Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	38,051	0.5	-7.8
Nifty-50	11,247	0.6	-7.6
Nifty-M 100	16,455	0.4	-3.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,382	0.3	4.7
Nasdaq	11,130	1.0	24.0
FTSE 100	6,127	0.6	-18.8
DAX	12,921	0.1	-2.5
Hang Seng	10,386	1.2	-7.0
Nikkei 225	23,097	-0.8	-2.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	44	1.0	-33.2
Gold ($/OZ)	1,985	2.1	30.8
Cu (US$/MT)	6,451	1.1	4.9
Almn (US$/MT)	1,719	0.5	-3.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.9	0.0	4.9
USD/EUR	1.2	0.2	5.9
USD/JPY	106.0	-0.6	-2.4
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	6.0	0.00	-0.6
10 Yrs AAA Corp	6.7	-0.04	-0.9
Flows (USD b)	**17-Aug**	**MTD**	**CYTD**
FIIs	0.04	1.05	-0.28
DIIs	-0.10	-0.20	10.41
Volumes (INRb)	**17-Aug**	**MTD***	**CYTD***
Cash	542	633	535
F&O	12,462	17,977	15,544

Note: *Average

Today's top research idea

NTPC: Underlying numbers strong; sees partial rebate impact

- NTPC commercialized 5.3GW of capacities for FY20 – the highest ever in a single fiscal year – and is guiding for 5–6GW p.a. to be capitalized for the next three to four years.
- Capitalization has picked up pace, and we expect it to drive a regulated equity CAGR of 11% over FY20–23E and boost RoE (+120bps accretion).
- Furthermore, muted power demand, coupled with production ramp-up at Coal India's mines, has led to an increase in coal stocks at power plants and improved plant availability factors.
- Thus, we expect overall FC u/r to remain low – albeit some machine-related u/r may occur from time to time.
- The stock trades attractively at a FY22 P/BV of 0.7x and div. yield of ~7%. Maintain Buy, with DCF-based target price of INR139/sh.

Research covered

Cos/Sector	Key Highlights
NTPC	Underlying numbers strong; sees partial rebate impact
Fund Folio (Aug-20)	AUM surpasses INR27t; Equities see first outflow in 52 months
Eicher Motor	RE ready to capitalize on next product cycle as situation normalizes
United Breweries	Outlook remains poor
Voltas	Market share gains and margin surprise in UCP stamp franchise strength
Glenmark Pharma	Cost savings drive profitability
IIFL Wealth	PAT beat driven by lumpy revenues and lower opex
Petronet LNG	Better-than-estimated volumes lead to marginal EBITDA beat
Agriculture	Sowing higher on surplus pan-India rainfall

Piping hot news

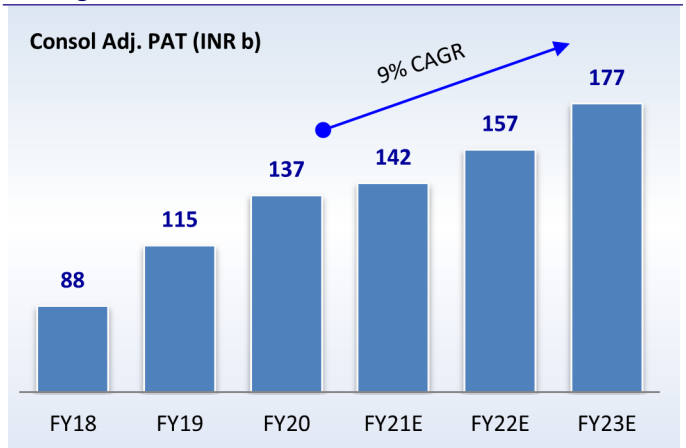
India's power output rises for the first time in five months in August

India's power output rises for the first time in five months in August

India's electricity generation in the first 15 days of August rose for the first time since early March, provisional government data showed, as the country opened up industries and lifted restrictions to control the spread of coronavirus.

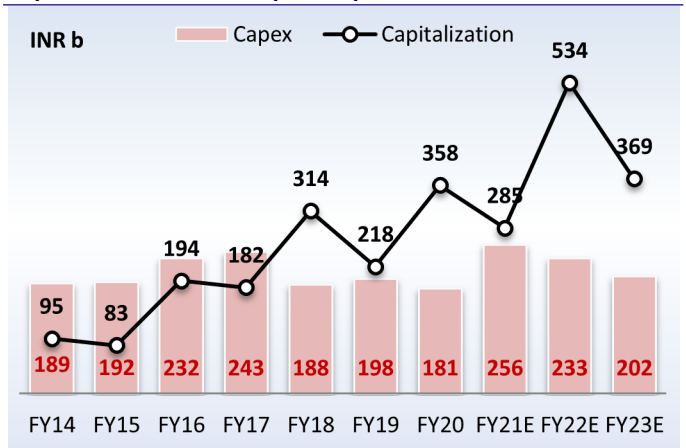
Chart of the Day: NTPC (Underlying numbers strong; sees partial rebate impact)

Earnings would witness a 9% CAGR



Source: MOFSL, Company

Capitalization would outpace capex



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

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In the news today

Kindly click on textbox for the detailed news link

1

Samsung plans to produce mobile phones worth ₹3.7 tn in India over 5 years

Smartphone maker Samsung is planning to produce mobile phones worth ₹3.7 lakh crore in India over the next five years, according to government sources. The company has discussed its plan with senior officials in the Ministry of Electronics and IT. People…

2

Finance Minister Nirmala Sitharaman seeks investment from UAE for Rs 111 lakh cr National Infrastructure Pipeline

Finance Minister Nirmala Sitharaman on Monday held a virtual bilateral meeting with United Arab Emirates (UAE) Minister of State for Financial Affairs Obaid Al Tayer and urged the Middle Eastern nation to participate in India's ambitious Rs 111 lakh crore National Infrastructure Pipeline. About 7,000 projects have been identified under the National Infrastructure Pipeline (NIP) with projected investment of Rs 111 lakh crore during 2020-25…

3

ICICI sees risk of losing RCom case of Rs 210 cr in preferential payment

ICICI Bank sees the "possibility" of losing a case filed by the resolution professional (RP) of Anil Ambani's bankrupt telecom company, Reliance Communication, for alleged preferential payment of Rs 210 crore received by the private lender as repayment of debt. "As per the opinion letter obtained by the external counsel…

4

Govt eases credit guarantee scheme norms to ensure more liquidity for stressed NBFCs/HFCs

With a view to provide additional liquidity to crisis-ridden NBFCs and housing finance companies (HFCs), the government on Monday relaxed norms for Partial Credit Guarantee Scheme (PCGS) for purchase of bonds and commercial papers by public…

5

RBI lifts curb on Bandhan Bank CEO pay as promoter cuts stake

Bandhan Bank Ltd on Monday said that the Reserve Bank of India (RBI) has withdrawn restrictions it had imposed on the remuneration of the lender's chief executive in 2018. "The RBI vide its communication dated 17 August 2020 has lifted the other regulatory restriction: the remuneration of the managing director and chief executive of the bank stands frozen, at the existing level," it said in a regulatory filing. Chandra Shekhar Ghosh, the 59-year-old chief executive of the bank received a remuneration of ₹21.04 million in FY20…

6

Medical stores industry body calls Amazon's entry to e-pharmacy "illegal"

Medical stores industry entity All India Organisation of Chemists and Druggists (AIOCD), which represents 8.5 lakh chemist and drug retailers in the country, has written to e-commerce giant Amazon, the Prime Minister's office and Ministry of Health & Family Welfare…

7

Residential property launches back on track as consumer sentiment improves

In signs of green shoots in the real estate sector, several developers have lined up launches in the coming quarters, with consumer sentiment improving and construction activities getting back to normal…

NTPC

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	943.9 / 11.7
52-Week Range (INR)	130 / 74
1, 6, 12 Rel. Per (%)	5/-6/-21
12M Avg Val (INR M)	1633

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	1,143	1,096	1,276
EBITDA	364.1	353.3	417.8
Adj. PAT	136.6	141.9	156.6
EBITDA Margin (%)	31.8	32.2	32.7
Cons. Adj. EPS (INR)	13.8	14.3	15.8
EPS Gr. (%)	19.2	3.9	10.4
BV/Sh. (INR)	120.1	124.9	132.6
Ratios			
Net D:E	1.7	1.6	1.5
RoE (%)	11.9	11.7	12.3
RoCE (%)	6.5	6.6	7.5
Payout (%)	22.8	41.8	44.2
Valuations			
P/E (x)	6.9	6.6	6.0
P/BV (x)	0.8	0.8	0.7
EV/EBITDA(x)	8.0	8.3	7.1
Div. Yield (%)	3.3	6.3	7.4
FCF Yield (%)	6.9	12.9	16.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	56.4
DII	34.7	33.6	28.5
FII	11.4	12.6	11.6
Others	2.9	2.8	3.5

FII Includes depository receipts

CMP: INR95 TP: INR139 (+46%) Buy

Underlying numbers strong; sees partial rebate impact

Reported PAT impacted by rebate, but underlying numbers strong

- NTPC reported strong underlying numbers. This was highlighted by the high plant load factor (PLF) incentives for the co. despite lower power demand. Adj. PAT (excl. fixed charge under-recoveries) was up 23% YoY to INR33.2b.
- Commercialization at 5.3GW in FY20 was at an all-time high. With the addition of THDC and NEEPCO, and continued pickup in capitalization, we expect a 9% earnings CAGR over FY20–23. Maintain **Buy**, with DCF-based TP of INR139/sh.

