Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	37,419	1.1	-9.3
Nifty-50	11,022	1.1	-9.4
Nifty-M 100	15,389	1.0	-10.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,252	0.8	0.7
Nasdaq	10,767	2.5	20.0
FTSE 100	6,262	-0.5	-17.0
DAX	13,047	1.0	-1.5
Hang Seng	10,295	0.9	-7.8
Nikkei 225	22,717	0.1	-4.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	-0.6	-35.4
Gold ($/OZ)	1,818	0.4	19.8
Cu (US$/MT)	6,494	0.6	5.6
Almn (US$/MT)	1,628	0.1	-8.6
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.9	-0.1	5.0
USD/EUR	1.1	0.2	2.1
USD/JPY	107.3	0.2	-1.2
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.8
10 Yrs AAA Corp	6.5	-0.01	-1.1
Flows (USD b)	**20-Jul**	**MTD**	**CYTD**
FIIs	0.23	-0.04	-2.71
DIIs	-0.20	0.06	12.12
Volumes (INRb)	**20-Jul**	**MTD***	**CYTD***
Cash	601	600	520
F&O	11,874	18,094	15,012

Note: *Average

Today's top research theme

India Strategy: IT stands out!

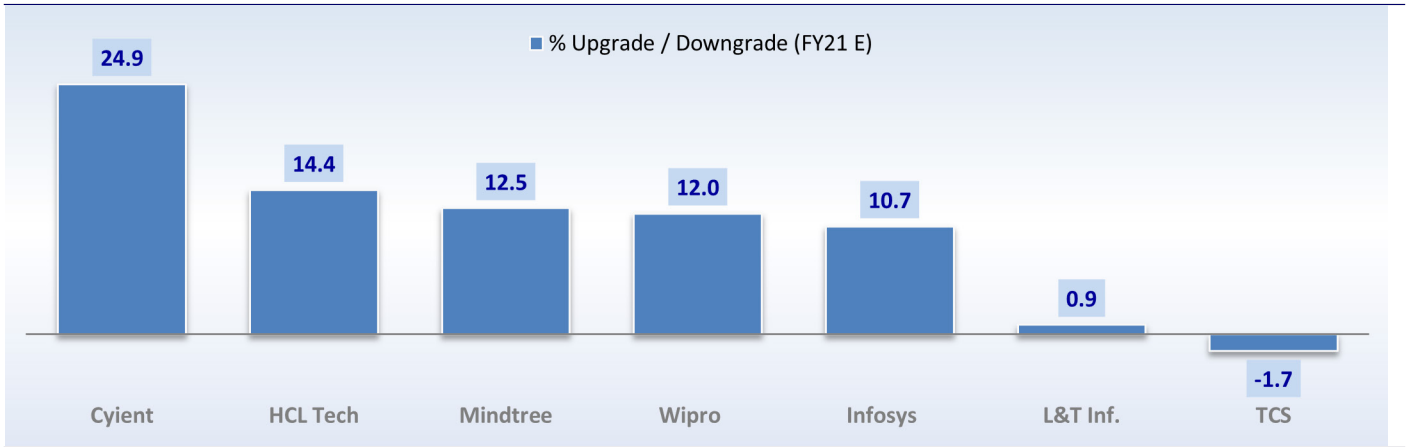
- The latest edition of our **Strategy note** saw several changes to our model portfolio, which reflects (a) a slightly more defensive stance given the elevated market valuations along with relatively less attractive risk-reward, and (b) better rural demand indicators v/s urban centers.
- 1QFY21 corporate earnings have begun with several IT firms exceeding our expectations, in turn resulting in material earnings upgrades. Key positives include healthy deal wins, a robust deal pipeline and better-than-expected guidance for FY21. This has driven 12-14% earnings upgrade for Infosys, HCL Tech and Wipro.
- IT offers relative earnings comfort coupled with solid balance sheet, cash flow, RoE and payout metrics in such current volatile and disruptive times. We expect the IT sector's relative earnings outperformance to sustain for the rest of FY21. Also, the relative growth divergence (v/s other sectors) should support re-rating of the IT sector. Thus, we have further increased our allocations to the IT sector and (a) added 100bp to Infosys, and (b) introduced Wipro in our model portfolio. We have funded this by trimming our positions in Utilities.

Research covered

Cos/Sector	Key Highlights
India Strategy	IT stands out!
Mahindra and Mahindra	Revisiting capital allocation
ACC	Fighting back with aggressive cost reduction
M&M Financial	Controlled opex leads to PPoP beat; Credit costs elevated
Trident	Near-term demand outlook improving
Telecom	SC talks tough – reserves order on time window

Chart of the Day: India Strategy (IT stands out!)

Five out of seven IT companies have seen FY21 earnings upgrade >10%



Source: MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

IL&FS says aims to resolve nearly 60% of debt despite Covid-19 delays resolution process

The Uday Kotak led IL&FS board has set an ambitious target of recovering Rs 50,500 crore loans or about half of the Rs 1 lakh crore total due to the debt laden infratructure and financial services conglomerate by March 2021 and expects to finally…

2

Oxford-AstraZeneca Covid Vaccine Study Shows Dual Immune Action

A coronavirus vaccine the University of Oxford is developing with AstraZeneca Plc showed promising results in early human testing, a sign of progress in the high-stakes pursuit of a shot to defeat the pathogen. The vaccine increased levels of both protective neutralizing antibodies and immune T-cells that target the virus, according to the study organizers. The results, published Monday in The Lancet medical journal, are a key milestone for one of the fastest-moving vaccine projects globally. “Our hope is that we can actually start delivering a vaccine before the end of the year,” AstraZeneca Chief Executive Officer Pascal Soriot said on a call…

3

Govt plans to privatise most public sector banks, keep 4-5 lenders

India is looking to privatise more than half of its state-owned banks to reduce the number of government-owned lenders to just five as part of an overhaul of the banking industry, government and banking sources said. The first part of the plan would be to sell majority stakes in Bank of India, Central Bank of India, Indian Overseas Bank, UCO Bank…

4

India, US trade deal: New Delhi seeks preferential treatment on drugs, other goods

India is seeking concessions for generic drugs it exports to the United States in return for opening its dairy markets and slashing tariffs on farm goods as the two sides seek to shore up a new trade deal, three sources said. India accounts for 40% of US generic drug imports,…

5

Fertiliser sales jump 83% to 111.61 lakh tonnes in Apr-June: Govt

Fertiliser sales jumped 83 per cent in April-June to record 111.61 lakh tonnes despite the nationwide lockdown to curb the spread of coronavirus, the government said on Friday. "During April-June 2020, the POS (point of sale) sale of fertilisers to farmers was 111.61 lakh tonnes which is 82.81 per cent higher than the last year's sale of 61.05 lakh tonnes during the same period," an official statement said…

6

INOX Leisure to not shut any cinema halls, to add 41 screens in FY 21: Alok Tandon, CEO

INOX Leisure, the country's second biggest multiplex chain, said it will not shut any cinema halls and that the plan to build 1,000 screens is on track, even as theatres continue to be shut and online video-streaming services gain popularity amid…

7

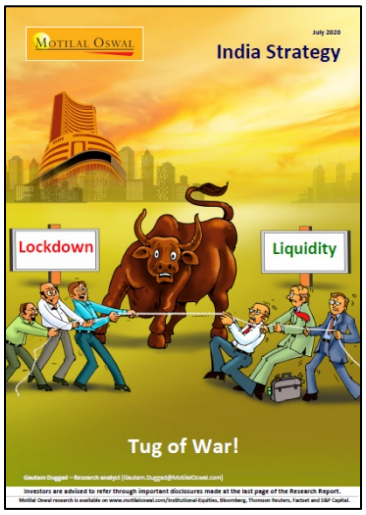
IndiGo to lay off 10% of its workforce

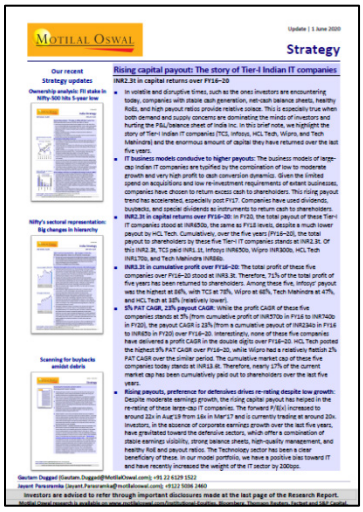
IndiGo will lay off 10% of its 28,000 strong workforce, as its business, like its local and global peers, continues to be battered by the ongoing Coronavirus pandemic, arguably the worst ever crisis to have hit humanity, businesses and economies worldwide. The drastic move by India’s biggest airline…

India Strategy

BSE Sensex: 37,419 **Nifty-50: 11,022**

Our recent Strategy updates





IT stands out!

