now resumed operations with limited production.
- Operations have also resumed at the Center of Innovation & Technology (CIT) in Jaipur, Rajasthan, in a graded manner and work on new product development has commenced.
- Nearly 5,000 customer touch-points of Hero MotoCorp have re-opened, contributing 85% of the company's domestic sales. HMCL has retailed more than 160,000 units of motorcycles and scooters during May'20, driven by demand in semi-urban/rural markets, with BS-VI vehicles witnessing positive customer response.
- We estimate volumes to decline ~12% in FY21E, implying a residual growth of 6.7%.
- HMCL trades at 18.5x/15.3x FY21/FY22E EPS. Maintain **Neutral**.

Snapshot of volumes for May-20

	YoY			MoM								
Company Sales	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY21 YTD	(%) chg	FY21	Gr. (%)	Residual Growth (%)	Residual Monthly Run rate	FY21 YTD Monthly Run rate
Hero MotoCorp	112,682	652,028	-82.7	0	NA	112,682	-90.8	5,642,940	-12.0	6.7	553,026	56,341

TVS Motor

CMP: INR 352 **TP: INR310 (-12%)** **Neutral**

Below est. at 58.9k units (-81% YoY)

2W/3W volumes down ~80.9%/~79% YoY

- TVSL's wholesales declined 81% to 58.9k units (v/s est. 71.1k units) in May'20.
- 2W volumes were down ~80.9% to 56.2k units.
- 3W volumes declined ~79% YoY to ~2.7k units (v/s est. 5.1k units).
- It resumed operations in India across factories in Hosur, Mysuru and Nalagarh, starting 6th May'20.
- We estimate volumes to decline ~15.7% in FY21E, implying a residual growth of 1.7%.
- The stock trades at 41.5x/23.2x FY21/FY22E EPS. Maintain **Neutral.**

Stock Info

Bloomberg	TVSL IN
Equity Shares (m)	475
M.Cap.(INRb)/(USDb)	167.3 / 2.1
52-Week Range (INR)	512 / 240
1, 6, 12 Rel. Per (%)	9/-8/-10

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	164.2	149.5	177.2
EBITDA	13.5	12.0	16.5
Adj. PAT	5.7	4.0	7.2
EPS (INR)	11.9	8.5	15.2
EPS Gr. (%)	-15.4	-28.9	79.2
BV/Sh (INR)	76.2	80.4	90.8
RoE (%)	16.3	10.8	17.7
RoCE (%)	17.2	11.7	18.4
Valuations			
P/E (x)	29.5	41.5	23.2
P/BV (x)	4.6	4.4	3.9
EV/EBITDA (x)	13.6	15.3	10.9

Snapshot of volumes for May-20

	YoY			MoM								
Company Sales	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY21 YTD	(%) chg	FY21	Gr. (%)	Residual Growth (%)	Residual Monthly Run rate	FY21 YTD Monthly Run rate
TVS Motor	**58,906**	**307,106**	**-80.8**	**9,640**	**511.1**	**68,546**	**-89.1**	**2,751,916**	**-15.7**	**1.7**	**268,337**	**34,273**
Three-Wheelers	2,688	12,780	-79.0	1,506	78.5	4,194	-83.8	153,280	-2.0	14.2	14,909	2,097
Two- Wheeler	56,218	294,326	-80.9	8,134	591.1	64,352	-89.3	2,542,417	-17.1	0.5	247,807	32,176

Ashok Leyland

CMP: INR46 **TP: INR61 (+31%)** **Buy**

Wholesales above est. at 1,420 units

MHCV sales down ~97% YoY and LCV sales decrease 73% YoY

- Wholesale dispatches stood at 1,420 units (v/s est. 1,081 units), down 89.2% YoY.
- M&HCV volumes declined ~97% YoY to 266 units (v/s est. ~447 units).
- LCV volumes declined 72.7% YoY to 1,154 units (v/s est. 364 units).
- We estimate volume growth to be flat in FY21E, implying residual growth of ~26.1%. We see downside risk to our volume estimates for FY21E.
- The stock trades at 52x/17x FY21/FY22E EPS and at 14.2x/8x FY21/FY22E EV/EBITDA. Maintain Buy.

ASHOK LEYLAND

Stock Info

Bloomberg	AL IN
Equity Shares (m)	2,927
M.Cap.(INRb)/(USDb)	136.4 / 1.7
52-Week Range (INR)	94 / 34
1, 6, 12 Rel. Per (%)	-10/-23/-32

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	170.9	176.6	212.7
EBITDA	10.8	10.4	18.2
NP	3.2	2.6	8.0
Adj. EPS (INR)	1.1	0.9	2.7
EPS Gr. (%)	-84.2	-18.0	206.0
BV/Sh. (INR)	28.7	28.4	29.3
RoE (%)	3.8	3.1	9.5
RoCE (%)	4.0	3.3	8.6
Valuations			
P/E (x)	42.6	52.0	17.0
P/BV (x)	1.6	1.6	1.6
EV/EBITDA (x)	12.9	14.3	8.1

Snapshot of volumes for May-20

	YoY			MoM								
Company Sales	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY21 YTD	(%) chg	FY21	Gr. (%)	Residual Growth (%)	Residual Monthly Run rate	FY21 YTD Monthly Run rate
Ashok Leyland	**1,420**	**13,172**	**-89.2**	**0**	**NA**	**1,420**	**-94.7**	**125,565**	**0.2**	**26.1**	**12,415**	**710**
CV (ex LCV)	266	8,946	-97.0	0	NA	266	-98.5	71,386	-9.2	17.9	7,112	133
LCV	1,154	4,226	-72.7	0	NA	1,154	-86	54,179	16.1	39.0	5,302	577

Eicher Motors

CMP: INR16,963 TP: INR17,200(+1%) Buy

Above est.; RE at 19.1k units, a decline of ~69% YoY

VECV decline 86% to 686 units (v/s est. 626 units)

- Royal Enfield (RE) dispatches declined ~69% YoY to 19.1k units (v/s est. ~15.6k units). Domestic retails were broadly similar to wholesales.
- By the month-end, nearly two-thirds of dealerships were open for business. These dealerships attained nearly the pre-COVID level bookings toward the month-end.
- The company started the second shift at Oragadam toward end-May'20.
- We estimate RE volumes to decline ~4% in FY21E, implying residual growth of ~13.5%. We see downside risk to RE's estimates for FY21.
- VECV's May'20 volumes declined ~86% YoY to ~686 units (v/s est. ~626 units). For VECV, we estimate 10% decline in volumes for FY21E, implying ~8% residual growth. We see downside risk to VECV estimates for FY21.
- The stock trades at 24.9 x/19.3x FY21E/FY22E consol. EPS. Maintain **Buy.**

Stock Info

Bloomberg	EIM IN
Equity Shares (m)	27
M.Cap.(INRb)/(USDb)	463.2 / 6
52-Week Range (INR)	23428 / 12460
1, 6, 12 Rel. Per (%)	17/-8/1

Financials Snapshot(INR b)

Y/E MARCH	FY20	FY21E	FY22E
Net Sales	91.4	93.1	109.4
EBITDA	22.5	21.8	27.2
NP	19.2	18.5	24.0
Adj. EPS (INR)	703.1	679.9	878.0
EPS Gr. (%)	-13.6	-3.3	29.1
BV/Sh. (INR)	3,833	4,364	5,074
RoE (%)	19.8	16.6	18.1
RoCE (%)	19.2	16.2	18.1
Valuations			
P/E (x)	24.1	24.9	19.3
P/BV (x)	4.4	3.9	3.3
EV/EBITDA (x)	15.2	15.1	11.3

Snapshot of volumes for May-20

	YOY			MoM								
	May-20	May-19	YoY (%) chg	Apr-20	MoM (%) chg	FY20 YTD	(%) chg	FY20 estimate	YoY (%) chg	Residual Growth (%)	Residual Monthly Run rate	FY20 YTD Monthly Run rate
Royal Enfield	19,113	62,371	-69.4	91	20903.3	19,204	-84.7	667,044	-4.2	13.5	64,784	9,602
VECV	686	4,801	-85.7	85	707.1	771	-91.2	43,841	-10.0	7.8	4,307	386