Rebate impact flows in, but only partially

- NTPC's reported S/A PAT (including the impact of a rebate) was down 5% YoY to INR24.7b (v/s our est. of INR18.2b). The co. has accounted for a partial rebate of INR8b (v/s our expectation of INR13.6b). Even after accounting for the lower rebate, our nos. would have stood at INR22.8b (v/s the reported INR24.7b), highlighting strong underlying nos.
- Adj. for the rebate, fixed charge under-recoveries (FC u/r), and certain one-offs, S/A PAT was up 23% YoY to INR33.2b. *Note that the rebate has been accounted as an exception by NTPC v/s baked in our nos., leading to the apparent difference in adj. nos.*
- PLF of coal-based plants fell to 58.2%, v/s 73.9% in the previous year, weighed by lower power demand. Although, PLF incentives were higher YoY at INR1.4b (v/s INR1.1b) on better off-take from its pit-head plants.
- Plant availability factors at coal-based plants rose YoY to 95.8% (v/s 91.1% in the previous year) given better coal availability. FC u/r, though, rose to INR2.25b (v/s INR1.2b in the previous year), led by under-recoveries at Darlipalli (INR1.4b).
- Late payment surcharge income rose YoY to INR4.7b (v/s INR1.7b in the previous year) given the increasing profile of DISCOM overdues.
- Interest cost at S/A was also impacted by INR2.1b on account of the acquisitions of THDC and NEEPCO.
- The co.'s numbers also included an INR2.2b CSR contribution in the current quarter related to COVID-19 care packages

Management commentary: Commercialization of 5–6GW to continue

- NTPC plans to reach ~130GW capacity by 2032. The mix of Renewable in the capacity may be >30% by 2032. NTPC expects its capitalization run-rate to be at 5–6GW p.a. for the next three to four years.
- In the current quarter, the co. has provided an INR8b rebate. The balance would be paid only when DISCOMs withdraw their force majeure applications.
- Outstanding overdues have reduced to INR145b from INR164b at June-end. The co. is hopeful of squaring off past dues by the end of the quarter.

Capitalization gains pace; Reiterate Buy

NTPC commercialized 5.3GW of capacities for FY20 – the highest ever in a single fiscal year – and is guiding for 5–6GW p.a. to be capitalized for the next three to four years. Capitalization has picked up pace, and we expect it to drive a regulated equity CAGR of 11% over FY20–23E and boost RoE (+120bps accretion). Furthermore, muted power demand, coupled with production ramp-up at Coal India's mines, has led to an increase in coal stocks at power plants and improved plant availability factors. Thus, we expect overall FC u/r to remain low – albeit some machine-related u/r may occur from time to time. The stock trades attractively at a FY22 P/BV of 0.7x and div. yield of ~7%. Maintain Buy, with DCF-based target price of INR139/sh.

Quarterly Performance (Standalone) – INR b

Y/E March	FY20				FY21				FY20	FY21E	FY21	var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	(%)
Sales	**247.0**	**236.3**	**250.9**	**291.0**	**242.6**	**248.5**	**257.6**	**297.6**	**1,025**	**1,046**	**250.4**	**-3**
Change (%)	8.0	4.4	5.4	29.6	-1.8	5.1	2.6	2.3	9.0	2.0	1.4	
EBITDA	69.6	72.1	85.7	91.7	85.5	73.4	84.8	85.2	319.2	328.9	61.3	39
Depreciation	20.5	21.2	23.2	21.3	25.3	24.5	26.7	26.7	86.2	103.3	23.6	
Interest	15.7	16.2	17.6	18.4	20.8	20.3	22.0	23.0	67.8	86.1	19.6	
Other income	3.3	8.9	5.3	10.3	5.7	6.3	4.6	4.0	27.8	20.6	6.3	-10
Exceptional	0.0	0.0	0.0	0.0	-8.0	-5.6	0.0	0.0	0.0	-13.6	0.0	
PBT	36.7	43.7	50.2	62.4	37.0	35.0	40.7	39.5	192.9	152.1	24.4	52
Tax	10.7	11.0	20.3	49.8	12.3	8.6	9.7	4.9	91.8	35.5	6.2	
PAT	**26.0**	**32.6**	**30.0**	**12.5**	**24.7**	**26.3**	**31.0**	**34.6**	**101.1**	**116.6**	**18.2**	**36**
Change (%)	0.6	34.5	25.6	-71.2	-5.1	-19.2	3.4	176.5	-13.9	15.3	-30.3	
Adj. PAT (excl. FC u/r)	**27.1**	**34.7**	**29.0**	**33.0**	**33.2**	**31.9**	**30.8**	**33.5**	**123.7**	**129.4**	**19.7**	**68**
Change (%)	-8.6	24.5	13.6	3.9	22.7	-8.0	6.1	1.5	7.8	4.6	-26.5	

Source: MOFSL, Company

FUND FOLIO (August 2020): AUM surpasses INR27t; Equities see first outflow in 52 months

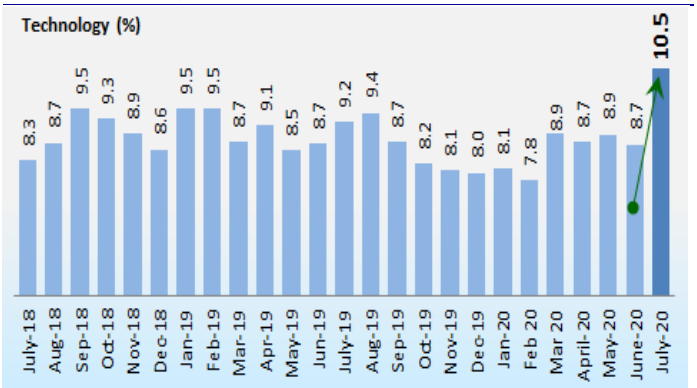
Key observations

- **After plunging 18% from INR27.2t in Feb'20 to INR22.3t in Mar'20, total AUM of domestic MFs have climbed back to INR27.1t in Jul'20. This was primarily led by equity, liquid, income, and other ETF funds. The Nifty has maintained its upward momentum and closed higher for the second consecutive month in Jul'20 (up 7.5% MoM). Corporate commentaries on gradual demand recovery coupled with benign global backdrop aided the Nifty's north-bound journey.**
- **Investors too capitalized on the market rally and booked profits, leading to moderation in domestic mutual fund (MF) flows. Contribution of systematic investment plans (SIPs) declined for the fourth consecutive month to INR78.3b (down 1.1% MoM).**
- **Equity AUM (incl. ELSS and Index funds) of domestic MFs increased 5% MoM to INR7.8t in Jul'20. This was on account of a rise in market indices (Nifty +7.5% MoM) and marginal increase in sales of equity schemes (up 1.8% MoM to INR148b). At the same time, redemptions increased 32.5% MoM to INR188b, leading to net outflows of INR40b in Jul'20 – the first in 52 months.**
- **MF industry's AUM increased 6.4% MoM (INR1.6t) to INR27.1t in Jul'20, primarily led by income funds (INR696b), equity funds (INR370b), liquid funds (INR248b) and other ETFs (INR234b).**

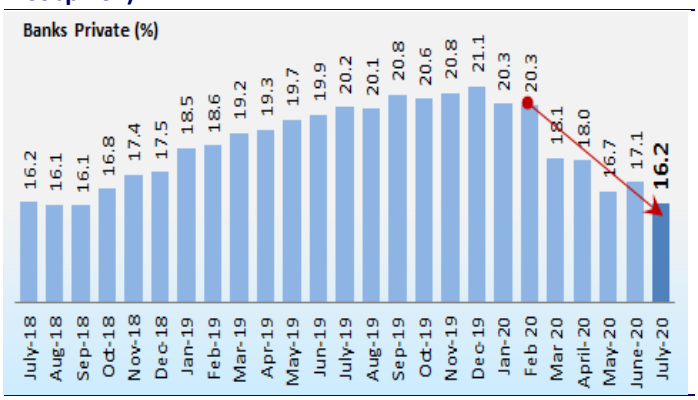
Some interesting facts

- **The month saw notable change in sector and stock allocation of funds. On MoM basis, the weights of Technology, Healthcare, Oil & Gas and Chemicals increased, while that of Private Banks, Consumer, Utilities, Capital Goods, Telecom, Retail, Automobiles and NBFCs moderated.**
- **Technology weight increased 180bp MoM to 10.5% -- a 53-month high. The sector has climbed back to the second position in the allocation of mutual funds.**
- **Private Bank's weight hit 22-month low to 16.2% (-90bp MoM, -400bp YoY).**
- **Oil and Gas' weight increased for the second consecutive month and climbed to a new high of 9.7% (+30bp MoM, +220bp YoY).**
- **In terms of MoM value increase, 4 of the top-10 stocks were from Healthcare: Sun Pharma (+INR16.6b), Dr. Reddy's Labs (+INR13.2b), Cipla (+INR12.4b) and Divis Labs (+INR11.7b).**
- **Stocks exhibiting maximum decrease in value MoM were HDFC Bank (-INR-22.5b), NTPC (-INR-19.1b), Avenue Supermarts (-INR-12.7b), HDFC (-INR-5.3b) and L&T (-INR-5.3b).**

Technology weight increased 180bp MoM to hit 53-month high of 10.5% (+130bp YoY)



Private Bank's weight hit 22-month low to 16.2% (-90bp MoM, -400bp YoY)



Eicher Motors

BSE SENSEX	S&P CNX
38,051	11,247

Stock Info

Bloomberg	EIM IN
Equity Shares (m)	27
M.Cap.(INRb)/(USDb)	576.8 / 7.3
52-Week Range (INR)	23428 / 12460
1, 6, 12 Rel. Per (%)	9/21/25
12M Avg Val (INR M)	3855
Free float (%)	50.7

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	91.5	86.3	105.3
EBITDA	21.8	18.8	27.5
Adj. PAT	18.3	13.9	22.4
EPS (INR)	669.4	510.1	822.0
EPS Gr. (%)	-17.8	-23.8	61.1
BV/Sh. (INR)	3,656	4,016	4,672
Ratios			
RoE (%)	19.3	13.3	18.5
RoCE (%)	18.7	13.0	18.5
Payout (%)	21.7	29.5	20.1
Valuations			
P/E (x)	31.6	41.4	25.7
P/BV (x)	5.8	5.3	4.5
Div. Yield (%)	0.6	0.6	0.7
FCF Yield (%)	2.0	1.3	3.0

"These are difficult times, but great disruptions present greater opportunities, and bring out the best in each one of us."

