Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,033	-1.8	-12.7
Nifty-50	10,607	-1.8	-12.8
Nifty-M 100	15,052	-1.1	-12.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,198	1.3	-1.0
Nasdaq	10,489	0.9	16.9
FTSE 100	6,180	0.1	-18.1
DAX	12,697	-0.8	-4.2
Hang Seng	10,405	-1.6	-6.8
Nikkei 225	22,587	-0.9	-4.5
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	2.5	-35.2
Gold ($/OZ)	1,809	0.4	19.3
Cu (US$/MT)	6,496	-1.3	5.6
Almn (US$/MT)	1,654	-0.1	-7.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.4	0.3	5.7
USD/EUR	1.1	0.5	1.7
USD/JPY	107.2	0.0	-1.3
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	0.04	-0.7
10 Yrs AAA Corp	6.7	0.04	-0.9
Flows (USD b)	**14-Jul**	**MTD**	**CYTD**
FIIs	-0.21	-0.47	-2.71
DIIs	-0.09	0.17	12.12
Volumes (INRb)	**14-Jul**	**MTD***	**CYTD***
Cash	573	585	516
F&O	15,103	17,269	14,857

Note: *Average

Today's top research idea

Wipro: Dark horse, this time?

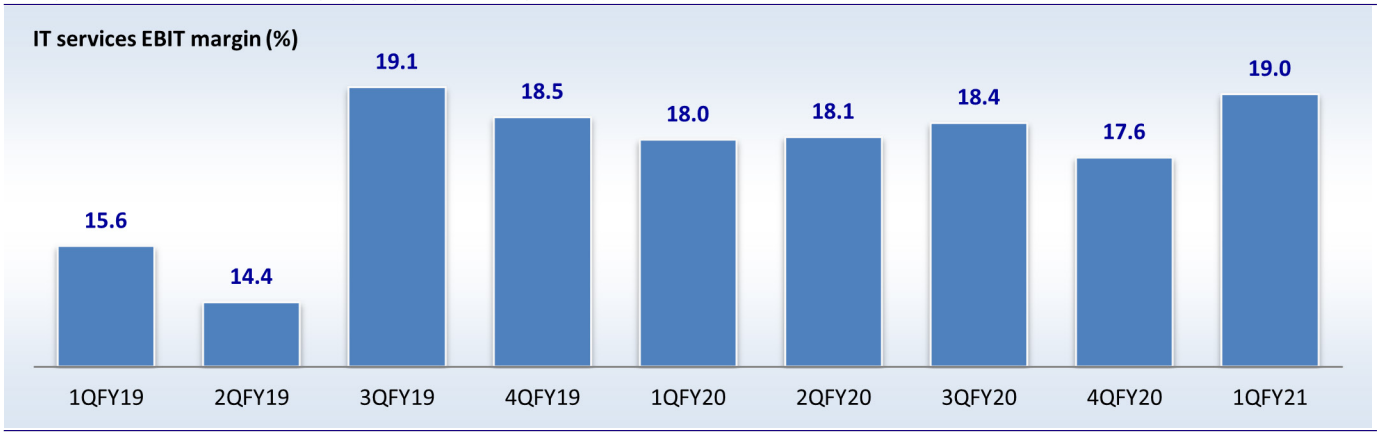
- Over the past few years, Wipro has underperformed Tier-I companies on growth, partly due to higher exposure to verticals facing challenges (e.g. Healthcare and ENU). Additionally, changes at the company level (e.g. restructuring in India/the Middle East, etc.) have further constrained growth. However, we expect scope of recovery in some verticals such as Health BU.
- Despite the COVID-19 impact, margin resilience/cash generation was impressive this quarter. Management's outlook of maintaining margins within a narrow band (v/s Jun'20) should result in strong EPS consensus upgrade.
- We believe Wipro is a good re-rating candidate due to (a) upside of a turnaround under the new CEO, (b) possibility of an impending buy back, and (c) relatively attractive valuations (v/s TCS and Infosys, 13x 1-year forward P/E).
- Before turning constructive on the stock, we await a refresh of the company's strategy and further evidence related to execution. Maintain Neutral.

Research covered

Cos/Sector	Key Highlights
Wipro	Dark horse, this time?
Mindtree	Beat on margins; Stable outlook
HDFC Standard Life Insurance	Non-PAR, Protection to drive business growth
Oberoi Reality	COVID-19 led disruption dents performance
Telecom	Industry loses gross subscribers; Glimpse of COVID-19 lockdown
EcoScope	Third month of WPI deflation in Jun'20

Chart of the Day: Wipro (Dark horse, this time?)

Company's outlook on managing margin stability is impressive



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Karnataka exempts 38 categories of industries from lockdown to keep economic activity ticking

The Karnataka government has exempted at least 38 categories of industries to function during the week-long lockdown to help find a balance between the looming health and economic crisis staring the state and its growth capital…

2

Uttar Pradesh seeks Rs 20,940 crore loan to clear power bills

Uttar Pradesh power distribution utility has sought Rs 20,940 crore loan from REC Ltd and Power Finance Corp (PFC) under the Atmanirbhar Bharat liquidity infusion package in the power sector. This is the largest loan application made so far by any state distribution company under the scheme. Tamil Nadu has asked the Centre to relax borrowing cap and has shown intent to borrow about Rs 20,622 crore.

3

National Company Law Appellate Tribunal orders Airtel to pay Rs 112 crore to Aircel

An appellate court has ordered asked Bharti Airtel to pay Rs 112 crore to Aircel, overturning an earlier tribunal order, giving a financial boost to the bankrupt telco which is about to exit insolvency proceedings. "...we allow the present appeal and set aside the order dated 01.05.2019 passed by NCLT,..