United Spirits

Estimate changes	↓
TP change	↑
Rating change	↔

Bloomberg	UNSP IN
Equity Shares (m)	727
M.Cap.(INRb)/(USDb)	428.2 / 5.7
52-Week Range (INR)	743 / 443
1, 6, 12 Rel. Per (%)	11/16/23
12M Avg Val (INR M)	1419

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	90.9	74.5	91.5
Sales Gr. (%)	1.2	-18.0	22.7
EBITDA	15.1	10.4	15.6
Margin (%)	16.6	14.0	17.1
PAT	7.9	5.2	9.6
EPS (INR)	10.9	7.1	13.2
EPS Gr. (%)	16.9	-34.6	85.3
BV/Sh.(INR)	52.4	59.6	72.8
Ratios			
RoE (%)	20.8	12.0	18.1
RoCE (%)	17.3	17.8	24.4
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	54.3	83.0	44.8
P/BV (x)	11.3	9.9	8.1
EV/EBITDA (x)	29.3	41.3	27.2

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	56.8	56.8	56.8
DII	9.2	7.7	6.9
FII	20.5	22.4	22.6
Others	13.5	13.1	13.8

FII Includes depository receipts

CMP: INR589 TP: INR543 (-8%) Neutral

Weak results; tough times to continue

- UNSP's 4QFY20 results were worse than expectations. If bulk scotch sales (that could be lumpy but not extraordinary) are excluded, then results would be even weaker.
- While UNSP's PAT CAGR for 5 years ending FY20 stood at 33%, FY21 and FY22E are likely to be the lost years for UNSP and other alcohol companies with negligible earnings growth. Impact of extremely sharp excise increases across states would only exacerbate the pressure on FY21 profitability.
- Further, we believe profitability is already sharply impacted by (a) the absence of any sales until 3rd May, and (b) absence of sales from on-trade channel (20-25% of sales), which is expected to last for a significantly large part of the year after the latest MHA guidelines.
- Maintain **Neutral** on UNSP on account of fair valuations.

4QFY20: COVID-19 adversely impacts volumes hurting sales

- Standalone net sales declined 11.4% YoY to INR19.9b (v/s est. INR21.3b). Underlying net sales, excl. the one-off sale of bulk Scotch, declined 14.8%.
- Overall reported volumes declined 13.3% (v/s est. -10%). P&A/Popular volumes declined 20%/6.6% YoY.
- Reported gross margin contracted by 430bp to 42.2%, primarily due to COGS inflation as well as the dilutive impact of the last tranche of bulk Scotch sales. Underlying gross margin, excluding the one-off sale of bulk Scotch, was down 364bp to 42.9%.
- Despite significant gross margin compression, reported EBITDA margin expanded 100bp YoY to 13.6% (v/s est. 11.9%), primarily delivered through savings in operating costs. As a % of sales, other expenses declined 130bp YoY, while staff costs and ad spends declined 200bp YoY each.
- Adjusted for one-off impact of bulk Scotch sales and restructuring costs, underlying EBITDA declined 16.2% YoY and underlying EBITDA margin was down 21bp YoY to 13.2%.
- Reported EBITDA declined 4.3% YoY to INR2.7b (v/s est. INR2.5b).
- Reported PBT declined 18.1% YoY to INR1.6b (v/s est. INR1.8b).
- Adjusted PAT declined 16.9% to INR1.1b (v/s est. INR1.5b). Reported PAT declined 81.1% to INR239m on account of higher taxes. The taxes were higher than usual as the company opted to settle its past income tax disputes under the Direct Tax Vivad se Vishwas Act, 2020. This led to recognition of INR857m of tax relating to earlier years in 4QFY20.

FY20 performance

- FY20 sales/EBITDA/Adj. PAT growth stood at 1.2%/ 17.1%/16.9% YoY.
- The company repaid debt amounting to INR4.9b, comprising a reduction in Commercial Papers of INR9b and an increase in bank loans of INR4.1b. Net debt as of Mar'20 stood at INR20.7b, down 20% YoY.

- On an average basis, inventory/receivable/payable days declined by 1/10/5 days to 75/96/50 days respectively, improving the cash conversion cycle by 6 days to 121 days.
- Operating cash flow declined by 22.2% to INR6.7b.

Highlights from management commentary

- Management does not expect hyperinflation in ENA costs.
- There was some loss of market share in 4QFY20 as the company tightened credit against credit extension by peers.
- So far only two states have granted price increase as these decisions have been delayed by other priorities at the state government level.
- Receivable days have not increased sharply so far as earlier feared.

Valuation and view

- As highlighted in our alcohol sector downgrade report in May'20, outlook on earnings growth is weak for alcohol companies, leading to a significant slowdown in earnings growth (from >30% growth in the 5 years ending FY20). Weak results have led to further EPS cuts of 6.4%/4.0% for FY21/FY22E.
- Impact of extremely sharp excise increases across states would only exacerbate the pressure on FY21 profitability. Further, we believe profitability is already sharply impacted by (a) the absence of any sales until 3rd May, and (b) absence of sales from on-trade channel (20-25% of sales), which is expected to last for a significantly large part of the year after the latest MHA guidelines.
- In capital intensive businesses like UNSP, earnings setback leads to sharper deterioration in RoEs compared to staples' companies with low capital intensity. RoE for FY21/FY22E is likely to be well below the 20% range witnessed over the past four years.
- Our DCF-based TP leads to an 8% downside to CMP (effective target multiple of 41x Mar'22E EPS). Maintain **Neutral**.

Quarterly Performance (INR M)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var.
(Standalone)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Volume growth %	1.1	10.3	3.8	1.0	6.0	1.0	-1.8	-13.3	3.9	-1.2	-10.0	
Total revenues	20,088	22,249	24,969	22,500	22,184	22,962	25,825	19,938	89,806	90,909	21,272	-6.3%
YoY change (%)	12.7	14.0	10.3	3.5	10.4	3.2	3.4	-11.4	9.9	1.2	-5.5	
Gross Profit	10,090	11,175	12,130	10,462	10,497	10,325	11,459	8,408	43,857	40,689	9,690	
Margin (%)	50.2	50.2	48.6	46.5	47.3	45.0	44.4	42.2	48.8	44.8	45.6	
EBITDA	2,387	4,429	3,582	2,836	3,971	4,156	4,240	2,714	12,874	15,081	2,539	6.9%
Margins (%)	11.9	19.9	14.3	12.6	17.9	18.1	16.4	13.6	14.3	16.6	11.9	
EBITDA growth (%)	38.8	61.6	30.7	2.9	66.4	-6.2	18.4	-4.3	25.2	17.1	-10.5	
Depreciation	339	350	355	401	500	573	524	678	1,445	2,275	513	
Interest	582	438	575	605	520	452	455	480	2,200	1,907	443	
PBT From operations	1,466	3,641	2,652	1,830	2,951	3,131	3,261	1,556	9,229	10,899	1,584	
Other income	133	167	533	119	101	137	176	41	952	455	205	
PBT	1,599	3,808	3,185	1,949	3,052	3,268	3,437	1,597	10,181	11,354	1,789	-10.7%
Tax	545	1,221	1,059	641	1,065	1,022	849	510	3,416	3,445	297	
Rate (%)	34.1	32.1	33.2	32.9	34.9	31.3	24.7	31.9	33.6	30.3	16.6	
Adj. PAT	1,054	2,587	2,126	1,308	1,987	2,246	2,588	1,087	6,765	7,909	1,491	-27.1%
YoY change (%)	45.6	89.8	43.5	-29.3	88.5	-13.2	21.7	-16.9	38.1	16.9	14.0	

E: MOFSL Estimates; quarterly numbers for FY19 are adjusted for re-grouping impact

Voltas

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	178.6 / 2.1
52-Week Range (INR)	741 / 428
1, 6, 12 Rel. Per (%)	8/-5/9
12M Avg Val (INR M)	957

