Market snapshot

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

ASIAMONEY POLL 2020

Equities - India	Close	Chg .%	CYTD.%
Sensex	36,052	0.1	-12.6
Nifty-50	10,618	0.1	-12.7
Nifty-M 100	14,952	-0.7	-12.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,227	0.9	-0.1
Nasdaq	10,550	0.6	17.6
FTSE 100	6,293	1.8	-16.6
DAX	12,931	1.8	-2.4
Hang Seng	10,391	-0.1	-7.0
Nikkei 225	22,946	1.6	-3.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	44	1.6	-34.2
Gold ($/OZ)	1,810	0.1	19.3
Cu (US$/MT)	6,379	-1.8	3.7
Almn (US$/MT)	1,649	-0.3	-7.4
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.1	-0.4	5.3
USD/EUR	1.1	0.1	1.8
USD/JPY	106.9	-0.3	-1.5
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.7
10 Yrs AAA Corp	6.7	-0.01	-0.9
Flows (USD b)	**15-Jul**	**MTD**	**CYTD**
FIIs	-0.03	-0.30	-2.71
DIIs	-0.12	0.14	12.12
Volumes (INRb)	**15-Jul**	**MTD***	**CYTD***
Cash	677	593	517
F&O	21,503	17,654	14,907

Note: *Average

Today's top research idea

Infosys: Strong surprise at multiple levels

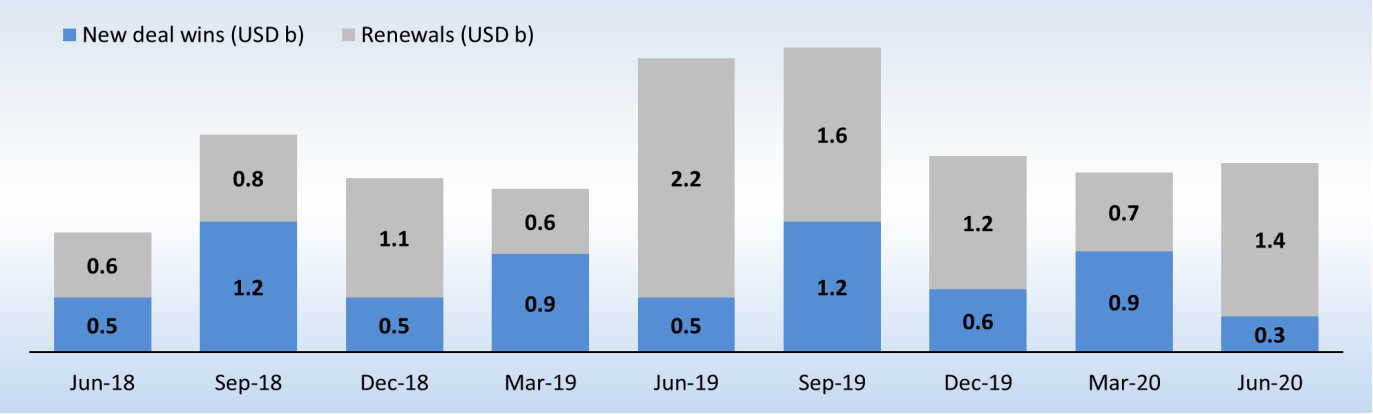
- Infosys (INFO)'s 1QFY21 revenue and margin performance reflect its unparalleled resilience in navigating the COVID-19-led disruption. Supply-side challenges were managed better than even TCS (10% impact for INFO v/s 20% for TCS). Despite the higher variable payout (100bp impact), robust EBIT margin expansion (+150bp QoQ) was a key positive.
- Deal wins (~USD1.7b, ex-Vanguard) and the deal pipeline are healthy. The reinstatement of revenue (0-2% YoY, CC) and margin (21-23%) guidance is a key morale booster. We upgrade our FY21/FY22E EPS estimates by 11%/12% as we adjust our EBIT margin trajectory to the beat in 1QFY21.
- Infosys should be a key beneficiary in terms of recovery in IT spends in FY22. Additionally, sub-optimal EBIT margin levels and headroom for margin expansion, led by back-ended productivity benefits, should translate to strong outperformance on EPS growth (v/s the sector). Reiterate Buy.

Research covered

Cos/Sector	Key Highlights
Infosys	Strong surprise at multiple levels
Reliance Inds.	A consumer conglomerate
Bandhan Bank	Collection trends improve steadily
L&T Infotech	Yet another resilient performance
Oberoi Realty	COVID-19 dents near-term outlook
Federal Bank	Treasury gains drive earnings; Margins steady
Telecom	Industry revenue growth robust on tariff hikes in Dec'19
EcoScope	India's corporate debt at 8-year low in FY20
	India's foreign trade in surplus in Jun'20, after over 18 years

Chart of the Day: Infosys (Strong surprise at multiple levels)

Renewals reported robust increase



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.

In the news today

Kindly click on textbox for the detailed news link

1

Moderna's Covid vaccine shows promise, to enter final stage of human trials this month

The US biotech firm Moderna said Tuesday it would enter the final stage of human trials for its COVID-19 vaccine on July 27, after it showed promising results in a safety trial, researchers reported in the New England Journal of Medicine…

2

Trade balance turns surplus after 18 yrs, steep contraction in imports rings alarm bells

India registered a trade surplus after almost two decades with the balance in June turning in the country's favour at $790 million, official data released on Wednesday showed. However, a sharp contraction in imports, an indicator of domestic demand, raised concerns, with economists terming the surplus "unpalatable" and "temporary". The previous trade surplus was in January 2002…

3

RBI data shows share of industrial credit in total bank credit dips to 31.5% in March

The share of industrial credit in total bank credit declined to 31.5 per cent in March 2020 as against 33.1 per cent a year ago, Reserve Bank data showed. Bank credit growth (year-on-year) continued to decelerate across all population groups and stood at 6.3 per cent in March 2020. However, bank branches in rural areas maintained a double-digit growth…

4

Embassy proposes to merge 62 mn sq ft into Indiabulls Real Estate

Embassy Group has offered to merge 61.9 million sq ft of its real estate assets into Indiabulls Real Estate Ltd (IBREL) for a proposed, the latter said in a regulatory filing on Wednesday. Once the merger goes through, Embassy Group and its chairman Jitu Virwani will take control of the combined entity…

5

DoT pushing Airtel, Vodafone Idea for some upfront payment of AGR dues and rest in instalments

The telecommunications department is pushing mobile phone operators like Bharti Airtel and Vodafone Idea to make some upfront payment towards their balance adjusted gross revenue (AGR) dues, before being allowed to stagger the rest over several years, senior officials said…

6

Goa announces three-day lockdown, night curfew till Aug 10

Amid the increasing number of covid-19 cases and with citizens failing to follow the norms, Goa Chief Minister Pramod Sawant Wednesday announced a junta night curfew in the state till August 10. He also declared imposition of a three-day lockdown…

7

RIL to replace auto fuel with clean energy; aims to become carbon-zero firm

Reliance Industries, operator of the world's largest refining complex, will replace transportation auto fuels with clean electricity and hydrogen as it set a target to become net carbon-zero by 2035, its chairman Mukesh Ambani said on Wednesday…

Infosys

Estimate change	↑
TP change	↑
Rating change	↔

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Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	3541.3 / 44.4
52-Week Range (INR)	848 / 511
1, 6, 12 Rel. Per (%)	12/22/14
12M Avg Val (INR M)	7651

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	908	982	1,111
EBIT Margin (%)	21.3	22.4	22.9
PAT	166	177	204
EPS (INR)	38.9	41.6	48.2
EPS Gr. (%)	5.1	6.9	15.8
BV/Sh. (INR)	145	165	190
Ratios			
RoE (%)	25.2	25.2	25.4
RoCE (%)	20.4	21.4	21.7
Payout (%)	44.9	48.0	41.5
Valuations			
P/E (x)	21.4	20.0	17.3
P/BV (x)	5.8	5.1	4.4
EV/EBITDA (x)	17.0	14.1	12.2
Div Yield (%)	2.1	2.4	2.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	13.2	13.2	12.8
DII	24.7	24.0	22.9
FII	31.4	32.2	34.5
Others	30.7	30.7	29.8

FII Includes depository receipts

CMP: INR831 TP: INR1,050 (+26%) Buy

Strong surprise at multiple levels

Margin reversion on track; Reiterate Buy

- Infosys' 1QFY21 revenue and margin performance reflect its unparalleled resilience in navigating COVID-19-led disruption. Supply-side challenges were managed better than even TCS (10% impact for Infosys v/s 20% for TCS). Despite a higher variable payout (100bp impact), robust EBIT margin expansion (+150bp QoQ) was a key positive.
- Deal wins (~USD1.7b, ex-Vanguard) and the deal pipeline are healthy. The reinstatement of revenue (0–2% YoY, CC) and margin (21–23%) guidance is a key morale booster. As the company and its clients have been through the COVID-19 learning curve, we understand the company should be able to manage revenue/margin performance within a narrow band despite incremental risks, such as a second wave of infections, the re-imposition of lockdown, etc.
- We upgrade our FY21/FY22E EPS estimates by 11%/12% as we adjust our EBIT margin trajectory to the beat in 1QFY21. Infosys should be a key beneficiary in terms of recovery in IT spends in FY22. Additionally, sub-optimal EBIT margin levels and headroom for margin expansion, led by back-ended productivity benefits, should translate into strong outperformance on EPS growth (v/s the sector). Reiterate **Buy**.