4

Complete lockdown in Bihar from 16-31 July

In the wake of increasing number of coronavirus cases, total lockdown will be imposed in Bihar from 16 to 31 July, said Bihar Deputy Chief Minister Sushil Kumar Modi on Tuesday. "There is no medicine or vaccine for corona. We have to ensure that we cover our faces with masks, handkerchiefs or towels," he said…

5

Lupin shuts manufacturing drug plant after 17 staff test positive for Covid-19

Drugmaker Lupin Ltd has shut one of its manufacturing plants in Gujarat after at least 17 employees at the site tested positive for COVID-19, two government officials said on Tuesday. Lupin, one of India's top five drugmakers, did not immediately respond to requests for comment. The company has some 11 manufacturing plants at the Ankleshwar site in Gujarat state, which is spread out over 40 acres and has 984 employees, according to the company website…

6

Wipro to acquire Brazil's IVIA Serviços de Informática Ltda for about Rs 169 crore

IT major Wipro on Tuesday said it has signed an agreement to acquire Brazil-based IVIA Servicos de Informatica Ltda for about USD 22.4 million (about Rs 169 crore). IVIA's local talent and long-standing relationships, combined with Wipro's global expertise…

7

Vanguard to partner with Infosys for digital transformation, transfer 1300 staff

American investment management company Vanguard said it would partner with Infosys to digitally transform the company's operations. The US-headquartered company said the partnership would deliver a technology-driven approach…

Wipro

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	1286 / 17.2
52-Week Range (INR)	276 / 160
1, 6, 12 Rel. Per (%)	2/2/-6
12M Avg Val (INR M)	1198

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	613	608	644
EBIT Margin (%)	17.1	18.0	18.5
PAT	98	98	106
EPS (INR)	16.6	17.3	18.7
EPS Gr. (%)	8.5	3.8	8.5
BV/Sh. (INR)	97.9	113.8	129.1
Ratios			
RoE (%)	17.53	16.1	15.2
RoCE (%)	12.8	11.5	11.2
Payout (%)	7.0	13.6	18.7
Valuations			
P/E (x)	13.5	13.0	12.0
P/BV (x)	2.3	2.0	1.7
EV/EBITDA (x)	8.2	7.0	5.8
Div Yield (%)	0.54	0.9	1.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	74.0	74.0	73.9
DII	7.0	7.0	6.5
FII	8.9	8.9	9.4
Others	10.1	10.1	10.3

FII Includes depository receipts

CMP: INR225 TP: INR257 (+14%) Neutral

Dark horse, this time?

Multiple factors in favor

- Wipro's ability to control costs and collections justifies the improvement in EBIT margin/cash conversion, despite the sharp drop in revenue. While full impact of the COVID-19 pandemic on pricing and Working Capital (WC) cycle is yet to play out, Wipro's outlook on managing margin stability (v/s Jun'20) and healthy cash conversions are impressive.
- In the current context, some of the verticals (Health BU) – earlier an overhang – should recover. Additionally, other factors in favor are playing out, such as (a) upside of a turnaround under a new CEO/strategy, and (b) possibility of large capital return.
- We upgrade our FY21/FY22E EPS by 6%-12%, largely led by margin surprise. Before turning constructively positive on the stock, we await a refresh of the company's strategy and further evidence related to execution. Maintain **Neutral**.

Revenues in line; Margins – a surprise

- Wipro reported revenue (USD)/EBIT/PAT growth of -6%/7%/0.1% YoY.
- While revenue decline in Americas was largely in line with overall revenue decline (4.4% YoY, CC), Europe remained a drag (-7.7% YoY, CC).
- While other verticals were reasonably resilient, Communications (~17% YoY, CC) and BFSI (~7% YoY, CC) witnessed the biggest drop in revenue.
- Unlike TCS and Accenture, we do not believe Wipro's Healthcare vertical (14% of revenue) has benefited much on account of COVID-19.
- EBIT margin of IT services segment was a surprise (19%, 300bp higher). Sequentially, margin expansion was driven by (a) operational efficiencies and cost control (+100bp), and (b) favorable currency (+100bp). Part of this was offset by the increase in provision for doubtful debts (-50bp impact).
- Sub-contracting rationalization led to ~200bp improvement in net utilization.
- FCF generation during the quarter remained healthy (158% of net income).

Focus on profitable growth; Confident outlook on margins

- Wipro's new CEO has indicated that the company's focus is on profitable growth.
- On YoY basis, order book is looking better. Deal pipeline is also stated to be healthy. As the company enters 2QFY21, deal activity is expected in Consumer, Technology and Communications while it remains cautious in other verticals.
- In BFSI, there is good demand around RTB and cost optimization spends.
- Thought visibility has improved slightly (v/s Mar'20), management has refrained from providing guidance.
- Near-term focus is on tightly controlling incremental spends. The company has hinted at maintaining IT services' margins in a narrow band (v/s Jun'20).

Valuation and view – All set for multiple re-rating?

- Over the past few years, Wipro has underperformed Tier-I companies on growth, partly due to higher exposure to verticals facing challenges (e.g. Healthcare and ENU). Additionally, changes at the company level (e.g. restructuring in India/the Middle East, etc.) have further constrained growth. However, we expect scope of recovery in some verticals (e.g. Health BU).
- Despite the COVID-19 impact, margin resilience/cash generation was impressive this quarter. Management's outlook of maintaining margins within a narrow band (v/s Jun'20) should result in strong EPS consensus upgrade.
- We believe Wipro is a good re-rating candidate due to the (a) upside of a turnaround under the new CEO, (b) possibility of an impending buy back, and (c) relatively attractive valuations (v/s TCS and Infosys, 13x 1-year forward P/E).
- Before turning constructive on the stock, we await a refresh of the company's strategy and further evidence related to execution. Maintain **Neutral**.