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	76.6	66.5	88.0
EBITDA	6.9	4.6	8.0
PAT	5.5	3.5	6.6
EBITDA (%)	9.0	6.9	9.1
EPS (INR)	16.7	10.7	19.9
EPS Gr. (%)	6.5	(36.3)	86.5
BV/Sh. (INR)	129.4	136.8	150.8
Ratios			
Net D/E	(0.0)	0.0	(0.1)
RoE (%)	12.9	7.8	13.2
RoCE (%)	14.1	9.7	14.6
Payout (%)	31.5	30.0	30.0
Valuations			
P/E (x)	32.3	50.7	27.2
P/BV (x)	4.2	3.9	3.6
EV/EBITDA (x)	25.9	39.2	21.9
Div Yield (%)	0.8	0.5	0.9
FCF Yield (%)	2.3	0.2	4.2

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	30.3	30.3	30.3
DII	40.0	38.6	35.1
FII	9.9	10.9	13.7
Others	19.8	20.2	20.9

FII Includes depository receipts

CMP: INR540 TP: INR600 (+11%) Buy

Long-term story intact despite COVID-19 led jolt

Season is lost, not the franchise value

- Voltas' (VOLT) 4QFY20 earnings were 37% ahead of expectation led by the UCP segment's outperformance. VOLT has further cemented its leadership position with its market share improving 50bp to 24.2% YTD. It also achieved the No. 1 position in Inverter ACs for the Jan-Feb'20 period.
- The AC industry is perhaps one of the worst hit due to the COVID-19 led lockdowns, especially owing to the shutdowns coinciding with the peak summer season. This is likely to result in higher inventory for the entire supply chain across dealers, brands (incl. in-transit goods) and manufacturers. As the lockdown eases, we are witnessing pent-up demand. We expect system-level inventory to normalize by Nov-Dec'20, and hence, FY22E should turn out to be a normal year.
- We cut our FY21/FY22E earnings by 28%/6% as FY21 is likely to be a washout year. We have also built in lower revenue and profitability for the EMP business given the weak macro environment for the Projects' business. However, the cut in our TP is limited as the EMP business commands lower valuation multiple. Maintain **Buy** with revised TP of INR600 (earlier: INR620).

UCP delivers handsomely, EMP hit by provisions

- **4QFY20:** Revenue was flat YoY at INR20.9b, (in line with est). EBITDA grew 33% to INR1.9b (+10% ahead of est.). A favorable sales mix has led to strong growth. EBITDA margin was up 220bp YoY to 9.2% (v/s est. 8.4%). Adj. PAT grew 15% to INR1.6b and **was 37% ahead of est.**
- **FY20:** Revenue grew 7.5% to INR76.6b. EBITDA grew 12.3% to INR6.9b. EBITDA margin expanded 40bp to 9%. Adj. PAT grew 7% to INR5.5b.
- **Segment highlights: (a) EMP:** Revenue was down 18% to INR8b and was 7% below our expectation. PBIT margins stood at just 1.4% as the company made provisions. Order book stood at INR78b (+57% YoY). **(b) UCP:** Despite the COVID-19 crisis, revenue was up 20% to INR12b and was 9% ahead of our expectation. **This suggests strong channel refilling in the Mar'20 quarter.** PBIT margin came in at 14.6%, aided by operating leverage.

Key takeaways from management commentary

- **Inventory position:** Due to lockdowns, secondary sales could not materialize and as such, dealer level inventory stood as high as 60 days at end-Mar'20. As primary sales were also impacted, company level inventory stood at 90 days at end-Mar'20.
- **Key highlights of UCP segment:** Inverter ACs now form 64% of the total Split AC business and 50% of the overall Room AC business. In Air coolers, the company grew 60% YoY. It is now the No.2 player with market share of 10%.
- **Key highlights of EMP segment:** International business now forms 40% of the order book. Management flagged concerns on execution and working capital, given the deteriorating macro environment. Next few quarters may see some provisions as well. However, VOLT is looking to focus on cash flow rather than just top line growth in the EMP segment.
- **Volt-bek JV:** Market share in Frost-free refrigerators and Washing machines stood at ~2% each

Valuation and view

We expect the system level inventory to normalize by Nov-Dec'20, and hence, FY22E should turn out to be a normal year. We cut our FY21/FY22E earnings by 28%/6% as FY21 is likely to be a washout year. We have built in lower revenue and profitability for the EMP business given the weak macro environment for the Projects' business. However, the cut in our TP is limited as EMP business commands lower valuation multiple. Our FY20-22E revenue/EBITDA/adj. PAT CAGR stands at 7%/8%/8%. The stock has corrected 27% from its peak levels due to higher system level inventory. However, this is an industry level issue and on a relative basis, we expect VOLT to continue outperforming peers in the RAC segment. VOLT remains the best play on the under-penetrated AC market in India. Maintain **Buy** with revised TP of INR600 (earlier: INR620).

Quarterly Performance (INR M)

	FY19				FY20				FY19	FY20	FY20	Var.
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**			**4QE**	**Vs Est**
Sales	**21,481**	**14,214**	**14,918**	**20,628**	**26,540**	**14,219**	**14,925**	**20,896**	**71,241**	**76,581**	**20,657**	**1%**
Change (%)	10.5	37.1	8.5	0.7	23.6	0.0	0.0	1.3	11.2	7.5	0.1	
EBITDA	**2,432**	**1,085**	**1,157**	**1,443**	**2,912**	**1,059**	**976**	**1,920**	**6,117**	**6,867**	**1,738**	**10%**
Change (%)	16.7	26.7	-2.5	-43.0	19.7	-2.5	-15.7	33.1	-7.7	12.3	20.4	
As of % Sales	11.3	7.6	7.8	7.0	11.0	7.4	6.5	9.2	8.6	9.0	8.4	
Depreciation	59	60	62	59	77	80	80	82	240	320	79	
Interest	27	64	132	106	44	49	57	61	330	211	50	
Other Income	282	461	548	572	433	726	543	605	1,863	2,306	399	
Extra-ordinary Items	0	0	-118	0	-301	-43	0	-20	-118	-364		
PBT	**2,627**	**1,423**	**1,393**	**1,849**	**2,923**	**1,612**	**1,381**	**2,362**	**7,292**	**8,278**	**2,008**	**18%**
Tax	762	331	304	239	1,046	448	314	572	1,635	2,380	499	
Effective Tax Rate (%)	29.0	23.2	20.1	12.9	32.4	27.1	22.7	24.0	22.1	27.5	24.8	
Share of profit of associates/JV's	(26)	(58)	(279)	(215)	(225)	(100)	(198)	(203)	(578)	(726)	(337)	
Reported PAT	**1,839**	**1,035**	**809**	**1,396**	**1,652**	**1,064**	**869**	**1,587**	**5,079**	**5,172**	**1,172**	**35%**
Change (%)	-0.9	8.5	-19.4	-27.5	-10.2	2.9	7.4	13.6	-11.3	1.8	-16.1	
Adj PAT	**1,839**	**1,035**	**927**	**1,396**	**1,953**	**1,107**	**869**	**1,607**	**5,197**	**5,536**	**1,172**	**37%**
Change (%)	0.2	8.5	-7.7	-28.1	6.2	7.0	-6.2	15.1	-9.1	6.5	-16.1	

Amara Raja

Estimate change	↑
TP change	↑
Rating change	↓

Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	111.6 / 1.4
52-Week Range (INR)	814 / 350
1, 6, 12 Rel. Per (%)	16/5/19
12M Avg Val (INR M)	527

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	68.4	66.1	74.3
EBITDA	11.0	11.1	12.1
Adj. PAT	6.6	6.1	6.8
EPS (INR)	38.7	35.7	39.9
EPS Gr. (%)	36.7	-7.7	11.9
BV/Sh. (INR)	214	238	264
Ratios			
RoE (%)	18.9	15.8	15.9
RoCE (%)	18.6	15.6	15.7
Payout (%)	34.1	34.1	34.1
Valuations			
P/E (x)	16.9	18.3	16.4
P/BV (x)	3.1	2.8	2.5
Div. Yield (%)	1.7	1.6	1.7
FCF Yield (%)	4.3	4.4	1.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	28.1	28.1	52.1
DII	11.6	11.1	10.7
FII	20.9	21.2	19.4
Others	39.4	39.6	17.9

FII Includes depository receipts

CMP: INR654 TP: INR719 (+10%) Downgrade to Neutral

Above est.; Mix drives margins; Downgrade to Neutral

Market share gains from unorganized continues

- AMRJ's 4QFY20 performance beat was driven by a better mix (lower OEM sales). While aftermarket continued with strong growth, endorsing our view of value migration from unorganized, 4Q saw recovery in Telecom.
- We downgrade rating to Neutral as valuations fairly reflects for recovery and market share gains. Our TP is INR719 (18x Mar'22 EPS, 10% discount to 10 year LPA).

