

Market snapshot



Today's top research idea

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



| Equities - India | Close | Chg .% | CYTD.% |
|------------------|--------|--------|---------|
| Sensex | 38,407 | 0.6 | -6.9 |
| Nifty-50 | 11,323 | 0.5 | -7.0 |
| Nifty-M 100 | 16,257 | -0.3 | -4.9 |
| Equities-Global | Close | Chg .% | CYTD.% |
| S&P 500 | 3,334 | -0.8 | 3.2 |
| Nasdaq | 10,783 | -1.7 | 20.2 |
| FTSE 100 | 6,154 | 1.7 | -18.4 |
| DAX | 12,947 | 2.0 | -2.3 |
| Hang Seng | 10,153 | 1.6 | -9.1 |
| Nikkei 225 | 22,750 | 1.9 | -3.8 |
| Commodities | Close | Chg .% | CYTD.% |
| Brent (US\$/Bbl) | 44 | -1.0 | -34.1 |
| Gold (\$/OZ) | 1,912 | -5.7 | 26.0 |
| Cu (US\$/MT) | 6,382 | -0.2 | 3.8 |
| Almn (US\$/MT) | 1,750 | 0.0 | -1.7 |
| Currency | Close | Chg .% | CYTD.% |
| USD/INR | 74.8 | -0.2 | 4.8 |
| USD/EUR | 1.2 | 0.0 | 4.7 |
| USD/JPY | 106.5 | 0.5 | -2.0 |
| YIELD (%) | Close | 1MChg | CYTDchg |
| 10 Yrs G-Sec | 5.9 | 0.01 | -0.7 |
| 10 Yrs AAA Corp | 6.7 | 0.01 | -1.0 |
| Flows (USD b) | 11-Aug | MTD | CYTD |
| FII | 0.14 | 1.14 | -0.28 |
| DII | -0.19 | -0.30 | 10.41 |
| Volumes (INRb) | 11-Aug | MTD* | CYTD* |
| Cash | 616 | 646 | 533 |
| F&O | 13,680 | 17,284 | 15,449 |

Note: *Average

Ipca Laboratories: A supernormal quarter

- ❖ Ipca Laboratories (IPCA) delivered a phenomenal performance, with unprecedented high sales/EBITDA/PAT for 1QFY21. This was led by Export Formulations and Domestic APIs.
- ❖ COVID-19-led demand for Hydroxychloroquine Sulfate (HCQS), sustained the momentum in API, and the spillover of some business QoQ aided 3x YoY PAT for 1QFY21. We raise our EPS estimate by 36%/15% for FY21/FY22 to factor: (a) HCQS-led opportunity, (b) an improving outlook / reduced opex for Domestic Formulations (DF), and (c) lower raw material cost.
- ❖ We raise the PE multiple to 25x (in line with the five-year average) from 23x earlier to factor IPCA's capability to: (a) grow better than the industry in DF and (b) benefit from supply disruption in the API industry and increased backward integration.
- ❖ We revise our TP to INR2,420 (from INR1,955 earlier) and reiterate Buy on the stock



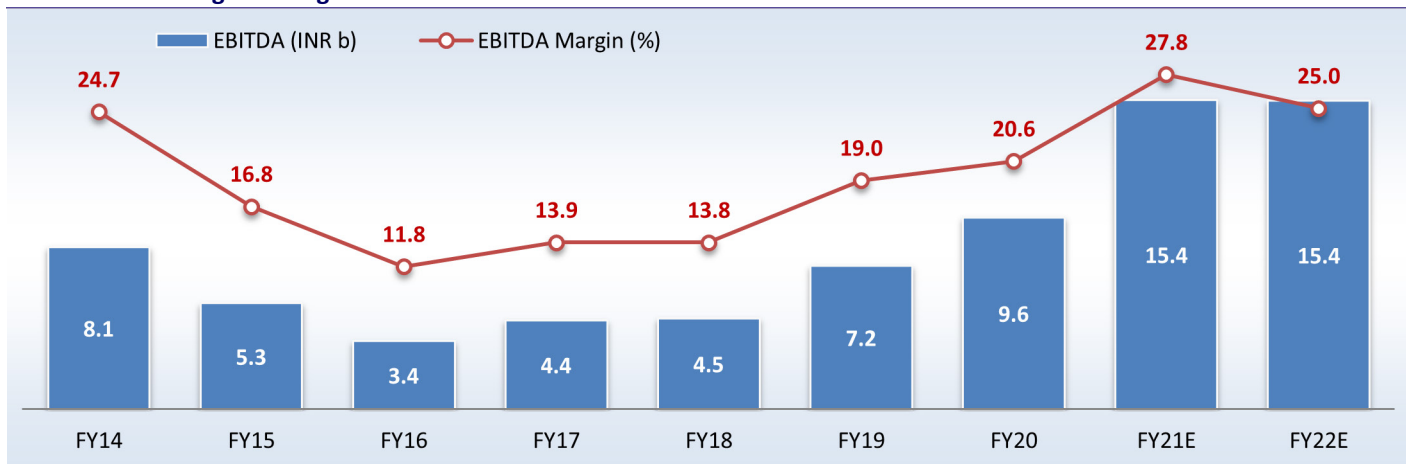
Research covered

| Cos/Sector | Key Highlights |
|-------------------|---|
| Ipca Laboratories | A supernormal quarter |
| Dabur | Aggression, traction pick up pace |
| Power Grid | Impact of rebate flows through |
| Siemens | Green-shoots visible; Normalcy still some time away |
| Bosch | Higher imports, op. deleverage hurts; Staff rightsizing continues |
| Motherson Sumi | Above est.; Decent performance in a tough quarter |
| KEC Intl | Standing tall amidst uncertainties |
| Other Notes | Shriram City Union Finance V-Mart Retail Equitas Holdings Ashoka Buildcon Healthcare Monthly EcoScope |



Chart of the Day: Ipca Laboratories (A supernormal quarter)

Momentum in margins strengthens further



Source: Company, MOFSL

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.



Kindly click on textbox for the detailed news link

1

Factory output contraction slows further in June, shrinks 16.6 per cent

Factory output contraction slowed further in the month of June as the economy gradually began opening up. The Index of Industrial Production contracted by 16.6 per cent in June compared to a 33.9 per cent contraction seen in the month of May when restrictions had...

2

Increased demand for groceries lifts household consumption to a two year high in April-June

Household consumption of groceries and home and personal care products surged to a two-year high during the April-June quarter, according to a research firm, as consumers stocked up on these products while hunkering down in their homes due to Covid-19-related restrictions. The fast-moving consumer goods market expanded 4.3% in volume and more than 8.5% by value during the quarter, according to data from Kantar Worldpanel...

3

DAC approves procurement of 106 Basic Trainer Aircraft, clears proposals of over Rs 8,722 crore

The Defence Acquisition Council (DAC) on Tuesday approved proposals of about Rs 8,772.38 crore for capital acquisition of various equipment and platforms, including 106 Basic Trainer Aircraft from Hindustan Aeronautics Ltd (HAL) for IAF. A Defence Ministry release said that DAC approved procurement of 106 Basic...

4

Gold prices today crash ₹2,500 per 10 gram, silver slumps ₹5,000

Gold and silver prices crashed in India today, tracking a similar move in global rates. On MCX, October gold futures fell 5% to ₹52,390 per 10 gram - their second decline in three days. Silver futures on MCX fell 7% to ₹69,980 per kg. In the previous session, gold prices had edged 0.35% higher while silver...

5

Centre releases ₹6,195 cr to 14 States

The Union government on Tuesday released ₹6,195 crore to 14 States as grants-in-aid to cover the deficit on post devolution revenue, as recommended by the 15th Finance Commission. The money will provide the States with additional resources during the COVID-19 crisis, tweeted Finance Minister Nirmala Sitharaman, sharing the details of the money transfer. This is the fifth monthly instalment for the 2020-21 financial year. Kerala got the largest chunk, receiving ₹1,270 crore, followed by Himachal Pradesh, which got more than ₹950 crore. Punjab and Assam both received more than ₹630 crore...

6

India's shortage of remdesivir is easing, Goa plant to ramp up production: Cipla

India's supply of antiviral drug remdesivir and generic equivalents is stabilising after shortages of the vital COVID-19 medicine at hospitals, according to a top executive at one of the country's big drugmakers, Cipla. Remdesivir, made by U.S.-based Gilead Sciences Inc,...

7

Bira in talks with foreign investors for up to 20% stake sale

India's B9 Beverages, maker of popular craft beer Bira, is in talks with international brewers and investors to sell a stake of up to 20% in the company, its chief executive officer (CEO) told Reuters on Tuesday. "We've been looking for a combination: (an) international beer company..."



Ipsca Laboratories

| | |
|-----------------|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

CMP: INR2,008 **TP: INR2,420 (+20%)** **Buy**

A supernormal quarter

On a strong growth trajectory even post adjusting for HCQS business

- Ipsca Laboratories (IPCA) delivered a phenomenal performance, with unprecedented high sales/EBITDA/PAT for the quarter. This was led by Export Formulations and Domestic APIs. COVID-19-led demand for Hydroxychloroquine Sulfate (HCQS) sustained the momentum in API, and the spillover of some business QoQ aided 3x YoY PAT for 1QFY21.
- We raise our EPS estimate by 36%/15% for FY21/FY22 to factor: (a) HCQS-led opportunity, (b) an improving outlook / reduced opex for Domestic Formulations (DF), and (c) lower raw material cost. We further raise the PE multiple to 25x (in line with the five-year average) from 23x earlier to factor IPCA's capability to: (a) grow better than the industry in DF and (b) benefit from supply disruption in the API industry and increased backward integration driving better gross margins. Accordingly, we revise our TP to INR2,420 (from INR1,955 earlier) and reiterate Buy on the stock.

Strong beat on earnings

- IPCA's 1QFY21 sales were up 42% YoY to INR15.3b (our estimate: INR11.7b), led by strong growth in Export Formulations and API.
- Exports (Generic Formulations) grew 89% YoY to INR2.4b (16% of sales). API grew 72% YoY to INR5.2b (33% of sales) for the quarter.
- Branded Formulations exports grew 46% YoY to INR1.3b (9% of sales). Institutional Sales exports rose to INR887m YoY from INR273m. DF sales grew 8% YoY to INR4.9b (32% of sales).
- The gross margin (GM) was up 940bp YoY at 71.7%, led by a superior product mix.
- The EBITDA margin further expanded by ~1,980bp YoY to 38.2% on account of a better GM and strong operating leverage (employee cost / other expenses down 330bp/710bp YoY).
- EBITDA at INR5.9b (our estimate: INR2.5b) was ~3x YoY.
- PAT stood at INR4.4b (our estimate: INR1.7b) and was ~3.6x YoY.

Highlights from management commentary

- COVID-19-led CQS/HCQS sales stood at INR2.6b for 1QFY21.
- Overall sales are expected to grow 18–19% YoY in FY21, with 10–12% growth in the DF business, a 20% YoY increase in API, and better opportunities in Export Formulations. Gross margins are expected to expand 100–150bps YoY in FY21 on lower raw material cost and a product mix change.
- Overall, operational expenses are expected to grow 5–6% YoY in the near term.
- With environmental clearance in place, IPCA would commence construction at Dewas post the monsoons; it intends to spend INR2.5–3b capex over the next 15M to expand API capacity.

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| | IPCA IN |
|-----------------------|-------------|
| Bloomberg | IPCA IN |
| Equity Shares (m) | 126 |
| M.Cap.(INRb)/(USDb) | 253.8 / 3.5 |
| 52-Week Range (INR) | 2175 / 844 |
| 1, 6, 12 Rel. Per (%) | 16/68/106 |
| 12M Avg Val (INR M) | 498 |

Financials & Valuations (INR b)

| Y/E MARCH | 2020 | 2021E | 2022E |
|----------------------|-------|-------|-------|
| Sales | 46.5 | 55.5 | 61.6 |
| EBITDA | 9.6 | 15.4 | 15.4 |
| Adj. PAT | 6.5 | 11.2 | 11.2 |
| EBIT Margin (%) | 16.1 | 24.0 | 21.5 |
| Cons. Adj. EPS (INR) | 51.4 | 89.0 | 88.7 |
| EPS Gr. (%) | 41.6 | 73.2 | -0.3 |
| BV/Sh. (INR) | 287.9 | 363.5 | 439.0 |

Ratios

| | | | |
|------------|------|------|------|
| Net D:E | -0.1 | -0.2 | -0.3 |
| RoE (%) | 19.2 | 27.3 | 22.1 |
| RoCE (%) | 17.8 | 25.3 | 20.9 |
| Payout (%) | 14.8 | 15.0 | 15.0 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 39.2 | 22.6 | 22.7 |
| EV/EBITDA (x) | 26.3 | 15.9 | 15.5 |
| Div. Yield (%) | 0.4 | 0.7 | 0.7 |
| FCF Yield (%) | 1.6 | 3.3 | 3.5 |
| EV/Sales (x) | 5.4 | 4.4 | 3.9 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 46.1 | 46.1 | 46.1 |
| DII | 28.2 | 26.7 | 24.1 |
| FII | 12.4 | 12.6 | 15.6 |
| Others | 13.3 | 14.6 | 14.3 |

FII Includes depository receipts

Valuation and view

- We expect an earnings CAGR of 31% (FY20–22), supported by: a) a sales CAGR of 20% in International Generics and 22% in API, b) healthy outperformance by the DF segment, and c) 500bp margin expansion owing to a better product mix and operating leverage. Optically, FY22 earnings may look flat YoY. However, adjusted for HCQS, we expect healthy YoY growth in FY22 as well.
- We value IPCA on a 25x 12M forward earnings basis to arrive at TP of INR2,420 (from INR1,955 earlier).
- We remain positive on IPCA on the back of: a) superior performance in the DF segment, b) the addition of new APIs as well as increased traction in existing API molecules, c) product launches under its own label in the UK, and d) increased backward integration to derive further benefit by improving manufacturing efficiency. Reiterate **Buy**.

Quarterly Performance

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | Est. | % Chg |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | 1QE | | |
| Net Revenues (Core) | 10,782 | 12,839 | 12,129 | 10,738 | 15,344 | 13,678 | 14,199 | 12,312 | 46,487 | 55,534 | 11,716 | 31.0 |
| YoY Change (%) | 23.2 | 26.9 | 20.5 | 22.1 | 42.3 | 6.5 | 17.1 | 14.7 | 23.2 | 19.5 | 8.7 | |
| EBITDA | 1,987 | 2,659 | 2,737 | 2,197 | 5,863 | 3,420 | 3,493 | 2,663 | 9,580 | 15,438 | 2,495 | 135.8 |
| YoY Change (%) | 40.4 | 29.8 | 32.8 | 33.5 | 195.0 | 28.6 | 27.6 | 21.2 | 33.6 | 61.2 | 25.6 | |
| Depreciation | 461 | 496 | 508 | 639 | 510 | 490 | 520 | 563 | 2,105 | 2,083 | 480 | |
| EBIT | 1,526 | 2,162 | 2,228 | 1,558 | 5,353 | 2,930 | 2,973 | 2,100 | 7,475 | 13,355 | 2,015 | 166.6 |
| YoY Change (%) | 60.7 | 35.6 | 39.0 | 30.0 | 250.7 | 35.5 | 33.4 | 34.8 | 39.8 | 78.7 | 32.1 | |
| Interest | 46 | 42 | 40 | 37 | 27 | 34 | 45 | 64 | 165 | 170 | 40 | |
| Other Income | 112 | 148 | 181 | 137 | 121 | 125 | 130 | 134 | 578 | 510 | 120 | |
| PBT before EO Expense | 1,592 | 2,268 | 2,369 | 1,658 | 5,446 | 3,021 | 3,058 | 2,170 | 7,888 | 13,695 | 2,095 | |
| One-off (gain)/ Expense | -91 | 0 | 0 | 536 | 0 | 0 | 0 | 0 | 445 | 0 | 0 | |
| PBT after EO Expense | 1,683 | 2,268 | 2,369 | 1,123 | 5,446 | 3,021 | 3,058 | 2,170 | 7,442 | 13,695 | 2,095 | |
| Tax | 374 | 319 | 369 | 292 | 999 | 529 | 535 | 403 | 1,353 | 2,465 | 335 | |
| Rate (%) | 23.5 | 14.1 | 15.6 | 17.6 | 18.3 | 17.5 | 17.5 | 18.6 | 17.2 | 18.0 | 16.0 | |
| Reported PAT | 1,310 | 1,949 | 2,001 | 830 | 4,448 | 2,492 | 2,523 | 1,767 | 6,090 | 11,230 | 1,760 | 153.8 |
| Minority Interest | -16 | -14 | -25 | -23 | -11 | 6 | 2 | 3 | -78 | 0 | -20 | |
| Adj PAT | 1,223 | 1,936 | 1,975 | 1,352 | 4,437 | 2,498 | 2,525 | 1,770 | 6,485 | 11,230 | 1,740 | 150.4 |
| YoY Change (%) | 44.2 | 37.5 | 47.2 | 37.6 | 262.8 | 29.1 | 27.8 | 30.9 | 41.6 | 73.2 | 42.3 | |
| Margins (%) | 11.3 | 15.1 | 16.3 | 12.6 | 28.9 | 18.3 | 17.8 | 14.4 | 14.0 | 20.2 | 14.9 | |