Strong beat on both revenue and margin

- Revenue (CC) / EBIT/ PAT grew 1.5%/20%/11% YoY v/s our estimate of -5%/6%/1% YoY.
- Barring Retail (-7.4% YoY, CC), most other verticals remained resilient. Hi-Tech (13.4% YoY, CC) and Life Sciences (+7.7% YoY, CC) were the growth drivers, while BFSI's performance was reasonable (+2.1% YoY, CC).
- While Europe reported decent growth (+4.4% YoY, CC), revenue from North America and RoW remained largely stable (YoY).
- The EBIT margin improved 220bp YoY / 150bp QoQ despite higher variable pay to employees. Margin movers during the quarter were: [1] reduced travel and visa costs (+230bp), [2] favorable currency (+70bp), [3] reduction in other discretionary costs (+110bp), [4] operational impact – low utilization, onsite mix (-150bp), and [5] variable pay (-100bp).
- Free cash generation remained healthy and showed strong improvement. This was despite a slight increase in DSO (from 69 to 71 days).
- Large deal signings (~USD1.7b) were near the pre-COVID-19 quarterly run-rate (USD2b), excluding the deal from Vanguard.

Highlights from management commentary

- Management still sees elements of uncertainty in the global economy. Despite this, visibility is higher given that the business has adapted to some of the shocks brought on by the pandemic. Accordingly, revenue and margin guidance was reinstated, which came as a surprise.
- For FY21, Infosys has guided for revenue growth of 0–2% (YoY, CC). We currently build in growth at the higher end of the band (1.1%, USD).

- The company has guided for EBIT margins of 21–23%. As the back-ended productivity benefits from some of its earlier investments kick in, we expect an EBIT margin of 22.4% for FY21.
- Management indicated supply-side challenges resulted in 10% impact on overall revenue (v/s 20% impact in case of TCS) during the quarter.
- The deal pipeline is robust. Infosys is seeing significant traction in cloud, digital, cybersecurity, workplace transformation, cost efficiency, and consolidation-related opportunities.
- While BFSI started off on a weak note at the beginning of the quarter, volumes improved, led by the Banking sub-segment in the US and APAC.
- Even as the Communications vertical largely stabilized, the Energy & Utilities, Retail, and Manufacturing verticals should see some challenges in the near term.
- The company does not expect any material impact from the recent H1B visa ban in the near term as it has de-risked the business model through localization.

Valuation and view – Multiple divergence v/s TCS should narrow

- The company's absolute and relative performance (v/s TCS and Wipro) during the quarter is indicative of some of the investments made in the previous years now paying off.
- Notwithstanding the higher variable payouts, the company delivered robust margin expansion. Notably, this was witnessed in a quarter that has faced significant disruption on both the demand and supply fronts.
- As the COVID-19-led disruption eases, we expect further expansion in margins as investments stabilize and back-ended productivity benefits kick in.
- We expect Infosys to be a key beneficiary in terms of recovery in IT spends in FY22.
- Given the phenomenal resilience demonstrated by the IT sector in the current context, we foresee significant scope for a sector re-rating.
- Within the sector, our relative preference for Infosys over TCS is premised on the company's headroom for margin expansion. This result reinforces our confidence in this premise.
- As its outperformance v/s TCS continued in this quarter, we expect the valuation divergence to narrow (to 10%). On our revised estimates, the stock is currently trading at 20x FY21E EPS. We value the stock at 22x FY22E EPS.
- Political uncertainty in the US further impacting IT spending decisions in key verticals such as BFSI and Retail is a key monitorable risk.

Quarterly Performance (IFRS)

(INR b)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	(%/bp)
Revenue (USD m)	**3,131**	**3,210**	**3,243**	**3,197**	**3,121**	**3,215**	**3,253**	**3,335**	**12,781**	**12,923**	**3,044**	**2.5**
QoQ (%)	2.3	2.5	1.0	-1.4	-2.4	3.0	1.2	2.5	8.2	1.1	-4.8	242bp
Revenue (INR m)	**218**	**226**	**231**	**233**	**237**	**244**	**247**	**253**	**908**	**982**	**231**	**2.3**
YoY (%)	14.0	9.8	7.9	8.0	8.5	8.0	7.1	8.9	9.8	8.1	6.1	245bp
GPM (%)	**32.2**	**33.4**	**33.4**	**33.4**	**33.6**	**33.5**	**33.5**	**33.2**	**33.1**	**33.5**	**32.5**	**114bp**
SGA (%)	**11.7**	**11.7**	**11.5**	**12.2**	**11.0**	**11.0**	**11.0**	**11.2**	11.8	11.0	12.0	-103bp
EBITDA	**52**	**56**	**58**	**57**	**61**	**63**	**63**	**64**	**223**	**251**	**56**	**10.1**
EBITDA Margin (%)	**23.6**	**24.9**	**25.1**	**24.4**	**25.9**	**25.6**	**25.6**	**25.2**	**24.5**	**25.6**	**24.0**	**182bp**
EBIT	**45**	**49**	**51**	**49**	**54**	**55**	**56**	**56**	**194**	**220**	**47**	**13.1**
EBIT Margin (%)	**20.5**	**21.7**	**21.9**	**21.2**	**22.7**	**22.5**	**22.5**	**22.0**	**21.3**	**22.4**	**20.5**	**217bp**
Other income	7	6	8	6	4	5	5	6	26	20	5	-14.6
ETR (%)	26.4	26.5	23.6	21.1	26.2	26.0	26.0	26.0	24.4	26.1	26.5	-26bp
PAT	**38**	**40**	**45**	**43**	**42**	**44**	**45**	**46**	**166**	**177**	**39**	**9.9**
QoQ (%)	-6.8	5.8	10.9	-3.1	-2.0	4.2	1.8	1.4			-11.1	909bp
YoY (%)	5.1	-2.2	23.5	6.1	11.5	9.7	0.7	5.3	7.7	6.5	1.3	1012bp
EPS (INR)	**8.8**	**9.4**	**10.5**	**10.2**	**10.0**	**10.4**	**10.6**	**10.7**	**38.9**	**41.6**	9.1	9.9

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	2.8	3.3	1.0	-0.8	-2.0				9.8	
Margins										
Gross Margin	32.2	33.4	33.4	33.4	33.6	33.5	33.5	33.2	33.1	33.5
EBIT Margin	20.5	21.7	21.9	21.2	22.7	22.5	22.5	22.0	21.3	22.4
Net Margin	17.4	17.8	19.3	18.6	17.9	18.0	18.1	18.0	18.3	18.0
Operating metrics										
Headcount	2,29,029	2,36,486	2,43,454	2,42,371	2,39,233				2,42,371	
Attrition (%)	20.2	18.3	15.8	15.3	11.7				15.3	
Deal Win TCV (USD b)	2.7	2.8	1.8	1.6	1.7				9.0	
Key Verticals (YoY CC %)										
BFSI	11.3	10.3	6.2	5.7	2.1				8.2	
Retail	6.9	1.1	2.5	4.2	-7.4				3.6	
Key Geographies (YoY CC%)										
North America	13.5	11.9	10.1	5.5	0.0				10.2	
Europe	11.4	14.6	12.0	9.6	4.4				11.8	

Reliance Industries

BSE SENSEX	S&P CNX
36,052	10,618

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Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	12102 / 167.6
52-Week Range (INR)	1979 / 867
1, 6, 12 Rel. Per (%)	6/36/53
12M Avg Val (INR M)	20975
Free float (%)	50.9