Quarterly Perf. (IFRS) (INR b)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	(%/bp)
IT Services Rev. (USD m)	**2,039**	**2,049**	**2,095**	**2,074**	**1,922**	**1,922**	**1,950**	**1,970**	**8,256**	**7,764**	**1,926**	**-0.2**
QoQ (%)	-1.8	0.5	2.2	-1.0	-7.3	0.0	1.5	1.0	1.7	-6.0	-7.1	-21bp
Overall Revenue (INR b)	**148**	**152**	**155**	**158**	**150**	**151**	**153**	**154**	**613**	**608**	**151**	**-0.4**
QoQ (%)	-1.6	2.6	2.4	1.7	-4.9	0.5	1.0	1.2			-4.5	-41bp
YoY (%)	5.3	3.6	2.6	5.1	1.6	-0.5	-1.9	-2.4	4.1	-0.8	2.0	-44bp
GPM (%)	**29.6**	**28.9**	**29.4**	**27.8**	**31.0**	**30.9**	**31.1**	**31.0**	**28.9**	**31.0**	**27.7**	**328bp**
SGA (%)	12.9	11.3	11.9	11.4	13.2	12.3	12.9	12.9	11.9	13.0	12.1	105bp
EBITDA	**30**	**31**	**33**	**32**	**33**	**34**	**33**	**34**	**126**	**134**	**29**	**15.0**
EBITDA Margin (%)	**20.0**	**20.7**	**20.9**	**20.4**	**21.9**	**22.3**	**21.9**	**22.2**	**20.5**	**22.1**	**19.0**	**295bp**
IT Serv. EBIT (%)	18.0	18.1	18.4	17.6	19.0	19.0	18.5	18.5	18.0	18.7	16.0	300bp
EBIT Margin (%)	16.7	17.6	17.5	16.7	17.9	18.3	17.8	18.1	17.1	18.0	15.3	253bp
Other income	6	5	4	3	4	4	4	4	18	16	4	-2.7
ETR (%)	21.8	18.3	20.0	20.9	22.1	22.1	22.1	22.1	20.2	22.1	20.9	117bp
PAT	**24**	**26**	**25**	**23**	**24**	**25**	**24**	**25**	**97**	**97**	**22**	**11.4**
QoQ (%)	-9.4	6.6	-3.8	-4.8	2.8	2.5	-1.7	2.6			-7.7	1054bp
YoY (%)	14.4	36.0	-3.2	-6.0	0.4	-3.5	-1.4	6.3	5.3	0.0	-9.9	1029bp
EPS (INR)	4.0	4.3	4.3	4.1	4.2	4.4	4.3	4.4	16.6	17.3	3.8	9.5

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	-0.7	1.1	1.8	0.4	-7.5				3.9	
Margins										
Gross Margin	29.6	28.9	29.4	27.8	31.0	30.9	31.1	31.0	28.9	31.0
EBIT Margin	16.7	17.6	17.5	16.7	17.9	18.3	17.8	18.1	17.1	18.0
Net Margin	16.1	16.8	15.8	14.7	15.9	16.5	16.1	16.3	15.8	16.0
Operating metrics										
Headcount	1,74,850	1,81,453	1,87,318	1,82,886	1,81,804				1,82,886	
Attrition (%)	17.6	17.0	15.7	14.7	13.0				14.7	
Utilization	82.8	79.9	78.5	82.4	84.5				80.9	
Key Verticals (YoY CC %)										
BFSI	11.2	5.9	1	-1.3	-6.9				4	
Retail	7.7	6.1	12.1	6.4	-2.5				8.1	
Key Geographies (YoY CC%)										
North America	11.2	9.4	7.2	3.1	-4.4				7.6	
Europe	0.0	-2.7	-4.3	1.9	-7.7				-1.3	

Mindtree

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	160.9 / 2.2
52-Week Range (INR)	1062 / 653
1, 6, 12 Rel. Per (%)	0/27/37
12M Avg Val (INR M)	871

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	77.6	79.5	92.0
EBIT Margin (%)	10.5	15.2	15.8
PAT	6.3	9.5	11.2
EPS (INR)	38.3	57.4	68.0
EPS Gr. (%)	(16.4)	49.8	18.3
BV/Sh. (INR)	192	234	278
Ratios			
RoE (%)	20.0	24.6	24.4
RoCE (%)	32.0	20.8	21.3
Payout (%)	33.9	31.3	29.4
Valuations			
P/E (x)	25.4	16.9	14.3
P/BV (x)	5.1	4.2	3.5
EV/EBITDA (x)	14.1	10.2	8.3
Div Yield (%)	1.3	1.8	2.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	74.1	73.6	13.3
DII	5.8	6.2	11.5
FII	11.9	10.5	39.3
Others	8.3	9.7	35.9

FII Includes depository receipts

CMP: INR978 TP: INR1,160 (+19%) Buy

Beat on margins; Stable outlook

Top client exposure warrants closer watch

- Mindtree's revenue, excluding for the top account, plunged (~16% QoQ), largely weighed by Travel, Transportation, and Hospitality (-55% QoQ). Despite the nosedive in revenue (-9% QoQ), the EBIT margin remained resilient, aided by operational efficiencies and favorable currency. While the deal win run-rate was maintained (QoQ), the mix was more skewed toward renewals (~80%). The top account / overall outlook remained positive/stable.
- We upgrade our EPS estimate by 12–13% on a stronger-than-expected margin trajectory. While the top client has been driving strong growth in the recent past, we remain cognizant of increasing concentration risk. Additionally, we are watchful of the potential insolvencies of some clients within the Travel, Transportation, and Hospitality vertical. Retain BUY.

Portfolio declines sharply, excl. top client

- Mindtree reported revenue (USD)/Adj. EBIT/PAT growth of -4%/75%/130% YoY.
- The company reported yet another quarter of strong performance from the top account (Microsoft, +10% QoQ and +44% YoY). With the exception of this account, the remaining portfolio saw steep decline (16% QoQ; 16% YoY).
- While the top account now contributes ~30% to revenue, the Hi-Tech and Media vertical accounts for half of the overall revenue.
- Along expected lines, the sharp decline in revenue was largely attributed to the Travel, Transportation, and Hospitality vertical (-55% QoQ). BFSI and Retail witnessed high single digit decline.
- Across geographies, even as revenue decline in the US was relatively low, Europe/APAC also reported a sharp contraction in revenues.
- The share of revenue from fixed-price projects saw a material increase (~830bp QoQ to ~67% of revenue), largely reflecting the strategic focus on chasing long-term annuity deals.
- Tight control on cost more than offset the margin impact from a drop in the revenue run-rate. Adjusted for the differential accounting treatment of forex loss and the PM CARES fund contribution, the company reported marginal expansion (~30bp QoQ) in the EBIT margin.
- Utilization fell marginally v/s Mar'20 (100bp to 77.4%).
- Cash conversion was healthy during the quarter. DSO remained largely stable (67 days v/s 66 days in the previous quarter).
- Deal signings were maintained at the Mar'20 run-rate (~USD391m). However, deal signings in Jun'20 were largely skewed toward renewals (~80%), unlike in Mar'20, when the company reported a healthy mix of renewals (52%) and new deals (48%). On a YoY basis, deal signings still improved ~21%.