CMP: INR21,124 TP: INR24,750 (+17%) Buy

RE ready to capitalize on next product cycle as situation normalizes…

…substantial network expansion and exports to support growth

- **Eicher Motor's (EIM) FY20 Annual Report highlights Royal Enfield's (RE) readiness for the next product cycle. With launch of BS6 models, RE has achieved technical parity with other bikes. Further, launch of RE 'Studio' stores has substantially increased its reach in newer markets.**
- **EIM has further demonstrated its seriousness to grow RE exports by rapidly expanding exclusive RE stores (from 35 to 77 stores in FY20) along with the launch of the 650 Twins and geo-fenced website in respective markets.**

Sailing through times of COVID; Strong outlook ahead

- The company estimates recovery to be gradual. However, it also expects personal transportation demand to grow and benefit the industry as many people are now wary of using public transport due to the COVID crisis.
- EIM is confident of sailing through these tough times on the back of (a) solid balance sheet and cash position, (b) robust business model with focused and cash-optimized approach, (c) strong line-up, (d) retail footprint, and (e) an exceptional management team at RE and VECV.
- It is further building accessibility through various solutions – both digital and financial – and is confident of capitalizing demand as the situation stabilizes.

Domestic market performance

- RE's total volume declined 15.8% to 695.9k while domestic volume declined 18.5% to 656.6k units. Market share for (a) overall motorcycles stood at 5.9% (flat YoY), and (b) the 250+cc segment was at 96% (flat YoY).
- The company ended FY20 with 921 dealerships (v/s 915 in FY19) and 600 Studio stores, taking RE's total retail touch points to 1,521 across India.
- Finance penetration increased to 53% in FY20 (v/s 51% in FY19). It has five major banks and NBFCs as its preferred financiers.
- RE discontinued the single cylinder 500cc UCE engine in Jan'20. It now has three categories: (a) 350cc (*Bullet, Thunderbird* and *Classic*), (b) 410cc (*Himalayan*), and (c) 650cc (*Interceptor* and *Continental GT*).

Export market performance

- Export volume increased 96% YoY to 38.7k units. This led to an increase in export share in total sales volume of 5.5% in FY20 (v/s 2.4% in FY19), mainly driven by the launch of 650cc Twins.
- RE's market share in the mid-sized motorcycle segment stood at 5.4% in Europe and 4.8% in the Asia Pacific region (5.3% in Thailand).
- RE opened 35 new exclusive stores during FY20, taking the total count to 77 exclusive stores in the international markets. It now has over 660 touch points including multi-brand outlets.
  - Europe is the largest market for RE (outside India) with ~400 dealers.
  - The North America market has ~120 dealers.
  - RE started its first flagship store in Seoul, South Korea in 1QFY20.

- The RE 650 Twins (*Interceptor 650* and *Continental GT 650*) were launched in Indonesia, Vietnam and Malaysia in 1QFY20 and in Brazil in 4QFY20.
- The RE 650 Twins garnered great response globally with the EU seeing substantial increase in bookings and inquiries. Led by this, RE was ranked #6 in the mid-sized motorcycle segment in the EU in CY19, up from rank #9 in CY19.

RE – significant technical/qualitative/aesthetic portfolio upgrades

- The RE upgraded to EFI and catalytic converter to meet BS6 regulations. In order to make the ride more controlled and smooth with better aesthetics, it introduced multiple upgrades. Two major changes were:
  - Switchable ABS introduced in *Himalayan* models (Feature to switch off rear wheel ABS while off-road riding).
  - Introduction of Alloy Wheel and Tubeless tyres for *Classic* models.
- RE has increased the standard warranty from 2 years to 3 years along with the transition to BS6 emission norms. It reflects the company's confidence in its new products.
- RE's new mix of semi- synthetic oil helped it to extend the service and oil-change intervals for its Unit Construction Engine (UCE) based models – *Bullet, Classic* and *Thunderbird*. It has brought down the in-use ownership cost of the motorcycles by 40% over a 3-year period.

'Make Your Own' initiative as part of digital expansion spree

- The 'Make Your Own' (MYO) program was launched in FY20 to enhance the customer's purchase experience. It allows a customer to select and configure motorcycle accessories, which will come factory-fitted with a 2-year manufacturer's warranty.
- RE has increased its accessories portfolio from 80 to over 125 products along with expansion of its helmet customization range (up to 500 options).
- RE's website witnessed significant increase in web visits to 28m in FY20 (v/s 18m in FY19). It also launched geo-fenced websites in Korea, Malaysia and Vietnam, taking the total website footprint to 21 countries.

R&D upgrades: Chennai Tech Center to supplement UK Tech Center

- The technology center at Chennai was commissioned during FY20. A major development at this center is its new hemi-anechoic chamber, which will aid development of the famous RE exhaust note for future models. It's proved to be an important development as the exhaust note is an aspirational feature for RE customers. Post launch of its UCE engine in 2009, RE has been missing its signature 'Thump' sound.
- It also has an in-house Climatic Chassis Test cell, which allows simulation of various temperature conditions for optimal drivability.
- R&D spends as % of sales declined to 2.8% in FY20 (v/s 3.8% in FY19), as large part of the capex for Chennai R&D center was invested in FY19.

Tough year for VECV

- VECV sales declined by 29.9% YoY to 44.2k vehicles.
- Domestic volume declined by 29.9% YoY to 44,153 vehicles. Exports declined to 4,568 units (v/s 10,010 units), largely owing to the steep decline of 62% in South Asia, which constitutes 45% of exports.
- VECV introduced the Pro 2000 series, a new range of light/medium duty vehicles. The new vehicles are indigenously developed with two new engines (2L and 3L engines) designed from scratch.
- Operations for VECVs started operations at its new plant at Bagroda, near Bhopal, for the assembly of new engines for the Pro 2000 series with delivery expected in FY21.
- VE Powertrain (VEPT) engines sales declined 28.7% to 28,383 units.
- Adverse operating leverage led to EBITDA margin decline of 3.7pp YoY (at 4.7%) due to staff cost inflation (+1% YoY or 250bp), partially offset by other expenses (-13% YoY or +166bp). This translated to EBIT loss of ~INR83m; however, higher other income/deferred tax resulted in recurring PAT of ~INR583m.
- Core working capital improved from -14 days to -35 days with ~16 days increase in payable days and 5 days decrease in receivable days.
- CFO from operations declined 30% to ~INR6b due to EBIT loss of ~INR83m (v/s ~INR5.98b profit), partially offset by lower tax and reduction in overall working capital. Capex stood at ~INR10.2b (v/s ~INR7.1b in FY19), resulting in negative FCFF of ~INR1.07b (v/s +INR1.5b FCFF in FY19).
- RoCE declined to 2% (from 14%), the lowest in the last 11 years due to lower net profit and cash drag.

Financial highlights of FY20

- S/A revenues declined 7.3% YoY to ~INR90.8b. Motorcycle revenue declined 8.3% to ~INR79.5b; however, spare parts' revenue grew 3.7% YoY to ~INR10.6b. India revenue declined 14.4% to ~INR71.2b, but export revenue grew 119% to~INR8.3b on the back of strong response to the 650 Twins.
- FY20 gross margin (GM) declined 3.2pp YoY as it did not load GM on cost inflation pass through (ABS + BS6). This coupled with operating deleverage (volume declined 15.8% YoY) translated to EBITDA margin decline of 5.8pp YoY (at 24.3%). This can be explained by cost inflation in all other cost heads such as staff cost (+12% YoY or 150bp), other expenses (+1.4% YoY or 105bp), SD&A (+7.3% YoY) and repair costs (+6.2% YoY). Staff costs included ~INR250m (v/s INR142m in FY19) charge for ESOPs.
- In FY20, the company invested ~INR2.57b in R&D (incl. capitalized R&D) constituting ~2.8% of revenues (v/s 3.6% in FY19).
- Core working capital was increased from -19 days to -15 days with ~5 days reduction in payable days.
- CFO from operations grew 9% to ~INR16.9b, driven by reduction in corporate tax rate/overall working capital. Capex stood at ~INR7.4b (v/s ~INR7.9b in FY19), resulting in FCFF growth of ~43% to ~INR11.8b.
- RoCE declined to 18.7% (from 26.5%), the lowest in the last 7 years due to lower net profit and cash drag.

Valuation and view

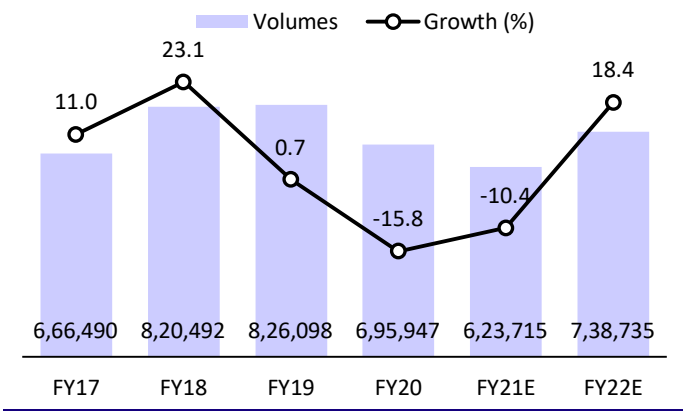
- FY21 would be another challenging year for the domestic 2W industry as well as for EIM due to the COVID-19 pandemic and its impact. As a result, along with volume pressure, RE production will also be at higher risk due to its singular location unlike other OEMs, which have plants located in multiple locations. We estimate volumes to decline ~10.4% in FY21 and grow 18.4% in FY22E.
- Technical parity with other high-end motorcycles, strong product pipeline and network expansion in both domestic and export market has equipped RE to capture the benefit of the upcoming favorable product cycle.
- The stock trades at ~41.4x/25.7x FY21E/FY22E consol. EPS. We believe BS6 transition would be an inflection point for RE as a completely new improved platform could drive revival of the brand. Maintain **Buy** with TP of ~INR24,750 (Sep'22E based SOTP).

