Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	33,508	-0.3	-18.8
Nifty-50	9,881	-0.3	-18.8
Nifty-M 100	14,247	0.1	-16.7
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,113	-0.4	-3.6
Nasdaq	9,911	0.1	10.5
FTSE 100	6,253	0.2	-17.1
DAX	12,382	0.5	-6.5
Hang Seng	9,910	0.4	-11.3
Nikkei 225	22,456	-0.6	-5.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	40	-0.7	-39.9
Gold ($/OZ)	1,727	0.0	13.8
Cu (US$/MT)	5,741	0.7	-6.6
Almn (US$/MT)	1,583	0.4	-11.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	76.2	-0.1	6.7
USD/EUR	1.1	-0.2	0.3
USD/JPY	107.0	-0.3	-1.5
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.01	-0.7
10 Yrs AAA Corp	7.0	-0.01	-0.6
Flows (USD b)	**17-Jun**	**MTD**	**CYTD**
FIIs	-0.06	2.87	-1.98
DIIs	0.02	-0.10	11.41
Volumes (INRb)	**17-Jun**	**MTD***	**CYTD***
Cash	558	645	496
F&O	16,681	15,587	14,376

Note: *Average

Today's top research idea

Voltas: Undented long-term growth trajectory in AC business

Volt-Bek continues to scale up distribution and reach

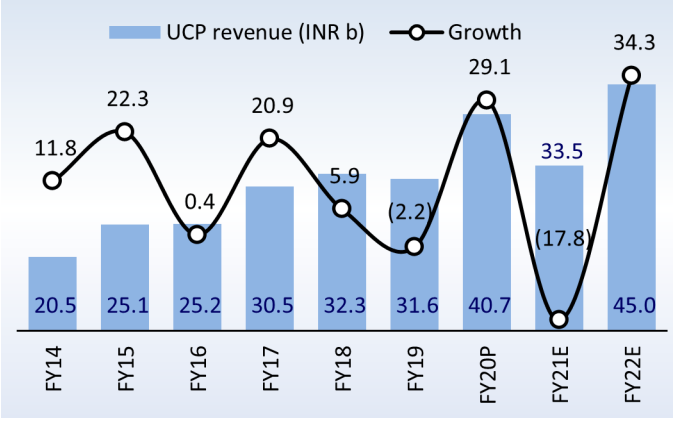
- Post the lockdown, demand has largely been witnessed from North India. With the major part of AC season sales lost, the company is optimistic about second summer of Sep/Oct'20. Over the longer term, VOLT expects the AC market to grow at >10% CAGR.
- Channel inventory continues to be high with dealer level inventory at around 55–60 days on a pan-India basis. Additionally, Voltas would have ~90 days of inventory, but largely in form of raw materials.
- Even without direct cool refrigerators, the company has garnered ~2% market share in frost-free refrigerators and washing machines. Dishwashers may see higher pent-up demand, leading to a year's worth of sales in two to three months.
- Project business execution is likely to be impacted in near term. Overall, 40% of labour is available. New ordering is likely to be slow. Certain provisions may be needed to be booked owing to accounting norms. This may be reversed as well eventually once payments come.

Research covered

Cos/Sector	Key Highlights
Resurgent India Conference Takeaways	CAPITAL GOODS: Voltas
	BFSI: ICICI Lombard
	CEMENT: Dalmia Bharat
	STAFFING: Quess Corp
Financials	SC directs Center/RBI to review interest waiver matter
	RBI releases proposed changes in regulations applicable for HFCs
Muthoot Finance	Stellar performance on growth; Spreads stable
Pidilite	Disappointment on all fronts
Indraprastha Gas	CNG volumes sway amidst COVID-19 crisis
Other Notes	HPCL | Ipca Laboratories | Cummins India | JK Cement | Cement

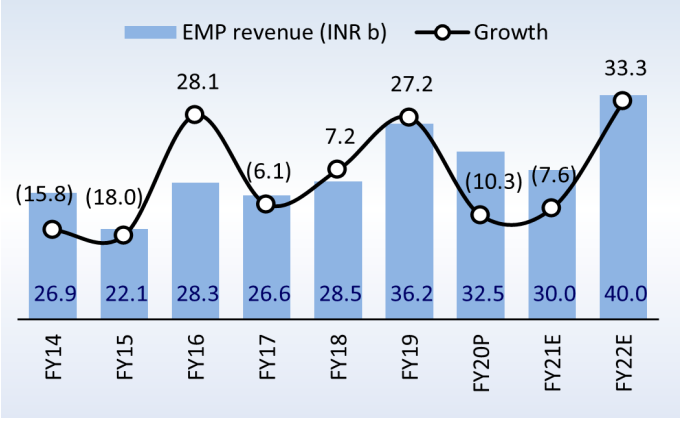
Chart of the Day: Voltas (Undented long-term growth trajectory in AC business)