Key highlights from management commentary

- Management indicated the worst impact of COVID-19 was largely behind. It hinted that 2QFY21 should be better than 1QFY21.

- Within the top account, Mindtree indicated it is well-diversified across areas such as analytics, networks, customer/tech support, and marketing operations. Additionally, it now has decent exposure to annuity/project-based work in the account.
- Verticals such as CMT and CPG are witnessing good traction in terms of the deal pipeline. However, deal closures have been slower. The company expects continued softness in Travel, Transportation, and Hospitality.
- Management indicated it does not foresee any material margin headwinds.
- While promotions were extended to eligible candidates, the company is yet to reach a decision on salary hikes for the year.

Valuation and view – Rich multiples are justified

- Since Jul'19, post the disruption pertaining to ownership change, Mindtree has been undertaking encouraging steps toward achieving stability in both its client and employee count. Jun'20 margin performance, despite COVID-19, has reiterated its ability to adapt to a disruptive situation quickly.
- The strategy change to increase focus on annuity revenue and tail account rationalization is already reflecting in the revenue and client mix. The share of revenue from fixed-price contracts showed a meaningful increase in 1QFY21 (~830bp QoQ to ~67% of revenue).
- High exposure to Travel, Transport, and Hospitality resulted in a sharp drop in revenue in 1QFY21. However, (1) a continued robust outlook for the top account, (2) decent deal signings, and (3) strong margin execution are key positives.
- The stock is currently trading at 17x on depressed FY21E EPS. We value the stock at 17x FY22E EPS. Rich parentage and industry-leading growth/ROCE (~30%+ in steady state) should defend the premium multiple across Tier II.
- Increasing client concentration and potential insolvencies in some airlines / hospitality companies on account of the COVID-19 disruption are key risks to watch out for.

Quarterly Performance (INR Million)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var. (%
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	/ bp)
Revenue (USD m)	**264**	**271**	**275**	**278**	**253**	**257**	**265**	**274**	**1,089**	**1,049**	**256**	**-1.2**
QoQ (%)	0.9	2.6	1.5	1.2	-9.0	1.5	3.0	3.5	8.7	-3.7	-7.9	-111bp
Revenue (INR m)	**18,342**	**19,143**	**19,653**	**20,505**	**19,088**	**19,528**	**20,113**	**20,818**	**77,643**	**79,547**	**19,480**	**-2.0**
YoY (%)	11.9	9.1	10.0	11.5	4.1	2.0	2.3	1.5	10.6	2.5	6.2	-214bp
GPM (%)	**28.0**	**30.2**	**32.7**	**33.6**	**29.9**	**30.9**	**31.1**	**31.1**	**31.2**	**30.8**	**33.7**	**-375bp**
SGA (%)	21.6	21.0	20.6	19.8	14.8	15.9	15.8	15.8	20.7	15.6	20.0	-515bp
Adj. EBITDA (INR M)	**2,318**	**2,482**	**3,063**	**3,712**	**3,478**	**3,515**	**3,681**	**3,810**	**11,098**	**14,483**	**3,312**	**5.0**
EBITDA Margin (%)	12.6	13.0	15.6	18.1	18.2	18.0	18.3	18.3	14.0	18.2	17.0	122bp
Adj. EBIT (INR M)	**1,649**	**1,775**	**2,364**	**3,033**	**2,881**	**2,929**	**3,077**	**3,185**	**8,344**	**12,073**	**2,667**	**8.0**
EBIT Margin (%)	9.0	9.3	12.0	14.8	15.1	15.0	15.3	15.3	10.5	15.2	13.7	140bp
Other income	220	197	348	-92	148	300	325	350	673	1,123	150	-1.3
ETR (%)	26.5	26.4	23.6	21.1	26.5	25.0	25.0	25.0	23.9	25.3	26.0	50bp
Adj. PAT	**927**	**1,350**	**1,970**	**2,062**	**2,130**	**2,324**	**2,453**	**2,553**	**6,309**	**9,460**	**1,985**	**7.3**
YoY (%)	-41.4	-34.6	3.0	3.9	129.8	72.1	24.5	23.8	-16.3	49.9	114.1	1563bp
EPS (INR)	**5.6**	**8.2**	**12.0**	**12.5**	**12.9**	**14.1**	**14.9**	**15.5**	**38.3**	**57.4**	**12.1**	7.3

HDFC Standard Life Insurance

BSE SENSEX	S&P CNX
36,033	10,607

Bloomberg	HDFCLIFE IN
Equity Shares (m)	2,014
M.Cap.(INRb)/(USDb)	1207.5 / 16.1
52-Week Range (INR)	646 / 339
1, 6, 12 Rel. Per (%)	12/11/31
12M Avg Val (INR M)	3182
Free float (%)	36.3

Financials & Valuations (INR b)

Y/E MARCH	FY20	FY21E	FY22E
Net Premiums	322.2	343.0	401.9
Surplus / Deficit	9.7	11.4	14.4
Sh. PAT	13.0	12.7	15.5
NBP gr- unwtd (%)	15.1	5.0	18.0
NBP gr - APE (%)	18.4	5.1	19.3
Premium gr (%)	12.1	6.0	17.2
VNB margin (%)	25.9	25.8	26.9
RoE (%)	20.8	17.7	19.2
RoEV (%)	12.9	19.8	14.8
Total AUMs (INRt)	1.3	1.5	1.9
VNB (INRb)	19.2	19.4	24.2
EV per share	102.4	122.7	140.9
Valuations			
P/EV (x)	5.9	4.9	4.3
P/EPS (x)	93.5	95.7	78.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	63.7	66.2	76.1
DII	6.1	5.0	3.4
FII	21.1	20.0	10.6
Others	9.1	8.9	9.9