Making a bigger Overweight in model portfolio; Adding Wipro

- **The latest edition of our Strategy note (link) saw several changes to our model portfolio, which reflects (a) a slightly more defensive stance given the elevated market valuations along with relatively less attractive risk-reward, and (b) better rural demand indicators v/s urban centers. We had raised weightage for IT, Telecom and Consumer sectors by 300bp each. This has led to IT and Telecom being the highest 'Over Weight' sectors in in our model portfolio.**
- **1QFY21 corporate earnings have begun with several IT firms exceeding our expectations, in turn resulting in material earnings upgrades. Key positives include healthy deal wins, a robust deal pipeline and better-than-expected guidance for FY21. This has driven 12-14% earnings upgrade for Infosys, HCL Tech and Wipro.**
- **IT offers relative earnings comfort coupled with solid balance sheet, cash flow, RoE and payout metrics in such current volatile and disruptive times. Tier-I IT companies have best in class balance sheets, resilient business models and excellent management pedigree and yet valuations are not expensive. We expect the IT sector's relative earnings outperformance to sustain for the rest of FY21. Also, the relative growth divergence (v/s other sectors) should support re-rating of the IT sector. Thus, we have further increased our allocations to the IT sector and (a) added 100bp to Infosys, and (b) introduced Wipro in our model portfolio. We have funded this by trimming our positions in Utilities.**

IT earnings began on solid note; Material earnings upgrade

- 1QFY21 corporate earnings season kicked off with IT companies delivering robust results in terms of revenue, margins, deal wins and guidance for FY21. For 1QFY21, our expectations for the IT sector is already building in outperformance with the MOFSL IT Universe likely to post flattish YoY profits (v/s earlier estimated 49%/41% YoY earnings decline for the MOFSL Universe/Nifty). However, earnings reported by Tier-I IT names (Infosys, Wipro and HCL Tech) last week have been well ahead of our expectations.
- In fact, we have upgraded earnings by 12-14% for Infosys, HCL Tech and Wipro. This is impressive given the sharp earnings volatility seen in other sectors due to the COVID-19 pandemic induced lockdowns and consequent demand-supply disruption.

IT outperforms Nifty by 20% YTD

- The NSE IT index has outperformed the Nifty by 20% YTD. The NSE IT index gained 10% YoY YTD (v/s the Nifty's decline of 9.4%). IT seems relatively well poised given the better earnings visibility coupled with the comfort on balance sheet, FCF, return ratios and payouts.
- The importance of stable, consistent and rising cash flows and pay-outs usually gets exaggerated in such volatile times. In our recent note (Rising capital payout: The story of Tier-I Indian IT companies), we had highlighted that the top-5 Tier-I

IT companies have cumulatively returned INR2.3t (71% of total profits) via dividends and buybacks over FY16-20.

Increasing allocation to IT; Introducing Wipro in model portfolio

- We expect the relative earnings outperformance of the IT sector to sustain over the remaining part of FY21. Despite the recent run-up, we believe the IT sector still trades at reasonable valuations given its underlying impressive FCF, return ratios and payout metrics, and offers an attractive risk-reward proposition.
- Thus, we are raising weight in Infosys and introducing Wipro, in-turn raising our allocation to IT further in our model portfolio.
- We believe Wipro is a good re-rating candidate due to (a) potential 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, 14.5x 1-year forward P/E).

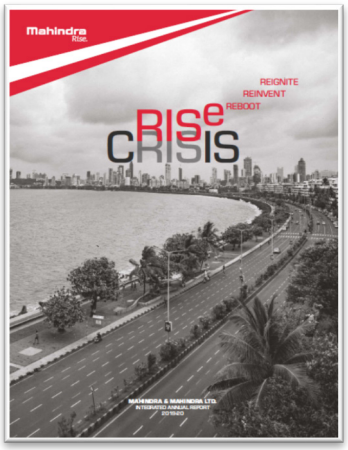
Six out of seven IT companies' reported profits ahead of our expectations in 1QFY21

	Sales (INR B)				EBIDTA (INR B)				PAT (INR B)				EBIDTA Margin (%)	
Company	June-20 (est)	June-20 (actual)	Var. over Exp. (%)	Vs Exp	June-20 (est)	June-20 (actual)	Var. over Exp. (%)	Vs Exp	June-20 (est)	June-20 (actual)	Var. over Exp. (%)	Vs Exp	June-20 (est)	June-20 (actual)
Infosys	231.3	236.7	2.3	In Line	55.6	61.2	10.1	Above	38.5	42.3	9.9	Above	24.0	25.9
L&T Infotech	29.6	29.5	-0.3	In Line	5.8	5.9	1.5	In Line	3.9	4.2	8.1	Above	19.7	20.1
Mindtree	19.5	19.1	-2.0	In Line	2.9	3.5	18.6	Above	2.0	2.1	7.3	Above	15.1	18.2
TCS	393.1	383.2	-2.5	In Line	104.6	100.3	-4.2	In Line	80.6	70.5	-12.6	Below	26.6	26.2
Wipro	151.0	150.3	-0.4	In Line	28.7	33.0	15.0	Above	21.6	24.1	11.4	Above	19.0	21.9
Cyient	9.6	9.9	3.0	In Line	1.0	1.0	-5.0	Below	0.6	0.8	31.9	Above	10.9	10.0
HCL Technologies	178.6	178.3	-0.2	In Line	41.1	45.7	11.1	Above	26.5	29.2	10.5	Above	23.0	25.6
Technology	**1,012.7**	**1,007.0**	**-0.6**	**In Line**	**239.8**	**250.5**	**4.5**	**In Line**	**173.7**	**173.3**	**-0.3**	**In Line**	**23.7**	**24.9**

Source: Company, MOFSL

Mahindra and Mahindra

BSE SENSEX	S&P CNX
37,419	11,022



Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USDb)	737.9 / 9.8
52-Week Range (INR)	621 / 246
1, 6, 12 Rel. Per (%)	11/15/6
12M Avg Val (INR M)	2583
Free float (%)	81.1

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	455	417	490
EBITDA	58.0	51.9	65.6
Adj. PAT*	35.8	30.9	40.9
Adj. EPS (INR)	30.0	25.9	34.3
EPS Gr. (%)	-30.3	-13.7	32.4
BV/Sh. (INR)	290	310	336
Ratios			
RoE (%)	9.7	8.2	10.1
RoCE (%)	5.9	7.5	9.3
Payout (%)	24	24	27
Valuations			
P/E (x)	19.8	22.9	17.3
P/BV (x)	2.0	1.9	1.8
Div. Yield (%)	0.4	0.8	1.3
FCF Yield*	0.2	3.7	6.6

*(incl MVML)

CMP: INR594 TP: INR695 (+17%) Buy

Revisiting capital allocation

Current crisis a catalyst to reboot, reinvent and reignite value creation

Mahindra and Mahindra's (M&M) FY20 Annual Report highlights the company's recalibration of capital allocation to reduce losses and increase accountability of its various businesses. Besides listing out priority areas for the auto and FES businesses, it also explains future growth areas for farm mechanization and shared mobility/logistics. Key insights from the Annual Report highlighted below:

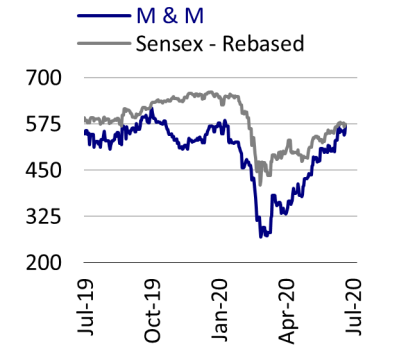
- M&M is focused on using the current crisis (in the form of substantial losses in global businesses) to reboot (streamline capital allocation policy and bring accountability), reinvent (realize the potential of few unlisted businesses) and reignite value creation for all its stakeholders.
- Positive sentiment in the rural economy should drive faster recovery for tractors/Auto sector. Besides potential demand-side challenges (lower incomes, job uncertainties, financing issues), supply-side bottlenecks (labor availability, limited working hours, social distancing norms) are also expected.
- It has identified priority areas for its core businesses such as strengthening of the core business, aggressive cost optimization, reorientation of capex and turnaround in global subsidiaries.
- M&M is taking appropriate steps to strengthen its UV portfolio through new product launches, introduction of petrol engines and leveraging the Ford JV.
- The tractor business saw green-shoots during Dec'19 to Feb'20 with ~9.7% volume growth, before the Covid-19 related lockdown hurt demand. Consistent growth in horticulture is also driving growth for tractors.
- M&M is continuing its focus on farm mechanization to address concerns of farm productivity and labor shortage. It has an active presence in the farm mechanization space and offers efficient and affordable mechanization solutions across the spectrum of farming operations.
- It has launched a unique delivery model – Farming-as-a-Service (FaaS) under the brand name *Krish-e* – to support farmers across the crop cycle. *Krish-e* aims to provide an integrated agronomy advisory, mechanized services and high-tech digital solutions to small farmers to reduce their cost of cultivation, enhance productivity and improve farming outcomes.
- M&M is also focusing on the shared logistics segment for both personal mobility as well as cargo logistics. It further expanded its presence in this segment by acquiring stake in *Meru* (shared personal mobility). This is in addition to its stake in *Zoomcar*, which it had acquired in FY19 (~16.1% stake).
- Mahindra Electric (subidiary focused on EVs) achieved EBITDA break-even in FY20. e-3Ws offer good growth potential due to better operating economics and easy deployment for first/last mile connectivity (incl. at metro stations).
- **Valuation and view**: Implied Core P/E for M&M is ~12.8x FY22E S/A EPS and 1.3x Core P/BV. Our Jun'22E-based SOTP TP is ~INR695/share – an upside of ~17%. At our TP, implied Core P/E is ~15.2x (v/s 5-year average core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	18.9	18.9	20.4
DII	26.9	23.2	22.5
FII	41.3	41.4	39.2
Others	12.9	16.6	17.9

FII Includes depository receipts

Stock Performance (1-year)



Recalibrating capital allocation to reignite value creation

- Over the last two years, M&M's performance has been impacted by increasing losses in some of its international subsidiaries, which has worsened recently due to the COVID-19 pandemic and the consequent lockdowns.
- The company's main challenge lies in its global subsidiaries, some of which are making significant losses. However, it intends to use the crisis to rise and reach new heights by rebooting, reinventing and reigniting value creation.
- As part of its 'reboot' strategy, M&M has streamlined its capital allocation policy to maximize value creation for all stakeholders. It has not only clearly laid out criteria to allocate capital to existing businesses, but has also increased focus on improving the accountability of businesses to ensure that the outcome is in line with its plans.
- As part of its 'reinvent' strategy, the company has identified a set of unlisted businesses that hold promise and could become value creators over the next few years. M&M would focus on allocating the right resources to ensure that these businesses get the required inputs and capital to realize their true potential.
- With the revamped and stringent capital allocation process (rebooting), coupled with a strategy to identify and scale up value creators (reinventing), the company is aiming higher and maximizing value creation for all its stakeholders (reigniting).

Exhibit 1: Loss-making businesses/entities to be closely scrutinized and classified into 3 categories, viz. A, B and C

Category	A	B	C
Criteria	Entities with clear path to 18% RoE	Delayed or unclear path to profitability but quantifiable strategic impact	Unclear path to profitability and no quantifiable strategic impact
Action	Continue	Continue	Exit (Explore partnership) alliance or shut-down)

Source: Company

M&M delivered on project '3-2-3' initiated after 2002 crisis

INR b	FY02	FY05	Gr (x)
Revenues	32.1	66.6	2.1
EBITDA	2.9	7.7	2.7
PAT	1.3	5.0	3.8

Reigniting Value Creation 2002 – The turning point

In 2002, M&M's share price hit an all-time low. Concerned by this drop, the group made shareholder value creation one of its prime focus areas. It launched a project called '3-2-3' to increase profits by 3x and the top line by 2x over a period of 3 years. Believed to be an impossible task, the company eventually achieved this target for most of its group businesses.

Outlook: Rural to recover faster; risks to both demand and supply

- Sentiment for the rural economy is encouraging, driven by good Rabi output, robust reservoir levels and normal monsoon forecast by the IMD. This augurs well for Kharif crops as well as demand for tractors and farm machinery.
- Hence, M&M expects faster recovery in rural India. Moreover, rural demand should improve sales momentum for Auto sector while urban centers are expected to take a little longer to return to normalcy.
- Factors such as lower household incomes, employment uncertainties, higher cost of finance and difficulty in procuring finance as a result of the potential rise

in NPAs (in the Financial Sector) could result in demand constraints for discretionary items such as automobiles.

- M&M's loss of sales due to COVID-19 in Mar'20 is estimated at 23,400/ vehicles/14,700 tractors, while for 1QFY21, it is estimated at 87,000 vehicles/ 30,000 tractors. While it is difficult to estimate the definite impact of COVID-19 on the business beyond 1QFY21, the economy should see demand constraints for discretionary items.
- On the supply side, short-to-medium term risks exist. This is because many suppliers are facing working capital issues in addition to labor availability challenges, limited working hours and adherence to COVID-19 safety norms. Production at the suppliers' end is resuming gradually and almost 100% are now operational.

Areas of priority for core businesses

- For the Auto business, M&M's future direction would involve (a) the launch of the new *Thar*, (b) redefining the dealer business model, (c) strategic re-prioritization of capital expenditure, (d) aggressive cost optimization, (e) synergy projects with Ford JV, (f) building a distinctive SUV brand, (g) launching new models, (h) leveraging LCV and EV portfolio, and (i) creating a path to profitability for its global subsidiaries.
- In FES, key priorities include (a) strengthening the domestic core business, (b) building farm machinery business in India, (c) turning around the global business, (d) leveraging its unique farming solutions delivery model 'Farming as a Service (FaaS), and (e) launching its lightweight compact tractor platform 'K2'.
- The key elements of the strategy for its Automotive segment includes (a) strengthening the product portfolio, (b) refreshing and updating existing products, (c) strengthening research and development (R&D), and (d) technology capabilities.
- Farm sector's strategy is aligned to improve the state of farming through democratizing technology, especially for marginal farmers with small land holdings. It continues to invest in modern technologies for tractors to offer tractors with first-in-class features. M&M also offers matching implements with crop-specific mechanization solutions.

Auto business

- The UV segment's growth is driven by increased customer preference for UV-styled vehicles and a shift from compact cars to compact UVs (less than 4m length). All OEMs are now actively growing their UV portfolio by launching competitive products at attractive price points.
- Over the last two years (FY19-20), there were 13 new launches in the UV segment. In FY20, the new launches accounted for 34% of UV volumes. Compact UVs accounted for 45% of UV volumes during the last fiscal year.
- M&M's market share has been declining due to (a) higher competition in the UV segment over the past five years (all OEMs launched products in this segment), and (b) increased customer preference for compact 5-seater cars akin to UVs. M&M has taken appropriate steps toward strengthening its UV portfolio by

working on new product platforms and launching new models. In FY19, it launched the *Marazzo, Alturas G4* and *XUV300*.