All segments perform well, except OEM; Margins driven by mix

- 4QFY20 revenue/EBITDA/PAT grew 0.9%/0.4%/14.5% YoY to ~INR15.8b/INR2.4b/INR1.4b. FY20 revenues/EBITDA/PAT grew 0.7%/15%/37% YoY to ~INR 68.4b/INR11b/INR6.6b.
- In 2W, OEM volumes grew 25%, driven by the addition of two new OEMs. The aftermarket also grew 18–19%. 4W volumes were flat as growth in replacement and exports was offset by a 20% fall in OEM. Telecom grew 6% and invertor sales were flat due to lost sales in a seasonally strong March.
- Gross margins expanded 150bp YoY (+80bp QoQ) to ~36.3% (est.: ~35.3%), driven by a better mix (lower OEM sales). Lead prices saw 2% QoQ inflation (in 3QFY20 as the impact was witnessed with a quarter lag).
- EBITDA margins were flat YoY (-80bp QoQ) at ~15.4% (est.: ~15.7%) as the benefit of the mix was offset by operating deleverage.
- EBITDA was flat YoY at ~INR2.4b (est.: ~INR2.23b). PAT grew 14.5% YoY to ~INR1.37b (est.: INR 1.2b), led by a lower tax rate.

Highlights from management commentary

- **Status of operations**: Retail sales by the end of May were over 60% of the normal, with most of the channels operational. There was reasonable traction in Tractors, Inverter, 2W, and 4W as pent-up demand was observed to be returning.
- Exports (10% of revenues) grew strongly in FY20 in both Auto and Industrial in the Indian Ocean Rim markets. With a presence in most of the markets, it has a premium positioning and serves 25–30% of the addressable market.
- **Stamped grid**: In 2W, products were launched in the aftermarket and in the testing stages for OEMs. In 4W, implementation would be witnessed in due course. It offers the benefit of cleaner and efficient operations; process flexibility, enabling the creation of product variants; and RM savings.
- **Tie-up with Gridtential Energy** for bipolar batteries for application in low-end traction batteries, commercial UPS etc. as it offers better reliability.
- **Telecom**: It gained market share in FY20, returning to over 65%.
- **Capex:** INR3.5–4b in FY21 would be for automotive capacity expansion, debottlenecking, and maintenance capex.

Valuation and view

- The stock trades at valuations of 18.3x/16.4x FY21/FY22 EPS. Downgrade to Neutral with TP of INR719.

Quarterly Performance

(INR M)

	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	**17,787**	**17,531**	**16,947**	**15,667**	**18,150**	**16,953**	**17,478**	**15,814**	**67,931**	**68,395**	**14,594**
YoY Change (%)	18.8	22.8	9.1	-0.9	2.0	-3.3	3.1	0.9	12	0.7	-6.9
EBITDA	**2,203**	**2,366**	**2,528**	**2,421**	**2,792**	**2,923**	**2,840**	**2,432**	**9,518**	**10,986**	**2,288**
Margins (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.4	14.0	16.1	15.7
Depreciation	630	643	657	683	733	750	765	760	2,612	3,007	785
Interest	15	18	18	19	29	34	29	30	70	122	23
Other Income	137	142	125	63	102	180	128	141	468	551	140
PBT after EO	**1,695**	**1,848**	**1,978**	**1,783**	**2,132**	**2,319**	**2,174**	**1,783**	**7,304**	**8,407**	**1,620**
Tax Rate (%)	33.3	34.9	33.8	33.0	33.9	5.6	24.4	23.4	33.8	21.4	25.6
Adj PAT	**1,130**	**1,202**	**1,309**	**1,193**	**1,409**	**2,189**	**1,644**	**1,366**	**4,835**	**6,608**	**1,205**
YoY Change (%)	-58.7	-5.5	-2.6	8.7	24.7	82.0	25.6	14.5	2.6	36.7	0.9

Key Performance Indicators

	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
RM Cost (% of sales)	71.5	69.1	67.2	65.2	67.6	64.1	64.5	63.7	68.4	65.0	66.8
Staff Cost (% of sales)	4.7	5.3	5.1	5.2	5.4	5.8	5.4	5.9	5.1	5.6	5.6
Other Exp (% of sales)	11.4	12.1	12.7	14.1	11.6	12.8	13.9	15.0	12.5	13.3	11.5
Gross Margin (%)	28.5	30.9	32.8	34.8	32.4	35.9	35.5	36.3	31.6	35.0	35.3
EBITDA Margin (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.4	14.0	16.1	15.7
Lead Price (INR/Kg)	**158.8**	**145.3**	**140.7**	**142.4**	**130.1**	**141.8**	**144.5**	**132.5**	**146.8**	**137.2**	**132.5**
Change (%)	14.7	-2.3	-12.1	-11.6	-18.1	-2.4	2.7	-7.0	-3.5	-6.5	-7.0

E: MOFSL Estimates

MCX

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	66.4 / 0.9
52-Week Range (INR)	1442 / 779
1, 6, 12 Rel. Per (%)	23/29/77
12M Avg Val (INR M)	703

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	3.7	4.4	5.4
EBIT Margin (%)	36.5	40.1	45.1
PAT	2.4	2.3	3.0
EPS (INR)	46.4	45.4	59.7
EPS Gr. (%)	61.9	-2.1	31.4
BV/Sh. (INR)	266.6	289.8	320.2
Ratios			
RoE (%)	18.1	16.3	19.6
RoCE (%)	17.5	15.8	18.9
Payout (%)	78.2	66.6	50.7
Valuations			
P/E (x)	28.1	28.7	21.8
P/BV (x)	4.9	4.5	4.1
EV/EBITDA (x)	34.1	29.5	21.0
Div Yield (%)	2.8	2.3	2.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	39.3	35.6	40.0
FII	32.8	34.1	30.5
Others	27.9	30.3	29.5

FII Includes depository receipts

CMP: INR1,302 TP: INR1,510 (+16%) Buy

Precious metals to drive volumes

Largely in-line results; Stable outlook

- Despite weak volumes over the last week of 4QFY20, MCX has reported strong revenue growth (+33% YoY). Adjusted for one-off expenses, EBIT margin was largely in line with our estimates. Normalization of market hours translated into incipient signs of recovery in traded value for May'20, largely led by gold (+69% YoY) and silver (+121% YoY).
- Cues from the GFC period hint at increased interest in precious metals over a 2-3 year period following any crisis or market volatility. The COVID-19 led slowdown in global growth, soft interest rates and liquidity injections should be the key factors driving interest in gold/silver this time. Normalization of margin requirements in the crude segment is likely to drive continued volume growth.
- We upgrade our EPS estimates over FY21-22E by 3-6% as we adjust our EBITDA margin trajectory. We continue to like MCX for its near monopoly in the commodity exchanges' segment in India. Over the course of its listed history, one-year forward P/E multiples averaged ~25x. Our target price implies 25x FY22E EPS. Reiterate **Buy**.