Key performance Indicators (Consolidated)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | Est. |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|-------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | 1QE | |
| INRm | | | | | | | | | | | |
| Domestic formulations | 4,528 | 5,432 | 4,856 | 4,310 | 4,894 | 5,704 | 5,390 | 4,668 | 20,656 | 23,548 | 4,936 |
| YoY Change (%) | 12.9 | 15.9 | 16.0 | 21.2 | 8.1 | 5.0 | 11.0 | 8.3 | 8.0 | 14.0 | 9.0 |
| Exports formulations | 2,448 | 3,408 | 3,534 | 2,825 | 4,636 | 3,573 | 3,979 | 3,483 | 15,671 | 17,584 | 2,608 |
| YoY Change (%) | 9.3 | 18.2 | 25.2 | 11.4 | 89.4 | 4.8 | 12.6 | 23.3 | 28.3 | 12.2 | 6.5 |
| Domestic APIs | 657 | 672 | 532 | 649 | 2,030 | 1,900 | 1,595 | 1,500 | 7,026 | 7,518 | 723 |
| YoY Change (%) | 9.5 | 10.0 | 18.0 | 40.9 | 209.0 | 13.0 | 200.0 | 131.2 | 180.0 | 7.0 | 10.0 |
| Export APIs | 2,326 | 2,472 | 2,322 | 2,102 | 3,103 | 2,281 | 2,400 | 1,646 | 9,429 | 10,034 | 2,838 |
| YoY Change (%) | 47.5 | 20.0 | 35.0 | 27.0 | 33.4 | 23.0 | 23.0 | (21.7) | 2.2 | 6.4 | 22.0 |
| Cost Break-up | | | | | | | | | | | |
| RM Cost (% of Sales) | 37.7 | 35.0 | 34.9 | 34.0 | 28.3 | 33.0 | 33.5 | 33.4 | 35.4 | 28.3 | 35.2 |
| Staff Cost (% of Sales) | 20.0 | 18.1 | 19.1 | 22.6 | 16.7 | 19.0 | 18.9 | 20.6 | 19.8 | 16.7 | 20.0 |
| Other Cost (% of Sales) | 23.9 | 26.2 | 23.4 | 23.0 | 16.8 | 23.0 | 23.0 | 24.4 | 24.2 | 16.8 | 23.5 |
| Gross Margins(%) | 62.3 | 65.0 | 65.1 | 66.0 | 71.7 | 67.0 | 66.5 | 66.6 | 64.6 | 71.7 | 64.8 |
| EBITDA Margins(%) | 18.4 | 20.7 | 22.6 | 20.5 | 38.2 | 25.0 | 24.6 | 21.6 | 20.6 | 27.8 | 21.3 |
| EBIT Margins(%) | 14.2 | 16.8 | 18.4 | 14.5 | 34.9 | 21.4 | 20.9 | 17.1 | 16.1 | 24.0 | 17.2 |



BSE SENSEX
38,182

S&P CNX
11,270

CMP: INR513

TP: INR600 (+17%)

Buy



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Stock Info

| | |
|-----------------------|--------------|
| Bloomberg | DABUR IN |
| Equity Shares (m) | 1,762 |
| M.Cap.(INRb)/(USDb) | 898.2 / 12.1 |
| 52-Week Range (INR) | 528 / 385 |
| 1, 6, 12 Rel. Per (%) | 3/6/14 |
| 12M Avg Val (INR M) | 1297 |
| Free float (%) | 32.1 |

Financials Snapshot (INR b)

| Y/E Mar | 2020 | 2021E | 2022E |
|----------------|------|-------|-------|
| Sales | 86.8 | 92.1 | 106.0 |
| Sales Gr. (%) | 2.0 | 6.0 | 15.0 |
| EBITDA | 17.9 | 19.2 | 22.7 |
| Margins (%) | 20.6 | 20.9 | 21.4 |
| Adj. PAT | 15.2 | 15.9 | 18.7 |
| Adj. EPS (INR) | 8.6 | 9.0 | 10.6 |
| EPS Gr. (%) | 1.4 | 4.4 | 17.6 |
| BV/Sh.(INR) | 37.4 | 39.8 | 42.9 |

Ratios

| | | | |
|------------|------|------|------|
| RoE (%) | 24.9 | 23.4 | 25.6 |
| RoCE (%) | 23.2 | 21.8 | 23.8 |
| Payout (%) | 34.8 | 60.0 | 60.0 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 59.4 | 56.9 | 48.4 |
| P/BV (x) | 13.7 | 12.9 | 12.0 |
| EV/EBITDA (x) | 48.9 | 45.4 | 38.3 |
| Div. Yield (%) | 0.6 | 1.1 | 1.2 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 67.9 | 67.9 | 67.9 |
| DII | 7.4 | 7.6 | 7.0 |
| FII | 17.6 | 17.4 | 17.8 |
| Others | 7.1 | 7.1 | 7.3 |

FII Includes depository receipts

Aggression, traction pick up pace

Here are the key takeaways from Dabur's FY20 Annual Report

- **The company highlighted details from Project RISE** (Regional Insights and Speed in Execution), an analytics-based project for capturing regional market opportunities—its own version of the cluster-based approach that has served some consumer peers very well over the past few years. This, once again, highlights the newfound nimbleness at Dabur.
- **Dabur has implemented a Continuous Replenishment System (CRS)** to manage its inventory better. It has been able to reduce the pipeline inventory by almost five to six days. In the 1QFY21 call, the company further highlighted that it intended to reduce pipeline inventory by another four to five days going forward. This would mean the near-halving of pipeline inventory.
- **The company's increasing aggression is also evident from the much-needed increase / planned increase in direct reach.** Its direct retail coverage increased from 1.1m outlets to 1.2m in FY20. It plans to increase direct reach sharply to 1.5m outlets over the next two to three years. Its total reach of 6.7m outlets is already among the best of breed.
- **As highlighted in our [CEO meeting note](#) toward the end of June, the COVID-19 crisis is providing strong tailwind to the company's admirable efforts on growth in the Healthcare segment.** Management stated in the AR that 'as an organization, Dabur wants to structurally change the skew of its product portfolio to give greater prominence to Healthcare (~30% of sales in FY20), which is also margin-accretive, and reduce its reliance on the HPC category (~50% of sales last year)'.
- **Dabur remains among our top picks.**

Valuation view

- As pointed out in [our upgrade note](#), the structural and medium-term narrative on topline growth is turning highly attractive, led by strong traction in the profitable Healthcare business and an attractive rural growth outlook, with ~48% of Dabur's domestic sales coming from rural. Additionally, the investment case is being strengthened further, supported by: (a) focus on the core, (b) Power Brand strategy, (c) a spate of new launches, (d) an increasing direct distribution reach, (e) the narrowing gap on analytics v/s domestic peers, and (f) cost savings, which would be plowed back into the business. High near-term valuations appear justified at this initial stage of structural turnaround, which could potentially result in ~20% EPS growth following the investment phase for the current year.
- **Maintain BUY, with TP of INR600 (50x Sept'22 EPS).**



Power Grid

| | |
|-----------------|---|
| Estimate change | ↔ |
| TP change | ↔ |
| Rating change | ↔ |

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| | |
|-----------------------|--------------|
| Bloomberg | PWGR IN |
| Equity Shares (m) | 5,232 |
| M.Cap.(INRb)/(USD\$) | 924.9 / 12.4 |
| 52-Week Range (INR) | 213 / 130 |
| 1, 6, 12 Rel. Per (%) | -3/0/-15 |
| 12M Avg Val (INR M) | 2062 |

Financials & Valuations (INR b)

| Y/E MARCH | 2020 | 2021E | 2022E |
|----------------------|-------|-------|-------|
| Sales | 394.3 | 406.3 | 435.1 |
| EBITDA | 346.2 | 365.3 | 391.8 |
| Adj. PAT | 110.6 | 120.9 | 127.4 |
| EBITDA Margin (%) | 87.8 | 89.9 | 90.0 |
| Cons. Adj. EPS (INR) | 21.1 | 23.1 | 24.4 |
| EPS Gr. (%) | 10.2 | 9.3 | 5.4 |
| BV/Sh. (INR) | 123.7 | 130.9 | 139.6 |

Ratios

| | | | |
|------------|------|------|------|
| Net D:E | 2.2 | 1.9 | 1.7 |
| RoE (%) | 17.9 | 18.2 | 18.0 |
| RoCE (%) | 7.9 | 8.3 | 8.8 |
| Payout (%) | 54.1 | 67.6 | 66.7 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 8.4 | 7.7 | 7.3 |
| P/BV (x) | 1.4 | 1.4 | 1.3 |
| EV/EBITDA(x) | 6.7 | 6.1 | 5.5 |
| Div. Yield (%) | 5.6 | 7.8 | 8.8 |
| FCF Yield (%) | 21.6 | 29.1 | 28.1 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 51.3 | 51.3 | 55.4 |
| DII | 18.3 | 16.7 | 12.2 |
| FII | 25.3 | 27.0 | 28.0 |
| Others | 5.0 | 5.0 | 4.5 |

FII Includes depository receipts

CMP: INR177 TP: INR221 (+25%) Buy

Impact of rebate flows through

Valuations do not price any growth benefits; Maintain Buy

- Power Grid (PWGR)'s result highlights the impact of rebate (INR10.75b), with reported S/A PAT declining 18.5% YoY to INR28.1b. Adjusted for the same and prior-period revenue, PAT was up 21% YoY.
- INR234b worth of awards would be bid out under various schemes, but we expect some delays. In this context, a declining order book does present the risk of growth slowdown. However, valuations at 1.3x FY22E P/BV and ~9% FY22E dividend yield remain attractive for a company with steady RoEs of ~17%. **Maintain Buy**, with DCF-based TP of INR221/sh.

Rebate impacts profitability

- Reported S/A PAT was down 18.5% YoY at INR19.8b on account of an INR10.75b rebate (our est.: INR 20b, including the rebate impact). Not accounting for the rebate and prior-period sales, PAT would have been up 21% YoY at ~INR28b, partly aided by other income. Other income was up 49% YoY, aided by higher late payment surcharge (INR2.65b v/s INR0.6b for the previous year). *We note the impact of rebate was baked in our numbers v/s reported by PWGR as an exception, which led to the apparent difference on an adjusted basis.*
- Profit in the **Telecom** segment declined 6% YoY at ~INR1b, and profitability for the **Consultancy** segment decreased 61%YoY at INR0.2b. Profit from TBCB subs was largely flat at INR0.8b.
- Capitalization stood at INR11.8b, while capex was at INR19.1b.

Maintains capitalization and capex guidance for FY21

- PWGR has maintained its FY21 capex and capitalization targets of INR105b and INR200–250b, respectively. As per the co., it plans to commission Bipole-I of Raigarh Pugalur in the current quarter.
- Receivables increased to INR8.2b in Jun'20 (from INR4.9b in Mar'20). Conversely, they reduced to INR7.5b in Jul'20. Collection efficiency increased June onward and came in at >100% for June and July. INR12.4b has been received under the Atmanirbhar scheme.

Declining capitalization could impact growth, but valuation remains attractive

- While the awarding of transmission schemes (~INR250b) under renewable integration provides a good opportunity for PWGR to win new awards, our checks have suggested certain challenges could defer their awarding. If new orders do not come in, a declining order book could impact the pace of growth in profitability.
- However, subsequent lower capex (along with the removal of DDT) also implies potential for higher dividends (FY22E div. yield of ~9%). Besides, the longer term picture remains intact as investment in renewable energy and growth in power demand would necessitate the need for transmission works. Valuations at 1.3x FY22E P/BV remain attractive for a company with steady RoEs of ~17% and do not capture any growth potential (EPS FY20–22E: 7% CAGR). **Maintain Buy**, with DCF-based TP of INR221/sh.

Quarterly performance (standalone) – INR m

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21E | FY21 Vs Est 1QE (%) | FY21 Vs Est (%) |
|---------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|----------------|----------------|------------------------|--------------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Sales | 87,978 | 90,369 | 93,541 | 106,802 | 93,828 | 94,764 | 98,329 | 102,143 | 378,689 | 389,064 | 83,584 | 12 |
| Change (%) | 5.5 | 4.0 | 12.5 | 9.8 | 6.6 | 4.9 | 5.1 | -4.4 | 8.0 | 2.7 | -5.0 | |
| EBITDA | 78,901 | 79,088 | 82,383 | 90,479 | 82,712 | 85,186 | 88,857 | 91,694 | 330,851 | 348,450 | 75,878 | 9 |
| Change (%) | 10.6 | 7.2 | 11.2 | 9.0 | 4.8 | 7.7 | 7.9 | 1.3 | 9.5 | 5.3 | -3.8 | |
| As of % Sales | 89.7 | 87.5 | 88.1 | 84.7 | 88.2 | 89.9 | 90.4 | 89.8 | 87.4 | 89.6 | 90.8 | |
| Depreciation | 26,591 | 27,482 | 28,024 | 28,636 | 27,970 | 29,728 | 30,315 | 31,770 | 110,732 | 119,784 | 28,764 | -3 |
| Interest | 23,591 | 23,761 | 24,740 | 26,044 | 22,786 | 23,288 | 24,248 | 25,860 | 98,136 | 96,182 | 23,121 | -1 |
| Other Income | 4,243 | 4,982 | 5,049 | 7,051 | 6,314 | 2,758 | 2,758 | 1,960 | 21,324 | 13,791 | 1,958 | 222 |
| Extraordinary Inc / (Exp) | 0 | 0 | 0 | 0 | -10,750 | 0 | 0 | 0 | 0 | -10,750 | 0 | |
| PBT | 32,962 | 32,827 | 34,668 | 42,850 | 27,520 | 34,928 | 37,052 | 36,024 | 143,308 | 135,524 | 25,951 | 6 |
| Tax | 8,684 | 7,555 | 7,933 | 11,024 | 7,731 | 8,033 | 8,522 | 4,174 | 35,196 | 28,460 | 5,969 | |
| Effective Tax Rate (%) | 26.3 | 23.0 | 22.9 | 25.7 | 28.1 | 23.0 | 23.0 | 11.6 | 24.6 | 21.0 | 23.0 | |
| Reported PAT | 24,279 | 25,271 | 26,735 | 31,827 | 19,789 | 26,895 | 28,530 | 31,850 | 108,112 | 107,064 | 19,982 | -1 |
| Change (%) | 8.4 | 9.4 | 14.7 | 4.2 | -18.5 | 6.4 | 6.7 | 0.1 | 8.8 | -1.0 | -17.7 | |
| Adjusted PAT | 23,106 | 25,097 | 26,537 | 29,749 | 28,059 | 26,895 | 28,530 | 32,395 | 104,489 | 115,879 | 19,982 | 40 |
| Change (%) | 2.7 | 7.0 | 12.5 | 11.3 | 21.4 | 7.2 | 7.5 | 8.9 | 8.6 | 10.9 | -13.5 | |

Source: MOFSL, Company



Siemens

Estimate change



TP change

Rating change



CMP: INR1,158

TP: INR1,210 (+4%)

Neutral

Green-shoots visible; Normalcy still some time away

Supply chain disruption severely impacts topline

- Siemens India's (SIEM) 3QFY20 top line was a disappointment, plunging 59% YoY (comparatively ABB/Honeywell saw declines of 43%/14%). SIEM's strict cost control measures led to lower losses (v/s our est.).
- Management has highlighted green-shoots in few end markets like F&B, pharma, chemical, fertilizer, automobile, etc. However, the path to normalcy is a slow one as sites are operating at capacity utilization of ~20-70%.
- Factoring in the 3QFY20 performance, we have cut our FY20/21/22E EPS by 6%/2%/3%. Maintain **Neutral** with lower TP of INR1,210 (Prior: INR1,235) as we await a better entry point in the stock.