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Net Sales	5,957	5,582	6,808
EBITDA	879	933	1,218
Net Profit	432	465	674
Adj. EPS (INR)	68.1	73.4	106.3
EPS Gr. (%)	8.4	7.8	44.8
BV/Sh. (INR)	715.1	782.2	878.8
Ratios			
Net D:E	0.6	0.5	0.3
RoE (%)	10.3	9.8	12.8
RoCE (%)	8.5	8.3	10.5
Payout (%)	11.6	8.8	9.1
Valuations			
P/E (x)	27.0	25.1	17.3
P/BV (x)	2.6	2.4	2.1
EV/EBITDA(x)	16.3	15.2	11.1
EV/Sales (x)	2.4	2.5	2.0
Div. Yield (%)	0.3	0.3	0.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	48.9	48.9	46.2
DII	13.6	13.6	11.8
FII	25.9	26.3	26.2
Others	11.6	11.2	15.9

FII Includes depository receipts

CMP: INR1,846 TP: INR2,020 (+9%) Buy

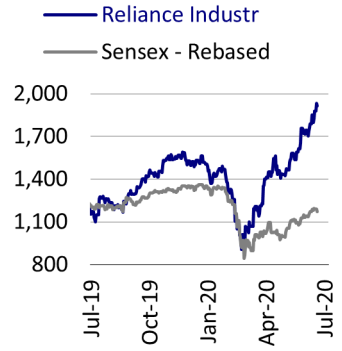
A consumer conglomerate

Reliance Industries' (RIL) AGM held on 15th Jul'20 continued to focus on the next Gen business. It discussed various opportunities, growth levers and strategic initiatives in the consumer business in detail. Key highlights are as follows:

Consumer business – Partnership with Global Tech majors underscored potential

- **Investments galore:** Google would invest INR337b in Jio Platforms for 7.73% stake sale at INR4.36t equity valuation. This increases the total stake sale in Jio Platforms to ~33% by RIL with cumulative investment of INR1.5t. Jio Platforms has continued to see stake sales with various marquee investors. Note that while Jio Platforms has seen multiple financial investors, its partnerships with global technology majors like Facebook and Google underscores the strong long-term strategic potential of the business.
- **Targeting a large pool of untapped feature phone market:** The strategic partnership with Google provides Jio Platforms with a potential opportunity to (a) target 350m feature phone customers, and (b) continue accelerating strong subscriber growth with target to pass >500m subscribers in next three years.
- **Upping JioFiber targets:** It has increased its targets from 35m to 50m homes and SME enterprise subscribers (v/s the last fiscal), highlighting the vast opportunity and management's focus in the wired broadband space. This could translate into strong investments to grow the current 5m home passes and 1m subscriber base.
- **Ready for 5G:** Jio Platforms has announced that it has built in-house 5G solutions, which are ready for trials and awaiting spectrum availability. Spectrum requirements, ecosystem development, and building use cases may take some time. However, the company is ahead of the curve in terms of technology advancement capabilities and driving growth.
- **JioMart – the only online-offline model:** JioMart's beta launch in 200 cities is supported by (a) >12,000 stores, of which, three-fourths are in smaller tier cities/towns, and (b) aggressive targeting of *kirana* stores for partnerships. This not only addresses its big progress in adopting the hub-and-spoke model, but also the key issue of logistics cost. JioMart plans to expand from the grocery segment to consumer electronics, fashion, pharma and healthcare. While this is a long way ahead, JioMart has greater chances of realizing this expansion as it is the only online player with such deep offline connectivity.
- **Digital play:** Among its bunch of digital apps, JioTV+ holds the most substance. It has strong advertisement and subscription monetization opportunity, especially to address the key OTT interoperability issue. Its other apps like JioMeet, Jio Payments, etc. are in a crowded market but with the vigor and balance sheet strength of RIL.

Stock Performance (1-year)



Oil to Chemicals business – New energy and materials company

- The Saudi Aramco deal has not progressed according to the original timeline owing to the current challenging environment in the energy market.
- The company has said that it will approach the NCLT to spin off the O2C business into a separate subsidiary, thus, attracting many investors and partners in the energy segment. The process of spin-off is expected to be completed by early-2021, which would aid the company in building an integrated Oil-to-Chemicals Portfolio through potential partnerships.
- RIL has proprietary technology to convert transportation fuels to valuable petrochemical and material building blocks. Also, the company will build fuel cell and battery services in India, transforming energy mobility solutions. This will help it to become net carbon-zero by 2035.

Valuation and view

- RJio should deliver revenue/EBITDA CAGR of 21%/41% over FY20-22E along with strong EBITDA margin expansion. The company has witnessed subdued ARPU growth in 4QFY20, which we believe could be due to its longer validity plans. Full benefit of the price hike should accrue in FY21. In addition, the favorable competitive landscape in the Indian telecom industry should offer healthy incremental EBITDA gains through a combination of ARPU increase and market share gains. The company has additional earnings opportunity from its ambitions in JioFiber and other digital avenues. Furthermore, RJio's lower debt and market leadership position increases our conviction in the company. Thus, we believe it should garner premium valuations as compared to competitors. Subsequently, we assign 15x on Jun'22E EV/EBITDA to RJio to reach a TP of INR905/share.
- As Reliance Retail's business recovers from the ongoing COVID-19 impact in FY21, the robust footprint addition across the three verticals – (a) Grocery, (b) Consumer Electronics, and (c) Fashion – should bring the aggressive revenue growth on track. Over FY20-22E, we expect revenue/EBITDA CAGR of 13%/12% to INR2,089b/INR120b with 40bp EBITDA margin improvement in the core segment, which includes Grocery, Consumer Electronics and Fashion. We value Reliance Retail on an SOTP basis, valuing its core business at 32x FY22E EV/EBITDA and petro and connectivity at FY22E 5x EV/EBITDA to arrive at a target price of INR500/share. The high valuation captures (a) the aggressive >30% footprint addition v/s 15-20% by other organized retailers, (b) wide category leveraging the opportunity across verticals, and (c) JioMart, which is not captured in our financials; however, its deep offline connectivity and recent online endeavor offers a huge runway for growth.
- The stock is trading at 11.1x FY22E consolidated EV/EBIDTA and 17.3x FY22E consolidated EPS. Using SOTP, we value refining and petrochemical segment at 7.5x to arrive at a valuation of INR615/share for the standalone. We ascribe equity valuation of INR905/share and INR500/share to RJio and Reliance Retail, respectively. We reiterate **Buy** with a target price of INR2,020/share.

Bandhan Bank

Estimate change	↑
TP change	↑
Rating change	↔

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Bloomberg	BANDHAN IN
Equity Shares (m)	1,610
M.Cap.(INRb)/(USDb)	563 / 7.6
52-Week Range (INR)	650 / 152
1, 6, 12 Rel. Per (%)	22/-15/-29
12M Avg Val (INR M)	2440

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
NII	63.2	75.7	88.9
OP	54.5	65.0	76.0
NP	30.2	35.4	45.7
NIM (%)	9.1	8.2	8.3
EPS (INR)	21.6	22.0	28.4
EPS Gr. (%)	31.9	1.9	29.0
BV/Sh. (INR)	94	117	140
ABV/Sh. (INR)	93	114	137
RoE (%)	22.9	20.8	22.1
RoA (%)	4.1	3.6	3.9
Payout (%)	0.0	21.4	20.7
Valuations			
P/E(X)	16.2	15.9	12.3
P/BV (X)	3.7	3.0	2.5
P/ABV (X)	3.8	3.1	2.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	61.0	61.0	82.3
DII	8.0	8.8	9.5
FII	14.5	13.1	6.3
Others	16.6	17.2	2.0

FII Includes depository receipts

CMP: INR350 TP: INR425 (+22%) Buy

Collection trends improve steadily

Liability franchise strong; Prudential provisions to aid earnings

- Bandhan Bank has provided a high quantum of provisions toward COVID-19, which affected earnings, even as NII/PPoP growth held strong. The bank now holds total COVID-19-related / excess standard provisions of INR17.7b (2.5% of loans) for use toward higher delinquencies once the moratorium period ends. Collection trends in the MFI portfolio are improving and stood at 73% (v/s 70% as of 3rd Jul'20).
- Deposit growth stood strong, with the CASA ratio improving further and retail deposit proportion being largely stable. Disbursements picked up in Jun'20 and were largely lent to existing customers only. We expect credit cost trends to remain elevated at 2.4% for FY21E; the bank has already incurred ~1.2% of this in 1QFY21. **Maintain Buy**.