FII Includes depository receipts

CMP: INR598 TP: INR575 (-4%) Neutral

Non-PAR, Protection to drive business growth

Risk retained in the Individual business reduced to 33% vs 37% last year

- **HDFC Life's Annual Report reaffirms our view that it would continue to focus on maintaining a balanced product mix across the Savings and Protection businesses, with an emphasis on product innovation / superior customer service.**
- **In the near term, there continues to be a higher focus on the Protection and Non-PAR segments as they are relatively simpler products to transact through the Digital channel. The Annuity business is also gaining momentum; thus, its share has improved to ~16% of new business premium (NBP). This would enable steady growth in value of new business (VNB) margins.**
- **Improvement in persistency, led by a focus on better quality business, the leveraging of technological capabilities, and need-based selling resulted in surrenders declining to ~35% in FY20 from ~76% in FY15.**
- **Furthermore, the Agency channel delivered 13th month persistency at 91% v/s 85% in Banca, reflecting the distribution strength the company has built.**
- **The percentage of risk retained in the Individual business reduced to 33% v/s 37% in FY19, and risk retained in the Group business to 79% v/s 86% in FY19.**
- **Investments in technology have positively impacted, with policy issuance TAT having reduced to <4 hours from 2 days earlier; ~77% of new business policies are auto-underwritten.**
- **Overall, we believe HDFCLIFE would continue to deliver better business growth than peers, led by product innovation. Overall, we estimate the VNB margin to gradually improve to ~27% by FY22E (25.9% in FY20), while the operating RoEV would remain steady at ~19%. HDFCLIFE currently trades at rich valuations and thus offers limited upside, in our view. We value the stock at INR575, corresponding to 4.1x FY22 EV. Maintain Neutral.**

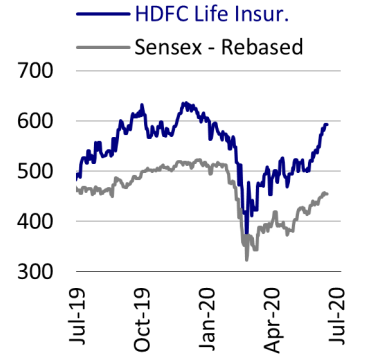
New business premium led by Protection, Non-PAR Savings

HDFC Life has increased focus on the Protection and Non-PAR segments; the Non-PAR Savings business grew at ~220% YoY and the Protection business at 15% YoY. The Annuity business is gaining momentum; thus, its share has improved to ~16% of NBP (4% of the total individual APE). The share of Protection has improved to ~17.2% of the total APE. Furthermore, growth in new business premiums, led by the Group Savings business, increased at 25% YoY. We believe HDFCLIFE continues to focus on product innovation – the key to driving business growth.

Persistency improves across cohorts; higher persistency in Agency v/s Banca

HDFC Life reported improvement in persistency, led by a focus on better quality business, the leveraging of technological capabilities, and need-based selling, resulting in surrenders declining to ~35% in FY20 from ~76% in FY15. As a result, 13th/61st month persistency improved to 90%/55% (v/s 87%/52% last year). In terms of distribution, the Agency channel delivered 13th month persistency at 91% v/s 85% in Banca. Renewal premium in the Non-PAR segment increased 33% YoY, and that in the ULIP segment grew at 10% YoY.

Stock Performance (1-year)



Overall, renewal premium growth came in at 9% YoY, impacted by the COVID-19 crisis, as customers are preferring to conserve their cash to maintain high liquidity. In the current environment, **we expect persistency to decline in ULIP, while remain strong in Protection.**

Surrenders, withdrawals consistently decline, while maturity payouts increased

Surrenders and withdrawals together as a percentage of total benefit payouts declined to ~48% in FY20, from ~64% in FY18, weighed by management focus on need-based selling. On the other hand, maturity payouts have increased primarily owing to a higher Protection business written over the last few years.

Strong distribution network; Proprietary channels gaining momentum

HDFC Life has continued to grow its distribution reach via several new tie-ups and partnerships, comprising over 270+ partners, 421 branches, and ~108k agent networks. It is currently focusing on improving its Proprietary channels; the Agency and Direct channels in particular witnessed combined growth of 32% YoY. However, Bancassurance contributes 55% to the total individual APE.

Risk retained in Individual business declines to ~33% in FY20

The increasing proportion of the Protection business across the Individual and Group segments has contributed to an increase in re-insurance ceded over the past few years. Thus, re-insurance premium ceded increased at 85% YoY to INR4.8b. The risk retained in the Individual business reduced to 33% v/s 37% in FY19, while in the Group business, it reduced to 79% v/s 86% in FY19.

Strong focus on digital initiatives

Digitalization remains a key theme, and the company has launched various new innovative products, such as the recent bundled life insurance product with pre-paid mobile recharge, etc. Investments in technology have positively impacted key operating metrics, with TAT having reduced significantly. The policy issuance TAT has dropped to <4 hours from 2 days earlier; ~77% of new business policies are auto-underwritten. Furthermore, nearly ~14% of the Protection business is underwritten through tele-medicals.

Higher MTM loss leads to negative investment income in ULIP; Raising tier-II bonds to improve solvency ratio

A plunge in the equity markets on account of COVID-19 led to MTM loss in the ULIP segment, thus resulting in loss on INR82.2b. On the other hand, income from investments other than in the ULIP segment increased 26% YoY to INR53.5b. Thus, overall, net loss on the investment portfolio stands at INR28.7b. The company has taken the board's approval to raise tier-II bonds of INR6b, primarily to maintain a high solvency ratio and continue growing strongly in the Protection segment as capital consumption in the business is higher than in the Savings business.

Valuation and view

HDFCLIFE would continue to focus on maintaining a balanced product mix across the Savings and Protection businesses, with emphasis on product innovation / superior customer service. VNB margins have moderated over the past few quarters, and we estimate these to gradually improve to ~27% by FY22E (25.9% in FY20). However, persistency trends are likely to moderate, especially in the ULIP segment, while these would remain strong in the Protection segment. On the other hand, operating RoEV should remain steady at ~19%. HDFCLIFE currently trades at rich valuations and thus offers limited upside, in our view. We value the stock at INR575, corresponding to 4.1x FY22 EV. Maintain Neutral.