Revenue disappoints; EBITDA loss lower than expectation

- Revenue plunged 59% YoY to INR13.2b and was 15% below est. EBITDA loss was lower than expected and came in at INR 96mn (est. loss of INR 400m). Adj. PAT loss stood at INR46m (v/s est. loss of INR299m).
- Order book grew 2% YoY to INR131b, providing good revenue visibility. Implied order inflows were down 37% YoY to INR19.1b.
- Currently, all factories and ~75% project sites have reopened with utilization levels of 20-70%.
- **Key segment performance: (a) Gas & Power** – Revenues declined 51% YoY to INR5.5b. EBIT margin stood at 4.2% (v/s 13.6% YoY), **(b) Smart Infrastructure** – Revenues declined 66% YoY to INR3.1b. Segment loss stood at INR731m (v/s segment profit of INR717m YoY), **(c) Mobility** – Revenues declined 61% YoY to INR970m. EBIT margin stood at 3.4% (v/s 11.9% YoY), **(d) Digital Industries** – Revenues plummeted 71% YoY to INR1.8b. Segment loss stood at INR236m (v/s segment profit of INR421m YoY), and **(e) Portfolio of Companies** – Revenues declined 41% YoY to INR1.7b. Segment loss stood lower at INR151m (v/s segment loss of INR173m YoY).

Key takeaways from management concall

- All sites are now operating at ~20-70% utilisation levels. Strength of migrant labor now stands at ~60%, from ~15-20% post lifting of the lockdown. 10 out of 22 SIEM's factories are in Maharashtra, with most being under containment zones.
- Impact of COVID-19 has led to INR2.3b in under absorption of costs.
- Sectors like Water, F&B, Pharma, Chemicals and Fertilizers performed well relatively, while orders for Waste Heat Recovery in the Cement sector got deferred. Automobile sector is showing signs of recovery.
- Performance of services business was mixed, with Gas & Power business doing well owing to remote diagnosis and monitoring of power plants. Smart infra performance was hit due to lower share of service revenues.
- **Synergies from C&S electric acquisition** - SIEM is in the Industrial space while C&S is in the Utilities and Infra space. Export is another area that SIEM can tap as C&S Electric is not strong in the export market, as SIEM has strong presence in various export markets.
- Management does not foresee a risk to its order book. Orders have been booked keeping minimal margin threshold as criteria.

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| | SIEM IN |
|-----------------------|-------------|
| Bloomberg | SIEM IN |
| Equity Shares (m) | 356 |
| M.Cap.(INRb)/(USD\$b) | 412.4 / 5.4 |
| 52-Week Range (INR) | 1717 / 947 |
| 1, 6, 12 Rel. Per (%) | -3/-16/-3 |
| 12M Avg Val (INR M) | 1954 |

Financials & Valuations (INR b)

| Y/E Sep | 2019 | 2020E | 2021E |
|--------------|-------|-------|-------|
| Sales | 136.8 | 101.1 | 132.9 |
| EBITDA | 14.8 | 8.6 | 14.9 |
| PAT | 10.9 | 6.6 | 11.0 |
| EBITDA (%) | 10.8 | 8.5 | 11.2 |
| EPS (INR) | 30.5 | 18.6 | 30.8 |
| EPS Gr. (%) | 21.6 | -39.2 | 65.9 |
| BV/Sh. (INR) | 254.0 | 268.2 | 291.6 |

Ratios

| | | | |
|------------|------|------|------|
| Net D/E | -0.5 | -0.4 | -0.4 |
| RoE (%) | 12.0 | 6.9 | 10.6 |
| RoCE (%) | 12.4 | 7.3 | 11.0 |
| Payout (%) | 20.0 | 20.0 | 20.0 |

Valuations

| | | | |
|---------------|------|------|------|
| P/E (x) | 37.9 | 62.4 | 37.6 |
| P/BV (x) | 4.6 | 4.3 | 4.0 |
| EV/EBITDA (x) | 24.6 | 43.6 | 24.6 |
| Div Yield (%) | 0.6 | 0.3 | 0.5 |
| FCF Yield (%) | 3.7 | 3.2 | 2.2 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 75.0 | 75.0 | 75.0 |
| DII | 10.1 | 10.2 | 11.8 |
| FII | 4.2 | 4.2 | 2.1 |
| Others | 10.7 | 10.6 | 11.1 |

FII Includes depository receipts

Valuation and view

- Factoring in the 3QFY20 performance, we have cut our FY20/21/22E EPS by 6%/2%/3% YoY.
- We like SIEM's product portfolio and diverse end market exposure. The company is well poised to benefit over the longer term, led by niche businesses of Industrial Automation and Digitalization theme.
- We maintain **Neutral** with lower TP of INR1,210 (Prior: INR1,235) as we await a better entry point in the stock. We have valued SIEM's current business at target P/E multiple of 35x on Mar'22E EPS and the C&S Electric business at the acquisition cost. Note that our target multiple of 35x is lower than the 45x ascribed to ABB as SIEM has one-third of its business exposed to projects. ABB; however, is a pure play products and services company.

Quarterly Performance

(INR m)

| Y/E September | FY19 | | | | FY20E | | | | FY19 | FY20E | MOSLe 3QE | Var % |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | | |
| Total Revenues | 28,071 | 35,496 | 31,984 | 41,288 | 26,686 | 28,201 | 13,195 | 32,991 | 1,36,839 | 1,01,073 | 15,500 | -14.9% |
| Change (%) | 15.5 | 8.1 | 4.1 | 4.8 | -4.9 | -20.6 | -58.7 | -20.1 | 7.5 | -26.1 | -51.5 | |
| EBITDA | 3,065 | 4,257 | 3,537 | 4,056 | 3,365 | 2,336 | -96 | 2,950 | 14,915 | 8,555 | -400 | NA |
| Change (%) | 12.5 | 31.9 | 17.0 | -3.1 | 9.8 | -45.1 | -102.7 | -27.3 | 13.3 | -42.6 | -111.3 | |
| As % of Revenues | 10.9 | 12.0 | 11.1 | 9.8 | 12.6 | 8.3 | -0.7 | 8.9 | 10.9 | 8.5 | -2.6 | |
| Depreciation | 532 | 571 | 512 | 558 | 611 | 708 | 722 | 727 | 2,173 | 2,768 | 650 | |
| Interest | 2 | 24 | 2 | 86 | 77 | 111 | 49 | 63 | 114 | 300 | 100 | |
| Other Income | 877 | 830 | 825 | 1,414 | 855 | 806 | 822 | 941 | 3,946 | 3,424 | 750 | |
| Extra-ordinary Items | 0 | -157 | 0 | 0 | 0 | 0 | 0 | 0 | -157 | 0 | 0 | |
| PBT | 3,408 | 4,492 | 3,848 | 4,826 | 3,532 | 2,323 | -45 | 3,102 | 16,574 | 8,912 | -400 | NA |
| Tax | 1,128 | 1,532 | 1,367 | 1,520 | 905 | 602 | 1 | 791 | 5,547 | 2,299 | -101 | |
| Effective Tax Rate (%) | 33.1 | 34.1 | 35.5 | 31.5 | 25.6 | 25.9 | -2.2 | 25.5 | 33.5 | 25.8 | 25.2 | |
| Reported PAT | 2,280 | 2,803 | 2,481 | 3,306 | 2,627 | 1,721 | -46 | 2,310 | 10,870 | 6,612 | -299 | NA |
| Adjusted PAT | 2,280 | 2,960 | 2,481 | 3,306 | 2,627 | 1,721 | -46 | 2,310 | 11,027 | 6,612 | -299 | NA |
| Change (%) | 19.7 | 34.7 | 21.4 | 18.4 | 15.2 | -41.9 | -101.9 | -30.1 | 23.4 | -40.0 | -112.1 | |



| | |
|-----------------|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

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| | |
|-----------------------|--------------|
| Bloomberg | BOS IN |
| Equity Shares (m) | 31 |
| M.Cap.(INRb)/(USD\$) | 391.1 / 5.4 |
| 52-Week Range (INR) | 17137 / 7874 |
| 1, 6, 12 Rel. Per (%) | -6/0/-9 |
| 12M Avg Val (INR M) | 419 |

Financials & Valuations (INR b)

| Y/E March | FY20 | FY21E | FY22E |
|-------------------|-------|-------|-------|
| Sales | 98.4 | 88.2 | 100.4 |
| EBITDA Margin (%) | 14.8 | 11.5 | 15.6 |
| Adj. PAT | 12.4 | 11.0 | 13.6 |
| EPS (INR) | 418.8 | 373.3 | 460.4 |
| EPS Gr. (%) | -22.5 | -10.9 | 23.3 |
| BV/Sh. (INR) | 3,143 | 3,389 | 3,735 |

Ratios

| | | | |
|------------|------|------|------|
| RoE (%) | 13.4 | 11.4 | 12.9 |
| RoCE (%) | 17.9 | 14.5 | 16.8 |
| Payout (%) | 63.7 | 25.0 | 25.0 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 31.7 | 35.5 | 28.8 |
| P/BV (x) | 4.2 | 3.9 | 3.6 |
| Div. Yield (%) | 0.8 | 0.5 | 0.7 |
| FCF Yield (%) | 2.3 | 1.0 | 2.5 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 70.5 | 70.5 | 70.5 |
| DII | 13.5 | 13.1 | 13.2 |
| FII | 7.1 | 7.5 | 7.4 |
| Others | 8.9 | 8.8 | 8.8 |

FII Includes depository receipts

CMP: INR 13,261 TP: INR14,400 (+9%) Neutral
Higher imports, op. deleverage hurts; Staff rightsizing continues

Second quarter of outperformed underlying industry growth

- Bosch's (BOS) 1QFY21 revenue performance was better than the underlying industry volume growth for a second quarter in a row. We expect faster recovery due to strong tractor demand, addition of 2W segment and content increase. We believe BOS's stock price is largely reflecting all the negatives, but a re-rating catalyst may emerge within 2-3 quarters.
- We have upgraded our FY21/FY22E EPS by 15.4%/7.2% to reflect faster-than-expected demand recovery and cost cutting initiatives. Maintain **Neutral** with TP of ~INR14,400 (~30x Sep'22E EPS).

In line revenue growth; Higher other income drives PBT break-even

- BOS's revenues/Adj. PAT declined 64%/96.5%. Reported EBIDTA loss stood at ~INR1b (v/s est. INR539m).
- BOS' auto sector revenues declined 65.6% YoY, impacted by 78% decline in Powertrain Solutions, but was diluted by double-digit 2W growth in Power Sport products. Non-Auto revenues declined ~54%.
- Gross margin declined 320bp YoY to 57.7% due to increase in inward freight cost, adverse forex and higher imported content (on BS6 components). This coupled with operating deleverage translated to EBITDA loss of ~INR1b (v/s est. INR539m). PBT before EO item was a loss of ~INR33m. Higher other income resulted in adj. PAT at INR121m (v/s est. loss of INR208m).
- ~INR2b as restructuring expenses was provided, which was linked with structural changes in the business due to technical disruptions. Since 1QFY20, it has provided ~INR9.2b for restructuring cost. Also, there was prior-period tax write-back of ~INR298m.

Highlights from management commentary

- **Status of operations:** Plants resumed operations during May'20 and are currently operating at different levels. Jul'20 production reached 66% of the normal level. Multiple lockdowns in several states are adversely affecting the supply chain.
- The company expects good demand in tractors, compact PVs and 2Ws.
- BOS is in the process of rightsizing its manpower, driven by changing business dynamics. It reduced manpower by few hundred people in FY20 and has further reduced it by ~1,000 people in 1QFY21. It would continue this exercise, which is driven by increasing business mix that is shifting toward gasoline and EV/hybrids, which are less man-power intensive businesses (manpower intensity for diesel: petrol: EVs is 10: 3: 1).
- **BS6:** Project acquired for FY20-25 was estimated at cumulative revenues of INR245b (pre-COVID level), which is now estimated at INR185b in post-COVID levels. Further acquisition of BS6 business is expected in FY21. Pricing in BS6 is decent and not as low as in BS4.
- Production constraints for tractor fuel pump was resolved in 2HJul'20.
- Capex is expected at INR2.5-3b (~50% of FY20 capex of INR5.5b).

Valuation and view

- We have upgraded our FY21/FY22E EPS by 15.4%/7.2% to reflect demand recovery for the underlying industry and its cost cutting initiatives.
- Valuations at ~35.5x/28.8x FY21/FY22E EPS largely factor in the potential market share loss during the BS6 transition. Maintain **Neutral** with TP of INR14,400 (~30x Sep'22E EPS).

Quarterly performance (S/A)

(INR Million)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | FY21E |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | |
| Net Sales | 27,554 | 23,127 | 25,366 | 22,369 | 9,915 | 20,120 | 27,903 | 30,267 | 98,416 | 88,205 | 9,644 |
| YoY Change (%) | -14.2 | -26.9 | -15.7 | -18.6 | -64.0 | -13.0 | 10.0 | 35.3 | -18.6 | -10.4 | -65.0 |
| RM Cost (% of sales) | 54.4 | 55.4 | 52.1 | 53.9 | 57.7 | 56.5 | 55.5 | 55.6 | 53.9 | 56.0 | 54.0 |
| Staff Cost (% of sales) | 12.8 | 14.5 | 12.0 | 12.4 | 24.5 | 12.4 | 9.5 | 9.3 | 12.9 | 11.8 | 22.8 |
| Other Expenses (% of sales) | 15.2 | 15.5 | 23.2 | 18.5 | 28.1 | 18.4 | 21.0 | 15.0 | 18.1 | 19.2 | 28.8 |
| EBITDA | 4,848 | 3,369 | 3,203 | 3,414 | -1,021 | 2,542 | 3,907 | 6,064 | 14,834 | 11,493 | -539 |
| Margins (%) | 17.6 | 14.6 | 12.6 | 15.3 | -10.3 | 12.6 | 14.0 | 20.0 | 15.1 | 13.0 | -5.6 |
| Depreciation | 749 | 827 | 1,098 | 1,158 | 728 | 800 | 900 | 1,096 | 3,833 | 3,524 | 800 |
| Interest | 18 | 6 | 29 | 49 | 18 | 25 | 25 | 32 | 102 | 100 | 25 |
| Other Income | 988 | 1,675 | 1,399 | 1,404 | 1,734 | 1,500 | 1,400 | 1,391 | 5,466 | 6,025 | 1,100 |
| PBT before EO expense | 5,068 | 4,211 | 3,475 | 3,611 | -34 | 3,217 | 4,382 | 6,328 | 16,365 | 13,893 | -264 |
| Extra-Ord expense | 821 | 2,750 | 2,075 | 2,970 | 1,674 | 0 | 0 | 0 | 8,616 | 1,674 | 0 |
| PBT after EO Expense | 4,247 | 1,461 | 1,400 | 641 | -1,707 | 3,217 | 4,382 | 6,328 | 7,749 | 12,220 | -264 |
| Tax Rate (%) | 33.7 | 29.7 | 14.7 | -26.6 | 29.4 | 20.8 | 20.8 | 23.1 | 24.5 | 20.8 | 21.2 |
| Adj PAT | 3,435 | 3,103 | 2,760 | 3,053 | 121 | 2,549 | 3,472 | 4,866 | 12,351 | 11,008 | -208 |
| YoY Change (%) | -20.3 | -26.3 | -16.0 | -25.8 | -96.5 | -17.8 | 25.8 | 59.4 | -22.5 | -10.9 | -106.1 |

Key Performance Indicators

Segmental Mix (INR m)

| | | | | | | | | | | | |
|------------------------------------|--------|--------|--------|--------|--------|--|--|--|--------|--|--|
| Auto | 23,596 | 19,543 | 21,430 | 18,784 | 8,126 | | | | 83,352 | | |
| Growth (%) | (13.5) | (28.9) | (15.5) | (18.2) | (65.6) | | | | (19.1) | | |
| PBIT margin (%) | 17.4 | 15.0 | 12.3 | 12.9 | (38.0) | | | | 14.5 | | |
| Contribution (%) | 85.6 | 84.5 | 84.5 | 84.0 | 82.0 | | | | 84.7 | | |
| Non-Auto | 4,010 | 3,645 | 4,083 | 3,606 | 1,847 | | | | 15,343 | | |
| Growth (%) | (17.9) | (14.6) | (19.7) | (20.8) | (53.9) | | | | (18.3) | | |
| PBIT margin (%) | 15.9 | 9.2 | 2.8 | 10.4 | 2.5 | | | | 9.5 | | |
| Contribution (%) | 14.6 | 15.8 | 16.1 | 16.1 | 18.6 | | | | 15.6 | | |
| Total Revenue (post inter segment) | 27,554 | 23,127 | 25,366 | 22,369 | 9,915 | | | | 98,416 | | |
| Growth (%) | (14.2) | (26.9) | (15.7) | (18.6) | (64.0) | | | | (18.9) | | |