Margin miss largely led by one-off expenses

- In 4QFY20, MCX's revenue/EBIT/PAT grew 33%/66%/8% YoY (v/s est. 44%/142%/11% YoY).
- Revenue growth (33% YoY) was strong despite the fizzling out of volumes over the last week of Mar'20 on news of reduction in the number of trading hours. This was led by 121%/134%/60% YoY growth in traded value of gold/silver/crude. Note that despite the sharp volatility in crude prices and increase in margin requirements, crude reported a sharp increase in traded value for the full quarter. Total traded value of all commodities for the quarter was up 44% YoY.
- Barring Nickel (118% YoY), base metals continued to drag the overall increase in traded value. Aluminum (-79% YoY), Zinc (-78% YoY), Lead (-82% YoY) and Copper (-27% YoY) reported sharp decline in traded value due to change in the nature of delivery contract.
- EBIT margin for the quarter (33% v/s est. 45%) was lower than expectations. This was partly driven by one-off expenses – (a) variable pay-outs to employees, (b) contribution to SGF, (c) PM Cares fund donation, and (d) advertisement expenses.
- Despite lower-than-expected EBIT margins, PAT was largely in line due to the MAT adjustment and resultant lower-than-expected ETR.

Key highlights from management commentary

- Management indicated that crude volumes remain dented as the sentiment of participants was impacted due to (a) negative price settlement issue, and (b) increase in margin requirement. As volatility reverts to manageable level, company is optimistic about the reduction in margin requirement and improvement in market participation.

- Company has hinted at lockdown impact on its warehouse operations. As the lockdowns eased, it is indicated that operations/delivery are now reverting to normal. Even as the change in contract specifications continued to impact volumes, management sees huge potential in base metals.
- While the visibility of revenue growth in FY21 is not very strong, management has indicated that tight control on costs had already begun. The company has decided not to give salary increments beyond a certain level. It is negotiating with vendors also on different cost rationalization initiatives.

Valuation and view – To be a key beneficiary of global market volatility

- Shortening of market hours during Apr'20 and negative sentiment due to issues related to crude futures' settlement impacted Apr'20 volumes significantly. Barring gold (+26% YoY), traded value across commodities witnessed sharp declines resulting in ~46% reduction in overall traded value. During May, while traded value across Gold (+69% YoY), Silver (+121% YoY) and Nickel (+62% YoY) recovered, Crude (-78% YoY) and base metals continued to drag the overall traded value (-20% YoY).
- We upgrade our EPS estimates over FY21-22E by 3-6% as we adjust our EBITDA margin trajectory. We continue to like the company for its near monopoly in the commodity exchanges' segment in India. Over the course of its listed history, one-year forward P/E multiples averaged ~25x. Our target price implies 25x FY22E EPS. Reiterate **Buy**.

MCX Quarterly Performance (INR m)

	FY19				FY20				FY19	FY20	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%/bp)
Sales	**729**	**711**	**769**	**791**	**795**	**1,002**	**893**	**1,053**	3,000	3,742	1,140	(7.7)
Q-o-Q Gr. (%)	3.2	-2.4	8.2	2.9	0.4	26.1	-10.9	17.9	16.3	24.7	27.7	-978bp
Staff Costs	186	174	177	188	188	195	178	213	725	773	194	9.9
Other expenses	294	312	383	352	330	334	323	433	1,336	1,420	393	10.2
Depreciation	37	38	38	41	40	42	43	56	154	182	43	30.7
EBIT	**213**	**187**	**171**	**211**	**237**	**430**	**349**	**351**	**785**	**1,367**	511	(31.2)
Margins (%)	29.2	26.3	22.2	26.6	29.8	43.0	39.1	33.4	26.2	36.5	44.8	-1144bp
Interest Costs	0	0	0	0	0	0	0	2	0	2	0	
Other Income	126	222	322	317	314	444	235	297	986	1,289	290	2.2
PBT bef. Exceptional items	**338**	**408**	**493**	**527**	**551**	**874**	**584**	**646**	**1,771**	**2,654**	**801**	**(19.3)**
Tax	27	53	75	-80	114	154	31	-9	75	289	128	(107.2)
Rate (%)	7.9	13.1	15.3	-15.2	20.7	17.6	5.2	-1.4	4.2	10.9	16.0	-1742bp
PAT	**73**	**359**	**418**	**607**	**437**	**720**	**553**	**655**	**1,458**	**2,366**	**673**	(2.6)
Q-o-Q Gr. (%)	-78.4	390.2	16.3	45.4	-28.1	64.9	-23.2	18.5	34.8	61.8	21.6	
EPS (INR)	**1.4**	**7.0**	**8.2**	**12.0**	**8.6**	**14.1**	**10.9**	**12.8**	**28.6**	**46.4**	**13.2**	**(2.6)**
Total volumes (INR t)	**16.2**	**16.6**	**17.4**	**17.6**	**17.7**	**23.2**	**20.6**	**25.4**	**67.7**	**86.9**	**24.8**	
Q-o-Q Gr. (%)	7.6	2.2	5.1	1.2	0.7	31.0	-11.2	23.2			20.3	
Y-o-Y Gr. (%)	34.7	17.7	35.7	17.0	9.4	40.2	18.5	44.3	25.6	28.3	40.9	

V-Mart Retail

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	VMART IN
Equity Shares (m)	18
M.Cap.(INRb)/(USDb)	29.8 / 0.4
52-Week Range (INR)	2545 / 1294
1, 6, 12 Rel. Per (%)	-4/12/-17
12M Avg Val (INR M)	52

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	16.6	14.5	19.7
EBITDA	1.3	0.7	1.6
Adj. PAT	0.8	0.2	0.8
EBITDA Margin (%)	8.0	4.9	8.2
Adj. EPS (INR)	44.3	10.5	44.7
EPS Gr. (%)	12.1	-76.2	324.6
BV/Sh. (INR)	253.6	264.1	308.9
Ratios			
Net D:E	0.0	0.1	-0.3
RoE (%)	18.5	4.1	15.6
RoCE (%)	19.1	4.4	14.7
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	37.0	155.7	36.7
EV/EBITDA (x)	22.4	42.2	17.4
EV/Sales (X)	1.8	2.1	1.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	1.1	-1.4	6.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.0	52.0	53.0
DII	15.1	10.3	5.6
FII	23.5	26.1	30.9
Others	9.4	11.7	10.5

FII Includes depository receipts

CMP: INR1640 TP: INR2000 (+22%) Buy

Hit by COVID-19, but strong liquidity, market position to aid

- V-Mart Retail (VMART) saw ~INR750m sales loss in 4QFY20, which led to an -18.6% drop in SSSG and revenue decline by 3% YoY (7% above estimate). On the other hand, EBITDA fell by 63%. Normalized QTD revenue growth up to 15th March'20 stood at 29%, SSSG 8%, and EBITDA growth 60%.
- We cut our FY21/FY22 revenue estimates by 12%/14% and EBITDA estimates by 40%/15%, factoring the impact of the COVID-19 crisis. However, we maintain Buy given VMART's attractive value proposition, comfortable liquidity position, and long runway for growth in tier II and III cities' value retail format

Subdued performance, but pre-COVID-19 growth strong

- VMART's revenues fell 3% YoY to INR3.3b (7% above est.) on account of store closures (in the latter half of March'20), with SSSG estimated at -18.6% (full-year SSSG at -2.3%).
- Pre-Ind-AS 116 EBITDA fell 63% YoY to INR66m (16% above est.), with margins at 2%, contracting 320bps YoY. Net loss stood at INR4m (v/s profit of INR65m in 4QFY19).
- 4QFY20 SSSG stood at. est. -18.6%, which thereby dragged down overall FY20 SSSG to -2.3% (v/s +3.7% in FY19). It added nine stores (five lesser due to COVID-19 lockdown), taking the total store count to 266.
- VMART has a comfortable liquidity position, with net cash of INR118m and INR230m in working capital OD limits as of FY20. Inventory increased by INR595m, 14% against normalized inventory, due to lower operations in March'20 and five stores that were scheduled but could not be opened.

Highlights from management commentary

- The company has opened 50% of stores of the 70% permitted due to operational limitations.
- We expect overall fixed cost reduction of 50%; while rental cost charged during lockdown should be 30% of the total rent, employee cost is expected to reduce by 25%.
- The bulk of inventory is core (~45%) and non-seasonal. Hence, the company faces lower risk related to inventory; it has, nevertheless, taken a 0.5% provision.
- All new capex is postponed, including for the warehouse in the eastern region. However, it plans to explore the availability of new attractive locations and replace some of the bottom performing stores with these in the current weak market.