- It has developed BS6 diesel engines at highly competitive cost, thus, meeting aggressive time and cost targets. Also, it introduced a new range of BS6 gasoline engines, powered by the advanced TGDi technology, offering the same drive experience as diesel engines.
- M&M's rank has improved to #2 (from #3) in the JD Power India Sales Satisfaction Index (Mass Market) study for CY19.
- M&M and Ford Motor Company have entered into a joint venture (with M&M owning 51% stake) to develop, market and distribute (a) Ford vehicles in India, and (b) Ford and Mahindra vehicles in emerging markets globally.

Tractor business

- The tractor business saw green-shoots during Dec'19 to Feb'20 with ~9.7% volume growth. This was due to (a) good Rabi outlook supported by robust reservoir levels, (b) increased Government spending in rural areas, and (c) improved liquidity conditions in the market. However, this recovery trend came to a grinding halt following the outbreak of the COVID-19 pandemic.
- While over 80% of tractor sales comes from the 31-50HP segment, over the past 10 years, the company has witnessed good growth in the >50 HP and <20HP segments. Growth in the >50HP segment is driven by the need for tractor versatility and evolution of farming practices, especially in case of farmers with large land holdings. Growth in the <20HP segment is a result of increased affordability amongst farmers with small-medium land holdings and the growing need for mechanization.
- Further, horticulture is a consistently growing segment in the agri economy over the last few years. Farmers are increasingly cultivating horticulture crops as it ensures better returns and diversifies their source of income. This has led to growing need for tractor and mechanization solutions suitable for orchards, vineyards and other horticulture crops.

Continues to invest and strengthen presence in farm mechanization space

- Indian agriculture is characterized by high degree of manual work and low productivity. Moreover, demand for farm labor is cyclic and there is shortage of labor in the peak season. Given these circumstances, the key to raising farm productivity is to increase the level of mechanization and improve farming practices. This, coupled with the government's focus to improve the state of agriculture in the country, is generating multiple opportunities in the space of farm mechanization, dissipation of agri know-how and crop specific solutions.
- M&M remains focused on farm mechanization as the space is an important enabler to address the concerns of farm productivity and labor shortage. It has active presence in the farm mechanization space and offers efficient and affordable mechanization solutions across the spectrum of farming operations. These include rotary tillers, cultivators, harvesters, balers, and rice trans-planters, amongst others.
- To strengthen its presence in the fast growing horticulture segment, M&M has increased its stake in M.I.T.R.A Agro Equipment to 40% (from 27%) for INR71m.

This subsidiary offers specialized sprayers and caters to the need of horticulture farmers.

- The company has also acquired 11.25% stake in Gamaya, a Switzerland-based agri-technology firm, for INR302m. Gamaya SA is a start-up focused on precision agriculture solutions.
- M&M continues to leverage its acquisitions/partnerships to build its farm machinery portfolio for global markets and to get modern farm mechanization technologies to India. These technologies are developed in global centers of excellence – Japan (through Mahindra Mitsubishi for the rice value chain), Finland (Sampo Rosenlew for combine harvester) and Turkey (Hisarlar and Erkunt).
- Further, it has launched a unique delivery model, Farming-as-a-Service (FaaS), under the brand name *Krish-e* to support farmers across their full crop cycle. *Krish-e* aims to provide integrated agronomy advisory, mechanization services (tractors and crop specific mechanization rental) and high-tech digital solutions (precision farming) to small farmers to reduce the cost of cultivation, enhance productivity and improve farming outcomes.

ACC

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	ACC IN
Equity Shares (m)	188
M.Cap.(INRb)/(USDb)	249.8 / 3.3
52-Week Range (INR)	1708 / 896
1, 6, 12 Rel. Per (%)	-3/-1/-11
12M Avg Val (INR M)	1429

Financials & Valuations (INR b)

Y/E Dec	2019	2020E	2021E
Sales	157	133	158
EBITDA	24	23	26
Adj. PAT	14	12	14
EBITDA Margin (%)	15	17	16
Adj. EPS (INR)	72	64	72
EPS Gr. (%)	35	-11	13
BV/Sh. (INR)	613	660	714
Ratios			
Net D:E	-0.4	-0.3	-0.3
RoE (%)	12.3	10.1	10.5
RoCE (%)	12.1	9.8	10.3
Payout (%)	19.3	21.9	20.7
Valuations			
P/E (x)	18.4	20.8	18.4
P/BV (x)	2.2	2.0	1.9
EV/EBITDA(x)	8.3	8.4	7.0
EV/ton (USD)	81.1	78.1	70.4
Div. Yield (%)	1.1	1.1	1.1
FCF Yield (%)	7.0	0.1	1.8

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	54.5	54.5	54.5
DII	18.5	21.2	22.3
FII	8.1	7.8	8.7
Others	18.8	16.5	14.5

FII Includes depository receipts

CMP: INR1,330 TP: INR1,570 (+18%) Buy

Fighting back with aggressive cost reduction

EBITDA, PAT to turn positive YoY from current quarter

- ACC's positive 2QCY20 result was a welcome surprise, attributed to sharp cost reduction on account of significant curtailment in discretionary costs. Volumes declined 27% QoQ due to COVID-19-led lockdown and EBITDA just 10% QoQ.
- We raise our CY20 EBITDA and PAT estimates by 12% and 15%, respectively, as we factor lower discretionary costs for the year. We expect EBITDA and PAT to turn positive YoY from the current quarter. We have, however, kept our CY21 estimates largely unchanged as discretionary costs should normalize next year. Maintain **Buy**.

Lower costs, higher realization partly offset volume decline

- Cement volumes declined 34% YoY to 4.8mt on government-mandated shutdown witnessed up to Apr'20. This led to 37% YoY decline in revenue to INR26.0b.
- Cement realization rose 11% QoQ (+1% YoY) to INR5,164/t on account of price hikes taken post lockdown. However, blended realization (including RMC) was up only 2% QoQ (-5% YoY) to INR5,464/t (in line with estimate). This was due to a sharp 83% YoY decline seen in RMC revenue.
- Despite negative operating leverage from lower volumes, blended cost declined to INR4,362/t (-7% YoY; -2% QoQ) (est.: 4,722/t), led by lower raw material, power, and fuel costs and substantial cuts in discretionary fixed costs (ad spends, travel, repairs and maintenance, third-party services, and so on).
- Blended EBITDA/t improved 23% QoQ (+1% YoY) to INR1,102, substantially higher than our estimate of INR737/t, attributed to lower cost.
- EBITDA at INR5.2b (-33% YoY; -10% QoQ) was thus 48% above our INR estimate; the margin expanded 3.43pp QoQ to 20.2% (+1.33pp YoY).
- PAT at INR2.7b (-41% YoY; -16% QoQ) was also 65% above our estimate.
- Cash increased by INR1.8b in 1HCY20 to INR47.2b (19% of market cap).
- In 1HCY20, OCF stood at INR5.6b (v/s INR4.1b in 1HCY19) as working capital increased by a lower amount of INR3.9b (v/s INR7.2b in 1HCY19).
- Capex was only INR1.74b in 1HCY20 v/s INR2.0b in 1HCY19 as the planned expansion in the central region of India has been put on hold.

Highlights from management commentary

- CY20 would mark the steepest fall in demand for India's Cement industry.
- The investment cycle would slow considerably due to demand contraction.
- While commercial real estate demand would be weak, government support through direct cash transfers and NREGA should aid rural housing.