E:MOFSL Estimates



Motherson Sumi

| | |
|-----------------|---|
| Estimate change | ↓ |
| TP change | ↑ |
| Rating change | ↔ |

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| | |
|-----------------------|-------------|
| Bloomberg | MSS IN |
| Equity Shares (m) | 3,158 |
| M.Cap.(INRb)/(USD\$) | 339.3 / 4.4 |
| 52-Week Range (INR) | 151 / 49 |
| 1, 6, 12 Rel. Per (%) | 7/-/7/-2 |
| 12M Avg Val (INR M) | 1603 |

Financials & Valuations (INR b)

| Y/E March | FY20 | FY21E | FY22E |
|--------------|-------|-------|-------|
| Sales | 635.4 | 588.4 | 697.0 |
| EBITDA | 52.0 | 40.3 | 72.4 |
| Adj. PAT | 11.7 | 3.7 | 17.7 |
| EPS (INR) | 3.7 | 1.2 | 5.6 |
| EPS Gr. (%) | -27.5 | -68.5 | 381.7 |
| BV/Sh. (INR) | 35.7 | 36.5 | 40.3 |

Ratios

| | | | |
|------------|------|------|------|
| Net D:E | 0.5 | 0.5 | 0.2 |
| RoE (%) | 10.5 | 3.2 | 14.6 |
| RoCE (%) | 6.4 | 3.2 | 11.2 |
| Payout (%) | 31.5 | 31.5 | 31.5 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 29.0 | 92.2 | 19.1 |
| P/BV (x) | 3.0 | 2.9 | 2.7 |
| Div. Yield (%) | 0.9 | 0.3 | 1.4 |
| FCF Yield (%) | 9.4 | 0.4 | 10.0 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 61.7 | 61.7 | 61.7 |
| DII | 13.4 | 13.6 | 11.1 |
| FII | 15.6 | 15.5 | 16.4 |
| Others | 9.3 | 9.2 | 10.9 |

FII Includes depository receipts

CMP: INR107 TP: INR135 (+26%) Buy

Above est.; Decent performance in a tough quarter

Losses continue to decline for SMP's greenfield plants despite COVID-19 crisis

- Motherson Sumi (MSS)'s 1QFY21 operating performance beat was driven by lower losses in global businesses. SMP's greenfield plant progression toward breakeven continues despite the COVID-19 impact as losses reduce on a QoQ basis. MSS is well-positioned to come out of the crisis stronger, driven by its robust order book, for which it is already fully invested.
- MSS is our preferred bet on global recovery in Auto. Maintain **Buy**, with TP of INR135 (Sep'22 SOTP).

Reasonable performance in global businesses as losses under control

- 1QFY21 consol. revenues declined ~49% YoY to INR85b (est.: ~INR76.7b). Consol. EBITDA loss was at ~INR6.3b (est.: ~INR10.1b) due to lower other expenses. Adj. net loss stood at INR8.1b (est.: ~INR7.6b).
- India Business sales declined 76% YoY to ~INR4.4b (est.: INR5.5b), EBITDA loss was at ~INR1.15b (in-line), and net loss was at ~INR1.25b (in-line).
- Revenues for PKC declined 43% YoY to INR14.5b (est.: INR8.1b) and EBITDA margins were at -4% (est.: -29.8%).
- Revenues for SMR declined 52% YoY to ~INR15b (est.: ~INR16.6b), and EBITDA margins were at -2.8% (est.: -8%).
- Revenues for SMP declined ~48% YoY to ~INR43.4b (est.: ~INR42.2b) and EBITDA margins were at -8.3% (est.: 11.8%). Greenfield loss reduced further in 1Q.
- Net debt increased on a QoQ basis to ~INR90.8b (v/s INR69.2b).

Highlights from management commentary

- **Status of operations:** Gradual ramp-up was witnessed in plants globally, with 84% plants operating at more than 50% capacity.
- **Demand:** Strong demand has been sighted for 2QFY21 as it is not seeing major delays in any programs.
- Losses at greenfield plants reduced further (EBITDA loss of EUR16m), driven by manpower reduction, improved efficiencies / reduced scrap, and other structural improvements. The US plant reduced its manpower by 800, and further reduction is expected as it reduces absenteeism.
- The Hungary plant has ramped-up to its peak revenue potential, whereas the US plant would have achieved peak revenues this year if not for the COVID-19 impact.
- **PKC:** The CV segment in China showed very good recovery in 1QFY21. However, most of the OEMs in other regions were heavily impacted.
- MSS expects to reach pre-COVID-19 revenues by Sep'20. Currently, it is at 80% of last years' revenues.

Valuation and view

- We tweak our estimates to factor EUR-INR changes, resulting in minor modifications to our FY21/FY22 consol. EPS by -3%/+3%.
- Our positive view on MSS remains intact (stabilization of greenfield plants + execution of SMRPBV's strong order book + India recovery). Maintain **Buy**, with TP of INR135 (Sep'22 SOTP).

Quarterly performance (Consol.)

(INR m)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | FY21E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | |
| Net Sales | 167,925 | 159,242 | 156,611 | 151,591 | 85,039 | 148,252 | 165,156 | 189,982 | 635,369 | 588,429 | 76,666 |
| YoY Change (%) | 13.7 | 5.4 | -4.9 | -11.7 | -49.4 | -6.9 | 5.5 | 25.3 | 0.0 | -7.4 | -54.3 |
| RM Cost (% of sales) | 57.5 | 57.3 | 57.7 | 55.7 | 59.3 | 56.7 | 56.7 | 31.6 | 57.1 | 49.0 | 57.0 |
| Staff Cost (% of sales) | 23.3 | 22.8 | 23.8 | 25.1 | 34.0 | 24.0 | 22.0 | 38.2 | 23.7 | 29.5 | 25.0 |
| Other Exp (% of sales) | 11.7 | 11.6 | 10.6 | 10.1 | 14.2 | 11.5 | 12.0 | 19.9 | 11.0 | 14.7 | 31.2 |
| EBITDA | 12,550 | 13,190 | 12,358 | 13,916 | -6,300 | 11,493 | 15,429 | 19,634 | 52,014 | 40,257 | -10,104 |
| Margins (%) | 7.5 | 8.3 | 7.9 | 9.2 | -7.4 | 7.8 | 9.3 | 10.3 | 8.2 | 6.8 | -13.2 |
| Depreciation | 6,365 | 6,551 | 6,938 | 7,927 | 7,123 | 7,610 | 7,630 | 8,829 | 27,780 | 31,192 | 7,600 |
| Interest | 1,559 | 1,254 | 1,791 | 1,382 | 1,115 | 1,550 | 1,400 | 1,941 | 5,986 | 6,006 | 1,450 |
| Other income | 547 | 825 | 783 | 151 | 481 | 800 | 500 | 669 | 2,307 | 2,450 | 450 |
| PBT after EO Expense | 5,173 | 6,211 | 4,412 | 4,759 | -14,058 | 3,133 | 6,899 | 9,534 | 20,554 | 5,509 | -18,704 |
| Tax Rate (%) | 34.3 | 30.1 | 27.8 | 69.7 | 15.2 | 31.0 | 31.0 | 7.8 | 39.8 | 31.0 | 31.0 |
| Min. Int & Share of profit | 84 | 496 | 480 | -390 | -3,810 | 862 | 1,926 | 465 | 669 | 119 | -5,300 |
| Adj PAT | 3,315 | 3,846 | 2,705 | 1,834 | -8,104 | 1,300 | 2,834 | 8,328 | 11,700 | 3,682 | -7,606 |
| YoY Change (%) | -25.2 | 3.6 | -30.5 | -55.3 | -344.4 | -66.2 | 4.8 | 354.2 | -27.5 | -68.5 | -329.4 |

E: MOFSL Estimates

Key Performance Indicators

(INR m)

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21E | FY20 |
|---|----------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | |
| Business-wise Revenues (INR m) | | | | | | | | | | | |
| India (MSS S/A) | 18,429 | 16,527 | 16,430 | 17,352 | 4,383 | 18,180 | 18,895 | 21,654 | 68,738 | 63,112 | 5,529 |
| PKC | 25,705 | 24,017 | 22,393 | 20,684 | 14,620 | 18,282 | 19,328 | 21,526 | 92,712 | 73,755 | 8,114 |
| SMR | 31,486 | 30,431 | 29,805 | 29,628 | 15,037 | 28,129 | 32,157 | 36,108 | 121,385 | 111,431 | 16,624 |
| SMP | 84,302 | 79,091 | 80,190 | 74,350 | 46,031 | 75,687 | 86,518 | 99,399 | 317,364 | 308,478 | 42,181 |
| Others | 8,003 | 9,176 | 7,792 | 9,577 | 4,969 | 7,975 | 8,258 | 10,451 | 35,169 | 31,652 | 4,217 |
| Net Revenues | 167,925 | 159,242 | 156,611 | 151,591 | 85,039 | 148,252 | 165,156 | 189,138 | 635,369 | 588,429 | 76,666 |
| Business-wise EBITDA Margins (%) | | | | | | | | | | | |
| India (MSS S/A) | 17.0 | 15.1 | 15.0 | 16.9 | -26.3 | 16.7 | 18.0 | 18.7 | 16.0 | 14.8 | -20.9 |
| PKC | 10.0 | 11.7 | 9.5 | 8.1 | -4.0 | 4.6 | 4.9 | 7.7 | 10.0 | 3.9 | -29.8 |
| SMR | 11.2 | 11.1 | 10.6 | 14.6 | -2.8 | 10.0 | 12.5 | 13.1 | 11.7 | 10.0 | -8.0 |
| SMP | 2.7 | 4.2 | 4.8 | 4.2 | -8.3 | 5.0 | 6.8 | 7.4 | 3.9 | 4.3 | -11.8 |
| Others | 13.3 | 13.4 | 9.6 | 19.6 | -6.0 | 13.0 | 14.5 | 17.8 | 14.5 | 12.0 | -5.0 |
| Consol EBITDA Margins (%) | 7.5 | 8.3 | 7.9 | 9.2 | -7.4 | 7.8 | 9.3 | 10.4 | 8.2 | 6.8 | -13.2 |

E: MOFSL Estimates



| | |
|-----------------|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

CMP: INR292 TP: INR375 (+29%) Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.

| | |
|-----------------------|------------|
| Bloomberg | KECI IN |
| Equity Shares (m) | 257 |
| M.Cap.(INRb)/(USD\$) | 75.2 / 0.9 |
| 52-Week Range (INR) | 358 / 155 |
| 1, 6, 12 Rel. Per (%) | 1/-8/-2 |
| 12M Avg Val (INR M) | 110 |

Financials & Valuations (INR b)

| Y/E Mar | 2020 | 2021E | 2022E |
|-------------------|-------|-------|-------|
| Sales | 119.7 | 124.6 | 137.4 |
| EBITDA | 12.3 | 12.3 | 13.6 |
| PAT | 5.7 | 5.8 | 6.4 |
| EBITDA (%) | 10.3 | 9.9 | 9.9 |
| EPS (INR) | 22.0 | 22.4 | 25.1 |
| EPS Gr. (%) | 16.3 | 2.0 | 11.8 |
| BV/Sh. (INR) | 108.8 | 128.0 | 149.9 |
| Ratios | | | |
| Net D/E | 0.8 | 0.7 | 0.6 |
| RoE (%) | 20.2 | 17.5 | 16.7 |
| RoCE (%) | 16.6 | 14.4 | 14.5 |
| Payout (%) | 12.3 | 12.0 | 10.8 |
| Valuations | | | |
| P/E (x) | 13.3 | 13.0 | 11.7 |
| P/BV (x) | 2.7 | 2.3 | 2.0 |
| EV/EBITDA (x) | 7.9 | 7.9 | 7.1 |
| Div Yield (%) | 0.9 | 0.9 | 0.9 |
| FCF Yield (%) | (1.6) | 5.0 | 6.2 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 51.7 | 51.7 | 51.4 |
| DII | 27.8 | 27.5 | 26.3 |
| FII | 8.8 | 8.7 | 6.7 |
| Others | 11.8 | 12.2 | 15.6 |

FII Includes depository receipts

Standing tall amidst uncertainties

- KEC's 1QFY21 operating results were surprising across parameters, including execution/order inflows. However, interest cost reduction stood out, which suggests superior emphasis on cash flow management in times of crisis.
- KEC is steadily diversifying its business to avoid concentration risk from the Power T&D business, with Railways/Civil segment emerging as strong growth avenues. The company's performance over the past few years is commendable given that not many have been able to sustain growth with a top line of >INR100b in India in the EPC space. We believe the company has all ingredients in place for growth over the next 3-5 years.
- We have raised our FY21/FY22E earnings by 6%/9%. Strong promoter parentage and focus on the balance sheet should help KEC emerge stronger post the COVID-19 crisis v/s peers.
- Maintain **Buy** with TP of INR375 (prior: INR230) on account of (a) earnings upgrade, and (b) increasing target multiple to 15x in line with long-term average (v/s 10x earlier), as any likely B/S concerns have been put to rest.

Beat on estimates; Lower interest cost surprises

- **All round beat:** Revenue declined 9% YoY to INR22.1b (14% ahead of est.). EBITDA declined 23% YoY to INR1.9b (26% ahead of est.). EBITDA margin stood at 8.8% YoY (v/s est. 8%). **Interest cost stood at INR664m (-17% YoY) and was below est. INR750m.** Adj. PAT declined 20% YoY to INR708m (138% above est. INR298m).
- **Order inflows (+73% YoY) were quite strong:** YTD order inflow stood at INR19.3b (+73% YoY) – of this, T&D formed 75%, cables formed 12% and civil segments formed 13%. Order book stood at INR197b (+4% YoY) with OB/Rev ratio of 1.7x. Including L1 position, order book stood at >INR245b.

Key takeaways from management commentary

- EBITDA margins were lower, mainly due to cost overruns in the EPC business in Brazil. All international sites are working at pre-COVID level utilizations, except for sites in Brazil, which have been hit harder by COVID.
- The company is L1 in ~INR50b worth of orders, with majority from the International T&D segment. KEC is also L1 in a defense package under the Smart Infrastructure segment.
- The company is using Automation to mitigate lower labor availability. Management has targeted ~20% improvement in overall productivity.
- Railways' business has ~INR100b of new orders, which are expected for bidding in the next few quarters.

Valuation and view

- We have raised our FY21/FY22E earnings by 6%/9%. Strong promoter parentage and focus on balance sheet should help KEC emerge stronger post the COVID-19 crisis v/s peers. Maintain **Buy** with TP of INR375 (prior: INR230) on account of (a) earnings upgrade, (b) increasing target multiple to 15x in line with long-term average (v/s 10x earlier), as any likely balance sheet concerns have been put to rest.