COVID-19 provisions drag down earnings; provision coverage strengthens

- 1QFY20 PAT stood at ~INR5.5b (32% YoY decline, 30% below estimates), affected by higher provisions at INR8.5b, including INR7.5b COVID-19 provisions (v/s INR6.9b last quarter). Thus, Bandhan holds total additional provisions of INR17.7b (INR14.4b toward COVID-19 and INR3.4b excess standard provisions).
- NII grew 15% YoY (~8% QoQ) to INR18.1b, with NIMs improving 2bp QoQ to 8.15%. Other income grew 17% YoY to INR5.9b, including PSLC income of INR1.2b amortized during the quarter. Opex grew at 12% YoY to INR6.1b; thus, the C/I ratio moderated ~230bp QoQ to 27.9%. Overall, PPoP grew at 17% YoY to INR15.8b (7% beat).
- Advances (on + off book) grew at ~17.7% YoY (3.5% QoQ), with MFI loans increasing at 21.2% YoY (2.8% QoQ). Thus, the MFI portfolio forms 64% of the total AUM. Disbursements in MFI in Jun'20 were back at ~70% of pre-COVID-19 levels (Jun'19), largely toward existing borrowers.
- Bandhan continues to report strong deposit growth at 35% YoY / 6% QoQ to INR606b, led by an increase in CASA deposits at 47% YoY / 7% QoQ to ~INR225b. Thus, the CASA ratio improved to 37.1% v/s 36.8% in FY20. Overall, the proportion of retail deposits stood stable at ~78%.
- **On the asset quality front**, absolute GNPL increased 1.4% QoQ, while accelerated provisions led to ~14% QoQ decline in NNPL. Consequently, the GNPA/NNPA ratio declined 5bp/10bp QoQ to ~1.4%/0.5%. Thus, PCR improved to 66.6% v/s 60.8% in FY20.
- **Collection efficiency:** In the MFI portfolio, collection efficiency improved to ~73% (v/s 70% in Jun'20). Overall, collection efficiency in the total portfolio improved to 76% in Jun'20 v/s 29% in Apr'20.

Highlights from management commentary

- **State-wise collection trends**: Bihar has the highest collection efficiency, while Maharashtra and Tamil Nadu have the lowest collection trends.

- Management guided credit cost at 2.0–2.2% for FY21E; however, a large proportion has already been incurred by making additional contingent provisions.
- In the Mortgage portfolio, marginal deterioration is witnessed in the LAP portfolio.

Valuation and view

As economic activity staggers to a start in India, we are seeing steady improvement in collection trends. Bandhan's collection efficiency in the MFI portfolio has improved to ~73%; at the overall portfolio level, it has improved to ~76%. Thus, the incidence of moratorium availed has been declining. Furthermore, the bank holds INR17.7b total COVID-19-related / excess standard provisions (2.5% of loans) to manage higher delinquencies over 2HFY21. We maintain a Buy rating, with revised TP of INR425 (3.0x FY22E BV).

Quarterly performance (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21E	V/S our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Est
Net Interest Income	**15,746**	**15,290**	**15,403**	**16,800**	**18,115**	**18,310**	**19,294**	**19,943**	**63,239**	**75,662**	**17,312**	**5%**
% Change (YoY)	51.8	41.9	37.0	33.6	15.0	19.7	25.3	18.7	40.7	19.6	9.9	
Other Income	3,310	3,603	3,577	5,002	3,868	4,477	4,586	5,195	15,492	18,126	4,260	-9%
Total Income	**19,056**	**18,893**	**18,980**	**21,802**	**21,983**	**22,787**	**23,880**	**25,138**	**78,731**	**93,787**	**21,571**	**2%**
Operating Expenses	5,505	5,824	6,341	6,595	6,141	6,999	7,402	8,259	24,265	28,801	6,835	-10%
Operating Profit	**13,551**	**13,069**	**12,639**	**15,207**	**15,842**	**15,789**	**16,478**	**16,879**	**54,466**	**64,987**	**14,737**	**7%**
% Change (YoY)	65.1	49.5	40.4	31.9	16.9	20.8	30.4	11.0	45.3	19.3	8.8	
Other Provisions	1,254	1,455	2,949	8,274	8,491	3,535	4,065	1,584	13,932	17,675	4,223	101%
Profit Before Tax	**12,297**	**11,614**	**9,690**	**6,933**	**7,351**	**12,254**	**12,413**	**15,295**	**40,534**	**47,312**	**10,513**	**-30%**
Tax	4,261	1,896	2,380	1,760	1,853	3,088	3,128	3,854	10,297	11,923	2,649	-30%
Net Profit	**8,036**	**9,718**	**7,310**	**5,173**	**5,498**	**9,166**	**9,285**	**11,441**	**30,237**	**35,389**	**7,864**	**-30%**
% Change (YoY)	66.8	99.3	120.7	-20.5	-31.6	-5.7	27.0	121.2	54.9	17.0	-2.1	
Operating Parameters												
Deposits (INR b)	448	492	549	571	606	628	653	685	571	685	606	0%
Loans (INR b)	415	598	606	666	697	721	735	765	666	765	686	2%
Deposit Growth (%)	42.3	49.3	58.5	32.0	35.3	27.6	18.9	20.0	32.0	20.0	38.7	-2
Loan Growth (%)	35.9	88.4	78.9	68.1	68.1	20.5	21.3	14.8	68.1	14.8	65.4	-276
Asset Quality												
Gross NPA (%)	1.7	1.8	1.9	1.5	1.4	1.8	2.7	3.1	1.5	3.1	1.5	6
Net NPA (%)	0.6	0.6	0.8	0.6	0.5	0.6	1.1	1.2	0.6	1.2	0.6	11
PCR (%)	65.9	68.3	58.4	60.8	66.6	67.0	62.0	63.1	60.8	63.1	61.0	-564

E:MOFSL Estimates

L&T Infotech

BSE SENSEX	S&P CNX
36,052	10,618

Conference Call Details

Date: 16th Jul 2020
Time: 17:30 IST
Dial-in details:
+91-22 6280 1104

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	108.8	118.5	138.1
EBIT Margin (%)	16.1	17.1	16.5
PAT	15.2	17.7	19.4
EPS (INR)	86.7	100.8	110.7
EPS Gr. (%)	0.4	16.2	9.8
BV/Sh. (INR)	308.1	373.5	456.9
Ratios			
RoE (%)	31.1	29.8	26.9
RoCE (%)	26.9	25.5	23.7
Payout (%)	32.3	30.3	21.7
Valuations			
P/E (x)	25.5	21.9	20.0
P/BV (x)	7.2	5.9	4.8
EV/EBITDA (x)	18.1	15.4	13.3
Div yld (%)	1.3	1.4	1.1

CMP: INR2,196 — Buy

Yet another resilient performance

LTI reported revenue (CC) / EBIT / PAT growth of 11%/29%/17% YoY v/s our estimate of 10%/28%/8% YoY.

Revenue in-line

- On a sequential basis, revenue declined ~4.7% (CC), in line with our estimate. While part of this decline (~1.4%) is due to the absence of pass-through revenue during the quarter, the rest is attributable to COVID-19-led disruption.
- Verticals such as Manufacturing (-16% QoQ, CC) and Energy & Utilities (-11% QoQ, CC) were the hardest hit. Impact from the absence of pass-through revenue would have been felt largely in the Manufacturing vertical. Hi-Tech (-0.1% QoQ, CC), Insurance (-2.7% QoQ, CC), and BFS (-4.1% QoQ, CC) remained relatively resilient.
- North America remained surprisingly resilient (-2.2% QoQ, CC). Other geographies such as Europe (-10% QoQ, CC), India (-13% QoQ, CC), and RoW (-8% QoQ, CC) witnessed relatively sharper decline.
- Decreases witnessed across the Top 5 clients (-7% QoQ, USD) were more pronounced than in the overall portfolio. Decline in the Top 6–10 clients (-16% QoQ) was even sharper.

Margins largely stable (adjusted for one-offs)

- On a reported basis, the EBIT margin expanded 70bp QoQ. However, adjusted for a one-off contribution to the PM CARES fund, margins were largely stable.
- SG&A cost control was impressive (to 12.3% of revenue from 13.5% of revenue in Mar'20).
- Utilization (ex-trainees) reported a marginal drop (~100bp QoQ to 79.6%).
- Receivables (including unbilled) came down sharply during the quarter (from 106 to 99 days).

Valuation and view: We would revisit our estimates post the earnings call. Outlook on recovery across verticals, margins, and commentary on deal wins would be keenly watched. Based on current estimates, it trades at 22x/20x FY20E/FY21E EPS. Maintain **Buy**.