Valuation and view

- ACC trades at a 35–60% valuation discount to peers Shree, UltraTech, and Ramco. We believe such a large discount is excessive as: (a) ACC has arrested its market share losses since CY17, (b) its net cash balance sheet (19% of market cap) renders it well-placed to withstand any extended disruption from COVID-19, and (c) with planned capacity expansions in CY22, the proportion of inefficient assets would decline, improving profitability.
- We value ACC at 9x CY21E EV/EBITDA (~30% discount to the past five-year average of 12.7x) to arrive at Target Price of INR1,570; this implies target EV/t of USD90 and target P/E of 21x on CY21. Maintain **Buy**.

Quarterly Performance (Standalone) (INR m)

Y/E December	CY19				CY20E				CY19	CY20E	MOSL	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QCY20	Var (%)
Cement Sales (m ton)	7.50	7.20	6.44	7.76	6.56	4.76	6.12	7.41	28.89	24.85	4.82	-1
YoY Change (%)	5.5	-0.6	-1.5	3.9	-12.5	-33.9	-5.0	-4.5	1.8	-14.0	-33.0	
Net Sales	**39,191**	**41,497**	**35,276**	**40,603**	**35,017**	**26,008**	**32,962**	**39,224**	**1,56,567**	**1,33,212**	**26,335**	-1
YoY Change (%)	8.1	7.8	2.7	4.2	-10.6	-37.3	-6.6	-3.4	5.8	-14.9	-36.5	
Total Expenditure	33,882	33,680	29,713	35,197	29,159	20,764	27,171	33,255	1,32,472	1,10,349	22,781	
EBITDA	**5,309**	**7,817**	**5,563**	**5,406**	**5,859**	**5,244**	**5,791**	**5,969**	**24,095**	**22,863**	**3,553**	48
Margins (%)	13.5	18.8	15.8	13.3	16.7	20.2	17.6	15.2	15.4	17.2	13.5	
Depreciation	1,467	1,460	1,504	1,600	1,571	1,618	1,620	1,621	6,030	6,430	1,550	
Interest	209	199	163	292	106	131	150	163	862	550	100	
Other Income	1,525	519	508	560	547	502	520	531	3,112	2,100	520	
PBT before EO Item	**5,159**	**6,677**	**4,405**	**4,074**	**4,728**	**3,998**	**4,541**	**4,715**	**20,315**	**17,983**	**2,423**	65
EO Income/(Expense)	0	0	0	0	0	0	0	0	0	0	0	
PBT after EO Item	**5,159**	**6,677**	**4,405**	**4,074**	**4,728**	**3,998**	**4,541**	**4,715**	**20,315**	**17,983**	**2,423**	65
Tax	1,774	2,164	1,406	1,381	1,529	1,318	1,499	1,608	6,726	5,954	800	
Rate (%)	34.4	32.4	31.9	33.9	32.3	33.0	33.0	34.1	33.1	33.1	33.0	
Reported PAT	**3,384**	**4,513**	**3,000**	**2,692**	**3,199**	**2,680**	**3,042**	**3,107**	**13,589**	**12,029**	**1,624**	65
Adjusted PAT	**3,384**	**4,513**	**3,000**	**2,692**	**3,199**	**2,680**	**3,042**	**3,107**	**13,589**	**12,029**	**1,624**	65
Margins (%)	8.6	10.9	8.5	6.6	9.1	10.3	9.2	7.9	8.7	9.0	6.2	
YoY Change (%)	38.1	38.6	45.9	17.1	-5.5	-40.6	1.4	15.4	35.1	-11.5	-64.0	

Income Statement (INR/ton) – incl RMC

	CY19				CY20E				CY19	CY20E	MOSL	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QCY20	Var (%)
Blended Realization	**5,225**	**5,764**	**5,478**	**5,232**	**5,338**	**5,464**	**5,388**	**5,295**	**5,419**	**5,362**	**5,459**	0
YoY Change (%)	2.5	8.4	4.3	0.3	2.2	-5.2	-1.6	1.2	3.9	-1.1	-5.3	
Increase/ Decrease in stock	13	-30	-329	418	-251	264	0	0	35	0	0	
Raw Material	936	945	948	808	976	786	900	943	907	908	920	-15
Staff Cost	266	282	356	300	318	370	311	297	299	320	394	-6
Power & fuel	1,055	1,133	1,217	954	1,119	960	1,026	1,098	1,084	1,051	1,023	-6
Freight	1,415	1,451	1,483	1,275	1,442	1,268	1,346	1,368	1,402	1,360	1,418	-11
Other expenditure	832	897	939	781	842	715	859	783	859	802	968	-26
Total Expenditure	**4,518**	**4,678**	**4,614**	**4,536**	**4,445**	**4,362**	**4,441**	**4,489**	**4,585**	**4,441**	**4,722**	-8
EBITDA	**708**	**1,086**	**864**	**697**	**893**	**1,102**	**947**	**806**	**834**	**920**	**737**	50
YoY Change (%)	2.5	26.0	27.7	6.8	26.2	1.5	9.6	15.7	15.7	10.3		

Mahindra & Mahindra Financial

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	141.8 / 1.7
52-Week Range (INR)	403 / 125
1, 6, 12 Rel. Per (%)	24/-25/-34
12M Avg Val (INR M)	1316

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
NII	51.1	57.5	55.7
PPP	34.0	42.8	39.2
PAT	9.1	9.1	11.0
EPS (INR)	14.7	7.4	8.9
EPS Gr. (%)	-41.8	-49.9	21.3
BV/Sh.(INR)	185	125	132
Ratios			
NIM (%)	8.3	9.2	9.2
C/I ratio (%)	37.3	29.1	33.4
RoA (%)	1.3	1.2	1.5
RoE (%)	8.3	6.8	7.0
Payout (%)	0.0	23.4	23.4
Valuations			
P/E (x)	15.6	31.2	25.7
P/BV (x)	1.2	1.8	1.7
Div. Yield (%)	0.0	0.0	0.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.2	51.2	51.2
DII	15.6	15.4	13.6
FII	24.3	25.3	27.2
Others	8.9	8.2	7.9

FII Includes depository receipts

CMP: INR230 TP: INR320 (+39%) Buy

Controlled opex leads to PPoP beat; Credit costs elevated

- Mahindra Finance (MMFS) reported 1QFY21 PAT of INR1.6b (up 128% YoY; down 29% QoQ), a 3% miss. While PPoP beat our estimates by 25%, higher-than-expected provisions at INR8.4b led to the modest PAT miss.
- **The board approved a 1:1 rights issue at INR50 per share, amounting to INR30.89b as of 23rd July 2020 (record date). As per our calculations, while FY21 networth increases ~25%, BVPS declines ~35% to INR125.**

Tractor disbursements better v/s other segments; Opex under control

- While the value of assets financed declined sharply, we note the decline in Tractors was much lower (35% YoY).
- **Operating expenses declined 38% YoY to INR3.5b largely driven by 47% YoY decline in other expenses to INR0.9b**. Around half of the opex cut is sustainable, as per management.

INR4.8b COVID-19 provisions in the quarter; comfortable on liquidity

- Gross Stage 3 assets increased 75bp QoQ to 9.2% due to slippages from tractor owners who had not availed moratorium.
- **The company took INR4.8b COVID-19 provisions during the quarter, vis-à-vis INR5.7b COVID-19 provisions in 4QFY20.** The company increased provision coverage to 40% QoQ from 31%. ECL% increased to 5.5% v/s 4.4% in 4QFY20 and 3.6% in 1QFY20.
- **~40% of customers who availed moratorium are paying full installments. Around 48% of customers are currently in moratorium.**
- MMFS is comfortable on the ALM front, with liability repayments of INR54.7b in 2QFY21, against a cash balance of INR85b.

Other highlights

- **Mahindra Rural Housing Finance:** There were nil disbursements during the quarter. PBT/PAT increased 38%/66% YoY to INR567m/INR477m. GS3% increased by ~37bp to 15.5%, while NS3% declined 85bp to 9.9%.