Oberoi Realty

BSE SENSEX	S&P CNX
36,033	10,607

Conference Call Details

Date: 15th July 2020
Time: 4:00pm IST
Dial-in details:
+91 22 6280 1244
Concall invite Link

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	22.4	18.2	21.7
EBITDA	10.5	7.2	8.5
EBITDA Margin (%)	46.8	39.3	39.2
Adj PAT	6.9	4.7	6.6
EPS (Rs)	19.0	13.0	18.2
EPS Growth (%)	-15.6	-31.4	40.0
BV/Share (Rs)	238	250	266
Ratios			
Net D:E	0.1	0.2	0.3
RoE (%)	8.3	5.3	7.1
RoCE (%)	7.4	4.6	5.3
Valuations			
P/E (x)	16.4	23.9	17.1
P/BV (x)	1.3	1.2	1.2
EV/EBITDA (x)	11.7	18.6	17.0
EV/Sales (x)	5.5	7.3	6.7

CMP: INR369 — Buy

COVID-19 led disruption dents performance

Operational highlights for 4QFY20

- **Residential Segment:** volume declined 12.2% YoY to 0.13msf (-18% QoQ) impacted by lower booking at Esquire and Three sixty west. However, Eternia saw strong booking (up 1.2x) at 0.02msf. Booking value declined by 28% YoY to INR2,303m in 4QFY20. Collections in 4QFY20 was flat YoY at INR4024m.
- **Commercial segment:** Revenue/EBITDA remained flat YoY to INR898m/INR862m with EBITDA margin contraction of 20bp to 96.0%.
- **Hospitality segment**: Revenue/EBITDA declined 20%/36% YoY to INR302m/INR96m with EBITDA margin contraction of 820bp to 32.0%.

Financial highlights of 4QFY20 results

- 4QFY20 revenue was up 7.3% YoY to INR6,155m (v/s est. INR6,556m).
- EBITDA was up 76.7% to INR3,705m (v/s est. INR2,821m). EBITDA margins expanded 2,365bp to 60.2% (v/s est. 43.0%).
- PBT grew 60% YoY to INR3,494m (v/s est. INR2,570m).
- Adj. PAT increased 61% YoY to INR2,510m (v/s est. INR1,914m).
- Net debt stood at INR10.4b with net debt to equity at 0.12x.
- For FY20, revenue/EBITDA/Adj. PAT declined 13%/9%/16% YoY to INR22.4b/INR10.5b/INR6.9b. EBITDA margin expanded 210bp to 46.9%.
- On capital raise plans: Company is planning to raise INR35b of capital via combination of Equity (INR20b) and NCD (INR15b)

Operational highlights for 1QFY21

- **Residential Segment:** Pre-sales volume declined significantly by 95% YoY to 0.012msf (-90% QoQ) impacted by lockdown on account of COVID-19. Booking value declined 94% YoY to INR241. Collection declined 79% YoY to INR853m.
- **Commercial segment:** Revenue/EBITDA declined 45%/44% YoY to INR517m/INR497m with EBITDA margin expansion of 45bp to 96.3%. Leasing revenue was largely impacted by closure of Oberoi mall due to lockdown.
- **Hospitality segment**: Revenue declined significantly by 91% YoY to INR30m EBITDA level loss of INR44m.
- **On Hospitality and retail business**: On account of countrywide lockdown (a) the operations of Oberoi Mall and Westin were severely impacted and the company has not recognized the revenue from the mall for 1QFY21.

Financial highlights of 1QFY21 results

- 1QFY21 revenue was down 80.4% YoY to INR1,180m (v/s est. INR4,049m).
- EBITDA declined 75.4% YoY to INR579m (v/s est. INR1,518m). However, EBITDA margins expanded 1,010bp to 49.1% (v/s est. 37.5%).
- PBT declined 82% YoY to INR383m (v/s est. 1,313m).
- Adj. PAT declined 82% YoY to INR281m (v/s est. INR979m).

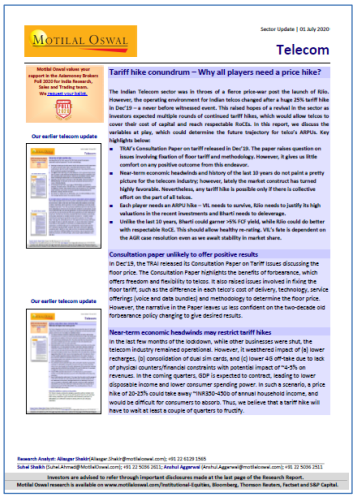
Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**6,033**	**4,915**	**5,274**	**6,155**	**1,180**	**4,056**	**4,848**	**5,246**	**22,376**	**15,330**	**4,049**	-71%
YoY Change (%)	-32.1	-17.0	-0.2	7.3	-80.4	-17.5	-8.1	-14.8	-13.4	-31.5	-32.9	
Total Expenditure	3,680	2,786	2,975	2,450	601	2,488	2,929	3,100	11,891	9,118	2,531	
EBITDA	**2,352**	**2,129**	**2,299**	**3,705**	**579**	**1,568**	**1,919**	**2,146**	**10,485**	**6,212**	**1,518**	-62%
Margins (%)	39.0	43.3	43.6	60.2	49.1	38.7	39.6	40.9	46.9	40.5	37.5	1159bp
Depreciation	111	113	113	112	106	110	120	143	449	479	105	
Interest	239	246	199	201	179	240	310	342	885	1,071	180	
Other Income	149	136	91	102	88	90	95	100	478	373	80	
PBT before EO expense	**2,151**	**1,906**	**2,078**	**3,494**	**383**	**1,308**	**1,584**	**1,761**	**9,630**	**5,036**	**1,313**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**2,151**	**1,906**	**2,078**	**3,494**	**383**	**1,308**	**1,584**	**1,761**	**9,630**	**5,036**	**1,313**	
Tax	643	540	615	998	117	373	451	502	2,796	1,443	374	
Rate (%)	29.9	28.3	29.6	28.6	30.6	28.5	28.5	28.5	29.0	28.7	28.5	
Minority Interest & Profit/Loss of Asso. Cos.	-12	-15	-19	-14	-15	-120	-300	-445	-59	-880	-40	
Reported PAT	1,521	1,381	1,482	2,510	281	1,055	1,432	1,704	6,893	4,472	979	
Adj PAT	**1,521**	**1,381**	**1,482**	**2,510**	**281**	**1,055**	**1,432**	**1,704**	**6,893**	**4,472**	**979**	-71%
YoY Change (%)	-50.9	-35.4	7.5	61.1	-81.5	-23.6	-3.4	-32.1	-15.6	-35.1	-35.6	
Margins (%)	25.2	28.1	28.1	40.8	23.8	26.0	29.5	32.5	30.8	29.2	24.2	