Valuation and view

- VMART is strongly positioned to compete with regional and national players in the Value Retailing segment; we expect the business to gain significantly as economic sentiment revives.
- We reduce SSSG growth to -18%/15% and drastically reduce our store adds to 15/60 for FY21E/FY22E; we expect no store adds in 1HFY21 and thus expect the pace to rise in FY22E.
- Thus revenue/EBITDA is expected to grow at a 9%/10% CAGR over FY20–22E, and revival in SSSG could further boost revenue and profitability.
- We assign 23x EV/EBITDA, arriving at a TP of INR2000. VMART currently trades at FY21/FY22 EV/EBITDA of 42x/17x; we **maintain Buy** given its astute inventory management skills, expertise in affordable segments, and strong brand recall in regions of operation.

Standalone - Quarterly perf. **(INR m)**

Y/E March	FY19				FY20				FY19	FY20	FY20E	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	Var (%)
Revenue	**3,612**	**2,622**	**4,658**	**3,445**	**4,534**	**3,144**	**5,624**	**3,329**	**14,337**	**16,631**	**3,119**	**7**
YoY Change (%)	14.6	8.4	26.6	15.9	25.5	19.9	20.7	-3.4	17.3	16.0	-9.5	
Total Expenditure	3,180	2,636	3,925	3,267	4,139	3,222	4,680	3,263	13,008	15,305	3,062	7
EBITDA	**432**	**-14**	**734**	**178**	**395**	**-79**	**944**	**66**	**1,330**	**1,326**	**57**	**15**
EBITDA Margin (%)	12.0	-0.5	15.7	5.2	8.7	-2.5	16.8	2.0	9.3	8.0	1.8	
Depreciation	65	67	72	72	80	78	84	92	276	334	88	
Interest	2	2	9	3	2	9	17	6	16	34	10	
Other Income	9	10	17	23	21	12	4	8	59	45	28	
PBT	**374**	**-97**	**670**	**51**	**334**	**-155**	**848**	**-25**	**998**	**1,003**	**-13**	**NM**
Tax	125	-57	253	60	83	-48	188	-20	382	202	-4	
Rate (%)	33.5	58.5	37.8	117.3	24.8	31.3	22.1	80.9	38.2	20.1	27.0	
Reported PAT	**249**	**-40**	**417**	**-9**	**252**	**-106**	**661**	**-5**	**617**	**801**	**-10**	**NM**
Adj PAT	**249**	**-16**	**417**	**65**	**252**	**-106**	**661**	**-5**	**715**	**801**	**-10**	**NM**
YoY Change (%)	11.2	-157.2	13.8	-59.4	1.2	576.0	58.4	-107.4	-8.0	12.1	-115.0	

E: MOFSL Estimates

Kaveri Seed Co.

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	28.5 / 0.3
52-Week Range (INR)	576 / 274
1, 6, 12 Rel. Per (%)	28/15/2
12M Avg Val (INR M)	85

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	9.3	9.6	10.5
EBITDA	2.5	2.7	3.0
PAT	2.6	2.6	2.8
EBITDA (%)	27.2	28.1	28.5
EPS (INR)	43.1	42.5	46.8
EPS Gr. (%)	19.5	(1.3)	10.0
BV/Sh. (INR)	159	173	188
Ratios			
Net D/E	(0.4)	(0.5)	(0.5)
RoE (%)	26.4	25.7	25.9
RoCE (%)	28.9	28.8	29.1
Payout (%)	-	67.7	66.7
Valuations			
P/E (x)	11.0	11.1	10.1
EV/EBITDA (x)	3.0	2.7	2.5
Div Yield (%)	-	4.5	4.8
FCF Yield (%)	6.2	10.2	8.5

*Consol

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	55.5	55.1	55.1
DII	10.7	6.6	6.7
FII	21.0	24.8	21.8
Others	12.7	13.5	16.4

CMP: INR473 TP: INR561 (+19%) Buy

Operating performance under pressure in Q4; revenue above est.

However, strong outlook for FY21

- Kaveri Seeds (KSCL) closed FY20 on a strong note, with 15%/20%/20% revenue/EBITDA/PAT growth.
- We have increased our earnings estimates by 25%/31% in FY21/FY22 on the 10–15% volume growth guidance in the Cotton Seed segment and 20–25% growth in the Non-Cotton segment. However, we have assumed 7m packet (in FY21) sales of cotton seeds (lower by 3% YoY) on lower cotton price due to subdued domestic as well as export demand.
- Earnings revision is despite lower-than-expected operating performance in 4QFY20 as a mere 6% of the revenue contribution comes from the 4Q of the financial year.

Cotton and hybrid rice drive performance in FY20

- KSCL's revenue (standalone) stood at INR519m (est.: INR471m) in 4QFY20, up 16% YoY. EBITDA loss stood at INR118m in 4QFY20 v/s loss of INR59m in the previous year (est.: loss of INR45m).
- Adj. PAT stood at INR94m v/s loss of INR114m last year (est.: loss of INR103m), primarily on account of higher other income (up 13x YoY to INR315m).
- KSCL's revenue grew 15% to INR9.3b in FY20, driven by 12% revenue growth in cotton seeds (to INR4.5b), 66% growth in hybrid rice seed sales (to INR850m), and 10% growth in maize seed sales (to INR1.7b).
- 12% revenue growth in FY20 in cotton seeds was driven by 17% volume growth (to 7.23m packets). Additionally, the contribution of new products rose from 15% to 23% of the total volume.
- Hybrid paddy reported 66% revenue growth in FY20 on 60% volume growth; growth was driven by the launch of the new Hybrid Paddy KPH 468. The contribution of new products rose from 26% to 51% of volumes.
- Maize seed revenue grew 10% in FY20, largely owing to a change in the product mix and a price hike taken.
- EBITDA per packet for cotton seeds was INR110 for FY20 and is likely to increase to INR121 per packet as no royalty payment (of INR20/packet) is now required to be made.

Highlights from management commentary

- The Telangana government has advised farmers to grow cotton in order to receive the Rythu Bandhu installment, which would benefit cotton acreage. Also, the government has advised to grow maize in the rabi season as the state has an abundant supply of water.
- The company expects 10–15% volume growth in the Cotton Seed segment and 20–25% volume growth in the Non-Cotton segment; combined overall growth is expected to be 15–20% in FY21.
- Capex of INR200–300m is expected for FY21.

- Revenue from the Vegetable Seed segment grew 30% to INR200m in FY20, and the company is confident of achieving 30% growth in the Vegetable Seed segment for the next four to five years.

Valuation and view

- In our view, maize and cotton acreage in India is likely to witness some pressure on account of lower prices. This would thereby impact KSCL's seed sales in FY21. However, we expect paddy seed sales to maintain growth momentum in FY21 as well, and expect its revenue to grow 27%.
- Additionally, we have assumed an increase in cotton seed EBITDA/packet by INR11/packet to INR121, factoring the benefit of INR20/packet on cotton seed sales as KSCL is now not required to pay royalty.
- We have thus increased our earnings estimates by 25%/31% for FY21/FY22.
- We value the company at 12x FY22E EPS (~20% discount to three-year average PE). The discount is primarily on account of uncertainty in cotton/maize seed demand in FY21 due to lower price, which could impact acreage. We arrive at TP of INR561. Maintain Buy.