Quarterly Performance (Consolidated) (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY21	bp)
Revenue (USD m)	**357**	**364**	**394**	**410**	**390**	**379**	**390**	**409**	**1,525**	**1,568**	**389**	**0.2**
QoQ (%)	0.8	2.0	8.4	3.9	-4.8	-3.0	3.0	5.0	13.0	2.9	-5.0	22
Revenue (INR m)	**24,849**	**25,707**	**28,111**	**30,119**	**29,492**	**28,607**	**29,465**	**30,939**	**1,08,786**	**1,18,503**	**29,595**	**(0.3)**
YoY (%)	15.3	10.3	13.7	21.2	18.7	11.3	4.8	2.7	15.2	8.9	19.1	(41)
GPM (%)	**33.1**	**31.8**	**31.7**	**32.8**	**32.5**	**32.8**	**32.9**	**32.9**	**32.4**	**32.8**	**32.7**	**(23)**
SGA (%)	14.7	13.7	13.0	13.6	12.4	13.2	13.5	13.5	13.7	13.2	13.0	(60)
EBITDA	**4,580**	**4,658**	**5,274**	**5,781**	**5,920**	**5,607**	**5,716**	**6,002**	**20,293**	**23,245**	**5,830**	**1.5**
EBITDA Margin (%)	**18.4**	**18.1**	**18.8**	**19.2**	**20.1**	**19.6**	**19.4**	**19.4**	**18.7**	**19.6**	**19.7**	**37**
EBIT	**3,970**	**3,994**	**4,565**	**5,034**	**5,139**	**4,892**	**4,980**	**5,229**	**17,563**	**20,239**	**5,090**	**1.0**
EBIT Margin (%)	**16.0**	**15.5**	**16.2**	**16.7**	**17.4**	**17.1**	**16.9**	**16.9**	**16.1**	**17.1**	**17.2**	**23**
Other income	812	739	433	479	450	740	970	970	2,463	3,130	-20	(2,350)
ETR (%)	25.6	23.9	24.6	22.5	25.5	24.0	24.0	24.0	24.1	24.4	24.0	
Adj PAT	**3,557**	**3,603**	**3,767**	**4,274**	**4,164**	**4,280**	**4,522**	**4,711**	**15,201**	**17,677**	**3,853**	**8.1**
QoQ (%)	-6.1	1.3	4.6	13.5	-2.6	2.8	5.6	4.2			-9.8	
YoY (%)	-1.5	-10.0	0.3	12.9	17.1	18.8	20.0	10.2	0.3	16.3	8.3	
EPS (INR)	**20.3**	**20.5**	**21.6**	**24.3**	**23.7**	**24.4**	**25.8**	**26.9**	**86.7**	**100.8**	**21.9**	**8.4**

Oberoi Realty

Estimate changes	↓
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	OBER IN
Equity Shares (m)	364
M.Cap.(INRb)/(USDb)	134.8 / 1.8
52-Week Range (INR)	586 / 290
1, 6, 12 Rel. Per (%)	-6/-19/-27
12M Avg Val (INR M)	217

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	22.4	12.2	16.6
EBITDA	10.5	5.0	7.0
EBITDAM %	46.8	41.0	42.3
NP	6.9	3.8	6.0
EPS (INR)	19.0	10.4	16.6
EPS Gr. (%)	-15.6	-45.0	59.1
BV/Sh. (INR)	237	248	263
Ratios			
Net D:E	0.1	0.1	0.1
RoE (%)	8.3	4.3	6.5
RoCE (%)	8.0	3.5	4.5
Valuations			
P/E (x)	16.4	29.8	18.8
P/BV (x)	1.3	1.3	1.2
EV/EBITDA (x)	11.8	25.0	17.9
EV/Sales (x)	5.5	10.2	7.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	67.7	67.7	67.7
DII	4.4	5.5	3.9
FII	26.2	24.9	26.1
Others	1.7	1.9	2.4

FII Includes depository receipts

CMP: INR371 TP: INR444(+20%) Buy

COVID-19 dents near-term outlook

- Oberoi Realty's (OBER) portfolio is heavily concentrated in the Mumbai Metropolitan Region (MMR) – one of the worst affected regions in India due to the COVID-19 pandemic. Thus, we have lowered our estimates for residential, retail and hospitality segments for FY21; however, we have broadly maintained estimates for the commercial office space.
- Despite the current challenges, OBER's balance sheet strength gives us comfort. Maintain Buy with a revised TP of INR444.

Office on steady footing; Other segments reel under lockdown pressure

- **1QFY21 performance:** 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%). Adj. PAT declined 82% YoY to INR281m (v/s est. INR979m).
- **Extended lockdown in MMR dents residential biz:** Pre-sales volume plunged 95% YoY to 0.012msf (-90% QoQ) impacted by the lockdown on account of COVID-19. Booking value plummeted 94% YoY to INR241 while collections declined 79% YoY to INR853m. Site visits have started gaining traction, but the extended lockdown in MMR is likely to impact operational performance in 1HFY21.
- **Office space on steady footing; Retail & Hospitality reels under pressure:** **Commercial** revenue/EBITDA declined 45%/44% YoY to INR517m/INR497m, largely on account of the closure of Oberoi Mall in 1QFY21. Revenue recognition for the mall has been deferred, thus impacting annuity income. **Hospitality business** was also impacted severely due to the lockdown in MMR, thus leading to a significant decline in revenue (-91% YoY) to INR30m. The near-term outlook remains challenging owing to the uncertainty around the (a) timeline of the lockdown easing in MMR, and (b) revival of retail/hospitality industry.

Key highlights from management commentary

- (a) OBER closed a pre-leasing deal with Morgan Stanley for 1.1msf of leasing area in Commerze III, and (b) the company has taken an enabling resolution to raise INR35b (via combination of debt and equity) to help consolidate its position in the industry at an opportune time.

Valuation and view

- MMR is one of the worst affected regions in the country due to the COVID-19 pandemic and is under strict lockdown since the second half of Mar'20. OBER's concentration in the geography (presence of all its business segments in MMR) poses near-term challenges for the company owing to uncertainty around easing of the lockdown. However, the company's balance sheet strength provides comfort.
- We expect both residential and annuity segment's momentum to pick up in FY22E, largely driven by the launch of the Thane project at end-FY21 and operationalization of the Borivali mall in 2HFY22E. Maintain **Buy** with a PT of INR444.

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. In 4QFY20, booking value declined 28% YoY to INR2,303m while collections were flat YoY at INR4,024m.
- **Commercial segment:** Revenue/EBITDA remained flat YoY to INR898m/INR862m with EBITDA margin contracting 20bp to 96.0%.
- **Hospitality segment**: Revenue/EBITDA declined 20%/36% YoY to INR302m/INR96m with EBITDA margin contracting 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%.

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21E	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**6,033**	**4,915**	**5,274**	**6,155**	**1,180**	**2,807**	**3,575**	**4,658**	**22,376**	**12,220**	**4,049**	-71%
YoY Change (%)	-32.1	-17.0	-0.2	7.3	-80.4	-42.9	-32.2	-24.3	-13.4	-45.4	-32.9	
Total Expenditure	3,680	2,786	2,975	2,450	601	1,729	2,153	2,731	11,891	7,213	2,531	
EBITDA	**2,352**	**2,129**	**2,299**	**3,705**	**579**	**1,078**	**1,422**	**1,928**	**10,485**	**5,007**	**1,518**	-62%
Margins (%)	39.0	43.3	43.6	60.2	49.1	38.4	39.8	41.4	46.9	41.0	37.5	1159bp
Depreciation	111	113	113	112	106	120	130	142	449	498	105	
Interest	239	246	199	201	179	210	230	234	885	853	180	
Other Income	149	136	91	102	88	90	98	105	478	381	80	
PBT before EO expense	**2,151**	**1,906**	**2,078**	**3,494**	**383**	**838**	**1,160**	**1,657**	**9,630**	**4,038**	**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**	**838**	**1,160**	**1,657**	**9,630**	**4,038**	**1,313**	
Tax	643	540	615	998	117	242	335	478	2,796	1,172	374	
Rate (%)	29.9	28.3	29.6	28.6	30.6	28.9	28.9	28.9	29.0	29.0	28.5	
Minority Interest & Profit/Loss of Asso. Cos.	-12	-15	-19	-14	-15	-166	-300	-445	-59	-926	-40	
Reported PAT	1,521	1,381	1,482	2,510	281	762	1,125	1,624	6,893	3,791	979	
Adj PAT	**1,521**	**1,381**	**1,482**	**2,510**	**281**	**762**	**1,125**	**1,624**	**6,893**	**3,791**	**979**	-71%
YoY Change (%)	-50.9	-35.4	7.5	61.1	-81.5	-44.8	-24.1	-35.3	-15.6	-45.0	-35.6	
Margins (%)	25.2	28.1	28.1	40.8	23.8	27.1	31.5	34.9	30.8	31.0	24.2	