E: MOFSL Estimates

Telecom

Our earlier telecom update



Industry loses gross subscribers

Glimpse of COVID-19 lockdown

The Telecom Regulatory Authority of India (TRAI) has released subscriber data for Mar'20 with some glimpses of the lockdown impact. Key insights highlighted below:

- **The Telecom industry lost 2.9m gross subscribers in Mar'20 (v/s 4-5m monthly subscriber adds in Jan-Feb'20) to reach subscriber base of 1,158m. Bharti/VIL lost 1.3m/6.4m subscribers while RJio added 4.7m subscribers. Active subscriber base increased by 2.2m (v/s adds of 0.5m in Feb'20) to reach 989m as VIL lost 0.8m subscribers and Bharti/RJio added 0.9m/2.5m active subscribers. We are certain that the lower addition has been hit by restrictions from mid-Mar'20 and the nationwide lockdown during the latter half of Mar'20.**
- **Bharti lost 1.3m gross subscribers (after adding 0.9m in Feb'20) to reach 328m. The company gained 0.9m active subscribers (v/s 1.5m in Feb'20) to reach 315m. Bharti remains the #1 player in terms of active subscriber market share with share of 31.9%.**
- **RJio added the highest number of gross subscribers with 4.7m adds (6.3m in Feb'20). RJio's pace, however, has reduced from the peak addition of 12-14m monthly subscribers and average addition of ~6.5m monthly subscribers in Jan-Feb'20, even as it continues to grow. It has reached 33.5% gross market share while maintaining its top position.**
- **VIL continues to lose its subscriber base with 6.4m/0.8m reduction in gross/active subscribers to 319m/294m. Subsequently, VIL's gross/active subscriber market share declined to 27.6%/29.7% (v/s 28%/29.8% in Feb'20). VIL stands at the last spot in both gross and active subscriber market share.**
- **Industry MBB subscriber adds stood at 6.2m (v/s 7.7m increase in Feb'20) to reach 668m. Currently, MBB subscribers account for 67.5% (+50bp MoM) of total active subscribers, rising continuously from 53% in Mar'19.**
- **Bharti's MBB subscriber adds at 2.4m were stronger than the previous month addition of 1.3m. RJio added 4.7m MBB subscribers, lower than the previous month adds of 6.3m. VIL lost 0.8m MBB subscribers. Bharti/RJio's MBB subscriber market share rose by 20bp/10bp MoM to 21.9%/58%. RJio's MBB adds also includes Jiophones (excluding which, we estimate it to be similar to Bharti).**

Subscriber loss majorly driven by VIL

The Telecom industry lost 2.9m gross subscribers in Mar'20 to reach subscriber base of 1,158m. This is in contrast to the gross addition of 4-5m monthly subscriber adds seen in Jan-Feb'20, possibly on account of the nationwide lockdown measures and rise in tariff plans. RJio's gross subscriber base increased by 4.7m (v/s 6.6m/6.3m adds in Jan/Feb'20) to reach 388m, while Bharti saw loss of 1.3m after 5 months of continuous subscribers adds. VIL lost huge 6.4m gross subscribers during the same period.

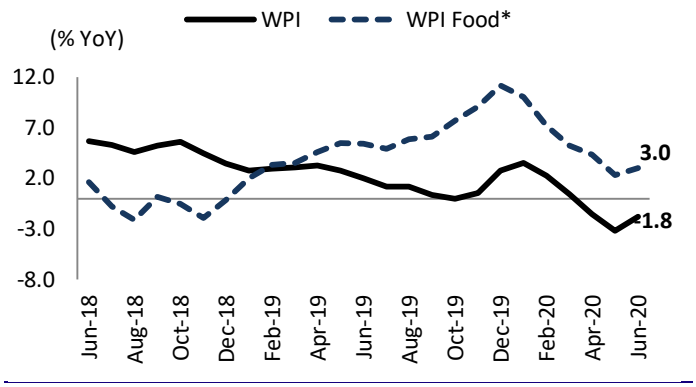
Industry's active subscriber addition stood at 2.2m in Mar'20 (v/s 0.5m in Jan'20) to reach 989m. Bharti/RJio continue to add active subscribers (despite the lockdown in the second half on Mar'20) by 0.9m/2.5m, while VIL lost 0.8m active subscribers in Mar'20. VIL's pace of active subscriber loss has reduced from losing ~1.4m/month, since the tariff hikes in Dec'19 (lost 2.8m in Feb'20).