Quarterly - Standalone (INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	**5,819**	**752**	**672**	**447**	**6,555**	**774**	**984**	**519**	**7,690**	**8,832**	**471**	**10**
YoY Change (%)	-1.5	8.0	-4.9	7.5	12.6	3.0	46.5	16.1	-0.4	14.9	5.2	
Total Expenditure	3,784	673	671	507	4,222	661	917	637	5,634	6,437	515	
EBITDA	**2,035**	**79**	**1**	**-59**	**2,333**	**113**	**67**	**-118**	**2,056**	**2,395**	**-45**	**NA**
Margins (%)	35.0	10.5	0.2	-13.3	35.6	14.6	6.8	-22.6	26.7	27.1	-9.5	
Depreciation	53	47	53	59	59	59	62	64	212	243	67	
Interest	0	0	1	0	0	0	1	1	1	2	1	
Other Income	168	131	106	24	43	30	77	315	429	466	27	
PBT before EO expense	**2,150**	**162**	**54**	**-95**	**2,317**	**84**	**82**	**132**	**2,271**	**2,616**	**-86**	
PBT	**2,150**	**162**	**54**	**-95**	**2,317**	**84**	**82**	**132**	**2,271**	**2,616**	**-86**	
Tax	44	43	18	20	28	15	22	39	124	103	17	
Rate (%)	2.0	26.4	32.5	-20.9	1.2	17.5	26.2	29.3	5.5	3.9	-20	
Reported PAT	**2,106**	**119**	**36**	**-114**	**2,289**	**69**	**60**	**94**	**2,147**	**2,513**	**-103**	**NA**
Adj PAT	**2,106**	**119**	**36**	**-114**	**2,289**	**69**	**60**	**94**	**2,147**	**2,513**	**-103**	**NA**
YoY Change (%)	4.1	-42.9	-32.9	NA	8.7	-42.0	65.8	NA	2.1	17.0	NA	
Margins (%)	36.2	15.9	5.4	-25.6	34.9	8.9	6.1	18.0	27.9	28.4	-21.9	

*Quarterly numbers are standalone and annual numbers are consol.

Lemon Tree Hotels

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	LEMONTRE IN
Equity Shares (m)	786
M.Cap.(INRb)/(USDb)	14.9 / 0.2
52-Week Range (INR)	77 / 14
1, 6, 12 Rel. Per (%)	8/-52/-58
12M Avg Val (INR M)	80

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	6.7	3.5	5.9
EBITDA	2.4	1.1	2.4
PAT	-0.1	-1.4	-0.3
EBITDA (%)	35.6	30.1	41.2
EPS (INR)	(0.1)	(1.7)	(0.4)
EBITDA Gr. (%)	41.2	(55.8)	131.1
BV/Sh. (INR)	10.5	8.8	8.4
Ratios			
Net D/E	1.9	2.0	2.1
RoE (%)	(1.1)	(18.0)	(4.3)
RoCE (%)	4.7	(0.2)	4.1
Payout (%)	-	-	-
Valuations			
P/E (x)	(147.5)	(10.4)	(48.3)
EV/EBITDA (x)	15.4	34.8	15.0
Div Yield (%)	-	-	-
FCF Yield (%)	(32.3)	11.4	12.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	31.2	31.2	30.9
DII	17.1	17.1	9.0
FII	23.7	24.0	13.9
Others	28.0	27.6	46.3

CMP: INR19 TP: INR25 (+33%) Buy

Cost rationalization to support operating performance

In-line revenue; EBITDA above estimates

- Lemon Tree Hotels (LEMONTRE)'s revenue grew 17% YoY, with like-for-like EBITDA (adj. for Ind-AS) growing 13%, largely driven by new hotel additions (absent in the base quarter) and the Keys Hotels acquisition. COVID-19 dented performance, reflected in decline in occupancy by 13pp YoY (to 65%) during the quarter. This led to decline of 13% in RevPAR; thus, on a same-hotel basis, EBITDA declined 22% YoY, restricting consolidated EBITDA growth.
- MoM improvement at LEMONTRE's operational hotel is quite impressive; operational hotels generated hotel-level GOP of INR22m in May'20 (v/s INR1m in April'20).
- Factoring in near-term weakness in demand, we cut our revenue estimates by 28%/24% for FY21/FY22 and EBITDA estimates by 1%/16% for FY21/FY22.

EBITDA performance driven by new hotels and Keys acquisition

- Revenue stood at INR1,761m (est.: INR1,837m) in 4QFY20, up 17% YoY, led by a 45% increase in owned/leased room inventory (to 5,192), 3% YoY increase in ARR (to INR4,530), and the Keys Hotels acquisition. On the other hand, this was offset by 16.5pp decline in occupancy (to 61%).
- On a same-hotel basis (excluding hotels commissioned in the past 12 months), ARR grew 4.5% YoY (to INR4,604), offset by 12.7pp decline in occupancy (to 64.9%); thus, RevPAR declined 13% YoY (to INR2,988).
- Reported EBITDA stood at INR639m (est.: INR552m), up 31% YoY. However, like-for-like EBITDA (adj. for the Ind-AS 116 impact) stood at INR552m, up 13% YoY. Like-for-like EBITDA margins contracted 120bp to 31.4%.
- On a same-hotel basis, EBITDA declined 22% YoY (to INR380m), EBITDA from new hotels (RFH Chandigarh, LTP Mumbai, LTP Kolkata, and Aurika Udaipur) stood at INR124m, and EBITDA from Keys Hotels was INR46m, thus totaling pre-Ind-AS EBITDA of INR552m.
- Keys Hotels generated revenue of INR175m, with EBITDA of INR46m (operated at an occupancy of 52.4%, with an ARR of INR2,571 during the quarter).
- Of the 5,183 owned/lease rooms of LEMONTRE, 66% were operational in April'20, which increased to 78% in May'20. Occupancy (on operational room inventory) for April declined 43.9pp YoY (to 33.4%), with 28% YoY decline witnessed in ARR (to INR2,881). This translated to 76% decline in revenue (to INR108m), with hotel-level GOP of INR1m (down 99.5% YoY).
- **However, in May'20, occupancy improved 611bp MoM to 39.6% (down 38pp YoY), but ARR declined 9% MoM to INR2,625 (down 34% YoY). This translated to MoM revenue growth of 25% to INR135m (down 71% YoY). In May, the company generated hotel-level GOP of INR22m, up 22x MoM (16% margin v/s 0.9% in April), which is quite impressive, in our view. This is primarily driven by cost-cutting measures deployed.**

Highlights from management commentary

- Demand for rooms is currently witnessed from: quarantined guests, healthcare staff (doctors and nurses), and some customers staying at hotels as part of their employer's business continuity plan.
- 75–76% of the company's total expenses are fixed in nature; the company has managed to reduce this by 60% and variable cost by 35%. It expects to achieve breakeven at 27–30% of normal revenue.
- APG has agreed to invest INR3b in Fleur (a subsidiary of LEMONTRE) through Compulsorily Convertible Preference Shares, which would be converted into equity after 30 months. The company has drawn down INR1.75b initially. LEMONTRE would inject an additional 100% in owned assets in Fleur at the end of 30 months to retain current majority ownership. This is aligned with the company's asset monetization plan / asset light strategy.
- Currently, it is only executing Aurika, the Mumbai hotel. Capex of INR300–350m is expected in FY21 and INR1b in FY22.
- Some cost-cutting measures shall also persist post COVID-19, which would increase the EBITDA margin by 500–700bps.

Valuation and view

- The Hotel sector has been the first hit due to COVID-19 and would be the last one to recover; demand recovery would happen in a phased manner.
- Near-term demand would remain under pressure as passenger movement in airways and railways would be partially restricted or people would avoid traveling. Business travel would be done only in the utmost necessary situation and MICE/exhibition demand would not exist as large gatherings would be restricted.
- However, LEMONTRE operates at the mid-priced market, which is likely to witness demand recovery at a faster pace.
- One of the key concerns on the stock is high debt has been addressed through funds raised from APG; additionally, the company has deployed several cost-cutting measures, which would aid in generating cash flows.
- Factoring near-term weakness in demand, we cut our revenue estimates by 28%/24% for FY21/FY22 and EBITDA estimates by 1%/16% for FY21/FY22.
- We value the stock on an SOTP basis and arrive at a target price of INR25. Maintain **Buy**.