Quarterly performance

(INR M)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | MOSL 1QE | Var. Vs Est |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Sales | 24,125 | 28,088 | 30,731 | 36,710 | 22,068 | 29,493 | 33,190 | 39,899 | 1,19,654 | 1,24,648 | 19,300 | 14% |
| Change (%) | 14.6 | 16.6 | 16.1 | -4.4 | -8.5 | 5.0 | 8.0 | 8.7 | 8.8 | 4.2 | -20.0 | |
| EBITDA | 2,513 | 2,938 | 3,185 | 3,707 | 1,949 | 2,890 | 3,385 | 4,117 | 12,343 | 12,341 | 1,544 | 26% |
| Change (%) | 16.2 | 16.1 | 13.2 | -7.1 | -22.5 | -1.6 | 6.3 | 11.0 | 7.3 | 0.0 | -38.6 | |
| As of % Sales | 10.4 | 10.5 | 10.4 | 10.1 | 8.8 | 9.8 | 10.2 | 10.3 | 10.3 | 9.9 | 8.0 | |
| Depreciation | 366 | 347 | 367 | 392 | 391 | 400 | 425 | 448 | 1,472 | 1,664 | 400 | |
| Interest | 795 | 822 | 811 | 652 | 663 | 700 | 700 | 786 | 3,080 | 2,849 | 750 | |
| Other Income | 27 | 36 | 21 | 27 | 69 | 40 | 40 | 38 | 111 | 187 | 20 | |
| PBT | 1,379 | 1,805 | 2,028 | 2,691 | 965 | 1,830 | 2,300 | 2,920 | 7,903 | 8,015 | 414 | 133% |
| Tax | 493 | 414 | 579 | 762 | 257 | 512 | 644 | 831 | 2,247 | 2,244 | 116 | |
| Effective Tax Rate (%) | 35.7 | 22.9 | 28.5 | 28.3 | 26.6 | 28.0 | 28.0 | 28.5 | 28.4 | 28.0 | 28.0 | |
| Reported PAT | 886 | 1,391 | 1,449 | 1,929 | 708 | 1,318 | 1,656 | 2,089 | 5,655 | 5,771 | 298 | 138% |
| Change (%) | 2.0 | 42.2 | 29.0 | -3.0 | -20.1 | -5.3 | 14.3 | 8.3 | 18.5 | 2.0 | -66.4 | |
| Recurring PAT | 886 | 1,391 | 1,449 | 1,929 | 708 | 1,318 | 1,656 | 2,089 | 5,655 | 5,771 | 298 | 138% |
| Change (%) | 2.0 | 44.4 | 30.7 | -0.5 | -20.1 | -5.3 | 14.3 | 8.3 | 16.3 | 2.0 | -66.4 | |

Shriram City Union Finance

BSE SENSEX
38,407S&P CNX
10,618

CMP: INR663

Buy

Conference Call Details

Date: 12th August 2020

Time: 02:00pm IST

Dial-in details:

+91 22 6280 1144

+91 22 7115 8045

Financials & Valuations (INR b)

| Y/E March | 2020 | 2021E | 2022E |
|-------------------|-------|-------|-------|
| NII | 35.6 | 34.4 | 35.1 |
| PPP | 22.4 | 21.3 | 21.5 |
| PAT | 10.0 | 7.2 | 7.6 |
| EPS (INR) | 152 | 109 | 115 |
| EPS Gr. (%) | 1 | -28 | 5 |
| BV/Sh. (INR) | 1,092 | 1,195 | 1,298 |
| Ratios | | | |
| NIM (%) | 12.1 | 11.8 | 11.8 |
| C/I ratio (%) | 40.3 | 41.0 | 41.9 |
| RoA (%) | 3.3 | 2.3 | 2.3 |
| RoE (%) | 14.7 | 9.6 | 9.2 |
| Payout (%) | 4.8 | 6.6 | 10.4 |
| Valuations | | | |
| P/E (x) | 4.4 | 6.1 | 5.8 |
| P/BV (x) | 0.6 | 0.6 | 0.5 |
| Div. Yield (%) | 0.9 | 0.9 | 1.5 |

Lower opex drives PAT beat; Asset quality improves

GNPL ratio down 60bp QoQ

- SCUF posted 1QFY21 PAT of INR1.9b (19% beat). While NII stood at INR8.5b (in-line), lower-than-expected opex of INR3.1b (v/s est. INR3.6b), led the beat. Total credit costs at INR3.1b were modestly above est. at INR3.0b.
- During the quarter, SCUF made INR1.8b worth COVID-19 provisions, taking the total outstanding provisions to ~INR6.1b.
- **Collection efficiency improved on MoM (Apr/May/Jun'20 at 30%/ 52% /71%).**

Disbursements sluggish; AUM declines modestly

- **In 1QFY21, SCUF did disbursements in only 2Ws/Gold loans. As a result, AUM declined 2% QoQ/6% YoY to INR285b.** While AUM decline was witnessed across product segments, the 2W book was up 10% YoY.
- Over the past one year, the share of personal loans declined from 9% to 6% as the company focused on cross-selling to existing customers only.

Cost of funds stabilizes further; Asset quality improves

- Calc. yields (on AUM) improved 20bp QoQ to 19.3%, leading to 30bp improvement in spreads at 9.7% (stable YoY). Cost of funds has stabilized at 9.6-9.7% over the past few quarters.
- Share of securitization in total borrowings stood at 15% (v/s 8% in 2QFY20). **Securitisation done during the quarter is a tad lower sequentially. SCUF raised ~INR10.6b** worth of fresh funds during the quarter.
- Fixed deposits continued gaining traction (peak monthly gross accretion in Jun'20).
- **The GNPL ratio improved ~60bp/160bp QoQ/YoY to 7.3%. Sequential improvement in the ratio was driven by 50-135bp improvement in MSME and 2W lending. PCR inched up ~200bp QoQ to 50.4%.**

Stable performance of the HFC subsidiary

- The loan book grew 23% YoY to INR23.7b. GNPL ratio was largely stable QoQ at 2.3% (2.9% YoY). **The number of customers under moratorium declined from 50% in Apr'20 to 41% in Jun'20.**

Others highlights

- Opex was down 18% YoY, driven by 30%/8% decline in other/employee expenses. C/I ratio at 35.4% was the lowest in the last eight quarters.
- Tier I capital improved ~110bp to 28.8%. Liquidity stood at ~INR15b in Jun'20.
- SCUF has INR15b liquidity on the balance sheet (7% of borrowings).

Valuation and view

Since the IL&FS crisis, the company has faced issues on the liability front, which has led to muted disbursements and loan book growth. While the loan book is vulnerable to the lockdown impact, the improvement in the moratorium rate is encouraging. We look to revise our estimates and TP post the concall.

Quarterly Performance

INR m

| Y/E MARCH | FY20 | | | | FY21 | | | | FY20 | FY21 | 1QFY21E | Act v/s Est. (%) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|------------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Interest Income | 14,449 | 14,312 | 14,174 | 13,988 | 13,899 | 13,969 | 13,969 | 14,375 | 56,972 | 56,212 | 13,988 | -0.6 |
| Interest expenses | 5,316 | 5,384 | 5,296 | 5,497 | 5,375 | 5,375 | 5,321 | 5,767 | 21,402 | 21,837 | 5,490 | -2.1 |
| Net Interest Income | 9,134 | 8,928 | 8,877 | 8,490 | 8,525 | 8,594 | 8,648 | 8,608 | 35,570 | 34,375 | 8,497 | 0.3 |
| Y-o-Y Growth (%) | -1.3 | -8.6 | -0.6 | -5.3 | -6.7 | -3.7 | -2.6 | 1.4 | -3.6 | -3.4 | -7.5 | |
| Fees and Other Income | 423 | 590 | 525 | 514 | 246 | 400 | 500 | 565 | 1,901 | 1,711 | 300 | -17.9 |
| Net Operating Income | 9,557 | 9,518 | 9,402 | 9,004 | 8,771 | 8,994 | 9,148 | 9,173 | 37,471 | 36,086 | 8,797 | -0.3 |
| Y-o-Y Growth (%) | 2.1 | -6.7 | 1.7 | -3.9 | -8.2 | -5.5 | -2.7 | 1.9 | -1.9 | -3.7 | -8.6 | |
| Operating Expenses | 3,783 | 3,774 | 3,675 | 3,861 | 3,105 | 3,129 | 3,192 | 5,377 | 15,084 | 14,802 | 3,631 | -14.5 |
| Operating Profit | 5,774 | 5,744 | 5,727 | 5,143 | 5,666 | 5,865 | 5,957 | 3,796 | 22,387 | 21,284 | 5,166 | 9.7 |
| Y-o-Y Growth (%) | 1.6 | -8.0 | 2.3 | -10.4 | -1.9 | 2.1 | 4.0 | -26.2 | -3.8 | -4.9 | -10.5 | |
| Provisions | 1,933 | 1,969 | 1,822 | 3,114 | 3,102 | 3,000 | 2,800 | 2,724 | 8,837 | 11,626 | 3,000 | 3.4 |
| Profit before Tax | 3,841 | 3,775 | 3,905 | 2,029 | 2,564 | 2,865 | 3,157 | 1,072 | 13,550 | 9,658 | 2,166 | 18.4 |
| Tax Provisions | 1,309 | 800 | 937 | 498 | 642 | 722 | 795 | 275 | 3,545 | 2,434 | 546 | 17.5 |
| Net Profit | 2,532 | 2,975 | 2,968 | 1,531 | 1,923 | 2,143 | 2,361 | 797 | 10,005 | 7,224 | 1,620 | 18.7 |
| Y-o-Y Growth (%) | 10.3 | 19.3 | 14.7 | -39.1 | -24.1 | -28.0 | -20.4 | -47.9 | 1.2 | -27.8 | -36.0 | |
| Key Operating Parameters (%) | | | | | | | | | | | | |
| Yield on loans (calc., %) | 19.3 | 19.1 | 19.1 | 19.1 | 19.3 | 19.4 | 19.2 | 19.9 | 19.7 | 19.7 | | |
| Cost of funds (calc., %) | 9.5 | 9.9 | 9.8 | 9.7 | 9.6 | 9.9 | 9.8 | 10.2 | 9.4 | 9.4 | | |
| Spreads (%) | 9.8 | 9.2 | 9.4 | 9.4 | 9.7 | 9.4 | 9.4 | 9.7 | 10.4 | 10.3 | | |
| Cost to Income Ratio (%) | 39.6 | 39.7 | 39.1 | 42.9 | 35.4 | 34.8 | 34.9 | 58.6 | 40.3 | 41.0 | | |
| Credit cost (calc., %) | 2.6 | 2.6 | 2.5 | 4.2 | 4.3 | 0.0 | 0.0 | 0.0 | 3.0 | 4.0 | | |
| Tax Rate (%) | 34.1 | 21.2 | 24.0 | 24.6 | 25.0 | 25.2 | 25.2 | 25.6 | 26.2 | 25.2 | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| Disbursements (INR b) | 62.8 | 52.0 | 58.2 | 54.2 | 13.3 | 32.5 | 49.0 | 53.3 | 227.1 | 148.1 | | |
| Growth (%) | -2.1 | -19.6 | 27.0 | -18.1 | -78.9 | -37.5 | -15.8 | -1.6 | -5.7 | -34.8 | | |
| AUM (INR b) | 303.5 | 297.2 | 295.5 | 290.9 | 284.5 | 293.0 | 288.6 | 290.4 | 290.9 | 290.4 | | |
| Growth (%) | 4.5 | 0.5 | 3.1 | -1.7 | -6.3 | -1.4 | -2.3 | -0.1 | -1.7 | -0.1 | | |
| Repayments (INR b) | 55.1 | 58.3 | 60.0 | 58.8 | 19.7 | 24.0 | 53.4 | 51.5 | 232.1 | 148.5 | | |
| Rep. rate (annualized, %) | 74.4 | 76.8 | 80.7 | 79.6 | 27.0 | 33.7 | 72.9 | 71.4 | 78.5 | 51.1 | | |
| Borrowings/AUM ratio (%) | 73.2 | 72.0 | 74.6 | 79.6 | 76.2 | 73.9 | 75.1 | 81.1 | 79.6 | 81.1 | | |
| Asset Quality Parameters (%) | | | | | | | | | | | | |
| Gross Stage 3 (INR b) | 26.5 | 25.2 | 24.6 | 22.6 | 20.5 | | | | 22.6 | 28.0 | | |
| Gross Stage 3 ratio (%) | 8.9 | 8.7 | 8.5 | 7.9 | 7.3 | | | | 7.0 | 10.7 | | |
| Net Stage 3 (INR b) | 15.0 | 14.2 | 13.9 | 11.7 | 10.2 | | | | 11.7 | 11.8 | | |
| Net Stage 3 ratio (%) | 5.4 | 5.3 | 5.1 | 4.4 | 3.9 | | | | 4.4 | 4.5 | | |
| ECL Stage 3 (INR b) | 11.5 | 10.9 | 10.7 | 11.0 | 10.3 | | | | 11.0 | 16.2 | | |
| PCR (%) | 43.4 | 43.5 | 43.6 | 48.5 | 50.4 | | | | 48.5 | 58.0 | | |
| Segmental GS3 ratio (%) | | | | | | | | | | | | |
| SME loans | 9.3 | 9.0 | 8.9 | 8.3 | 7.8 | | | | | | | |
| 2-wheeler | 9.4 | 9.1 | 8.9 | 8.1 | 6.8 | | | | | | | |
| Gold loans | 2.3 | 2.8 | 3.4 | 4.4 | 4.4 | | | | | | | |
| Personal Loans | 11.3 | 10.9 | 11.0 | 11.1 | 11.7 | | | | | | | |
| Auto loans | 11.78 | 12.1 | 9.1 | 5.4 | 0 | | | | | | | |
| Return ratios (Cumulative, Rep. %) | | | | | | | | | | | | |
| RoA | 3.4 | 3.8 | 4.0 | 2.0 | 2.5 | | | | 3.3 | 2.3 | | |
| RoE | 15.4 | 16.7 | 17.1 | 8.6 | 10.5 | | | | 14.7 | 9.6 | | |
| Others | | | | | | | | | | | | |
| CRAR (%) | 22.62 | 24.4 | 25.3 | 27.7 | 28.8 | | | | | | | |
| Shriram HFC AUM (INR b) | 19.3 | 18.8 | 21.0 | 23.0 | 23.7 | | | | | | | |



V-Mart Retail

| | |
|-----------------|---|
| Estimate change | ↔ |
| TP change | ↔ |
| Rating change | ↔ |

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



| | |
|-----------------------|-------------|
| Bloomberg | VMART IN |
| Equity Shares (m) | 18 |
| M.Cap.(INRb)/(USD\$) | 32.6 / 0.4 |
| 52-Week Range (INR) | 2545 / 1294 |
| 1, 6, 12 Rel. Per (%) | -10/-14/-5 |
| 12M Avg Val (INR M) | 57 |

Financials & Valuations (INR b)

| Y/E March | FY20 | FY21E | FY22E |
|-------------------|-------|-------|-------|
| Sales | 16.6 | 12.6 | 19.2 |
| EBITDA | 2.1 | 1.2 | 2.0 |
| Adj. PAT | 0.5 | -0.4 | 0.2 |
| EBITDA Margin (%) | 12.9 | 9.4 | 10.2 |
| Adj. EPS (INR) | 27.3 | -23.7 | 13.3 |
| EPS Gr. (%) | -31.0 | NM | NM |
| BV/Sh. (INR) | 253.6 | 229.9 | 243.3 |

Ratios

| | | | |
|------------|------|-----|-----|
| Net D:E | 1.1 | 1.3 | 0.6 |
| RoE (%) | 11.4 | NM | 5.6 |
| RoCE (%) | 12.7 | 1.8 | 6.5 |
| Payout (%) | 0.0 | 0.0 | 0.0 |

Valuations

| | | | |
|----------------|------|------|-------|
| P/E (x) | 65.5 | NM | 133.9 |
| EV/EBITDA (x) | 17.5 | 31.9 | 18.0 |
| EV/Sales (X) | 1.9 | 2.6 | 1.6 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |
| FCF Yield (%) | 0.8 | 0.4 | 9.2 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 51.2 | 52.0 | 52.5 |
| DII | 17.2 | 15.1 | 5.7 |
| FII | 23.1 | 23.5 | 31.1 |
| Others | 8.5 | 9.4 | 10.7 |

FII Includes depository receipts

CMP: INR1,792 TP:INR2,300 (+28%) Buy

Cost efficiency curtails loss; extended lockdown could play dampener

- V-Mart Retail (VMART)'s 1QFY21 revenues declined 83% YoY as stores were closed for the most part of the quarter. On the other hand, cost control helped the company curtail EBITDA loss to INR58m.
- We broadly maintain our EBITDA estimates, building decline of 44% in FY21. On the contrary, the resumption of operations and better spending should drive FY22 EBITDA to INR2b, but still 8% below FY20 EBITDA. However, we maintain Buy given VMART's attractive value proposition, comfortable liquidity position, and the fact that it is better placed than regional peers in the Value Retail format.

Revenue impacted by lockdown, but cost efficiency remains strong

- VMART's 1QFY21 revenues declined by 83% YoY to INR781m (16% miss) on account of store closures.
- Cost efficiency measures were commendable, with employee expenses declining by 49% YoY to INR189m and other operating expenses by 75% YoY to INR110m due to store closures and cost rationalization.
- EBITDA came in at loss of INR58m (v/s expected loss of INR348m).
- On a pre-Ind-AS 116 basis, EBITDA/PBT loss stood at INR252m/INR340m.
- Net reported loss stood at INR336m (v/s expected loss of INR715m).
- V-Mart's liquidity position remains decent, with cash balance of INR83m and an INR2b unutilized working capital credit line from banks.
- June showed signs of recovery, with the average bill size up 11% YoY. The conversion ratio stood at 68% (57% in 1QFY20), while average selling price for Apparel declined by 8% YoY. This indicates customer focus was on value-buying, dominated by Leisurewear and Casual Wear.