Highlights from management commentary

- **Collection efficiency in June was 75% of the total demand. This has improved in July.** 48% of total customers and 30% of Tractor customers are under moratorium currently.
- 30–40% taxi aggregators are returning to activity, but recovery is slow.

Valuation and view

- Month-on-month improvement in disbursements and collections is encouraging; however, its sustenance is the key monitorable. Within its product mix, Tractors, Entry-level Cars, and LCVs are likely to do well, while M&HCV and Taxi Aggregator are likely to witness slow recovery.

- On the asset quality front, the true picture would be known only after the moratorium. However, the fact that the company is buffering up with an INR31b capital raise is comforting. We increase our FY21 EPS estimate by 34% (off a low base) given: a) a healthy performance on NII and b) lower opex, offset by higher credit costs. Our FY22 EPS estimate is largely unchanged. We also factor the rights issue in our estimates. At the CMP of INR230, the stock trades at 1.1x post-rights FY22E BVPS (average cost = INR(230+50)/2 = INR140). Maintain Buy, with TP of INR320. This works out to INR160/share post rights issue (upside of 15%), translating to 1.2x FY22E post rights BVPS.

Quarterly Performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	1QFY21E	v/s est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Operating Income	23,940	24,864	25,806	26,369	26,405	26,647	26,803	27,062	1,00,979	1,06,917	25,575	3
Other Income	185	545	354	389	144	250	300	410	1,473	1,105	400	
Total income	**24,125**	**25,409**	**26,160**	**26,758**	**26,549**	**26,897**	**27,103**	**27,473**	**1,02,451**	**1,08,022**	**25,975**	2
YoY Growth (%)	24.4	18.4	16.5	7.9	10.0	5.9	3.6	2.7	16.3	5.4	7.7	
Interest Expenses	11,282	12,022	12,089	12,895	12,646	12,267	11,408	11,376	48,287	47,697	13,153	-4
Net Income	**12,843**	**13,387**	**14,072**	**13,863**	**13,903**	**14,630**	**15,695**	**16,097**	**54,164**	**60,325**	**12,823**	8
YoY Growth (%)	17.7	10.2	14.8	3.8	8.3	9.3	11.5	16.1	11.3	11.4	-0.2	
Operating Expenses	5,600	5,196	5,189	4,197	3,457	4,071	4,706	5,298	20,182	17,531	4,480	-23
Operating Profit	**7,243**	**8,190**	**8,883**	**9,666**	**10,447**	**10,559**	**10,989**	**10,798**	**33,982**	**42,794**	**8,343**	25
YoY Growth (%)	2.6	4.1	19.3	23.9	44.2	28.9	23.7	11.7	12.6	25.9	15.2	
Provisions	6,196	3,606	4,001	6,741	8,427	8,000	7,500	6,576	20,545	30,503	6,200	36
Profit before Tax	**1,047**	**4,584**	**4,882**	**2,925**	**2,020**	**2,559**	**3,489**	**4,222**	**13,438**	**12,291**	**2,143**	-6
Tax Provisions	363	2,066	1,229	716	523	665	907	1,100	4,374	3,196	536	-2
Net Profit*	**684**	**2,518**	**3,653**	**2,209**	**1,497**	**1,894**	**2,582**	**3,122**	**9,064**	**9,095**	**1,607**	-7
YoY Growth (%)	-74.6	-34.0	14.6	-62.4	118.7	-24.8	-29.3	41.3	-41.8	0.3	134.9	
Key Operating Parameters (%)												
Yield on loans (Cal)	15.3	15.5	15.7	15.9	16.2	16.6	16.9	16.9	15.8	16.4		
Cost of funds (Cal)	8.4	8.6	8.4	8.7	8.2	8.4	8.6	8.5	8.6	8.4		
Spreads (Cal)	6.9	6.8	7.3	7.2	8.0	8.2	8.4	8.4	7.2	8.0		
Credit Cost (Cal)	4.0	2.3	2.5	4.1	7.3	7.7	8.5	8.8	3.3	4.8		
Cost to Income Ratio	43.6	38.8	36.9	30.3	24.9	27.8	30.0	32.9	37.3	29.1		
Tax Rate	34.6	45.1	25.2	24.5	25.9	26.0	26.0	26.1	32.5	26.0		
Balance Sheet Parameters												
Loans (INR B)	624	638	655	650	638				650			
Change YoY (%)	20.9	15.0	12.4	6.1	2.3				6.1			
Value of Asset Fin (INR B)	106	97	128	93	35				424			
Change YoY (%)	2.5	-10.2	-3.8	-21.0	-67.1				-8.3			
Borrowings (INR B)	548	565	587	595	634				595			
Change YoY (%)	28.4	18.0	17.9	12.5	15.7				12.5			
Loans/Borrowings (%)	113.9	112.9	111.5	109.3	100.8				109.3			
Debt/Equity (x)	5.0	5.3	5.3	5.2	5.5				5.2			
Asset Quality Parameters (%)												
GS 3 (INR B)	53.0	52.0	57.7	57.5	62.2							
Gross Stage 3 (% on Assets)	8.2	7.9	8.5	8.4	9.2							
NS 3 (INR B)	39.8	41.9	44.5	39.7	37.3							
Net Stage 3 (% on Assets)	6.3	6.4	6.7	6.0	5.7							
PCR (%)	24.9	19.5	22.9	31.0	40.1							
ECL (%)	3.6	3.4	3.6	4.4	5.5							
Return Ratios (%)												
ROAA	0.4	1.4	2.0	1.2	0.8				1.3			
ROAE	2.5	9.3	13.4	7.9	5.4				8.3			

* Note: 1QFY21 PAT excludes INR61m profit on stake sale in AMC subsidiary to Manulife Asset Management

Trident

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	TRID IN
Equity Shares (m)	4,978
M.Cap.(INRb)/(USDb)	31.5 / 0.4
52-Week Range (INR)	8 / 3
1, 6, 12 Rel. Per (%)	-17/-4/16
12M Avg Val (INR M)	51

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	47.3	38.8	48.8
EBITDA	8.3	6.7	9.0
PAT	3.2	2.1	3.7
EBITDA (%)	10.5	8.8	11.3
EPS (INR)	0.6	0.4	0.7
EPS Gr. (%)	(26.9)	(35.8)	80.7
BV/Sh. (INR)	6.1	6.4	7.1
Ratios			
Net D/E	0.5	0.5	0.5
RoE (%)	10.7	6.6	11.0
RoCE (%)	8.0	5.3	8.0
Payout (%)	6.4	7.2	7.2
Valuations			
P/E (x)	9.6	15.0	8.3
EV/EBITDA (x)	1.0	1.0	0.9
Div Yield (%)	0.6	0.4	0.7
FCF Yield (%)	20.1	7.3	2.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	71.1	71.1	71.1
DII	1.0	1.0	1.1
FII	1.7	2.1	2.1
Others	26.3	25.9	25.7

Note: FII includes depository receipts

CMP: INR6.2 TP: INR7.5 (+21%) Buy

Near-term demand outlook improving

Cost-saving measures save the day

- Trident (TRID)'s quarterly performance was impacted due to lockdown, leading to capacity utilization of 29–56% for the Yarn, Towel, Bed Linen, and Paper &Chemicals segments in 1QFY21. However, EBITDA performance was aided by cost rationalization measures.
- Additionally, the company is seeing improving demand for its Bed Linen segment; on the other hand, demand for Paper is expected to be muted in the near term as major offices and schools remain closed.
- Factoring the beat to our earnings estimates, we increase our PAT estimate for FY21 by 21%.