SOTP Valuations

INR Mn		FY22E	FY23E
Royal Enfield			
PAT		22,100	28,423
Equity Value	PE @ 25x	552,500	710,585
VECV (@ 54.4% Economic interest)			9.95
EBITDA		3,694	4,457
EV	@ 10x EV/EBITDA	36,758	44,570
Net Debt		-2,869	-4,092
Equity Value		39,627	48,661
Total Equity Value		**592,127**	**759,246**
Target Price (INR/Sh)		**21,690**	**27,811**
Upside (%)		3	32

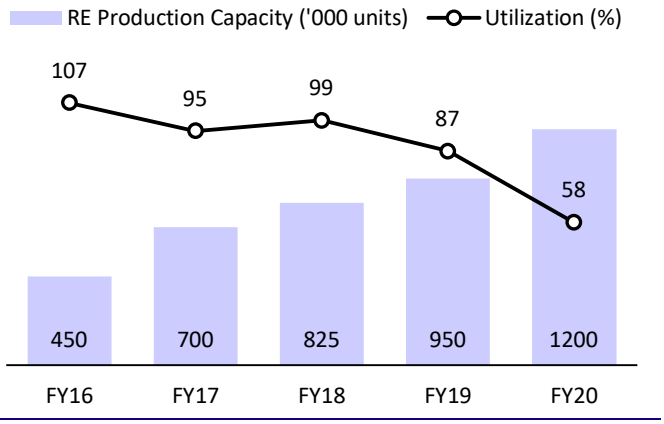
Source: Company, MOFSL

Volumes expected to grow in FY22E



Source: Company, MOFSL

Low capacity utilization to affect operating performance



Source: Company, MOFSL

United Breweries

Estimate changes	↓
TP change	↑
Rating change	↔

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	257.2 / 3.4
52-Week Range (INR)	1403 / 759
1, 6, 12 Rel. Per (%)	-4/-16/-29
12M Avg Val (INR M)	686

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Net Sales	65.1	41.1	57.6
Sales Gr. (%)	0.5	-36.8	40.0
EBITDA	8.8	3.0	8.0
Margin (%)	13.5	7.4	13.9
Adj. PAT	4.3	0.0	3.1
Adj. EPS (INR)	16.2	0.1	11.9
EPS Gr. (%)	-24.0	-99.1	#
BV/Sh. (INR)	133.1	132.9	140.3
Ratios			
RoE (%)	12.8	0.1	8.7
RoCE (%)	12.8	1.2	8.8
Valuations			
P/E (x)	60.1	#	81.8
P/BV (x)	7.3	7.3	6.9
EV/EBITDA (x)	29.5	84.7	32.7

#inordinately high due to very low FY21 EPS

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	57.7	57.7	57.7
DII	25.1	25.6	20.7
FII	10.7	10.4	15.7
Others	6.5	6.3	5.9

FII Includes depository receipts

CMP: INR973 TP: INR820 (-16%) Sell

Outlook remains poor

- United Breweries (UBBL)'s results were worse than our expectations. Its outlook remains weak, with: (a) June volumes down 57% YoY, (b) lockdown in various urban centers thus far in 2QFY21, (c) no repeal of excise duty increase in the majority of the states (which saw a steep excise increase in May), and (d) the continued likelihood of closure of on-trade sales for a few more months.
- As highlighted in our Alcobev downgrade note in May'20, we expect FY20–FY22 to be 'lost years' for alcobev players, which are severely affected by a weak demand environment in FY21. Moreover, recovery in FY22 is also unclear due to: (a) an unprecedented steep excise duty increase threatening both net sales growth and profitability for the next few quarters and (b) the risk of weak state finances leading to delay in payments, thereby increasing receivables.
- Its stock is the most expensive in our coverage universe at 82x FY22 EPS, with ROCE at ~10% even in FY22. Maintain **Sell**, with TP of INR820.

Performance worse than expected

- **Standalone net sales declined 75.3% YoY to INR5.1b** (v/s est. INR7.2b). EBITDA loss stood at INR957m (v/s est. INR750m loss and EBITDA profit of INR3.3b in 1QFY20). PBT loss stood at INR1.5b (in-line) v/s PBT profit of INR2.6b in 1QFY20. Net loss stood at INR1.1b (v/s est. INR1.5b loss and net profit of INR1.6b in 1QFY20).
- **Gross margins contracted 370bp YoY to 46.7%.**
- With higher employee costs and other expenses as a percentage of sales, standalone EBITDA margins stood at -18.9% in 1QFY21 (v/s est. -10.5% and +16.1% in 1QFY20).

Highlights from management commentary

- UBBL expects demand recovery to take time particularly with Karnataka – a large state in terms of demand – witnessing lockdown. Additionally, restrictions being imposed and repealed in various other states even in 2QFY21 is creating further volatility.
- Gross margins declined due to weak state mix and lower on-trade sales.

Valuation and view

- As highlighted in our Alcobev sector downgrade report in May, the Alcohol segment is being affected by a series of events, such as: (a) weak demand, (b) very sharp excise increases by state governments, (c) the unlikelihood of bars and restaurants re-opening anytime soon, and (d) worsening state finances potentially pressuring working capital.
- The capital-intensive nature of the business (depreciation at ~23% of EBITDA even in FY20) implies the PAT impact would be even sharper than the sales and EBITDA impact.
- Steep ROCE decline from already unimpressive levels of 12.8% in FY20 and a weak earnings outlook, combined with expensive valuations of 82x FY22 EPS and 32.7x EV/EBITDA, have led us to maintain a **Sell** rating on the stock, with TP of INR820 (targeting 24x Sep'22 EV/EBITDA, a 20% discount to peers).

Standalone – Quarterly Earnings Model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	**20,485**	**15,786**	**14,548**	**14,242**	**5,069**	**8,682**	**11,348**	**16,040**	**65,092**	**41,138**	**7,170**	-29.3%
YoY Change (%)	9.8	3.4	0.3	-12.6	-75.3	-45.0	-22.0	12.6	0.5	-36.8	-65.0	
Gross Profit	**10,314**	**8,225**	**7,692**	**7,248**	**2,365**	**4,428**	**6,014**	**8,574**	**33,581**	**21,381**	3,800	
Margin (%)	50.3	52.1	52.9	50.9	46.7	51.0	53.0	53.5	51.6	52.0	53.0	
EBITDA	**3,289**	**1,925**	**2,215**	**1,323**	**-957**	**128**	**1,364**	**2,491**	8,758	**3,026**	-750	27.6%
YoY Change (%)	-17.8	-39.5	-10.6	-22.8	P/L	-93.4	-38.4	88.3	-23	-65.4	-122.8	
Margins (%)	16.1	12.2	15.2	9.3	-18.9	1.5	12.0	15.5	13.5	7.4	-10.5	
Depreciation	692	689	736	734	505	580	750	800	2,851	2,635	700	
Interest	77	88	99	48	72	105	140	178	311	495	60	
Other Income	32	19	35	6	14	50	40	54	93	158	40	
PBT	**2,552**	**1,167**	**1,416**	**547**	**-1,519**	**-507**	**514**	**1,566**	**5,689**	**54**	-1,470	3.3%
Tax	907	16	346	135	-376	0	26	361	1,406	11	0	
Rate (%)	35.5	1.3	24.4	24.7	24.8	0.0	5.0	23.1	24.7	19.9	0.0	
Adj PAT	**1,645**	**1,151**	**1,070**	**412**	**-1,143**	**-507**	**489**	**1,205**	**4,279**	**44**	-1,470	-22.3%
YoY Change (%)	-25.9	-29.7	-2.0	-39.4	P/L	P/L	-54.3	192.6	-24.0	-99.0	-189.3	
Margins (%)	8.0	7.3	7.4	2.9	-22.5	-5.8	4.3	7.5	6.6	0.1	-20.5	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21
	1Q	2Q	3Q	4Q	1Q
2Y average growth (%)					
Sales	10.5	11.4	10.6	-0.9	-32.7
EBITDA	4.0	1.9	25.9	-20.3	-73.5
PAT	5.6	22.4	64.2	-32.3	-97.7
% of Sales					
COGS	49.7	47.9	47.1	49.1	53.3
Employee Expenses	6.0	7.8	8.7	9.0	22.7
Other Expenses	28.3	32.1	28.9	32.6	42.8
Depreciation	3.4	4.4	5.1	5.2	10.0
YoY change (%)					
COGS	18.8	11.6	1.2	-13.3	-73.4
Employee Expenses	15.2	15.5	23.5	15.3	-6.5
Other Expenses	15.3	0.9	-1.6	11.9	-62.5
Other Income	-79.3	-48.9	68.6	-94.3	-55.4
EBIT	-22.9	-51.1	-18.4	-45.1	-156.3

Volume growth in 1QFY21

Volume growth (%)	1QFY21
All India	-77
North	-71
West	-79
South	-77
East	-90

Source: Company, MOFSL

Voltas

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	208 / 2.7
52-Week Range (INR)	741 / 428
1, 6, 12 Rel. Per (%)	6/-2/3
12M Avg Val (INR M)	1116

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	76.6	66.5	88.0
EBITDA	6.9	4.6	7.6
PAT	5.5	3.9	6.1
EBITDA (%)	9.0	6.9	8.6
EPS (INR)	16.7	11.9	18.5
EPS Gr. (%)	6.5	(29.2)	56.2
BV/Sh. (INR)	129.4	137.7	150.6
Ratios			
Net D/E	(0.0)	0.0	(0.1)
RoE (%)	12.9	8.6	12.3
RoCE (%)	14.1	9.7	13.9
Payout (%)	31.5	30.0	30.0
Valuations			
P/E (x)	37.6	53.1	34.0
P/BV (x)	4.9	4.6	4.2
EV/EBITDA (x)	30.2	45.5	27.1
Div Yield (%)	0.7	0.5	0.7
FCF Yield (%)	2.0	0.3	3.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	30.3	30.3	30.3
DII	39.3	40.0	36.3
FII	10.7	9.9	13.0
Others	19.7	19.8	20.4

FII Includes depository receipts

CMP: INR629 TP: INR700 (+11%) Buy

Market share gains and margin surprise in UCP stamp franchise strength

Expect Voltas to mitigate risk in Projects business as well

- Voltas's UCP (Unitary Cooling Product) segment performed better than peers. Revenue decline for the segment was limited to 60% (v/s ~70% for peers), and it surprised with margin expansion of 240bps YoY. Inventory remains high, with company-level inventory at 140 days and channel-level inventory at 40–45 days. We continue to expect inventory normalization by Dec'20-end only. Voltas gained further market share in the RAC (Room Air Conditioner) business and emerged as market leader in the Inverter category as well.
- We are not too concerned about inventory and believe that Voltas deserves the benefit of doubt due to COVID-19-led demand disruption in a seasonal product. However, we do see some risks emerging in the Projects business. OB is up 61% YoY to INR76.6b, of which 38% is in the international markets (largely the Middle East). We expect Voltas to have a better risk mitigation strategy in place on account of having further insight due to its past experience over FY13–16.
- We cut our FY22 EBITDA estimates by 5% as we lower our margin estimate in the Projects business to model-in some conservatism. We increase our multiple for the UCP segment to 40x from 35x earlier on its relative outperformance v/s white goods companies. Voltas remains our preferred play in the underpenetrated AC industry in India. Maintain Buy, with TP of INR700 (prior: INR600) as we roll over to Sep'22E.