E: MOFSL Estimates

Federal Bank

Estimate change	↓
TP change	↔
Rating change	↔

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Bloomberg	FB IN
Equity Shares (m)	1,993
M.Cap.(INRb)/(USDb)	99.3 / 1.4
52-Week Range (INR)	109 / 36
1, 6, 12 Rel. Per (%)	-1/-31/-46
12M Avg Val (INR M)	1287

Financials & Valuations (INR b)

Y/E Mar	FY20	FY21E	FY22E
NII	46.5	50.9	56.7
OP	32.0	35.5	38.9
NP	15.4	12.9	16.9
NIM (%)	3.0	3.0	3.0
EPS (INR)	7.8	6.5	8.5
EPS Gr. (%)	23.4	-16.7	31.0
BV/Sh. (INR)	72.8	78.7	86.0
ABV/Sh. (INR)	64.9	66.9	71.7
Ratios			
ROE (%)	11.1	8.5	10.3
ROA (%)	0.9	0.7	0.8
Payout (%)	21.7	9.3	14.2
Valuations			
P/E(X)	6.4	7.7	5.9
P/BV (X)	0.7	0.6	0.6
P/ABV (X)	0.8	0.7	0.7
Div. Yield (%)	3.4	1.2	2.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	36.5	37.4	29.3
FII	34.4	33.6	38.2
Others	29.1	29.0	32.5

FII Includes depository receipts

CMP: INR50 TP: INR65 (+30%) Buy

Treasury gains drive earnings; Margins steady

Moratorium book declines – Watchful of asset quality in 2HFY21

- Federal Bank's (FB) PAT was higher than our estimates supported by treasury gains. However, core fee income declined sharply impacted by the lockdown and tepid loan growth. On the asset quality front, one large corporate account slipped during the quarter (Healthcare sector, indicated in 4QFY20) while loans under moratorium declined to 24% (earlier 35%).
- We have fine-tuned our FY21/FY22E estimates as we have moderated our fee growth assumptions and slightly increased business growth projections. Maintain **Buy**.

Treasury gains drive earnings; PCR increases to ~60%

- 1QFY21 PAT stood at INR4.0b (~+4% YoY/+33% QoQ) significantly ahead of our estimates, mainly led by treasury gains of INR3b. The bank has prudently used the treasury gains to improve provisioning coverage and carries total COVID provisions of ~INR1.9b. NII grew 12% YoY (~INR13b) as margins increased 3bp QoQ to ~3.07%.
- Core fee income declined 32% YoY affected by the lockdown while higher treasury income resulted in total income growth of ~25% YoY. Opex grew ~12% YoY led by additional pension cost of INR350m. PPoP, thus, grew 19% YoY to INR9.3b while core PPoP (excluding treasury gains) declined ~9% YoY. Overall, C/I ratio improved ~250bp QoQ to 47.8%.
- Loan growth moderated to ~8% YoY to INR1.2t, led by sluggish trends in corporate/SME while retail/agri loans grew ~16%/14% YoY. Deposit base grew 17% YoY led by CASA growth of 19% YoY. CASA ratio, thus, improved by 152bp QoQ to ~32%.
- Fresh slippages stood at INR1.8b (0.7% annualized), mainly led by one large corporate account of INR1.7b, which slipped during the quarter. Absolute GNPA increased 3.5% QoQ while NNPA declined ~8% QoQ. GNPA ratio, thus, increased 12bp QoQ to 2.96% while NNPA ratio improved by 9bp QoQ to 1.22%. This led to PCR improving significantly to 59.6% (v/s 54.5% in 4QFY20). **Advances under moratorium declined to 24% (v/s 35% earlier).**

Highlights from management commentary

- **Segmental moratorium:** Agri (23%), Retail (33%), Business Banking (42%), Commercial Banking (35%) and Corporate (12%). Overall, 24% of the total portfolio in value have availed moratorium.
- Moratorium book's partial payment stands at ~12%. Hence, of the total 24%, ~12% have not paid any installments.

Valuation and view

FB has reported moderation in loan/fee growth affected by the lockdown due to the COVID-19 pandemic. We expect (a) growth trends to remain modest due to the consumption slowdown, and (b) banks to become more cautious in lending to COVID affected sectors and certain retail/SME segments. However, the bank's liability franchise remains strong with CASA + Retail TD of 92% and with one of the highest LCRs amongst banks. On the asset quality front, we expect credit cost trends to remain elevated as slippages should increase sharply from 2HFY21. We estimate FB to report RoA/RoE of 0.8%/10.3% by FY22E. Maintain **Buy** with an unchanged TP of INR65 (0.8x FY22E ABV).

Quarterly performance (INRm)

	FY20				FY21E				FY20	FY21E	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Est
Net Interest Income	**11,542**	**11,238**	**11,549**	**12,160**	**12,964**	**12,630**	**12,834**	**12,499**	**46,489**	**50,927**	**12,299**	**5.4**
% Change (YoY)	17.8	9.9	7.2	10.9	12.3	12.4	11.1	2.8	11.3	9.5	6.6	
Other Income	3,915	4,209	4,079	7,111	4,884	4,944	5,277	5,754	19,314	20,859	4,801	1.7
Total Income	**15,457**	**15,447**	**15,628**	**19,271**	**17,848**	**17,573**	**18,111**	**18,254**	**65,803**	**71,786**	**17,101**	**4.4**
Operating Expenses	7,629	8,259	8,190	9,678	8,524	8,892	9,255	9,622	33,756	36,292	8,828	-3.4
Operating Profit	**7,828**	**7,188**	**7,438**	**9,593**	**9,324**	**8,682**	**8,856**	**8,632**	**32,047**	**35,494**	**8,273**	**12.7**
% Change (YoY)	29.8	3.0	5.1	27.1	19.1	20.8	19.1	-10.0	16.0	10.8	5.7	
Provisions	1,920	2,518	1,609	5,675	3,946	4,607	4,700	5,177	11,722	18,430	4,195	-5.9
Profit before Tax	**5,907**	**4,670**	**5,830**	**3,918**	**5,378**	**4,074**	**4,157**	**3,455**	**20,325**	**17,064**	**4,078**	**31.9**
Tax	2,065	503	1,423	906	1,370	1,027	1,048	736	4,898	4,181	1,028	33.3
Net Profit	**3,842**	**4,167**	**4,406**	**3,012**	**4,008**	**3,048**	**3,109**	**2,719**	**15,428**	**12,883**	**3,050**	**31.4**
% Change (YoY)	46.2	56.6	32.1	-21.0	4.3	-26.9	-29.4	-9.8	24.0	-16.5	-20.6	
Operating Parameters												
Deposit (INR b)	1,325	1,395	1,446	1,523	1,549	1,587	1,642	1,706	1,523	1,706	1,549	0.0
Loan (INR b)	1,120	1,159	1,192	1,223	1,213	1,247	1,290	1,345	1,223	1,345	1,212	0.1
Deposit Growth (%)	19.1	18.1	17.1	12.8	16.9	13.7	13.5	12.0	12.8	12.0	16.9	0.0
Loan Growth (%)	18.8	14.8	13.0	10.9	8.3	7.6	8.2	10.0	10.9	10.0	8.2	0.1
Asset Quality												
Gross NPA (%)	3.0	3.1	3.0	2.8	3.0	3.2	3.8	4.2	2.8	4.2	3.0	-0.1
Net NPA (%)	1.5	1.6	1.6	1.3	1.2	1.4	1.7	1.9	1.3	1.9	1.4	-0.1
PCR (%)	50.7	49.0	46.4	54.5	59.6	57.0	56.6	55.1	54.5	55.1	56.0	3.6

E:MOFSL Estimates

Telecom

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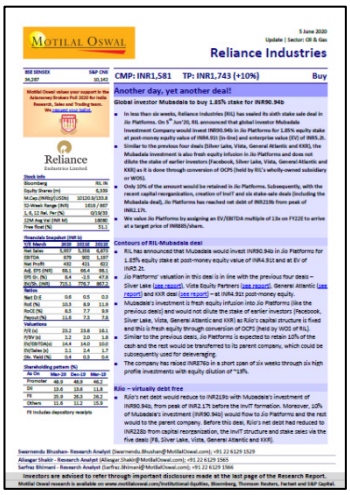
ASIAMONEY POLL 2020