Third month of WPI deflation in Jun'20

Deflation lower than market expectation

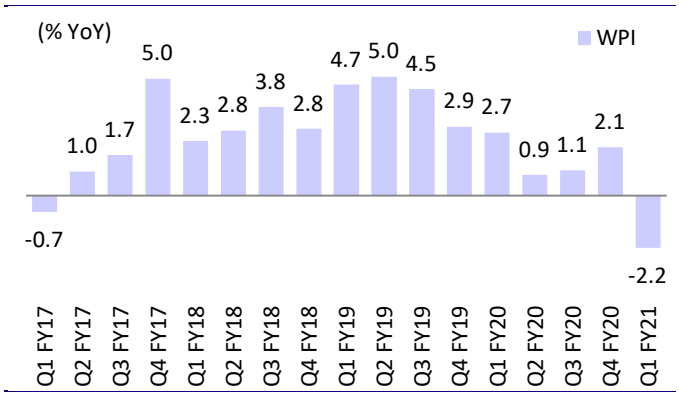
- **Wholesale Price Index (WPI) inflation stood at -1.8% YoY v/s -3.2% a month ago (and the market consensus of -2.4%) due to deflation in primary articles (WPI weight: 22.6%) and fuel and power (13.2%). On the other hand, manufactured products (64.2%) jumped back to marginal inflation of 0.1% from deflation in May'20. Just as in May'20, maximum negative contribution came from fuel and power, followed by huge decline in wholesale prices of fuel across the country.**
- **Interestingly, non-food WPI deflation was higher at 3.8% YoY in Jun'20, indicating decline in prices of wholesale items, excluding food. WPI food (both primary articles and manufactured) inflation actually rose to 3.0% YoY in Jun'20, as against 2.3% YoY in May'20 *(Exhibit 1)*.**
- **With this, WPI inflation stood at -2.2% YoY in 1QFY21, compared with inflation of 2.2% posted in 4QFY20. This is the first deflation reported in any quarter since 1QFY17.**
- **Primary articles deflation was at 1.2% YoY in Jun'20, primarily led by deflation in non-food primary articles and crude oil and natural gas. While the former exhibited deflation of 2.8% YoY in Jun'20, deflation in the latter was still in the higher double digits at 33.7% YoY last month.**
- **13.6% YoY deflation in fuel and power was attributed to 27.5% deflation in mineral oils. Notably, after dropping to 2.9% in May'20, inflation in electricity rose once again to 5.2% in Jun'20.**
- **Manufactured items witnessed marginal inflation of 0.1% in Jun'20 on deflation in items such as textiles, leather, paper, basic chemicals, and rubber, offset by higher inflation in manufactured food items and pharmaceuticals, among others.**
- **Additionally, core (imported) WPI was still in deflation of 2.3% YoY in Jun'20 v/s deflation of 3.2% YoY in May'20 and 0.5% YoY in Jun'19.**
- **While retail food inflation moderated in Jun'20, WPI food inflation actually rose, indicating the lack of enough supply or supply chain disruptions due to the COVID-19 crisis. Going ahead, provided the economy continues opening up gradually, these disruptions may disappear, leading to the normalization of prices. Overall, even though retail inflation remains at a fairly elevated level, we believe the RBI would prioritize weaker growth over inflation in its monetary policy decision on 6th Aug'20.**

While overall WPI was in deflation, WPI food inflation rose in Jun'20



*Primary food articles and manufactured food items

In 1QFY21, WPI saw its first deflation of 2.2% YoY after 1QFY17



Source: Office of Economic Adviser, MOFSL

YES BANK: FPO FINAL HURDLE IN REVIVAL; Prashant Kumar, CEO

- Current CET (common equity Tier 1) is 6.3% and this capital raise will take it to 13% giving us a buffer of 500 basis points over the regulatory requirement. This will also take care of our growth requirements for at least two years. Even after two years of growth our CET would be around 12% to 13%. We would like to have a continuous buffer and also meet provisions.
- Have also made 74% provisions. Existing book has already been taken care of and the provision on account of future slippage will be taken care of by the pre-provisioning operating profit. So this capital will not be used for any provisioning. In the worst case scenario 100 basis points of capital may be used for provisions mainly due to Covid. It means that if our CET ratio is 13% after this raise it may come down to 12%.
- In another 2-3 months, things should become normal even in sectors where there are issues. The impact on our book could be around Rs 10,000 crore, which could be at risk out of total book of Rs 1.71 lakh crore as of March 2020. How much would be impact, only time will tell. There could also be a special dispensation from RBI for these sectors, so we will have to see how things pan out.
- On the liability side, there has been a net addition in deposits. I cannot give you a specific number but I can say that in the last two months we have been able to reduce 100 basis points on saving bank rate and 50 basis points on term deposits. When, as a bank, you can reduce rate of interest, you can interpret how we are doing. Since we are in silent period, and on FPO mode, I cannot give you exact numbers. Our CASA target is 40% in the next three years from 27% in March.
- Bank will not do incremental lending on the corporate side at least during the current financial year, and so, repayments would reduce the corporate loan book. Otherwise, we are not looking to sell down. That is not the strategy, unless there is an opportunity to sell some loans and exit some consortiums where larger lenders want to consolidate their position. At the end the fiscal, we expect our corporate book to come down to 50% from 55% now and further to 40% in FY22.
- RoA is expected to be at 1% by 2023 through improved margins and also lower costs from our branch network, outsourced employees, vendor contracts, lease rentals. Also, we will not replace natural attrition. We will also reduce some branches. Some rural and semi urban branches will be converted into business correspondent model and some 30 to 35 branches will be merged.

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INNOVATIVE FINANCING WILL BE KEY TO RESTORING PUBLIC TRANSPORT

- A little over 100 days since the covid-19 pandemic brought India to a standstill, damaging lives, livelihoods and the economy, a glimmer of hope has finally appeared. After months of lockdown, the economy is showing some signs of recovery. In the coming months, as we step out of the lockdown, our focus will be on rebuilding livelihoods through an economic revival. Restoring and reinventing public transport, while also paying attention to physical distancing and other hygiene protocols, will be fundamental. Securing safe public transport can ensure that workers efficiently access workplaces, students reach educational institutes, customers their stores, and service providers their clients. Only then can economic activities resume, allowing people to stave-off poverty and joblessness. The 'new normal' can't handle old losses: India's public transport has been incurring financial losses for years now. In 2016-17, statistics from the Central Institute of Road Transport showed that state-owned bus companies incurred a combined loss of ₹16,409 crore that year (bit.ly/3gYqded). The 2018-19 annual reports of metro rail services reported losses to the tune of ₹765 crore and ₹496 crore in large cities like Delhi and Bengaluru, and ₹75 crore and ₹52 crore in second-tier cities like Lucknow and Jaipur, respectively. In fact, public transport is inherently loss-making globally, as affordability concerns do not permit operators to charge fares that enable cost recovery. Hence, public subsidies have often been used to keep the system functional. This situation has been further aggravated during the lockdown, as public transport continued to incur 60-65% of its expenses (staff salaries and overheads) while earning no revenue. While existing losses have made it poorer, resuming operations in the 'new normal' will require enhanced expenses to ensure passenger distancing and hygiene, thereby adding further stress to the financial pool. Revenues will also drop substantially due to a reduction of passengers-per-trip, lesser office strengths and the new work-from-home culture.

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NOTES

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

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

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