Highlights from management commentary

- Rental waivers have been negotiated with all the landlords; full-year FY21 rent savings are expected to be INR180m.
- No major capex is planned for 2QFY21, but the company would continue to seek attractive real estate deals for store launches in the long term.
- The company has utilized only INR130m of its working capital limit, and INR2b remains available. Liquidity would continue to be strong in FY21, and the company would remain debt-free for the remainder of the fiscal.
- Online revenues are currently less than 1% of total revenues; the company's focus is on growing the channel further to reach 2–3% of total revenue.

Valuation and view

- The current economic situation may have a prolonged impact on discretionary retailers. Subsequently, we build same-store sales growth (SSSG) to decline 32% in FY21, but recover to 30% in FY22, but still 5% below the FY20 base. Subsequently, we estimate EBITDA to decrease 44% in FY21 and recover by 65% in FY22, but still 8% below FY20.

- VMART is strongly positioned to compete with regional and national players in the Value Retail segment; we expect the business to gain significantly as markets reopen and the economy recovers from the shock of the lockdown.
- We assign 24x EV/EBITDA, arriving at TP of INR2300. VMART currently trades at FY21E/FY22E EV/EBITDA of 32x/18x; we **maintain Buy** given its far superior balance sheet v/s peers, with astute inventory management and no leverage. Its strength in affordable segments and a trusted Value Retail legacy in the regional markets should hold it in good stead.

Standalone – Quarterly Earnings Model

(INR m)

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21E | FY21E | Est. |
|---------------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|---------------|---------------|-------------|------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Revenue | 4,530 | 3,142 | 5,622 | 3,327 | 781 | 2,748 | 6,109 | 4,585 | 16,620 | 14,223 | 927 | -16 |
| YoY Change (%) | 25.4 | 19.8 | 20.7 | -3.4 | -82.8 | -12.5 | 8.7 | 37.8 | 15.9 | -14.4 | -79.5 | |
| Total Expenditure | 3,953 | 3,028 | 4,454 | 3,048 | 839 | 2,674 | 4,964 | 4,509 | 14,483 | 12,985 | 1,275 | -34 |
| EBITDA | 578 | 113 | 1,168 | 278 | -58 | 74 | 1,145 | 76 | 2,137 | 1,237 | -348 | NM |
| EBITDA Margin (%) | 12.8 | 3.6 | 20.8 | 8.4 | -7.5 | 2.7 | 18.8 | 1.7 | 12.9 | 8.7 | -37.5 | |
| Depreciation | 220 | 223 | 245 | 252 | 263 | 252 | 255 | 249 | 939 | 1,018 | 243 | |
| Interest | 120 | 131 | 158 | 139 | 146 | 137 | 137 | 128 | 548 | 548 | 137 | |
| Other Income | 21 | 12 | 4 | 8 | 14 | 13 | 13 | 11 | 45 | 50 | 13 | |
| PBT | 259 | -229 | 770 | -105 | -454 | -302 | 766 | -290 | 695 | -279 | -715 | NM |
| Tax | 83 | -48 | 188 | -20 | -117 | 0 | 207 | -78 | 202 | 11 | 0 | |
| Rate (%) | 32.0 | 21.1 | 24.4 | 19.2 | 25.8 | 0.0 | 27.0 | 27.0 | 29.0 | -4.1 | 0.0 | |
| Reported PAT | 176 | -180 | 582 | -84 | -336 | -302 | 559 | -212 | 493 | -290 | -715 | NM |
| Adj PAT | 176 | -180 | 582 | -84 | -336 | -302 | 559 | -212 | 493 | -290 | -715 | NM |
| YoY Change (%) | -29.2 | 1,047.7 | 39.6 | -230.6 | -291.1 | 67.3 | -3.9 | 150.7 | -31.0 | -158.9 | -506.1 | |

E: MOFSL Estimates

Key Performance Indicators

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21E |
|--------------------|------|------|------|-------|-------|-------|------|------|------|-------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | |
| SSSG (%) | 5.2 | 1.0 | 2.0 | -18.6 | -84.7 | -20.0 | 4.0 | 23.4 | -2.3 | -21.8 |
| Total stores | 227 | 239 | 257 | 266 | 266 | 269 | 274 | 279 | 266 | 281 |
| Store adds | 13 | 12 | 18 | 9 | 0 | 3 | 5 | 5 | 52 | 15 |
| Gross Margins (%) | 30.6 | 31.2 | 36.3 | 28.5 | 30.8 | 30.0 | 33.0 | 27.4 | 32.2 | 30.5 |
| EBITDA Margins (%) | 12.8 | 3.6 | 20.8 | 8.4 | -7.5 | 2.7 | 18.8 | 1.7 | 12.9 | 8.7 |
| PAT Margins (%) | 3.9 | -5.7 | 10.4 | -2.5 | -43.1 | -11.0 | 9.2 | -4.6 | 3.0 | -2.0 |

E: MOSL Estimates



Equitas Holdings

| | |
|-----------------|---|
| Estimate change | ↑ |
| TP change | ↔ |
| Rating change | ↔ |

CMP: INR51 **TP: INR65 (+28%)** **Buy**

Moratorium book receding but still elevated; Asset quality a key monitorable

Credit cost to remain elevated

- Equitas 1QFY21 PAT was higher than estimated, led by lower provisions. Operating profit growth was decent at 19% YoY in the current environment. AUM growth was firm at 27% YoY while deposit traction picked up (grew 9% QoQ), led by term deposits. Moratorium availed plunged to 43% of gross loans as at Jul'20, but still remains elevated.
- Overall, credit costs should stay at elevated levels as asset quality is expected to remain under pressure. Maintain **Buy**.

Lower provisions supported earnings; Deposit growth strong

- PAT grew at ~2% YoY to ~INR600m (v/s est. INR332m), led by lower provisions at INR683m. COVID-19 provisions of INR450m (v/s INR996m in 4QFY20) were made; thus, taking the total COVID-19 related provision buffer to INR1.45b (1% of loans).
- NII grew 20% YoY, led by gross AUM growth of 27% YoY. NIMs stood at 8.63% (v/s 8.88% in 1QFY20). Other income declined 49% YoY, affected by declining fee income trends due to low disbursements during the quarter.
- Opex inched up 5% YoY. But C/I ratio rose to 66.4% (v/s 62% in 4QFY20) due to lower net revenues. Overall, PPOP growth stood at 19% YoY.
- Total AUM grew 27% YoY/~1% QoQ to INR155.7b, with the share of MFI AUM at 23.2% (v/s ~26% in FY19). MFI AUM grew ~16% YoY to INR36.2b while growth in non-MFI AUM was at 31% YoY/2% QoQ, led by 32% YoY growth in small business loans. Housing book grew 53% YoY and MSE finance soared 154% YoY. Disbursements during 1QFY21 stood at INR5.6b.
- Strong deposits growth of 29% YoY (~9% QoQ) to INR117.9b was led by 38% YoY TD growth. CASA grew 5% YoY with CASA ratio of 20.5% (flat QoQ).
- On the asset quality front**, GNPA/NNPA ratio improved 4bp/11bp QoQ. PCR improved ~360bp QoQ to ~49%.
- Moratorium update:** Moratorium availed declined to 43% of gross advances as at Jul'20.

Highlights from management commentary

- In the vehicle portfolio, higher moratorium was availed in the HCV portfolio (v/s LCV). Overall, the bank remains cautious on the HCV portfolio.
- Disbursements during Jul'20 reached ~75% of pre-COVID levels. Better trends were witnessed in the small business loans' category.
- EQUITAS does not expect high restructuring of loans once moratorium ends and plans to be highly selective with its restructuring mechanism.

Valuation and view

EQUITAS has reported steady AUM and strong deposit growth. Operating performance remained decent despite declining fee income trends on lower disbursement volumes. On the asset quality front, moratorium book declined to 43%, but was still elevated. Thus, it remains a key concern on the asset quality front. We, thus, expect credit cost to remain high at 3.0% over FY21E. Overall, we maintain our TP of INR65 (0.8x FY22E ABV) with a **Buy** rating.

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.

| | |
|-----------------------|-------------|
| Bloomberg | EQUITAS IN |
| Equity Shares (m) | 342 |
| M.Cap.(INRb)/(USD\$) | 17.3 / 0.2 |
| 52-Week Range (INR) | 121 / 33 |
| 1, 6, 12 Rel. Per (%) | -20/-49/-56 |
| 12M Avg Val (INR M) | 672 |

Financials & Valuations (INR b)

| Y/E March | FY20 | FY21E | FY22E |
|---------------|------|-------|-------|
| NII | 15.0 | 16.5 | 18.2 |
| OP | 6.0 | 6.5 | 7.2 |
| NP | 2.4 | 1.5 | 2.6 |
| NIM (%) | 8.8 | 8.3 | 8.1 |
| EPS (INR) | 7.1 | 4.3 | 7.7 |
| BV/Sh. (INR) | 80.3 | 83.5 | 88.8 |
| ABV/Sh. (INR) | 75.6 | 77.0 | 77.7 |

Ratios

| | | | |
|---------|-----|-----|-----|
| RoE (%) | 9.7 | 5.3 | 9.0 |
| RoA (%) | 1.4 | 0.7 | 1.1 |

Valuations

| | | | |
|-----------|-----|------|-----|
| P/E(X) | 7.1 | 11.7 | 6.6 |
| P/BV (X) | 0.6 | 0.6 | 0.6 |
| P/ABV (X) | 0.7 | 0.7 | 0.7 |

Shareholding pattern (%)

| As On | Jun-20 | Mar-20 | Jun-19 |
|----------|--------|--------|--------|
| Promoter | 0.0 | 0.0 | 0.0 |
| DII | 30.3 | 34.5 | 40.9 |
| FII | 28.2 | 28.7 | 20.2 |
| Others | 41.6 | 36.9 | 38.9 |

FII Includes depository receipts

Quarterly performance

(INR m)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | FY21E 1QE | v/s Est |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|-----------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Net Interest Income | 3,372 | 3,505 | 3,836 | 4,240 | 4,040 | 4,097 | 4,146 | 4,170 | 14,953 | 16,454 | 3,924 | 3 |
| % Change (YoY) | 32.6 | 29.1 | 23.3 | 34.7 | 19.8 | 16.9 | 8.1 | -1.6 | 29.8 | 10.0 | 16.4 | 345 |
| Other Income | 592 | 639 | 857 | 736 | 300 | 705 | 763 | 1,168 | 2,824 | 2,936 | 629 | -52 |
| Total Income | 3,964 | 4,145 | 4,693 | 4,976 | 4,340 | 4,802 | 4,910 | 5,339 | 17,777 | 19,390 | 4,552 | -5 |
| Operating Expenses | 2,738 | 2,862 | 3,108 | 3,092 | 2,880 | 3,163 | 3,292 | 3,576 | 11,801 | 12,912 | 2,970 | -3 |
| Operating Profit | 1,225 | 1,282 | 1,584 | 1,884 | 1,460 | 1,638 | 1,617 | 1,763 | 5,976 | 6,478 | 1,582 | -8 |
| % Change (YoY) | 61.1 | 20.9 | 30.4 | 53.8 | 19.1 | 27.8 | 2.1 | -6.4 | 40.2 | 8.4 | 29.1 | -999 |
| Provisions | 308 | 454 | 405 | 1,300 | 683 | 1,080 | 1,224 | 1,512 | 2,466 | 4,499 | 1,139 | -40 |
| Profit before Tax | 917 | 829 | 1,180 | 584 | 777 | 558 | 393 | 250 | 3,509 | 1,979 | 444 | 75 |
| Tax | 327 | 353 | 239 | 154 | 177 | 141 | 99 | 82 | 1,073 | 498 | 112 | 58 |
| Net Profit | 590 | 476 | 941 | 430 | 600 | 418 | 294 | 169 | 2,436 | 1,481 | 332 | 81 |
| % Change (YoY) | 66.7 | -2.4 | 51.2 | -33.1 | 1.7 | -12.2 | -68.7 | -60.7 | 15.7 | -39.2 | -43.8 | 4,543 |
| Operating Parameters | | | | | | | | | | | | |
| AUM (INR b) | 123 | 132 | 146 | 154 | 156 | 161 | 167 | 177 | 154 | 177 | 156 | 0 |
| Deposits (INR b) | 91 | 100 | 105 | 108 | 118 | 120 | 123 | 127 | 108 | 127 | 109 | 8 |
| Loans (INR b) | 120 | 130 | 137 | 137 | 144 | 146 | 149 | 157 | 137 | 157 | 138 | 4 |
| AUM Growth (%) | 35 | 33 | 37 | 31 | 27 | 22 | 15 | 15 | 31 | 15 | 26 | 93 |
| Deposit Growth (%) | 60 | 44 | 33 | 20 | 29 | 19 | 18 | 18 | 20 | 18 | 19 | 1,011 |
| Loan Growth (%) | 43 | 38 | 30 | 19 | 20 | 13 | 9 | 14 | 19 | 14 | 15 | 451 |
| Asset Quality | | | | | | | | | | | | |
| Gross NPA (%) | 2.7 | 2.9 | 2.9 | 2.7 | 2.7 | 3.2 | 3.9 | 4.3 | 3.0 | 4.3 | 3.2 | -52 |
| Net NPA (%) | 1.5 | 1.6 | 1.7 | 1.5 | 1.4 | 1.7 | 1.9 | 2.0 | 1.7 | 2.0 | 1.7 | -35 |
| PCR (%) | 44.0 | 43.8 | 43.5 | 45.2 | 48.8 | 50.0 | 52.0 | 54.6 | 45.2 | 54.6 | 46.5 | 229 |

E:MOFSL Estimates

Quarterly snapshot

| Profit and Loss, INRM | FY19 | | | | FY20 | | | | FY21 | Change (%) | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | YoY | QoQ |
| Net Interest Income | 2,544 | 2,716 | 3,111 | 3,147 | 3,372 | 3,505 | 3,836 | 4,240 | 4,040 | 20 | -5 |
| Other Income | 612 | 717 | 709 | 790 | 592 | 639 | 857 | 736 | 300 | -49 | -59 |
| Total Income | 3,156 | 3,433 | 3,820 | 3,938 | 3,964 | 4,145 | 4,693 | 4,976 | 4,340 | 9 | -13 |
| Operating Expenses | 2,395 | 2,372 | 2,605 | 2,713 | 2,738 | 2,862 | 3,108 | 3,092 | 2,880 | 5 | -7 |
| Employee | 1,381 | 1,346 | 1,329 | 1,456 | 1,664 | 1,725 | 1,839 | 1,869 | 1,910 | 15 | 2 |
| Others | 1,013 | 1,026 | 1,276 | 1,257 | 1,074 | 1,137 | 1,270 | 1,223 | 970 | -10 | -21 |
| Operating Profits | 761 | 1,061 | 1,215 | 1,225 | 1,225 | 1,282 | 1,584 | 1,884 | 1,460 | 19 | -22 |
| Core Operating Profits | 631 | 1,059 | 1,214 | 1,067 | 1,222 | 1,274 | 1,580 | 1,866 | 1,460 | 20 | -22 |
| Provisions | 209 | 308 | 245 | 262 | 308 | 454 | 405 | 1,300 | 683 | 122 | -47 |
| PBT | 552 | 753 | 970 | 963 | 917 | 829 | 1,180 | 584 | 777 | -15 | 33 |
| Taxes | 198 | 265 | 348 | 321 | 327 | 353 | 239 | 154 | 177 | -46 | 14 |
| PAT | 354 | 487 | 622 | 642 | 590 | 476 | 941 | 430 | 600 | 2 | 40 |
| Balance Sheet (INRb) | | | | | | | | | | | |
| Deposits | 57 | 70 | 79 | 90 | 91 | 100 | 105 | 108 | 118 | 29 | 9 |
| Loans | 84 | 94 | 106 | 116 | 120 | 130 | 137 | 137 | 144 | 20 | 5 |
| AUM's | 91 | 100 | 107 | 117 | 123 | 132 | 146 | 154 | 156 | 27 | 1 |
| Loan mix (%) | | | | | | | | | | | |
| MFI | 26.8 | 27.1 | 27.6 | 26.2 | 25.5 | 24.2 | 24.0 | 23.5 | 23.2 | -226 | -30 |
| Vehicles | 26.3 | 24.8 | 25.4 | 25.2 | 24.7 | 24.5 | 24.5 | 24.5 | 24.3 | -45 | -21 |
| Small Business loans (incl HF) | 36.3 | 37.5 | 38.2 | 39.1 | 40.2 | 40.5 | 40.6 | 40.9 | 41.6 | 143 | 77 |
| MSE Finance | 5.8 | 0.6 | 1.0 | 1.5 | 2.3 | 3.3 | 3.9 | 4.4 | 4.6 | 229 | 22 |
| Corporate loans | 0.0 | 4.3 | 3.6 | 3.9 | 4.5 | 5.2 | 5.2 | 5.3 | 5.0 | 43 | -37 |
| Others | 4.5 | 5.7 | 4.2 | 4.0 | 2.8 | 2.3 | 1.9 | 1.5 | 1.3 | -143 | -11 |