UCP margin surprise a positive; market share gains welcome

- **1QFY21:** Revenue was down 51% to INR13b, while EBITDA plunged 77% to INR668m. EBITDA was **6% ahead of our expectation.** The EBITDA margin came in at 5.1% (v/s 11% last year). Other income increased to INR674m (+56% YoY). Thus, adj. PAT came in at INR812m (-58% YoY) and was 79% ahead of our expectation of INR455m.
- **Segmental highlights: (a) EMP:** Revenue declined 37% YoY and was in line with our expectation. The EBIT margin stood at -7.6%. **(b) UCP:** Revenue declined 60% YoY and was 12% below our expectation. The EBIT margin surprised at 15.5% (v/s 13.1% YoY). Voltas continues to be the market leader and has sustained its No.1 position in the RAC business, with YTD market share of 26.2%. It has also maintained a leadership position in Inverter ACs.

Key takeaways from management commentary

- **Inventory remains high:** Company-level inventory stood at 140 days, while that in the channel stood at 40–45 days.
- **UCP margins unsustainable:** The margin surprise is attributable to a better product mix (higher proportion of inverter AC sales), the curtailment of AC spends (aiding 3% of sales), and the benefit of low commodity prices.
- **Key highlights in EMP segment:** Due to weakness in the overall market, order inflows declined by 46% YoY to INR3.7b. The order book stood at INR76.6b (domestic: INR47.6b; international: INR29b). Within the domestic segment, the breakup of the order book was: MEP – INR27b, Electric – INR7.3b, Water – INR10.7b, and Solar – INR1.5b.
- **Volt-Bek:** ~130 exclusive brand outlets (EBOs) sell Voltas and Volt-Bek products. The response for DC refrigerators has been encouraging, with the company accelerating its production post Unlock 1.0 owing to higher demand from the channel.

Valuation and view

We expect system-level inventory to normalize by Nov–Dec'20; hence, FY22E should turn out to be a normal year. We cut our FY22 EBITDA estimates by 5% as we lower our margin estimate in the Projects business to model-in some conservatism. We increase our multiple for the UCP segment to 40x from 35x earlier owing to its relative outperformance v/s white goods companies. Voltas remains our preferred play in the underpenetrated AC industry in India. Maintain Buy, with TP of INR700 (prior: INR600) as we roll over to Sep'22E.

Quarterly Performance (INR m)

	FY20				FY21E				FY20	FY21E	FY21	Var.
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**			**1QE**	**Vs Est**
Sales	**26,540**	**14,219**	**14,925**	**20,896**	**12,969**	**13,265**	**15,865**	**24,401**	**76,581**	**66,500**	**13,615**	**-5%**
Change (%)	23.6	0.0	0.0	1.3	-51.1	-6.7	6.3	16.8	7.5	-13.2	-48.7	
EBITDA	**2,912**	**1,059**	**976**	**1,920**	**668**	**639**	**881**	**2,400**	**6,867**	**4,588**	**628**	**6%**
Change (%)	19.7	-2.5	-15.7	33.1	-77.1	-39.6	-9.7	25.0	12.3	-33.2	-78.4	
As of % Sales	11.0	7.4	6.5	9.2	5.1	4.8	5.6	9.8	9.0	6.9	4.6	
Depreciation	77	80	80	82	82	90	90	91	320	353	90	
Interest	44	49	57	61	67	70	70	73	211	280	50	
Other Income	433	726	543	605	674	500	500	526	2,306	2,200	400	
Extra-ordinary Items	-301	-43	0	-20	0	0	0	0	-364	0	0	
PBT	**2,923**	**1,612**	**1,381**	**2,362**	**1,192**	**979**	**1,221**	**2,762**	**8,278**	**6,155**	**888**	**34%**
Tax	1,046	448	314	572	258	246	307	738	2,380	1,549	224	
Effective Tax Rate (%)	32.4	27.1	22.7	24.0	21.6	25.2	25.2	26.7	27.5	25.2	25.2	
Share of profit of associates/JV's	(225)	(100)	(198)	(203)	(123)	(160)	(160)	(241)	(726)	(684)	(210)	
Reported PAT	**1,652**	**1,064**	**869**	**1,587**	**812**	**573**	**754**	**1,784**	**5,172**	**3,922**	**455**	**79%**
Change (%)	-10.2	2.9	7.4	13.6	-50.9	-46.2	-13.3	12.4	1.8	-24.2	-72.5	
Adj PAT	**1,953**	**1,107**	**869**	**1,607**	**812**	**573**	**754**	**1,784**	**5,536**	**3,922**	**455**	**79%**
Change (%)	6.2	7.0	-6.2	15.1	-58.4	-48.3	-13.3	11.0	6.5	-29.2	-76.7	

Glenmark Pharma

Estimate change	⟷
TP change	↓
Rating change	⟷

Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USDb)	135.7 / 1.8
52-Week Range (INR)	573 / 168
1, 6, 12 Rel. Per (%)	9/62/31
12M Avg Val (INR M)	1834

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	104.0	105.2	114.2
EBITDA	14.8	19.6	20.6
Adj. PAT	6.9	8.7	9.5
EBIT Margin (%)	10.2	13.9	13.6
Cons. Adj. EPS (INR)	24.6	31.0	33.6
EPS Gr. (%)	-5.1	26.0	8.4
BV/Sh. (INR)	215.1	242.5	272.5
Ratios			
Net D:E	0.6	0.5	0.4
RoE (%)	11.9	13.5	13.0
RoCE (%)	10.9	12.6	12.3
Payout (%)	13.1	11.0	10.7
Valuations			
P/E (x)	19.7	15.6	14.4
EV/EBITDA (x)	11.5	8.8	8.2
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	1.8	2.9	6.4
EV/Sales (x)	1.6	1.6	1.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	46.6	46.6	46.6
DII	5.5	6.8	7.7
FII	23.4	28.5	31.0
Others	24.4	18.1	14.7

FII Includes depository receipts

CMP: INR481 TP: INR495 (+3%) Neutral

Cost savings drive profitability

Return ratios to remain under check

- Despite reduced sales in India (DF)/the US/ROW/LATAM, Glenmark Pharma (GNP) delivered better-than-expected 1QFY21 performance led by product mix change and sharp reduction in other opex.
- We have raised our EPS estimate by 19%/14% for FY21/FY22E and raised our P/E multiple to 14x (from 12x earlier) to factor in (a) cost rationalization benefits, and (b) the gradually improving outlook for India and other emerging markets (EMs). Accordingly, we have arrived at a price target of INR495 on 12M forward earnings basis. While 17% earnings CAGR over FY20-22E should be better than the earnings decline over FY17-20, we are yet to see meaningful improvement in return ratios. Further, on limited upside from current levels, we have maintained Neutral on the stock.

Margin expansion on back of lower opex

- Revenues grew 2.7% YoY to INR23.4b (v/s est. INR26.4b). The YoY growth was driven by Europe and DF, partially offset by decline in RoW markets and LATAM sales.
- DF (34% of sales) revenue grew 3.7% YoY to INR7.8b.
- Europe revenue (12% of sales) grew ~13% YoY to INR2.7b.
- US revenues (32% of sales) grew marginally, by 1.6% YoY to INR7.4b. API sales also saw muted growth of 1.8% YoY to INR2.3b.
- RoW sales (9% of sales) declined 18% YoY to INR2.1b, LATAM sales (3% of sales) declined 19% YoY to INR658m.
- Gross Margin expanded 100bp YoY to 65.5% due to superior product mix.
- EBITDA margin expanded at higher rate of 610bp YoY to 20.4% (v/s est. 15.3%), due to lower other expenses (-550bp YoY as % of sales).
- EBITDA (v/s est. INR3.9b) grew 46% YoY to INR4.8b.
- Adjusting for forex gains (INR400m) and gains of INR280m from *Vwash* sales, PAT soared 51% YoY to INR2.1b (v/s est. INR1.6b). This was on account of better margins and lower tax rate.

Highlights from management commentary

- GNP has guided for EBITDA margin of 19-20% in FY21. GNP expects some benefits of lower SG&A to continue throughout the year.
- GNP expects Ryaltris NDA approval for the US market in 2HCY21.
- R&D expense is expected at ~11% of sales for FY21 (55% for innovation and 45% for generics).
- Ichnos Sciences has initiated the process to raise capital in the US to fund development of its pipeline and future growth plans. It is expected to complete the process in 2HFY21.

Valuation and view

- We have raised our EPS estimate by 19%/14% for FY21/FY22E to factor in the cost savings and better traction in DF/Europe/ROW/LATAM with ease of the lockdown. We expect 17% earnings CAGR over FY20-22E, led by sales CAGR of 7%/5% in India/Europe and margin expansion of 380bp. We value GNP at 14x 12M forward earnings to arrive at a price target of INR495/share. While earnings trajectory is improving, we are yet see any meaningful improvement in return ratios. Maintain **Neutral**.