Muted show across segments

- TRID reported standalone revenue of INR7.1b, down 46% YoY. EBITDA margins contracted 560bp to 16.7% on gross margin contraction of 85bp to 55.3% and negative operating leverage. EBITDA during the quarter, adjusted for forex loss, stood at INR1.2b, down 59% YoY.
- Adj. PAT declined 92% YoY to INR101m on account of lower other income and forex loss of INR49m (v/s gains of INR18m in the base quarter), offset by a lower tax rate.
- The Textiles segment's revenue de-grew 45% YoY to INR5.9b, with EBIT margins contracting 10.2pp to 3.1% in 1QFY21 (after adjusting for forex gains). Capacity utilization in Towel and Bed Linen stood at 29% and 38%, respectively, during the quarter; capacity utilization in Yarn stood at 49%.
- The Paper & Chemicals segment's revenue de-grew 51% to INR1.2b, with the EBIT margin contracting 12.2pp to 27.5%. Capacity utilization for the Paper segment stood at 56% during the quarter.

Highlights from press release

- Net debt declined significantly to levels of INR12.4b in 1QFY21 (v/s INR16.1b as of FY20). This was attributed to the repayment of interest/installments by the company due as of 30th June 2020 as well as the prepayment of INR1.4b worth of high-cost loans; the net debt to equity ratio stood at 0.4x.
- The capex projects undertaken by the company prior to the COVID-19 crisis constituted yarn manufacturing units (INR11.4b) and a paper debottlenecking project (INR2.2b), currently under review due to the economic climate. The company is reassessing the project's implementation schedule and viability.

Valuation and view

- Quarterly performance was impacted due to lockdown, whereas cost savings aided EBITDA performance.
- Moreover, over the long term, TRID is undertaking initiatives for the US market to sustain and increase volume growth across the Bath Linen and Bed Linen segments and is also targeting key retailers among the top 10 US retailers.
- Various countries around the world, such as the US and Japan, seek alternate production sources to China. India could capitalize on this situation, which bodes well for the Indian Home Textiles sector.
- Factoring the beat to our earnings estimates, we increase our PAT estimate by 21% for FY21, whereas we reduce it by 6% for FY22. We value the company at 10x FY22E EPS and arrive at TP of INR7.5. Maintain Buy.

Standalone – Quarterly Earnings Model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**13,053**	**13,219**	**10,817**	**9,905**	**7,079**	**11,122**	**10,160**	**10,424**	**46,995**	**38,785**	**6,632**	**7**
YoY Change (%)	15.4	-5.0	-16.2	-29.5	-45.8	-15.9	-6.1	5.2	-10.0	-17.5	-49.2	
Total Expenditure	10,143	10,692	9,416	8,562	5,898	9,009	8,433	8,704	38,813	32,043	6,035	
EBITDA	**2,911**	**2,527**	**1,401**	**1,343**	**1,181**	**2,113**	**1,727**	**1,720**	**8,182**	**6,742**	**597**	**98**
Margins (%)	22.3	19.1	12.9	13.6	16.7	19.0	17.0	16.5	17.4	17.4	9.0	
Depreciation	846	849	822	815	824	830	835	840	3,333	3,329	820	
Interest	325	271	234	278	231	230	230	235	1,108	926	300	
Other Income	78	37	97	68	54	35	92	64	280	246	86	
PBT before EO expense	**1,817**	**1,445**	**441**	**317**	**181**	**1,088**	**754**	**709**	**4,020**	**2,732**	**-437**	**NA**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
Forex (gain)/loss	-18	-26	-39	-109	49	0	0	0	-192	49	0	
PBT	**1,835**	**1,470**	**480**	**427**	**132**	**1,088**	**754**	**709**	**4,212**	**2,684**	**-437**	**NA**
Tax	603	99	61	31	31	274	190	179	794	673	-110	
Rate (%)	32.8	6.8	12.8	7.3	23.5	25.2	25.2	25.2	18.9	25.1	25.2	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	**1,232**	**1,371**	**419**	**396**	**101**	**814**	**564**	**531**	**3,418**	**2,010**	**-327**	
Adj PAT	**1,232**	**1,371**	**419**	**396**	**101**	**814**	**564**	**531**	**3,418**	**2,010**	**-327**	**NA**
YoY Change (%)	110.6	26.5	-62.4	-57.3	-91.8	-40.6	34.8	34.2	-7.9	-41.2	-126.6	
Margins (%)	9.4	10.4	3.9	4.0	1.4	7.3	5.6	5.1	7.3	5.2	-4.9	

Key Performance Indicators

Y/E March	FY20				FY21				2020	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Segment Revenue Gr. (%)										
Textiles	**15.5**	**-4.3**	**-17.7**	**-31.4**	**-44.6**	**-15.0**	**-5.0**	**6.7**	**-10.5**	**-16.6**
Paper	**15.1**	**-8.2**	**-10.3**	**-21.9**	**-50.7**	**-20.0**	**-10.0**	**0.0**	**-7.5**	**-21.1**
Cost Break-up										
RM Cost (% of sales)	43.9	46.3	47.8	44.3	44.7	48.0	46.0	47.0	**45.6**	**46.6**
Staff Cost (% of sales)	11.4	11.3	13.4	14.1	13.9	11.0	13.0	12.5	**12.4**	**12.5**
Other Cost (% of sales)	22.4	23.3	25.8	28.0	24.7	22.0	24.0	24.0	**24.6**	**23.5**
Gross Margins (%)	56.1	53.7	52.2	55.7	55.3	52.0	54.0	53.0	**54.4**	**53.4**
EBITDA Margins (%)	22.3	19.1	12.9	13.6	16.7	19.0	17.0	16.5	**17.4**	**17.4**
EBIT Margins (%)	15.8	12.7	5.3	5.3	5.0	11.5	8.8	8.4	**10.3**	**8.8**

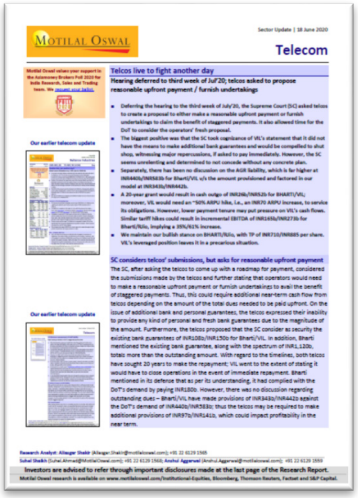
Telecom

SC talks tough – reserves order on time window

Next SC hearing scheduled for 10th Aug'20

- **After a marathon >3-hour hearing on 20th Jul'20, the Honorable Supreme Court (SC) disallowed any more affidavits, spoke tough and ensured the AGR case concluded with all stake holders giving their views.**
- **The SC reserved its order on the time window to be provided to telcos and has directed companies under liquidation (RCOM, Videocon and Aircel) to submit their documents within 7 days. The SC will consider this in its next hearing on 10th Aug'20.**
- **In summary, the SC (a) made it clear that a 20-year period is too long for AGR repayment – TTSL has sought 7-10 years for the AGR repayment while Bharti/VIL have requested for 15 years, and (b) in strong words, not only dismissed any reassessment of AGR liabilities, but also warned of contempt proceedings, if DoT/telcos act on it.**
- **This is a big setback, especially for VIL, which is under dire liquidity stress. While VIL/Bharti/TTSL have paid INR78.5b/INR180b/INR42b, according to DoT, repayment of INR504b/INR260b/INR126b still needs to be made.**
- **A 20/15/10-year grant would result in Bharti's cash outgo of INR26b/INR30b/INR39b and VIL's cash outgo of INR51b/INR59b/INR75b at 8% interest rate. VIL will need ~73% ARPU hike (i.e. INR85 ARPU increase), in order to service its obligations. Lower payment tenure may put pressure on VIL's cash flows. Similar tariff hike could provide incremental EBITDA of INR193b/INR333b to Bharti/RJio (i.e. 42%/77% increase).**
- **We maintain our stance on VIL – the company has a bleak future with high cash requirement. We are bullish on Bharti/RJio with TP of INR690/INR905 per share.**