Ashoka Buildcon

BSE SENSEX 38,407 S&P CNX 10,618

CMP:INR63

Buy

Conference Call Details



Date: 12th August 2020

Time: 02:00pm IST

Dial-in details:

+91-22-6280 1360

Financials & Valuations (INR b)

| Y/E Mar | 2020 | 2021E | 2022E |
|-------------------|------|--------|-------|
| Sales | 39.4 | 35.5 | 44.3 |
| EBITDA | 5.9 | 4.1 | 5.3 |
| PAT | 3.9 | 2.2 | 3.0 |
| EBITDA (%) | 14.9 | 11.5 | 11.9 |
| EPS (INR) | 13.8 | 7.9 | 10.5 |
| EPS Gr. (%) | 20.2 | (42.4) | 32.4 |
| BV/Sh. (INR) | 92.6 | 99.4 | 108.7 |
| Ratios | | | |
| Net D/E | 0.1 | 0.2 | 0.2 |
| RoE (%) | 16.1 | 8.3 | 10.1 |
| RoCE (%) | 14.0 | 8.4 | 9.9 |
| Payout (%) | 8.4 | 14.7 | 11.1 |
| Valuations | | | |
| P/E (x) | 4.6 | 7.9 | 6.0 |
| P/BV (x) | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | 3.6 | 5.6 | 4.4 |
| Div Yield (%) | 1.6 | 1.6 | 1.6 |
| FCF Yield (%) | 37.7 | 8.9 | 9.7 |

Execution and margin expansion a surprise

1QFY21 earnings snapshot

- Revenue declined 35% to INR5.7b and **was 18% above our expectation.**
- EBITDA was down 25% YoY to INR819m (ahead of our expectation of INR389m).
- EBITDA margin expanded 180bp to 14.3% (v/s est. 8%).** We await management's call tomorrow for better clarity on the margin surprise.
- Interest expense declined 22% YoY to INR166m.
- On account of operating performance beat, **adj. PAT grew 7% to INR691m** (ahead of our expectation of muted PAT at INR89m).

Quarterly Performance

(INR M)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | FY21 | Variance |
|---------------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Net Sales | 8,768 | 8,223 | 9,836 | 12,548 | 5,724 | 6,460 | 10,613 | 12,697 | 39,374 | 35,494 | 4,857 | 17.8% |
| YoY Change (%) | 30.4 | 7.6 | -7.7 | -4.0 | -34.7 | -21.4 | 7.9 | 1.2 | 3.4 | -9.9 | -44.6 | |
| EBITDA | 1,095 | 1,229 | 1,243 | 2,289 | 819 | 711 | 1,274 | 1,285 | 5,856 | 4,087 | 389 | 110.7% |
| Margins (%) | 12.5 | 14.9 | 12.6 | 18.2 | 14.3 | 11.0 | 12.0 | 10.1 | 14.9 | 11.5 | 8.0 | |
| Depreciation | 266 | 271 | 283 | 290 | 223 | 290 | 310 | 384 | 1,111 | 1,206 | 280 | |
| Interest | 214 | 231 | 200 | 209 | 166 | 200 | 200 | 222 | 855 | 788 | 190 | |
| Other Income | 342 | 392 | 369 | 346 | 483 | 210 | 230 | -36 | 1,449 | 887 | 200 | |
| PBT | 957 | 1,118 | 1,129 | 2,136 | 913 | 431 | 994 | 643 | 5,340 | 2,980 | 119 | 670.1% |
| Tax | 310 | 391 | 274 | 493 | 222 | 109 | 250 | 169 | 1,468 | 750 | 30 | |
| Rate (%) | 32.4 | 35.0 | 24.2 | 23.1 | 24.4 | 25.2 | 25.2 | 26.3 | 27.5 | 25.2 | 25.2 | |
| Reported PAT | 647 | 727 | 855 | 1,642 | 691 | 322 | 743 | 474 | 3,871 | 2,230 | 89 | 678.8% |
| Adj PAT | 647 | 727 | 855 | 1,642 | 691 | 322 | 743 | 474 | 3,871 | 2,230 | 89 | 678.8% |
| YoY Change (%) | 22.8 | 17.1 | -16.1 | 56.0 | 6.8 | -55.7 | -13.1 | -71.1 | 20.2 | -42.4 | -86.3 | |
| Margins (%) | 7.4 | 8.8 | 8.7 | 13.1 | 12.1 | 5.0 | 7.0 | 3.7 | 9.8 | 6.3 | 1.8 | |



Healthcare

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



Performance of top companies: July 2020

| Company | MAT gr (%) | Jul-20 (%) |
|--------------|------------|------------|
| IPM | 5 | 0.2 |
| Glenmark | 10.4 | 30.3 |
| JB Chemicals | 16.2 | 12.8 |
| Ipca | 9.8 | 11.5 |
| Pfizer | 11.4 | 11.5 |
| Cipla | 3.9 | 10.8 |
| Ajanta | 5.3 | 9.4 |
| USV | 10 | 9.1 |
| Merck | 2.6 | 7.4 |
| Eris LS | 6.6 | 5.3 |
| Alembic | 0.3 | 4.4 |
| Emcure | 7.8 | 3.1 |
| Dr. Reddys | 6.6 | 2.6 |
| Abbott | 5.5 | 2.2 |
| Intas | 7.1 | -0.2 |
| Cadila HC | 6.8 | -0.4 |
| Lupin | 5.9 | -1.3 |
| Sanofi India | 2.7 | -1.4 |
| Torrent | 8 | -2.6 |
| Alkem | 4.5 | -3.1 |
| Sun Pharma | 5.8 | -3.2 |
| AstraZeneca | 7.9 | -3.7 |
| MSD | 0.9 | -4.5 |
| Biocon | -5.3 | -8.2 |
| FDC | 6 | -8.8 |
| Indoco | 1.7 | -10.1 |
| GSK | 0.2 | -10.8 |
| Natco | -1.6 | -11.1 |
| Wockhardt | -24.5 | -26.8 |

Chronic therapies perform better than Acute

- The Indian Pharmaceutical Market's (IPM) growth was muted at 0.2% YoY in Jul'20 (v/s 2.4% YoY in Jun'20). The 6.5% YoY volume decline was led by COVID and higher offtake of trade generic medicines. This was offset to some extent by price growth of 4.6% YoY and growth in new launches of 2.2% YoY.
- Anti-Infective was down 10.2% YoY (v/s -9.7% YoY in Jun'20) while Gastro sales dipped 2.4% YoY (v/s flat YoY in Jun'20). Pain/Analgesics declined further by 6.7% YoY (v/s -1.9% YoY in Jun'20). Cardiac/Anti-diabetic/VMN therapies exhibited positive growth of 13.1% YoY/5.9% YoY/5.5% YoY in Jul'20.
- For the quarter ending Jul'20, IPM declined 2% YoY and volumes dropped 8.3% YoY. However, price grew 4.6% YoY and NP inched up 1.8% YoY. NLEM products dipped 1.3% YoY while Non-NLEM products declined 2.1% YoY.
- On a MAT basis, industry growth came in at 5% YoY. Volume declined 2% YoY, Price/NP growth stood at 5%/2% YoY.

Price growth steady despite COVID led volume decline

- In Jul'20, in value terms, secondary sales grew 1% YoY for NLEM (~16% of IPM) while it remained muted for non-NLEM (~84% of IPM).
- While price growth for non-NLEM products stood at 4.7% YoY, volumes declined 7.2% YoY.

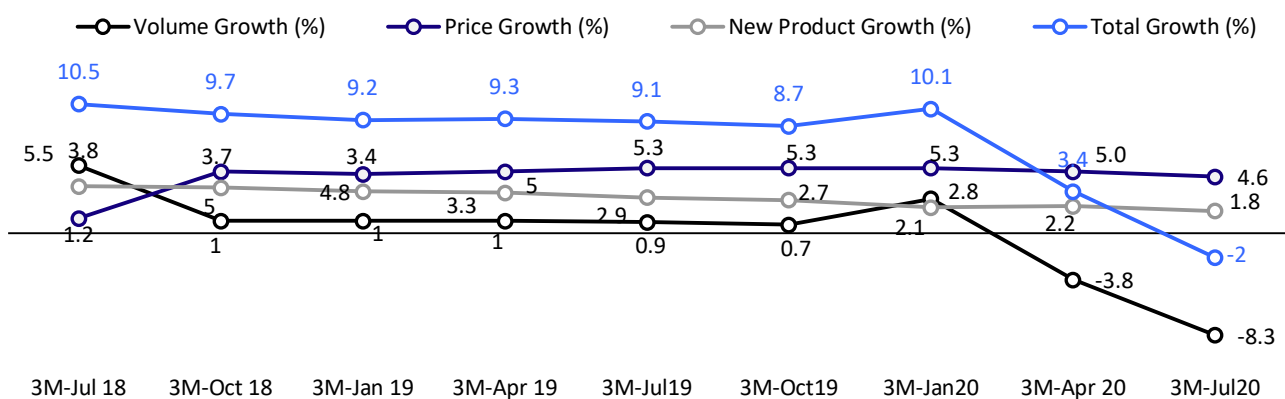
Glenmark, JB Chemicals and Ipca – Outperformers

- In Jul'20, Glenmark (+30.3% YoY), JB Chemicals (+12.8% YoY) and Ipca (+11.5% YoY) delivered the highest growth.
- Glenmark's Anti-infective segment increased 1.7x YoY, mainly on account of Flabiflu (Covid drug) sales. JB Chemicals grew on the back of robust uptake in its Cardiac therapy sales (50.8% of therapy mix), which grew 24.6% YoY. Ipca witnessed good traction in Pain/Analgesics (+23.4% YoY; 29% of therapy mix) and Anti-malaria (+17.8% YoY; 16% of therapy mix) segments.
- Sun Pharma's sales dipped 3.2% YoY (v/s flat YoY growth in Jun'20), dragged by decline in Anti-Infective (-23.8% YoY) and Gastro (-10.3% YoY).
- Glaxo, Natco and Wockhardt exhibited weakest sales at -10.8%/-11.1%/-26.8% YoY in Jul'20
- On MAT basis, JB Chemicals/Torrent reported highest price growth of 10%/7.8% YoY. Glenmark saw highest growth in new launches (+7.3% YoY).

Cardiac, Anti-Malaria and Respiratory witnessed strong growth

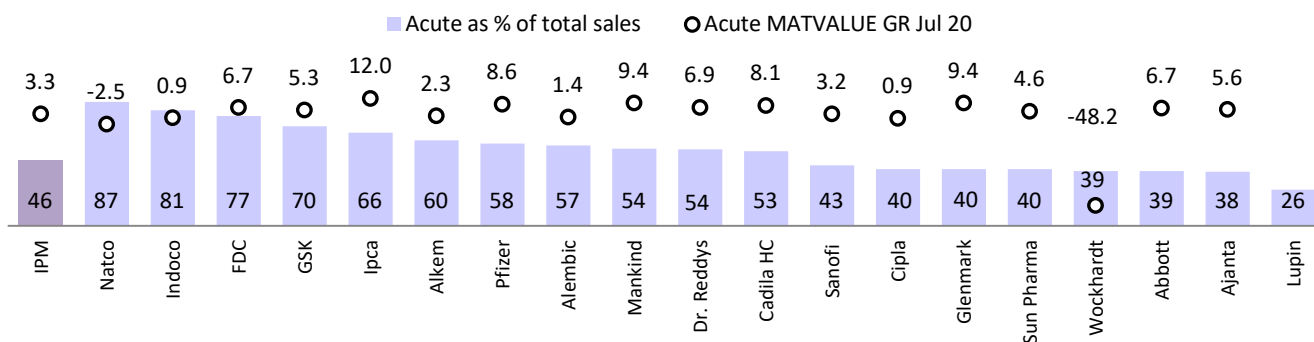
- Cardiac, Anti-Malaria and Respiratory therapies exhibited highest growth of 11.1% YoY, 10.5% YoY and 10% YoY on MAT basis in Jul'20. However, Gynecology (-0.8% YoY) and Anti-Neoplastic (-2.1% YoY) therapies remained dim.

Volumes declined drastically for quarter ended Jul'20



Source: AIOCD, MOFSL

Acute as % of total sales and growth rate on MAT Jul'20 basis



Source: MOFSL, Company

Indian Pharma Market - Jul'20

Performance of top companies – Jul'20

| Company | MAT Jul- 20 Value (INR b) | Market Share (%) | Growth (%) | Last 8 Quarters YoY Growth (%) | | | | | | | | 1M |
|-----------------|---------------------------|------------------|------------|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | | Oct-18 | Jan-19 | Apr-19 | Jul-19 | Oct-19 | Jan-20 | Apr-20 | Jul-20 | Jul-20 |
| IPM | 1,424 | 100.0 | 5.0 | 10.8 | 10.0 | 10.0 | 9.0 | 8.7 | 10.1 | 3.4 | (2.0) | 0.2 |
| Sun Pharma | 116 | 5.8 | 5.8 | 6.1 | 6.7 | 5.9 | 7.7 | 9.6 | 10.6 | 6.7 | (3.5) | (3.2) |
| Abbott | 90 | 6.3 | 5.5 | 10.4 | 12.7 | 8.4 | 8.4 | 10.5 | 8.0 | 3.8 | (0.2) | 2.2 |
| Cipla | 67 | 4.7 | 3.9 | 12.3 | 10.6 | 10.5 | 9.4 | 3.4 | 7.5 | 2.7 | 1.8 | 10.8 |
| Zydus Cadila | 59 | 4.2 | 6.8 | 8.4 | 7.6 | 10.5 | 13.1 | 13.1 | 13.9 | 3.3 | (2.6) | (0.4) |
| Mankind | 61 | 4.3 | 10.7 | 25.6 | 19.5 | 21.4 | 11.7 | 11.4 | 15.1 | 12.8 | 3.8 | 1.9 |
| Alkem | 49 | 3.5 | 4.5 | 9.2 | 8.5 | 12.5 | 13.0 | 12.1 | 11.7 | 0.1 | (6.1) | (3.1) |
| Lupin | 54 | 3.8 | 5.9 | 13.5 | 13.4 | 14.7 | 12.3 | 11.6 | 9.5 | 5.3 | (2.5) | (1.3) |
| Torrent Pharma | 44 | 3.1 | 8.0 | 12.1 | 9.6 | 10.7 | 9.1 | 5.6 | 13.5 | 13.8 | 0.1 | (2.6) |
| Pfizer | 34 | 2.4 | 11.4 | 8.7 | 7.2 | 5.6 | 5.0 | 9.9 | 17.7 | 10.0 | 8.1 | 11.5 |
| Glenmark Pharma | 33 | 2.3 | 10.4 | 9.5 | 8.2 | 8.7 | 7.6 | 7.7 | 14.5 | 6.8 | 12.7 | 30.3 |
| Sanofi | 32 | 2.2 | 2.7 | 8.4 | 15.0 | 11.4 | 12.6 | 8.9 | 0.9 | 2.9 | (1.4) | (1.4) |
| Dr Reddy Labs | 40 | 2.8 | 6.6 | 41.2 | 33.2 | 33.8 | 29.4 | 10.0 | 13.7 | 5.4 | (2.7) | 2.6 |
| GSK Pharma | 39 | 2.7 | 0.2 | 0.1 | 8.0 | 10.8 | 13.7 | 12.8 | 5.3 | (5.6) | (11.0) | (10.8) |
| Alembic Pharma | 17 | 1.2 | 0.3 | 12.4 | 11.5 | 9.9 | 2.2 | (0.5) | 3.7 | 0.4 | (2.5) | 4.4 |
| Ipsca Labs | 22 | 1.5 | 9.8 | 29.8 | 28.6 | 21.6 | 10.1 | 5.9 | 9.6 | 11.9 | 12.5 | 11.5 |
| Natco | 11 | 0.7 | (1.6) | 3.2 | 26.3 | 13.1 | (8.0) | (3.5) | (4.4) | 5.2 | (3.0) | (11.1) |
| Ajanta Pharma | 9 | 0.6 | 5.3 | 8.7 | 8.1 | 7.4 | 6.3 | 4.2 | 7.8 | 5.2 | 3.9 | 9.4 |
| Merck | 7 | 0.5 | 2.6 | 12.7 | 9.6 | 3.7 | (1.4) | 1.6 | 5.5 | 0.4 | 3.2 | 7.4 |
| Biocon | 5 | 0.3 | (5.3) | 21.3 | 20.6 | 13.4 | 9.9 | 5.9 | (3.5) | (10.2) | (13.2) | (8.2) |
| Astrazeneca | 7 | 0.5 | 7.9 | 14.5 | 12.0 | 9.6 | 6.7 | 7.5 | 8.0 | 12.4 | 3.9 | (3.7) |
| JB Chemicals | 8 | 0.5 | 16.2 | 11.8 | 17.9 | 24.0 | 23.1 | 21.2 | 19.6 | 14.3 | 10.5 | 12.8 |