Quarterly performance (Consolidated) (INR M)

Y/E March	FY20				FY21E				FY20	FY21E	Estimate	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	% Var
Net Revenues (Core)	**22,836**	**27,637**	**26,386**	**27,113**	**23,448**	**26,169**	**27,606**	**27,970**	**103,972**	**105,193**	**26,444**	**-11.3**
YoY Change (%)	7.2	8.8	5.1	7.3	2.7	-5.3	4.6	3.2	7.1	1.2	15.8	
EBITDA	**3,276**	**3,991**	**3,431**	**4,095**	**4,781**	**4,841**	**4,969**	**4,975**	**14,793**	**19,566**	**3,914**	**22.2**
YoY Change (%)	5.5	0.1	-11.9	16.4	45.9	21.3	44.8	21.5	2.0	32.3	**19**	
Margins (%)	14.3	14.4	13.0	15.1	20.4	18.5	18.0	17.8	14.2	18.6	14.8	
Depreciation	907	942	1,060	1,263	1,132	1,200	1,290	1,322	4,172	4,945	1,250	
EBIT	**2,369**	**3,049**	**2,371**	**2,832**	**3,648**	**3,641**	**3,679**	**3,652**	**10,622**	**14,621**	**2,664**	
YoY Change (%)	2.4	-3.6	-22.6	4.6	54.0	19.4	55.1	29.0	-5.5	37.7	12.4	
Margins (%)	10.4	11.0	9.0	10.4	15.6	13.9	13.3	13.1	10.2	13.9	10.1	
Interest	930	898	961	985	937	950	970	1,090	3,773	3,947	995	
Other Income	409	541	1,019	654	185	250	350	415	2,623	1,200	515	
PBT before EO Expense	**1,848**	**2,693**	**2,430**	**2,501**	**2,896**	**2,941**	**3,059**	**2,977**	**9,472**	**11,874**	**2,184**	**32.6**
One-off loss/(gain)	250	-780	-280	-679	-680	0	0	0	-1,489	-680	0	
PBT after EO Expense	**1,598**	**3,473**	**2,710**	**3,180**	**3,576**	**2,941**	**3,059**	**2,978**	**10,961**	12,554	**2,184**	**63.8**
Tax	506	918	801	977	1,036	838	887	566	3,201	3,327	611	
Rate (%)	31.6	26.4	29.6	30.7	29.0	28.5	29.0	19.0	29.2	26.5	28.0	
Reported PAT	**1,093**	**2,555**	**1,908**	**2,203**	**2,540**	**2,103**	**2,172**	**2,412**	**7,760**	**9,227**	**1,572**	**61.6**
Adj PAT (excl one-offs)	**1,359**	**1,993**	**1,786**	**1,801**	**2,057**	**2,103**	**2,172**	**2,412**	**6,938**	**8,744**	**1,572**	**30.9**
YoY Change (%)	-5.8	-3.5	-16.8	8.6	51.4	5.5	21.6	34.0	-5.1	26.0	15.7	
Margins (%)	5.9	7.2	6.8	6.6	8.8	8.0	7.9	8.6	6.7	8.3	5.9	

Key performance Indicators (Consolidated)

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
India formulations	7,522	8,964	7,888	7,648	7,799	8,964	8,519	8,021	32,022	33,303
YoY Change (%)	13.4	15.2	18.2	14.5	3.7	0.0	8.0	4.9	15.3	4.0
US	7,309	8,478	7,998	7,619	7,426	7,637	8,006	8,163	31,404	31,095
YoY Change (%)	3.9	4.6	(6.5)	(1.0)	1.6	(9.9)	0.1	7.1	0.0	(1.0)
ROW	2,587	3,488	3,414	3,365	2,120	2,860	3,584	4,033	12,854	12,597
YoY Change (%)	5.4	14.3	0.4	(12.6)	(18.1)	(18.0)	5.0	19.8	0.7	(2.0)
Europe	2,429	2,851	3,089	4,116	2,739	3,079	3,367	3,549	12,484	12,734
YoY Change (%)	10.5	9.3	(4.0)	29.3	12.8	8.0	9.0	(13.8)	11.4	2.0
Latin America	811	1,212	1,563	1,769	658	1,067	1,376	1,612	5,356	4,713
YoY Change (%)	(16.9)	23.1	54.1	46.9	(18.9)	(12.0)	(12.0)	(8.8)	28.1	(12.0)
API	2,306	2,698	2,622	2,614	2,348	2,563	2,753	3,087	10,239	10,751
YoY Change (%)	9.8	7.4	9.6	5.1	1.8	(5.0)	5.0	18.1	7.9	5.0
Cost Break-up										
RM Cost (% of Sales)	35.5	35.7	35.1	36.0	34.5	34.8	35.0	35.6	35.6	35.0
Staff Cost (% of Sales)	21.3	24.8	21.1	19.3	21.7	22.8	22.3	21.2	21.7	22.0
R&D Expenses(% of Sales)	12.9	12.8	13.3	13.3	10.8	10.9	11.0	12.0	13.1	11.2
Other Cost (% of Sales)	15.9	12.2	17.4	16.3	12.6	13.0	13.7	13.4	15.4	13.2
Gross Margins(%)	64.5	64.3	64.9	64.0	65.5	65.2	65.0	64.4	64.4	65.0
EBITDA Margins(%)	14.3	14.4	13.0	15.1	20.4	18.5	18.0	17.8	14.2	18.6
EBIT Margins(%)	10.4	11.0	9.0	10.4	15.6	13.9	13.3	13.1	10.2	13.9

IIFL Wealth

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USDb)	92.9 / 1.2
52-Week Range (INR)	1659 / 710
1, 6, 12 Rel. Per (%)	12/-24/-
12M Avg Val (INR M)	73

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Net Revenues	9.2	8.9	11.0
Opex	5.7	5.2	6.1
Core PBT	3.6	3.7	4.9
PAT	2.0	3.3	4.3
Ratios			
PBT margin (bp)	26	24	25
PAT margin (bp)	15	21	22
RoE (%)	6.8	10.8	13.7
Div. Payout (%)	100	70	70
Valuations			
P/E (x)	46.1	28.2	21.5
P/BV (x)	3.1	3.0	2.9
Div. Yield (%)	1.9	2.5	3.3

Shareholding pattern (%)

As On	Jun-20	Mar-20
Promoter	22.9	22.9
DII	1.4	1.3
FII	20.1	20.1
Others	55.6	55.7

FII Includes depository receipts

CMP: INR1,065 TP: INR1,240 (+16%) Buy

PAT beat driven by lumpy revenues and lower opex

L&T Wealth acquisition leads to Goodwill creation of INR2.44b

- IIFLWAM's 1QFY21 PAT grew 33% YoY to INR819m (63% beat), driven by 8%/7% beat on core revenues/opex. **Stronger-than-expected top line was largely due to higher transaction (TBR) revenue (INR710m v/s est. INR500m).**
- Operating expenses were down 20% QoQ (up 2% YoY) to INR1.3b (7% beat), driven largely by lower employee cost. As the company pruned salaries, fixed cost declined ~10% QoQ. In addition, ESOP cost more than halved QoQ to INR140m. **Management is targeting to reduce the C/I ratio to 50% over the next 18 months (~64% in 1QFY21).**
- During the quarter, IIFLWAM acquired L&T Wealth for INR2.96b, which led to Goodwill accretion of INR2.44b. The business contributed 5.4%/7.2% /4.5% of the overall/ARR/TBR AUM in 1QFY21. Total Goodwill on the balance sheet now stands at INR5.2b (17% of net worth).
- Overall core performance was in line with expectation – both on the AUM and earnings front. Traction on ARR assets is a key monitorable for the ensuing quarters. Our earnings estimates remain largely unchanged for FY21/22E. Reiterate **Buy.**

New flows muted; Net AUM up 14% QoQ, MTM gains of INR150b

- **1QFY21 was slow in terms of new business – net new money addition stood at INR8.8b (v/s INR124b in FY20).** However, with the acquisition of L&T Wealth (AUM of INR99b) and strong MTM gain of INR150b, net AUM grew 14% QoQ to INR1.58t.
- Annual Recurring Revenue (ARR) assets grew 17% QoQ to INR732b – around half of this increase came from the L&T Wealth acquisition. In this segment, all products, barring NBFC lending products, grew sequentially.
- **Revenues from ARR assets declined 10% QoQ to INR1.28b. According to the management, lower ARR revenue was on account of (a) lower AMC fees (of which, 60-70% should be recouped in 2QFY21), (b) NII on loans (due to capital allocation being lower by INR2.3b, translating to INR60m impact), and (c) lower average AUM in distribution and IIFL assets.**
- TBR assets grew 10% QoQ to INR1.04t, driven by 12% QoQ growth in brokerage assets (direct stocks and structured bonds) and L&TW acquisition. However, due to lower volume of transactions this quarter, total revenue declined ~15%/40% QoQ/YoY to INR710m. However, the performance has still exceeded our expectation of INR500m revenue.
- **According to management, typical revenue mix is expected at 50-60% from ARR (excl. NII), 10-15% from NII on loan and 25-35% from TBR assets.**

Strong traction in IIFL ONE continues; New product in AMC

- IIFL ONE continues to gain traction – AUM was up 13% QoQ to INR200b. Of the sequential increase in AUM, **~55% is from net new additions.**

- For the first time, the company has disclosed the break-up of IIFL One's assets – non-discretionary PMS comprises 36% of total AUM, followed by advisory at 27%, discretionary PMS at 19% and 'basket' AUM at 18%. Note that the company earns the highest fees in discretionary PMS (49bp), followed by non-discretionary (31bp) and advisory PMS (5bp).
- In the AMC segment, the company introduced a new long-short fund to further strengthen its leadership position in alternate assets. It is also considering other fund options such as a Quant fund, a Solutions fund and an International fund.
- The NBFC's loan book declined to INR29b (v/s INR35b in 4QFY20 and INR46b in 1QFY20), driven by muted disbursements. Spreads remained steady sequentially at 1.9%.