Reported Cons. Quarterly Perf. **(INR m)**

Y/E March	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Gross Sales	**1,269**	**1,287**	**1,434**	**1,505**	**1,409**	**1,528**	**1,996**	**1,761**	**5,495**	**6,694**	**1,837**	**-4**
YoY Change (%)	17.2	15.3	8.3	14.0	11.0	18.7	39.2	17.0	13.5	21.8	22.0	
Total Expenditure	921	927	943	1,016	962	1,043	1,184	1,122	3,807	4,311	1,285	
EBITDA	**348**	**360**	**490**	**489**	**448**	**484**	**812**	**639**	**1,688**	**2,383**	**552**	**16**
Margins (%)	27.4	28.0	34.2	32.5	31.8	31.7	40.7	36.3	30.7	35.6	30.1	
Depreciation	131	132	135	143	172	196	227	277	541	872	250	
Interest	197	198	214	238	309	325	452	487	847	1,573	450	
Other Income	19	59	27	40	21	9	32	4	145	67	39	
PBT before EO expense	**40**	**89**	**168**	**148**	**-12**	**-27**	**165**	**-121**	**445**	**5**	**-109**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**40**	**89**	**168**	**148**	**-12**	**-27**	**165**	**-121**	**445**	**5**	**-109**	
Tax	20	28	34	-194	7	1	46	56	-111	109	-31	
Rate (%)	51.4	31.8	20.5	-131.0	-59.7	-2.2	27.6	-45.8	-25.0	2215.8	28.0	
MI & P/L of Asso. Cos.	-4	4	9	18	-2	-6	-3	2	27	-9	1	
Reported PAT	**23**	**57**	**125**	**325**	**-17**	**-22**	**122**	**-179**	**529**	**-95**	**-79**	**NA**
Adj PAT	**23**	**57**	**125**	**325**	**-17**	**-22**	**122**	**-179**	**529**	**-95**	**-79**	**NA**
YoY Change (%)	-196.7	-228.3	38.1	185.5	NA	NA	-2.1	NA	272.6	NA	NA	
Margins (%)	1.8	4.4	8.7	21.6	-1.2	-1.4	6.1	-10.2	9.6	-1.4	-4.3	

Expert Speak

Cement demand on the path to normalcy

We interacted with Mr Senan Shah, Secretary of Cement Stockists & Dealers Association of Bombay, and Mr NK Bagrodia, multi-brand cement dealer based out of Kolkata, to learn the status of demand post the restarting of operations at plants and the outlook for the sector.

Demand improves in eastern region; Maharashtra continues to lag behind

- Cement demand in West Bengal stood at 67% (1.1mt) of last year's demand despite Cyclone Amphan disrupting volumes in the fourth week of May. If not for Amphan, cement demand could have recovered to 85% of the previous year's demand. Other states in East India have also seen a good pickup in demand in May. Demand is expected to improve in June and July as demand arising from last-minute repairs before the monsoons and repairs of the damages caused by Amphan are likely to be witnessed.
- On the other hand, cement demand in Maharashtra remains relatively weaker due to negligible demand from large metropolitan centers such as Mumbai and Pune. Cement demand in rural and semi-urban areas is faring better, with ~80% of potential sales volumes, accounting for ~65% of the total demand. While some uptick in demand was seen in early May from projects, the migration of labor has affected work at sites, impacting demand.

Labor migration to keep demand lower in Maharashtra

- Most of the ongoing projects and construction sites are facing a labor shortage, with 10–15% of labor available at the sites.
- Although the labor workforce is expected to return to the sites with relaxation in interstate movement, it may take a while for the force to return. This is as a large part of the labor force would have reached home only a few days ago, and it could be some time before they decide to return. However, some contractors are trying to get the laborers back by paying advance salaries.
- Local labor is available at some places; however, the high cost of such labor is not economically viable for the projects.
- Additionally, political factors may also affect the reverse migration of labor.

Short-lived price hikes; demand-supply to drive prices in medium term

- Price hikes have been witnessed across regions and brands in the range of INR10–40/bag, especially in the rural areas, where demand has been improving and pricing was not as strong earlier. Mumbai saw a price hike of INR10/bag in May, whereas Nagpur and Vidharba saw price hikes of INR30–40/bag.
- Mr Shah believes that a further price hike at the manufacturers' end would depend on the demand-supply mechanism; however, price hikes could also be taken by dealers due to increased labor cost.
- No discount pricing would be offered by manufacturers; however, some dealers are offering discounts to release capital.
- Mr Bagrodia believes price hikes taken over Apr–May'20 are not sustainable. Taking cue from Rajasthan, he informed the price hike of INR40/bag earlier in May was rolled back.

Infrastructure expenditure and Retail demand to drive growth

- Cement demand is expected to normalize from 3QFY21, driven by infrastructure spending by the govt. and demand from the Retail space.
- Mr Shah believes the Maharashtra govt. may undertake measures to revive the Real Estate industry as it creates huge employment opportunities. If this happens, it would further boost cement demand.

Other highlights

- Relative to May'19 volumes, volumes sold in May'20 by companies in West Bengal were as follows: Emami 100%, JSW 100%, Birla Corp 82%, Dalmia 82%, UltraTech 77%, Ambuja 68%, Nuvoco 50%, and Ramco 50%.
- UTCEM sold ~40kt in Mumbai in May'20, against potential sales volumes of ~200kt per month.

SPICEJET : POSSIBLE TO DEAL WITH COMPLEXITY OF FARES AND ROUTES; Ajay Singh, CMD

- It was really important that Indian airlines be allowed to fly again because we were just sitting around suffering all the fixed costs and not being able to fly. So I think it is wonderful that we are able to fly and we are grateful to the civil aviation ministry because they have really fought hard for us; there is no question about it.
- With the fares that have been set and with the oil prices being where they are today, we do not really believe that we will lose money. We will probably make some money. Now is that going to be enough to pay for the 70% of the fleet which is sitting on the ground at this time? Probably not.
- Discussing with them several other initiatives that can be taken including the inclusion of ATF under GST and this is a work in progress.
- Have been surprised at the number of queries we are receiving at this time for vacations.

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THE SURVEILLANCE INDIA ACTUALLY NEEDS TO QUELL THE VIRUS

- As we exit the fourth phase of the national lockdown, it is time to do some reconnaissance: what worked, what didn't and what is now needed. This exercise entails using data, of which there seems to be an abundance. Technology and consulting companies have raced to produce epidemiological models, contact tracing apps and mobility dashboards. Few have helped thwart the exponential rise of coronavirus infections. This is because the information we need is simply not available. Predictions about the epidemic in India are based on data directly published by the Indian Council of Medical Research, or from private voluntary initiatives like covid19india.org. One of the early questions an epidemiologist attempting to inform policymaking will ask is how bad the outbreak is in a particular area. What share of the population the disease or has recovered from it? In the absence of tests for everyone, she would like to know how many were tested, and how many were positive. This is the first basic step. Over 60 days into the lockdown, this information is not available, precluding the scientific, clinical and public health community from making any sound estimations about the disease's spread. Existing sources provide information on the total reported cases per district, but not the number of tests conducted per district. If Solapur had 100 cases last week and 200 this week, one would conclude that cases doubled, unless 100 out of 1,000 tested were positive in the first week, and 200 of 2,000 were positive in the second week, as testing capacity increased. It would then have entirely different ramifications for public health preparedness. Only state-wise tallies of tests done are available, rendering all projections to be educated guesses at best.

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FASHION RETAILING TAKES SLOW ROAD TO REVIVAL AFTER THE LOCKDOWN

- It's rare to find a businessman as candid as Akhil Jain. The executive director of Jain Amar Clothing, which sells women's fashionwear under the Madame brand, runs 156 exclusive stores across malls and high streets. After the government eased lockdown restrictions two weeks ago, the company opened 32 stores on high streets in Delhi, Punjab, Haryana, and Himachal Pradesh. So far, the news has not been good, said Jain. "We now have a fair idea of what is selling and how much is selling. Like to like (same weeks last May), we are doing just 8% of the sale, as footfall is low," he said. Yet, he's keeping his stores open to study consumer behaviour. "Most fashion retailers I have spoken to had written off May completely. So, whatever we are getting is a bonus," he said. Jain has not been glossing over either the numbers or what's selling, but after spending three to four hours at a couple of outlets in Delhi, he has got a fairly good idea of the situation. Formal wear has no takers. Of the 16 clothing categories he stocks, only T-shirts, pyjamas and night suits are selling. However, the conversion rate is more than 90%. This means those who are walking in are buying something. The choice of Madame clothing is no different on online platforms such as Amazon, Myntra and Ajio.

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Motilal Oswal | Morning India

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BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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