Our earlier telecom update



SC reserves order; Rules out any possibility of reassessment

After asking telcos to make reasonable upfront payment and come up with a roadmap for AGR repayments in its last hearing, the SC has noted that a repayment timeline of 20 years is a very long period. It has asked telcos to come up with a reasonable time period. For the timelines, TTSL has sought 7-10 years repayment while Bharti/VIL have sought 15 years (VIL initially requested for 20 years and later reduced the timeframe). However, the government has maintained its stance for a 20-year repayment p eriod as telcos could go bankrupt in case of an extension failure. Furthermore, the SC has asked VIL to secure AGR dues payable. To this, VIL responded saying that the government could retain its INR80b GST dues w.r.t. to the AGR dues and mentioned that it has no assets except spectrum. The government has maintained that it considers spectrum as security and could auction it to secure dues, in case of payment default. In terms of amount, the SC has reiterated that there is no scope of reassessment of AGR dues and the amount calculated by the DoT would be considered as final. Moreover, in maintaining its harsh stance, the SC has mentioned that any proceedings to re-assess the amount would be in violation of the court and could result in contempt proceedings against the entities involved. This would result in Bharti/VIL/TTSL's AGR dues standing at

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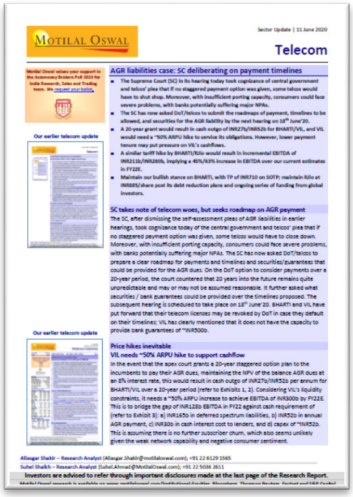

INR260b/INR504b/INR126b after considering repayment of INR180b/INR78.5b/INR42b. The SC has reserved its order on the time window for the AGR repayment. Further, it has directed the companies under liquidation to submit their records within 7 days with the next hearing scheduled on 10th Aug'20.

Price hikes inevitable – VIL requires INR85 ARPU hike to sustain

Considering dues at 8% interest rate (to maintain NPV), Bharti/VIL would require to pay an annual amount of INR26b/INR51b, if the SC grants a time frame of 20 years (*refer Exhibit 1*). This amount would increase to INR30b/INR59b with a repayment period of 15 years (*refer Exhibit 4*) and would increase to INR39b/INR75b on 10-year schedule (*refer Exhibit 5*). We estimate VIL would require INR85 increase in ARPU to achieve EBITDA of INR300b by FY22E (from current estimated EBITDA of INR97b in FY22E) to pay cash obligations toward (*refer Exhibit 2*) (a) INR165b deferred spectrum liability, (b) INR51b annual AGR payment, (c) cash interest cost of INR30b to lenders, and (d) capex of ~INR53b. In our working, we have not factored in any additional subscriber churn, which could make it worse given the negative consumer sentiment around VIL's outlook and network capability. Similar tariff hike (i.e. INR85 additional ARPU) would result in incremental EBITDA for Bharti/RJio of INR193b/INR333b (i.e. 42%/77% increase from our current estimate in FY22E). We believe the tariff hike is inevitable due to the low tariffs, improving bargaining power and VIL's survival issues (*Refer our earlier note for details*).

Maintain bullish stance on Bharti and RJio

The future for VIL looks bleak due to its high leverage and huge cash requirements. We continue to remain bullish on Bharti/RJio due their healthy balance sheets and strong network capabilities. We value Bharti on FY22E EV/EBITDA multiple of 12x on its India business and 6x on Africa business to derive TP of INR690/share. We believe RJio should garner premium valuations due to lower leverage post its capital reorganization and series of stake sales. Thus, we assign 15x EV/EBITDA on FY22E EBITDA to reach TP of INR905/share.

L&T FINANCE: THIS JUNE, DISBURSEMENTS FOR TRACTORS WERE HIGHER THAN IN LAST JUNE; Dinanath Dubhashi, MD & CEO

- 225 crore of exceptional gains have been put into GS3 provisions so that gain does not come into profit at all. None of this profit is because of that gain that has been straightaway put into one time provision of a Covid asset and we have finished that. So, that is number one but more important is how this quarter's results should be looked at.
- In rural India, there has been an uptick if you take in disbursements, collections, in GS3. The uptick from April to May to June, as we have moved from lockdown to unlock, has been very good in rural areas and quite noticeable everywhere else also. That gives us a reason to be optimistic.
- If you take June, the tractor industry has actually shown positive growth versus last June. All disbursements to tractors have grown by 19% over last June. Quarter on quarter. it is definitely negative because April was zero but June over last June has shown the first uptick. The two-wheeler industry was negative even before the Covid-19 breakout.
- If you take micro loans, in April and May 100% of the portfolio was under moratorium; in June that has reduced to 48%.
- In April, the portfolio under moratorium was 75%, it was reduced to 18%, two-wheelers was 58% to 60% and that has reduced to 33%, home loans was 53% and that has reduced to 33%. Already accounts are coming out of moratorium. Then there are a substantial number of accounts which were under moratorium in June and who have already paid off in July.
- The funding costs as such are not up. There is ample liquidity. We are maintaining Rs 9,000 crore of excess liquidity on the balance sheet vis-à-vis the normal levels of around Rs 3,500- 4,000 crore. If you maintain Rs 5,000 crore as excess cash on your balance sheet that negative carry for this quarter alone is Rs 84 crore. That is why the NIMs have reduced.

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INDIA NEEDS AN URBAN REPLICA OF MGNREGA

- With laudable measures like the increased allocation in Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the Pradhan Mantri Garib Kalyan Yojana in several districts, rural economy has congruently depicted a sharp revival in employment numbers. Centre for Monitoring Indian Economy (CMIE) data shows that after easing of lockdown and gradual resumption of economic activities in states albeit in a phased manner starting 1 June, rural unemployment scenario has fared better than its urban counterpart. Quite evidently, this has been a result of government's immediate response to address the mounting rural distress as it began to emerge as a humanitarian crisis when lakhs of interstate migrant workers were forced to go back to their homes in the rural pockets of several states. In the middle of all this, what went unattended was a slowly paralyzing urban India as the majority of people working in urban areas had been informally employed. Just like those several thousand migrant workers, these non-migrant urban resident workers also fell through the cracks when their incomes began to dry up and none had a social safety net to fall back on. This was not just the phenomenon in informal nets, but the formally employed suffered a similar plight too as they faced salary cuts and layoffs. This was an expected outcome as the cash flows of job providers spread across several sectors and throughout the value chain were affected, not to forget the growth backbone Micro, Small and Medium Enterprises (MSMEs) too.

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INDIA SHOULD GIVE UP THE FEAR OF INFLATION AND MONETIZE ITS DEFICIT

- Nearly 50 years ago, Richard Nixon said, "We are all Keynesians now." The next decade witnessed the downfall of Keynesian ideas amid soaring inflation. At present, the flavour of the day is Modern Monetary Theory (MMT), which essentially argues that a fixation with government deficits is misguided and that in the absence of rising inflation and real resource constraints, the government should just print money, if necessary, to revive the economy. Governments the world over are paying scant regard to their fiscal deficits and central banks are playing handmaiden by buying up government and private paper. Just as in 1970, many analysts worry that the utter disregard for the purported inflationary consequences of deficits will come to haunt us sooner or later. Indian policymakers seem to hew toward the latter camp because the inflationary episode earlier in the past decade is still fresh in their minds. Yet, the time has come for Indian policymakers to throw off the shackles imposed by misguided fears of high inflation. Long before "MMT" was coined, one of us had argued that since the 1980s, India has effectively adopted the MMT framework with Indian characteristics. While much of the discussion on India's growth take-off since 1980 has been about supply-side reforms, equally important were the bigger deficits we have sustained since 1980. These deficits arguably helped propel an economy that was demand-constrained towards one that was growing closer to its full potential.

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UNDER REVIEW	Rating may undergo a change
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