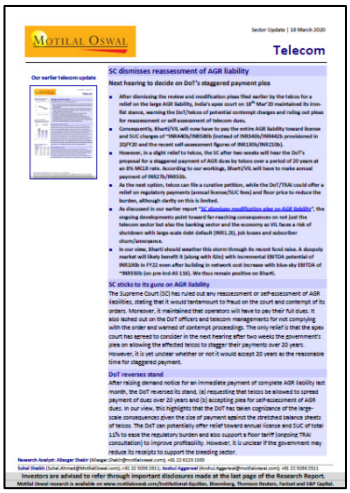
Industry revenue growth robust on tariff hikes in Dec'19

- **The Telecom Regulatory Authority of India's (TRAI) 4QFY20 industry report reflects strong revenue growth due to the benefit of price hikes taken in Dec'19. Industry revenue (AGR incl. NLD) increased 11% QoQ (21% YoY) to INR398b while gross revenue was up 7% (11% YoY) to INR565b in 4QFY20.**
- **RJio's revenue growth (AGR incl. NLD) stood at 6% YoY (in line with growth reported by the company). However, we note a discrepancy in Bharti/VIL's revenue growth (AGR incl. NLD) at 8.1%/15.5% (v/s company reported growth of 16%/6%), which could potentially be due to provisioning/write-back adjustments. Subsequently, RJio's market share has declined 150bp to 34.3% (70bp QoQ to 30.6%); however, RJio still retains the top spot in AGR market share. VIL's market share has grown 110bp to 26.4%.**
- **Even on gross basis, RJio's market share declined 40bp QoQ to 30.5% – the company ranks #2 on gross revenue market share. Bharti's gross revenues grew 6% QoQ, but its market share fell to 34% (-20bp QoQ); however, Bharti continues to rank #1 on gross revenue market share. VIL's gross revenue market share remained flattish at 28.9% (-10bp). Surprisingly, BSNL witnessed 25% QoQ growth in gross revenue market share.**
- **In gross revenue terms (in 22 circles), Bharti gained market share in 20 circles and is ranked #1 in 10 circles, RJio leads in 6 circles while VIL is ranked #1 in 6 circles. On an AGR basis (in 22 circles), Bharti gained market share in 19 circles and is now ranked #1 in 5 circles, RJio leads in 15 circles and is ranked #2 in the rest 7 circles, while VIL is ranked #1 in just 2 circles.**
- **RJio's ARPU growth stood at a mere 2% QoQ while Bharti/VIL's ARPU grew 25%/8%. RJio's ARPU growth should outpace that of Bharti/VIL in FY21 due to majority of the price hike benefits accruing; however, this could be partly offset by higher growth in low ARPU Jiophone subscribers. VIL's continued subscriber loss could impact its revenue market share. We expect industry revenue growth to remain healthy as ARPUs may inch up over time.**

Our earlier telecom update


MOTILAL OSWAL
Reliance Industries
CMP: INR1,581 TP: INR1,743 (+10%) Buy
Another day, yet another deal!

Our earlier telecom update


MOTILAL OSWAL
Telecom
SC dismisses reassessment of AGR liability

Industry adjusted AGR/GR jumps 11%/7% QoQ

Industry's adjusted AGR* increased 11% QoQ (+21% YoY) to INR398b in 4QFY20. Gross revenue was up 7% (11% YoY) to INR565b. This rise in industry's revenue is on account of ~25% tariff hikes taken by all telecom operators in Dec'19.

RJio's revenue growth (AGR incl. NLD) stood at 6% YoY (in line with growth reported by the company). However, we note a discrepancy in Bharti/VIL's revenue growth (AGR incl. NLD) at 8.1%/15.5% (v/s company reported growth of 16%/6%), which could potentially be due to provisioning/write-back adjustments.

Bharti maintains number one position

Bharti's gross revenue grew 6% QoQ to INR192b. The company's market share, however, declined 30bp QoQ to 34% but it continues to lead the market in gross revenues. Bharti's focus remains on improving subscriber mix and up-trading of subscribers with minimum churn ratio, which is expected to drive revenues, despite subscriber base growing at a slower pace.

RJio's gross revenue increased 6% QoQ in the quarter as the company's subscribers have longer duration plans (v/s Bharti and VIL), thus, full benefit of the tariff hikes would be realized by 1QFY21. The company's market share, thus, declined by 40bp QoQ to 30.5%. RJio remains the #2 player in terms of gross revenues.
VIL gross revenue grew 7% QoQ to INR164b. Its market share remained flat QoQ at 28.9% (v/s 39% share in 1QFY18). We believe VIL's share might drop further in the upcoming quarters as the company is witnessing continuous churn of subscribers, due to its network quality issues. Surprisingly, BSNL witnessed 25% QoQ growth in gross revenue market share.

Bharti leads in 10 circles by gross revenues

In gross revenues terms (in 22 circles), Bharti gained market share in 20 circles and is ranked #1 in 10 circles, thus, tightening its hold over the industry. RJio leads in 6 circles and has gained market share only in Delhi. VIL is ranked #1 in 6 circles and has gained market share in just 1 circle during the quarter.

On an AGR basis (in 22 circles), Bharti gained market share in 19 circles and is now ranked #1 in 5 circles, RJio leads in 15 circles and is ranked #2 in the rest 7 circles, while VIL is ranked #1 in just 2 circles.

ARPUs rise driven by tariff hikes

Industry ARPU has increased by 11% to INR115 on account of the ARPU hikes in Dec'19. It is expected to rise further as full benefits would be realized in 1QFY21 and due to the increased demand for data packs in the nationwide lockdown. RJio's ARPU growth stood at mere 2% QoQ while Bharti/VIL's ARPU grew 8%/25% QoQ. RJio's ARPU growth should outpace that of Bharti/VIL in FY21 due to majority of the price hike benefits accruing; however, this could be partly offset by higher growth in low ARPU Jiophone subscribers. VIL's continued subscriber loss could impact its revenue market share. We expect industry revenue growth to remain healthy as ARPUs may inch up over time.

India's corporate debt at 8-year low in FY20

Real credit declines for the first time in two decades in 4QFY20

- **Banks' total lending grew 6.4% YoY in Mar'20, second only to the multi-decade lowest growth of 5.4% in 4QFY17. However, after adjusting for the inter-financial sector, banks' lending to the non-financial sector grew at an all-time low of 4.7% in 4QFY20. Further, while growth of non-bank lenders was robust in FY17, their credit grew at an all-time low of 3% YoY in 4QFY20. Consequently, India's non-government non-financial (NGNF) debt – of which banks account for only ~57% – grew just 3.9% YoY in 4QFY20, marking the slowest growth in the past two decades. As % of GDP, it has plunged to 80.6% in FY20, same as in FY16. Adjusted for headline inflation, real debt declined 2.6% YoY in 4QFY20, marking its first contraction in at least the past two decades.**
- **NGNF credit growth slowdown was broad-based in 4QFY20, with only external commercial borrowings (ECBs) – accounting for 9% of NGNF debt – growing faster than in 3QFY20. Excluding NBFCs and HFCs, NGNF debt growth stood at 4% YoY – the lowest since 2000 and v/s 5.2% in 3QFY20.**
- **Further, while household debt growth was stable at five-year low of ~9% YoY, non-financial corporate (NFCs) debt was almost stagnant (grew only 0.9% YoY) in 4QFY20. Thus, household debt inched up from 31.3% a year ago to 31.8% of GDP in FY20, but NFCs debt stood at an 8-year low of 48.8% of GDP in FY20 (down from its peak of 52.3% in FY16).**
- **Overall, the COVID-19 pandemic hit the economy in mid-Mar'20; however, the sharp deceleration in credit growth (in line with GDP growth) has been in place for the past 6-7 quarters. With NGNF debt declining for the first time in real terms in 4QFY20, we expect this trend to exacerbate in 1HFY21, before recovering in 2HFY21. It would be interesting to watch if the NGNF debt would decline in FY21 on an annual basis, following an expected decline of 5% in real GDP.**

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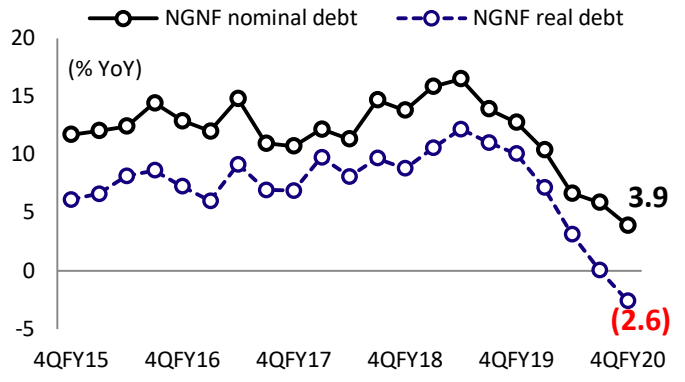
ASIAMONEY POLL 2020