Other key highlights

- Contribution of NII to net revenues remains high at 27% (v/s 23%/29% QoQ/YoY).
- The share of AMC assets originated by the Wealth team increased to 37% from 34% sequentially. This, in our view, was largely driven by MTM gains.
- Other income in the quarter stood at INR400m (v/s est. INR200m). This could be largely attributable to MTM gains on Sponsored/Non-Sponsored investments done by the company in its funds. Note that MTM loss in 4QFY20 was INR790m.

Key concall takeaways

- There is scope to release equity capital from (a) NBFC segment, and (b) sale of office building. This could potentially free up INR3.5-6b capital over 12-18 months.
- It has retired some liabilities early. Reduced liquidity from INR17-18b to INR11-12b QoQ and expect to further reduce it to INR5-6b in 2QFY21. At the same time, an increase in the loan book is expected in 2QFY21.
- It has witnessed 7-8 new divestment transactions by clients over the past 30-45 days.

Valuation and view

Over the past decade, IIFLWAM has evolved into one of the best wealth management franchises in the country, giving tough competition to the private sector and foreign banks. Over the past five years, it has become the alternate asset manager in India with unique product offerings. With IIFL ONE, the company is looking to revolutionize the way wealth management is offered in India. **Traction on IIFL ONE remains healthy; however, improving the retention ratio remains the moot point.** While in the near term, net inflows could be modest, we expect it to improve over the medium term. While there could be some pressure on profitability due to migration to IIFL ONE (net yields of 40bp in IIFL ONE v/s 50-60bp for other distribution assets), it would make revenues more stable and less susceptible to regulatory pressures. We largely maintain our FY21/22E EPS estimates. Buy with TP of INR1,240 (25x FY22E EPS).

Quarterly performance (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	1QFY21E	Act. Vs Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	**2,108**	**2,316**	**2,210**	**2,570**	**1,990**	**2,144**	**2,289**	**2,433**	**9,204**	**8,856**	**1,849**	**8**
Change (%)	-27.5	-13.7	1.0	5.0	-5.6	-7.4	3.6	-5.3	-10.0	-3.8	-12.3	
ARR Assets Income	1,286	1,249	1,390	1,420	1,280	1,365	1,507	1,648	5,345	5,801	1,349	-5
TBR Assets Income	823	1,067	820	1,150	710	778	782	785	3,860	3,055	500	42
Operating Expenses	**1,269**	**1,304**	**1,450**	**1,630**	**1,300**	**1,323**	**1,266**	**1,280**	**5,650**	**5,170**	**1,400**	**-7**
Change (%)	-11.0	-7.2	12.4	38.6	2.4	1.4	-12.7	-21.5	6.7	-8.5	10.3	
Cost to Income Ratio (%)	60.2	56.3	65.6	63.4	65.3	61.7	55.3	52.6	61.4	58.4	68.3	
Operating Profits	**839**	**1,011**	**760**	**940**	**690**	**821**	**1,022**	**1,153**	**3,554**	**3,686**	**449**	**54**
Change (%)	-43.4	-20.9	-15.4	-26.1	-17.8	-18.8	34.5	22.7	-28.0	3.7	-46.5	
Other Income	62	-191	230	-790	400	100	100	100	-690	700	200	
Profit Before Tax	**901**	**820**	**990**	**150**	**1,090**	**921**	**1,122**	**1,253**	**2,865**	**4,386**	**649**	**68**
Change (%)	-40.3	-47.1	-4.1	-88.3	20.9	12.3	13.4	735.4	-46.7	53.1	-28.0	
Tax	287	136	258	171	271	230	281	315	853	1,097	147	85
Tax Rate (%)	31.8	16.6	26.1	114.2	24.8	25.0	25.0	25.1	29.8	25.0	22.6	
PAT	**615**	**684**	**732**	**-21**	**819**	**691**	**842**	**938**	**2,012**	**3,290**	**502**	**63**
Change (%)	-43.8	-31.9	-8.6	-102.5	33.3	1.0	15.1		-46.1	63.5	-18.3	
PAT Margins (%)	29.2	29.5	33.1	-0.8	41.2	32.2	36.8	38.5	21.9	37.1	24.5	
Key Oper.Parameters (%)												
AUM (INR B)	**1,423**	**1,439**	**1,508**	**1,388**	**1,583**	**1,649**	**1,712**	**1,778**	**1,388**	**1,583**	**1,704**	**-7**
Change (%)	24.3	19.7	15.9	1.6	11.2	14.7	13.5	28.1	1.6	14.0	19.7	
ARR Assets	635	640	704	626	732	790	848	910	626	732	820	-11
TBR Assets	979	993	1,017	943	1,036	1,040	1,045	1,048	943	1,036	1,065	-3
Less: Double Counting	191	194	214	181	185	181	181	181	181	185	181	2
Yield on AUM - Calculated (%)*	**0.60**	**0.65**	**0.60**	**0.71**	**0.54**							
ARR Assets	0.84	0.78	0.83	0.85	0.75							
TBR Assets	0.34	0.43	0.33	0.47	0.29							

Source: MOFSL, Company

Petronet LNG

BSE SENSEX	S&P CNX
38,051	10,386

Conference Call Details

Date: 18th Aug 2020
Time: 11:00am IST
Dial-in details:
+91-22-6280 1297
+91-22-7115 8198

CMP: INR254 — Buy

Better-than-estimated volumes lead to marginal EBITDA beat

- 1QFY21 EBITDA stood at INR9b (v/s est. +5%; -11% YoY and +30% QoQ). The lower interest cost was offset by lower other income.
- Reported PAT stood at INR5.2b (v/s est. +4%; -7% YoY and +45% QoQ).

Total volumes stood at 190tbtu (v/s est. +6%; -16% YoY and -13% QoQ)

- Utilization at Dahej was better than expectations at 82% (v/s est. 75%, 114% in 1QFY20 and 93% in 4QFY20).
- Utilization at Kochi was lower than expectations at 14% (v/s est. 20%, 14% in 1QFY20 and 21% in 4QFY20).

In its last press release, PLNG has given an update on its operations: Post lifting of the lockdown, RLNG demand recovered gradually.
Since the first week of Jun'20,

- Dahej terminal is operating at 100% capacity of 17.5MMTPA (63MMSCMD) v/s Jan-Feb'20 average 92% capacity of ~58MMSCMD, and
- Kochi terminal is operating at 20% capacity of ~3.57MMSCMD.

Standalone - Quarterly Earning Model (INR M)

Y/E March	FY20				FY21				
	1Q	2Q	3Q	4Q	1QE	1QAct	Var (%)	YoY (%)	QoQ (%)
Net Sales	**86,134**	**93,612**	**89,102**	**85,672**	**64,887**	**48,836**	**-25%**	**-43%**	**-43%**
YoY Change (%)	-6.1	-12.9	-11.8	2.2	-24.7	-43.3			
EBITDA	**10,239**	**11,605**	**11,076**	**6,975**	**8,707**	**9,099**	**5%**	**-11%**	**30%**
Margins (%)	11.9	12.4	12.4	8.1	13.4	18.6			
Depreciation	1,899	1,960	1,960	1,942	2,048	1,936	-5%	2%	0%
Interest	1,005	1,051	940	1,035	1,072	881	-18%	-12%	-15%
Other Income	1,044	975	842	865	1,094	684	-37%	-35%	-21%
PBT before EO expense	**8,379**	**9,568**	**9,017**	**4,863**	**6,681**	**6,966**	**4%**	**-17%**	**43%**
Extra-Ord expense	0	721	0	0	0	0			
PBT	**8,379**	**8,848**	**9,017**	**4,863**	**6,681**	**6,966**	**4%**	**-17%**	**43%**
Tax	2,777	-2,184	2,265	1,272	1,684	1,764	5%	-36%	39%
Rate (%)	33.1	-24.7	25.1	26.2	25.2	25.3			
Reported PAT	**5,603**	**11,031**	**6,752**	**3,590**	**4,997**	**5,202**			
Adj PAT	**5,603**	**11,930**	**6,752**	**3,590**	**4,997**	**5,202**	**4%**	**-7%**	**45%**
YoY Change (%)	-4.5	111.9	19.4	-18.4	-10.8	-7.1			
Margins (%)	6.5	12.7	7.6	4.2	7.7	10.7			
Key Assumptions									
Total Volumes (Tbtu)	226.0	250.0	233.0	219.0	178.5	190.0	6%	-16%	-13%
Dahej utilization (%)	114%	109%	100%	93%	75%	82%			
Kochi utilization (%)	14%	16%	17%	21%	20%	14%			

Agriculture

Sowing higher on surplus pan-India rainfall

So far, Kharif crop sowing has beaten last year's figures with the total acreage (as at 14th Aug'20) being 9% higher than the comparable period last year. This was led by surplus 4% rainfall at pan-India level. Key insights highlighted below:

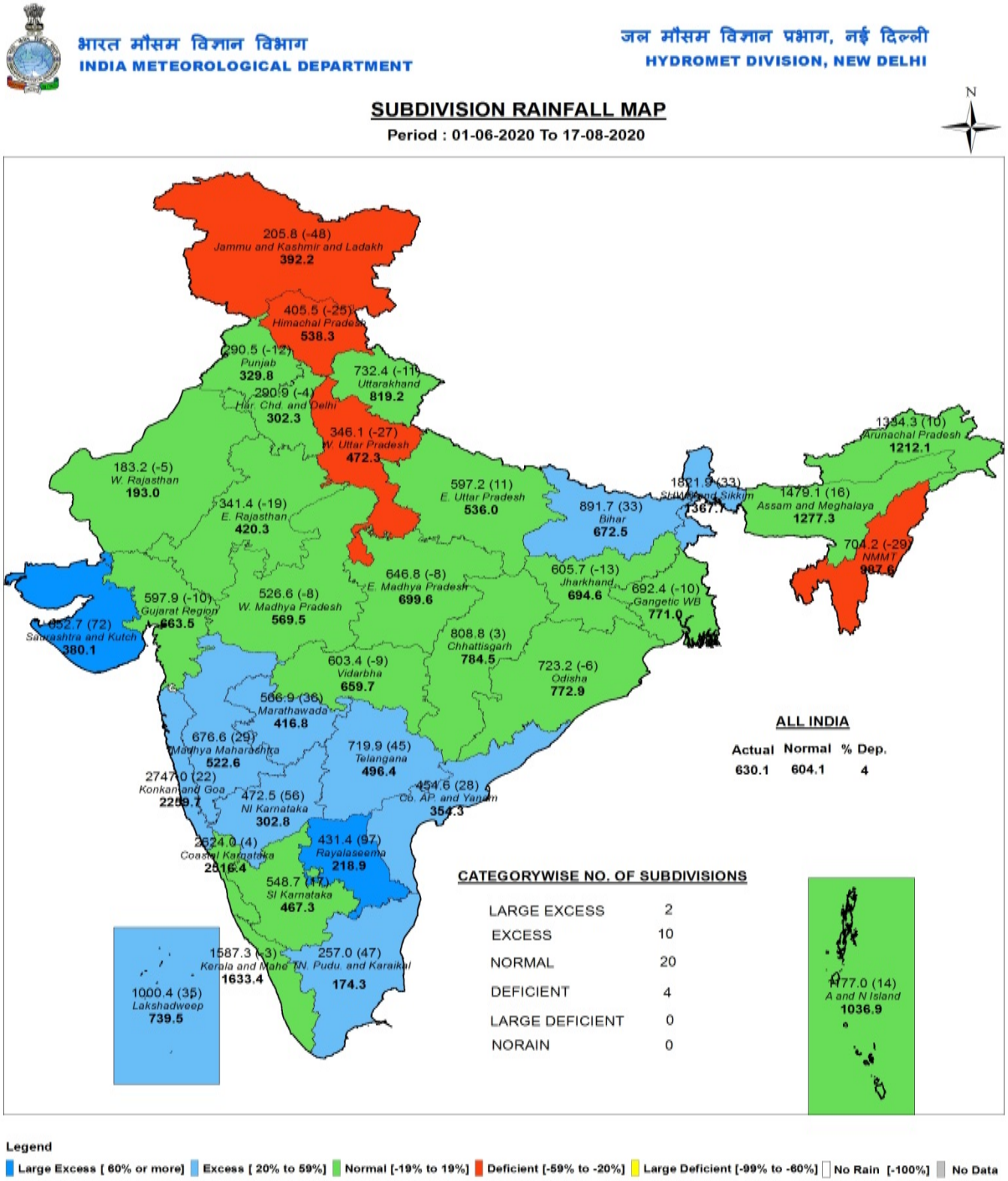
Rainfall above 4% of normal

- Over 1st Jun'20 to 17th Aug'20, pan-India rainfall is 4% higher at 617.7mm (v/s normal rainfall of 595.7mm).
- Western Uttar Pradesh (-27% as compared to normal rainfall) has witnessed deficit rainfall till date. However, other areas in the state have witnessed large excess to normal rainfall.
- Gujarat and East Rajasthan have turned from deficient to normal rainfall zone in the last one week.
- Normal rainfall was witnessed in Western Rajasthan (-5% as compared to normal rainfall), Eastern Rajasthan (-19%), East Madhya Pradesh (-8%), West Madhya Pradesh (-8%), Gujarat Region (-10%), Punjab (-12%), East Uttar Pradesh (+11%), Odisha (-6%), Vidarbha (-9%), Chhattisgarh (+3%), Jharkhand (-13%), Coastal Karnataka (+4%) and South Karnataka (+17%).
- Bihar (+33%), Chhattisgarh (+20%), Marathawada (+36%), Madhya Maharashtra (+29%), North Karnataka (+56%), Telangana (+45%) and Coastal Andhra Pradesh (+28%) have witnessed excess rainfall.

All India sowing up 9% YoY

- All India sowing is up 9% YoY to 101.6mh as at 14th Aug'20 with all key crops sowing area being higher (v/s last year).
- Key crops that witnessed higher sowing in terms of areas (v/s last year) are cotton (+3% YoY to 12.5mh), rice (+14% to 35.2mh), coarse cereals (+4% to 16.8mh), maize (+1% to 7.8mh), pulses (+2% to 12.4mh), oilseeds (+14% to 18.7mh), sugarcane (+1% to 5.2mh) and soybean (+7% to 11.9mh).

Rainfall 4% above normal so far



Source: IMD, MOFSL

Pan-India sowing up 9% YoY (as at 14th Aug'20)

Sr No	Crop (m hectare)	Normal Area (DES)	Area Sown		
			2020-21	2019-20	% Change YOY
1	**Rice**	**39.7**	**35.2**	**30.9**	**14%**
2	**Pulses**	**12.9**	**12.4**	**12.2**	**2%**
a	Arhar	4.4	4.4	4.2	3%
b	Uradbean	3.6	3.6	3.4	6%
c	Moongbean	3.0	3.3	2.9	13%
d	Kulthi	0.2	0.0	0.0	14%
e	Other pulses	1.6	1.2	1.6	-28%
3	**Coarse cereals**	**18.5**	**16.8**	**16.2**	**4%**
a	Jowar	2.1	1.5	1.5	0%
b	Bajra	7.3	6.5	6.3	4%
c	Ragi	1.1	0.7	0.5	44%
d	Small millets	0.6	0.4	0.4	11%
e	Maize	7.5	7.8	7.7	1%
4	**Oilseeds**	**17.8**	**18.7**	**16.4**	**14%**
a	Groundnut	4.1	4.9	3.5	41%
b	Soybean	11.0	11.9	11.1	7%
c	Sunflower	0.2	0.1	0.1	19%
d	Sesame	1.4	1.3	1.2	8%
e	Niger	0.2	0.1	0.1	28%
f	Castor	0.9	0.4	0.4	9%
5	**Sugarcane**	**4.8**	**5.2**	**5.1**	**1%**
6	**Jute & Mesta**	**0.8**	**0.7**	**0.7**	**2%**
7	**Cotton**	**12.1**	**12.5**	**12.2**	**3%**
	Total	**106.6**	**101.6**	**93.6**	**9%**

Source: Agricoop, MOFSL

PI INDUSTRIES: WILL USE QIP MONEY TO FORAY INTO PHARMA SECTOR AND ACQUIRE SMALLER BLOCKS; Mayank Singhal, MD & CEO

- One, we are looking at inorganic options to go into adjacencies which could be complementary to our competencies and going to different areas; pharma being identified as one of them. The other is to look at acquisition of smaller blocks, which could be complementary in terms of technology and could be synergistic to our business. That is really where we are looking to deploy this money over the next two quarters.
- Have a couple of products in the branded business. It is going to be a domestic-branded business where we would be looking to bring about one or two product molecules based on regulatory approvals in this coming year. On the other hand, we have added capacity for contract manufacturing for global supplies. We will be commercialising two new products in the manufacturing sites.
- When you look at the global shift in manufacturing, we have been pioneers and forerunners in the space with our ideas of competency, which is agri. We definitely see opportunities coming our way. Clearly, India supported through its strong policies in the area of manufacturing chemical industry could really move to the next level. I do believe that India in the chemical industry's next phase should specifically focus towards IP generation and creation. This would also give us an edge over the Chinese competition.
- Have 30-40% of our revenue still dependent on the domestic business, which is also going well. Clearly yes, the domestic business has a relationship on the rainfall and the monsoon situation in India because in India, still about 50-60% of agriculture is dependent on monsoons. Given that monsoons are doing well, all domestic business-based companies will do well.

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MARKETS' TRYST WITH DESTINY IN NEW INDIA

- While India is an ancient civilisation, it is a young nation and on a per capita basis still largely poor. But in constant 2010 US dollars terms, India's per capita GDP did increase from $330 in 1960 to $581 in 1990 to $2169 in 2019. Assuming $2000 for 2020, it has gone up six times in 60 years with most of the increase in recent decades. Yet this is only the beginning. Ignore the gloom and doom about India that you have no doubt been hearing, which has been further exacerbated because of the pandemic. Long term factors such as demographics and technological innovation, mid-term factors such as improvements in governance, and relatively short term factors such as a weaker dollar are going to be massive tailwinds for the India story. India is likely to have the largest group of people aged between 25 and 65 years around 2030. In that group, India has around 670 million compared to China at 820mn. Over the next 25 years, India's working age population is likely to increase to around 920mn and China's will decrease to 720mn. That is a relative shift of a third of a billion people! The age group of 0-24 years is 45% of our total population and the dependency ratio (the young and the old divided by the working age population) would improve from around 100%to 85% by 2040 for India while China's dependency ratio could worsen from 70% to 95%during the same period. It is not just quantity, but also quality. The literacy rate for women over the age of 25 is 58%, while the literacy rates of females in the age group of 15-24 years is 90%. This is close to the 93% literacy rate among males of the same age group. A correlation is seen between the working age population ratio and gross domestic savings as a fraction of GDP. In the last few years this has not happened because of a general slowdown.

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WARREN BUFFETT SOURS ON BANKS AND LIKES GOLD

- Dumping bank shares and investing in a gold miner? It certainly doesn't sound like a Warren Buffett move, but that's exactly what the investing guru's company did in the second quarter, according to a regulatory disclosure Friday. It's not a good sign for markets. Buffett, the fifth-richest person in the world, has loved few things more in his life than sweets, soda and compound interest — but banking stocks have come pretty close. Buffett was there to boost them during and after the last crisis, and he's remained a top shareholder in most of the big U.S. banks. That's why it's so jarring that Buffett's Berkshire Hathaway Inc. sold 62% of its stake in JPMorgan Chase & Co. and cut 26% of its Wells Fargo & Co. holdings last period amid the Covid-19 crisis. The conglomerate also pared back positions in other financial-services firms including PNC Financial Services Group Inc., M&T Bank Corp., Bank of New York Mellon Corp., Mastercard Inc. and Visa Inc. Berkshire all but exited Goldman Sachs in the first quarter — in the first of Buffett's worrying signals — and finished the deed in the second. Berkshire also did away with its leftover airline positions — a move Buffett previously disclosed — and a stake in Burger King parent Restaurant Brands International Inc. Perhaps most telling was that Berkshire's only new purchase was Barrick Gold Corp., a gold-mining giant.

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

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