Performance of top therapies – Jul'20

| Therapy | MAT Jul- 20 Value (INR b) | Market Share (%) | Growth (%) | Last 8 Quarters in Growth (%) | | | | | | | | 1M |
|---------------------------------|---------------------------|------------------|------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | | Oct-18 | Jan-19 | Apr-19 | Jul-19 | Oct-19 | Jan-20 | Apr-20 | Jul-20 | Jul-20 |
| IPM | 1,424 | 100.0 | 5.0 | 10.8 | 10.0 | 10.0 | 9.0 | 8.7 | 10.1 | 3.4 | (2.0) | 0.2 |
| Anti-Infectives | 188 | 13.2 | 2.5 | 11.2 | 9.5 | 5.4 | (0.3) | 9.3 | 9.9 | 10.4 | 17.3 | 6.7 |
| Cardiac | 189 | 13.3 | 11.1 | 14.3 | 15.3 | 15.0 | 9.7 | 10.1 | 9.7 | 15.1 | 47.1 | 20.6 |
| Gastro Intestinal | 156 | 10.9 | 2.6 | 9.6 | 9.0 | 8.8 | 4.8 | 9.1 | 7.3 | 7.5 | 25.8 | 6.9 |
| Anti-Diabetic | 144 | 10.1 | 9.0 | 14.9 | 17.5 | 17.8 | 11.1 | 12.8 | 8.0 | 12.3 | 42.6 | 13.2 |
| Vitamins / Minerals / Nutrients | 122 | 8.6 | 4.5 | 11.6 | 8.8 | 8.6 | 6.1 | 9.6 | 8.6 | 8.2 | 31.6 | 15.2 |
| Respiratory | 110 | 7.7 | 10.0 | 12.6 | 8.8 | 4.4 | 0.8 | 7.7 | 13.4 | 17.2 | 35.5 | 16.6 |
| Pain / Analgesics | 94 | 6.6 | 2.3 | 10.1 | 8.2 | 10.4 | 4.9 | 10.3 | 9.5 | 7.3 | 20.5 | 3.7 |
| Derma | 95 | 6.7 | 1.4 | 17.9 | 13.3 | 11.3 | 3.9 | 6.4 | 6.8 | 4.6 | 25.1 | 8.8 |
| Neuro / CNS | 87 | 6.1 | 6.7 | 11.0 | 9.1 | 11.4 | 7.2 | 8.4 | 8.9 | 10.0 | 36.7 | 11.7 |
| Gynecological | 68 | 4.8 | (0.8) | 12.5 | 10.8 | 12.2 | 6.8 | 5.5 | 7.0 | 3.2 | 18.4 | 0.9 |
| Anti-Neoplastic | 29 | 2.0 | (2.1) | 8.9 | 10.4 | 16.3 | 6.9 | 5.7 | 5.4 | (2.7) | 18.6 | 0.8 |
| Ophthal / Otologicals | 24 | 1.7 | (2.6) | 10.9 | 8.4 | 8.7 | 8.5 | 7.8 | 7.4 | 2.4 | 10.1 | (7.5) |
| Hormones | 26 | 1.9 | 6.8 | 16.8 | 12.9 | 9.1 | 6.9 | 10.9 | 11.4 | 11.0 | 32.4 | 10.5 |
| Vaccines | 22 | 1.6 | 3.4 | (6.2) | (4.7) | (0.0) | 0.4 | 14.5 | 7.5 | 7.3 | 26.0 | 11.4 |

Source: AIOCD, MOFSL

IIP decline in Jun'20 lower than expected

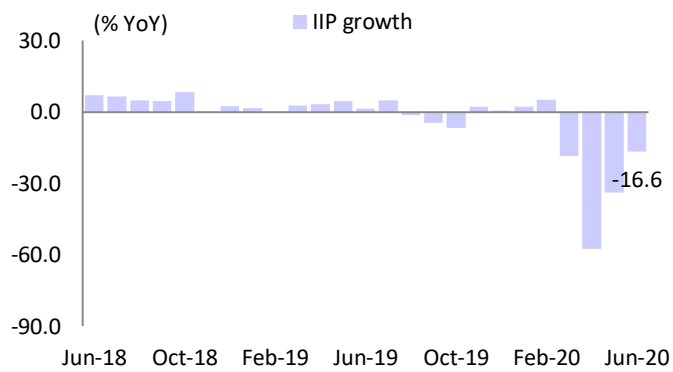
Expect 18–20% real GDP contraction in 1QFY21

- The Index of Industrial Production (IIP) contracted 16.6% YoY in Jun'20 (v/s our expectation of -23.2% and market consensus of -21%), against decline of 33.9% a month ago. With this, IIP declined 35.9% YoY in 1QFY21, marking the highest decrease in any quarter since the availability of IIP data. IIP numbers for Mar'20/May'20 have been revised to 18.7%/33.9% YoY currently from -18.3%/-34.7% earlier.
- Just as in the previous three months, IIP decline in Jun'20 was led by across-the-board contraction in all the major components. Manufacturing activity declined 17.1% YoY in Jun'20 (v/s -38.4% YoY a month ago), marking the slowest pace of contraction since the fallout from the COVID-19 pandemic began in Mar'20. Additionally, mining activity contracted 19.8% YoY (v/s -20.5% YoY in May'20) and power generation declined 10% YoY (v/s -14.9% a month ago) during the month.
- Notably, while most of the sub-industries within the Manufacturing segment continued to decline, pharmaceutical production (accounting for ~5% weight in the IIP index) grew at 34.6% YoY in Jun'20, the highest pace observed in 31 months. Moreover, tobacco production grew for the first time in five months by 4.5% YoY during the month.
- Among the use-based categories, while all segments recorded slower decline in Jun'20 compared with a month ago, IIP for consumer non-durables actually grew at a 27-month high of 14% YoY in Jun'20 v/s decline posted in the previous six months.
- While decline in Jun'20 IIP was slower vis-à-vis the previous three months, our monthly [EAI-GVA/GDP](#) suggests overall economic activity still saw massive decline. This was largely attributable to the partial lockdowns imposed by certain states in the wake of rising COVID-19 cases. Consequently, we expect real GDP to have declined 18–20% in 1QFY21. Moreover, as these lockdowns continued in many parts of India even in Jul'20 and the first few days of Aug'20, we believe industrial production and real GDP are not out of the woods yet.

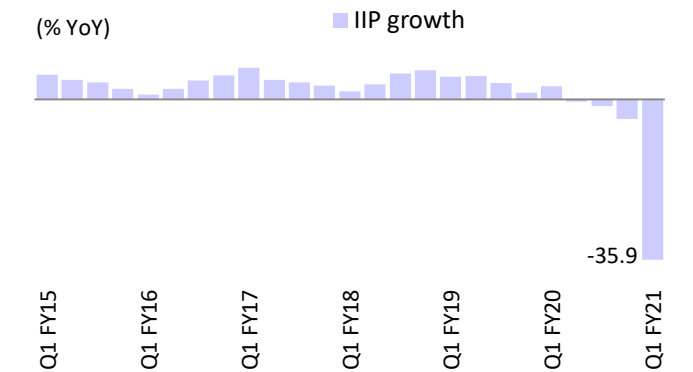
- **Fourth consecutive high double-digit IIP decline in Jun'20...:** Lower than both our expectation and market consensus of 23.2% and 21% YoY decline, respectively, IIP contracted 16.6% YoY in Jun'20 v/s decline of 33.9% a month ago (*Exhibit 1*). With this, IIP declined 35.9% YoY in 1QFY21, marking the highest decrease in any quarter since the availability of IIP data (*Exhibit 2*). Notably, IIP numbers for Mar'20 and May'20 have been revised marginally to 18.7%/33.9% YoY currently from -18.3%/-34.7% earlier.
- **...driven by across-the-board contraction:** Manufacturing activity declined by 17.1% YoY in Jun'20 (v/s decline of 38.4% YoY in May'20), marking the slowest pace of contraction since the fallout from COVID-19 began in Mar'20. Additionally, mining activity contracted 19.8% YoY (v/s -20.5% YoY in May'20) and power generation declined 10% YoY (v/s -14.9% a month ago) during the month (*Exhibit 3*). Consequently, manufacturing activity contracted 40.7%, mining 22.4%, and electricity generation 15.8% YoY in 1QFY21 (*Exhibit 4*).
- Within Manufacturing, growth in 15 sub-industries (accounting for 58% weight in the index) declined by 11.1% YoY in Jun'20 v/s decline of 29.2% YoY a month ago and growth of 4% a year ago. Notably, pharmaceutical production (accounting for ~5% weight in the IIP index) grew at 34.6% YoY in Jun'20, the highest pace observed in 31 months. Moreover, tobacco production grew for the first time in five months by 4.5% YoY during the month (*Exhibit 5*).

- Consumer non-durables production grows at highest pace in 27 months:** IIP for consumer non-durables grew at a 27-month high of 14% YoY in Jun'20 v/s decline posted in the previous six months. On the contrary, consumer durables continued to decline and fell by more than a third in Jun'20. Infrastructure and construction activity declined 21.3% YoY, and capital goods production fell 36.9% YoY in Jun'20. This was slower than the contraction of 40.7% and 65.2%, respectively, posted in these verticals in May'20. Moreover, primary/intermediate goods production also declined by 14.6%/25.1% in Jun'20 v/s decline of 19.7%/40.6% a month ago (*Exhibit 6*).
- Maintain our forecast of 18–20% decline in 1QFY21 real GDP:** While decline in Jun'20 IIP was slower v/s the previous three months, our monthly [EAI-GVA/GDP](#) suggests overall economic activity still saw massive decline. This was largely attributable to the partial lockdowns imposed by certain states in the wake of rising COVID-19 cases. Consequently, we expect real GDP to have declined 18–20% in 1QFY21. Moreover, as these lockdowns continued in many parts of India even in Jul'20 and the first few days of Aug'20, we believe industrial production and real GDP are not out of the woods yet.

IIP continued declining in Jun'20 ...

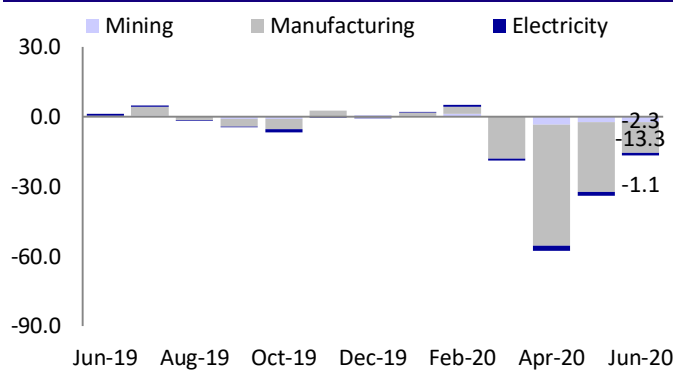


...leading to highest quarterly decline in 1QFY21

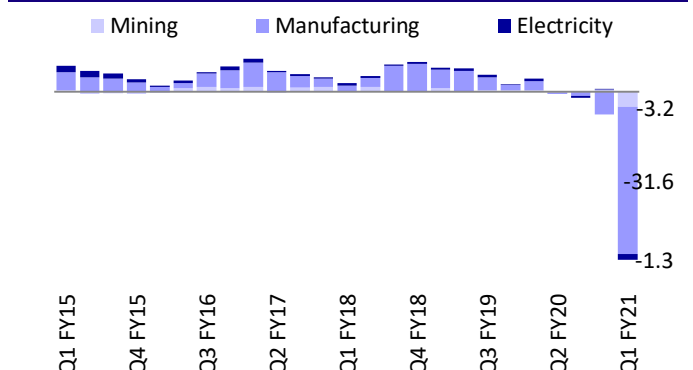


Source: Central Statistics Office (CSO), MOFSL

Decline was felt across the board...



...with the highest negative contribution from the Manufacturing sector



Source: CSO, MOFSL



M&M: REMAIN CONSISTENT ON CAPITAL ALLOCATION POLICY; STRONG IN SUVs, SCVS AND PICKUPS AND WILL FOCUS THERE; Pawan Goenka, MD & CEO

- Going to look at our businesses outside the core business a lot more prudently and look to get financial performance from these businesses in the short and medium term. In case they are strategically very important, we will give a longer rope and we have already made some very important announcements starting with SsangYong in April, GenZe in June and two days ago, we announced that we are not participating in the US Postal Services bit that we are working on for last two to three years.
- The auto segment has a potential that we cannot let go and we have to work on it. In the auto business, new products are coming up. We have electric vehicle investment happening. We do not need any capacity enhancement for a few years to come because everybody in the industry has enough capacity. But as far as products are concerned including electric vehicles, we will continue to support the auto business in terms of capital allocation.
- Have strength in SUVs and small commercial vehicles and pickups and these are the segments we would perhaps focus on, bringing in many more products. In pickups, for example we have increased our market share to almost 70% in the quarter gone by. In small commercial vehicles, we are increasing our market share.
- Tractors is a sector where we are strong and which appears to be growing very well going forward. We are spending significant amounts of resources in developing global products and a product that we have code named K2. We expect to bring out that product in about two years from now and that should be a significant revolution in terms of the kind of product portfolio that we have in Mahindra.
- In the last two months, a lot of things have changed and mostly for the better for the rural economy and the agri sector.
- In the April-May-June quarter, the government spending in rural economy, agri economy was almost double of what it was last year in the same quarter. That certainly brings in more money in the economy and therefore it has a cascading effect. Obviously, the rabi crop has been very good, the revenue for the farmers is about 12-13% higher than last year.

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RBI MAY DO WELL TO LISTEN TO CALLS FOR BOLD REFORMS

- The Reserve Bank of India (RBI) wears multiple hats - country's central banker, regulator of lending activities, upholder of fiscal stability, inflation controller, manager of foreign exchange reserves of the country. It's only shareholder being the Government of India, RBI also balances the conflict of interest of being a buyer of its promoter's debt papers, as well as giving the right-sized annual dividend payout to its shareholder. In a stormy market, it's additional role becomes being the lender of last-resort. Last week's MPC of the RBI, decided to keep the repo / reverse repo rates unchanged. The fiscal regulator also announced the philosophy of one-time restructuring of loans without any penal clauses and with a softer provisioning for the lenders. Clearly, the regulator intends tightened monitoring of such loans and is making the lenders actually do their role of credit assessment regularly. Aptly to head this task, it has also brought in a veteran banker who has experience in handling industries/individuals /institutions/nations. The deadline for this restructuring is 31 December. While markets might rejoice in a hurry, the actual situation of lenders' balance sheet would be known in Q4 of this fiscal, as they complete the one-time restructuring and provide for all additional losses, if any more. Of course the markets have to factor in that in such unprecedented economic crisis, there will be some hits and some misses in the policy direction. The way the domestic equities market has been running up, despite the gloomy financials across most sectors, it is anyone's guess why it is reacting at all ! It would be anyone's guess how it would react if the restructuring plans alone don't give relief to the lenders by Q4 of this fiscal. What probably makes the RBI's decisioning tougher is that it's everyone's guess if the credit demand would pick up (even if the repo rate drops drastically) or if banks will start lending across sectors (even if reverse repo rate is cut drastically). On the supply side, the past few months of reducing reverse repo rate has not discouraged banks from keeping surplus liquidity or with RBI, rather than lend.

[➔ Read More](#)

| Investment Rating | Expected return (over 12-month) |
|-------------------|--|
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | > - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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