NGNF real credit declined for the first time in 4QFY20

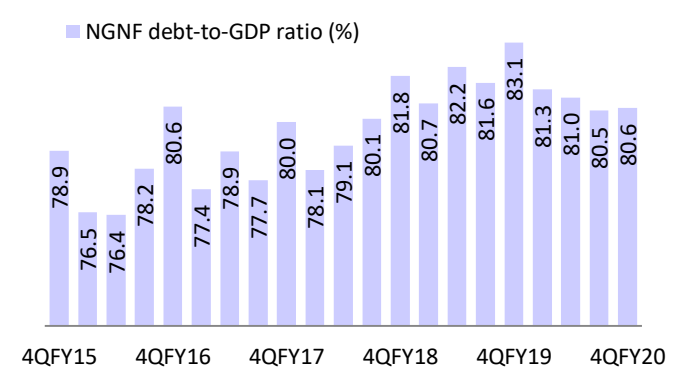
From an average growth of 12.5% during the past five years (FY15-19), total credit to India's NGNF sector grew only 3.9% YoY in 4QFY20, marking its slowest growth in the past two decades (*Exhibit 1*). Adjusting for inflation – measured by the consumer price index (CPI) – NGNF's real debt declined 2.6% in 4QFY20, marking its first contraction since 2000 (it was almost flat in 3QFY20) and an average growth of 7.3% during the past five years. Further, notwithstanding the 19-year slowest growth of 7.2% in nominal GDP, the NGNF debt-to-GDP ratio stayed low at 80.6% in 4QFY20, as against an all-time peak of 83.1% in FY19 *(Exhibit 2)*.

India's NGNF real debt posted its first YoY decline in 4QFY20...



Please see Appendix at end of the report for methodology

...and NGNF debt-to-GDP ratio stayed low at ~80.5% in 4QFY20

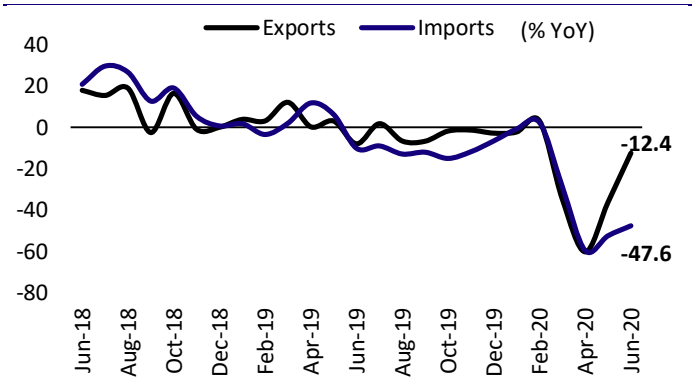


Source: Reserve Bank of India (RBI), Central Statistics Office (CSO), Bloomberg, NBFCs/HFCs company reports, CEIC, MOFSL

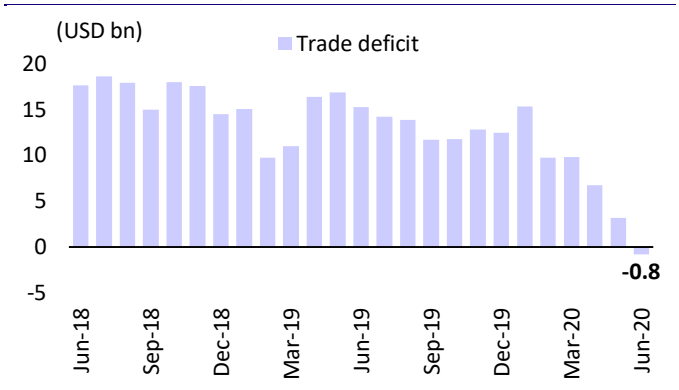
India's foreign trade in surplus in Jun'20, after over 18 years

- **While exports from India saw slower decline at 12.4% YoY to USD21.9b (vis-à-vis decline of 36.2% YoY witnessed in May'20), shipments into the country continued to plunge, coming in 47.6% YoY lower at USD21.1b during the month. This is indicative of severely hit domestic demand in the economy *(Exhibit 1)*.**
- **Consequently, India recorded trade surplus of USD0.8b in Jun'20, the first surplus after Jan'02. This was India's eighth and the largest trade surplus in at least 27 years. This was contrary to market expectation of USD4b and our expectation of USD7.8b trade deficit *(Exhibit 2)*.**
- **Therefore, India's cumulative trade deficit stood at USD9.1b in 1QFY21, the lowest in the last 16 years *(Exhibit 3)*. On a cumulative basis, exports declined 36.7% YoY to USD51.3b and imports 52.4% YoY to USD60.4b.**
- **Just as in the past several months this year, broad-based decline was witnessed in imports in Jun'20. While petroleum imports declined 55.3% YoY to USD4.9b, non-oil imports fell at an even faster pace at 44.7% YoY to USD16.2b in Jun'20 *(Exhibit 4)*. A mild pickup in gold, albeit still negligible, led to a 41.4% YoY drop in non-oil non-gold imports during the month. India imported USD0.6b worth of gold in Jun'20 and only USD0.7b in 1QFY21. Among non-oil non-gold items, electronic goods, transport equipment, electrical and non-electrical machinery, non-ferrous metals, and iron and steel, among others, declined upwards of 35% YoY in Jun'20.**
- **Petroleum exports collapsed 31.6% YoY to USD1.9b and non-oil exports fell 10% YoY to USD20b during the month. Items such as raw materials for textiles and electronic goods saw more than 20% decline in Jun'20. Engineering goods exports fell 7.5% YoY, and gem and jewelry exports contracted by more than half. Other items such as leather and poultry products also saw massive decline in exports.**
- **Overall, trade surplus was certainly not expected. The nearly 50% fall witnessed in imports in Jun'20—which was deemed the month when economic activity would begin to gradually pick up—is worrisome. This indicates a dampened effect of the COVID-19 crisis on domestic demand in the country. Moreover, with the number of COVID-19-positive cases rising throughout the world, foreign trade is likely to remain very weak going ahead.**

India's imports nearly halved and exports declined slower in Jun'20…

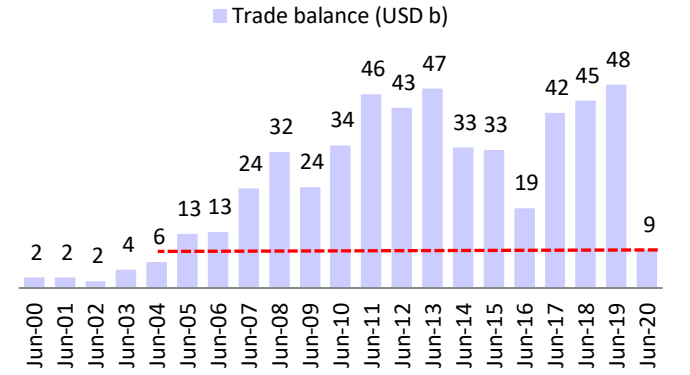


…leading to trade surplus for the first time since Jan'02



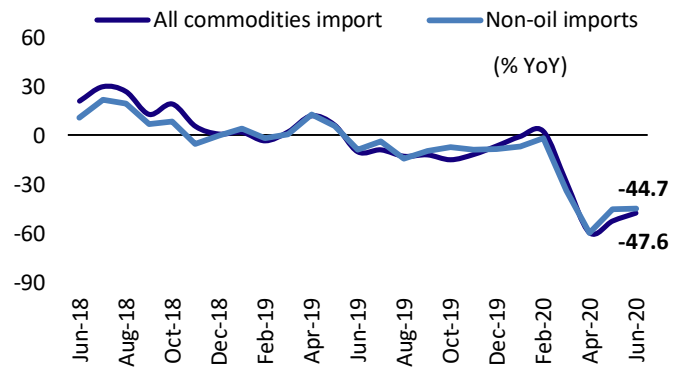
Source: Commerce Ministry, MOFSL

Cumulative Apr–Jun trade deficit was the lowest in 16 years…



Apr-Jun for all years

…as non-oil imports too plummeted in Jun'20



Source: Commerce Ministry, 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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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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