UCP sales expected at 5.1% CAGR over FY20–22E



Source: MOFSL, Company

EMP sales expected at 3.4% CAGR over FY20–22E



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Sebi tweaks in takeover norms to help promoters raise holding

The Securities and Exchange Board of India (Sebi) has allowed promoters to acquire 10% instead of 5% through creeping acquisition without triggering an open offer. The regulator has given this exemption under the takeover code to promoters for this financial year to enable…

2

Reserve Bank of India proposes tougher rules for housing finance companies

The Reserve Bank of India has proposed tougher rules for housing finance companies (HFC), including lending and investment curbs in group entities to prevent conflict of interest, while changing the definition of "housing finance" and setting thresholds to identify the bigger players that are systemically important to the mortgage industry. The central bank said that HFCs can either take exposure on the group company in real estate business or lend to retail individual home buyers in the projects of group entities, but not do both…

3

PM Modi rules out any further lockdown, pitches for minimum restrictions

Prime Minister Narendra Modi on Wednesday ruled out another national lockdown to curb the coronavirus pandemic, while urging states to minimize restrictions to boost economic activity, support migrant workers and promote telemedicine. In a meeting with 15 states to discuss the way forward, Modi said that India was now in the unlocking…

4

PGCIL to hive off power transmission planning business

The government on Wednesday initiated separation of electricity transmission system planning business from Power Grid Corp of India (PGCIL)-- a long pending demand of the industry for fair bidding of transmission lines. The move will help PGCIL diversify to other businesses and comes just in time…

5

Future Retail stake sale likely this month-end

Kishore Biyani's Future Retail Ltd is likely to seal a deal to sell a stake in the company by the end of this month. Sources close to the development said the financial position of the company is precarious and there cannot be any further delay in getting in a new investor. "Biyani wants to ink the deal by the end of the month and talks are ongoing with multiple players. Each investor has brought a different proposal in terms of the equity stake they want, valuation, and taking on debt," said a source…

6

Consumer loans disbursement back to pre-Covid level: HDFC Bank

India's largest private sector lender HDFC Bank on Wednesday said its consumer finance loans are growing and the amount disbursed has got back to the pre-Covid levels of Rs 1,000 crore a month. The city-headquartered lender's country head for consumer finance…

7

Airtel acquires 10% stake in edu-tech start up Lattu Media

Bharti Airtel has acquired a 10% stake in Edtech startup, Lattu Media Pvt Ltd for an undisclosed sum as part of the telco's startup accelerator program, even as the Sunil Mittal-led telco ramps up 4G operations and expands its growing digital content partnerships to prise open new revenue streams…

RESURGENT INDIA CONFERENCE

- The almost three months of the lockdown amidst an unprecedented pandemic has turned the world upside down. This short-term disruption has brought about long-term changes to business models and the prevalent investment thesis. Global equities have staged a sharp rebound, with unprecedented measures from the Central Banks. Investors are keen to assess the recovery in fundamentals, to match the surge in the global equities.
- With the lockdown easing, India is now gradually trying to restore normalcy. While 3-4 states continue to account for large part of the pandemic, the rest of the country is recovering well. Also, the 4QFY20 corporate earnings have given investors much to ponder on. In this context, investors are keen to assess the changing outlook and perspective on businesses from interactions with leading corporates across sectors. Thus, inspired by the success of our traditional conferences we have rolled out **'Motilal Oswal Resurgent India Virtual Conference' from 15th-19th June'20.**
- The full-day virtual conference with matching schedules across time-zones – from Asia to the US – consists of interactive sessions with ~40 corporates as they dwell on challenges and opportunities ahead in this disruptive world. The endeavor is to feature aspects of our economy, which have far reaching consequences like labor, agriculture, logistics and insurance, along with businesses that are resilient to the disruption and institutions that are playing a critical role in getting us back on our feet.
- **On Day 3 of the conference, our guests shed light on how their respective industries are coping with the dual challenges of the pandemic and lockdown, and the way forward hereon.**
- We bring you key insights from the virtual conference.

Participating companies

COMPANY	SECTOR
✓ Bajaj Finserv	BFSI
✓ Bandhan Bank	BFSI
✓ ICICI Lombard	BFSI
✓ Voltas	Capital Goods
✓ Ambuja Cement	Cement
✓ Dalmia Bharat	Cement
✓ Tata Consumer Products	Consumer
✓ Alkem Laboratories	Healthcare
✓ Quess Corp	Staffing
✓ Astral Poly Technik	Others
✓ Relaxo Footwear	Others

Representative

Mr. Manish Desai
CFO, Product business

Undented long-term growth trajectory in AC business

Volt-Bek continues to scale up distribution and reach

Key highlights from the interaction:

- **Lost summer revenue; hopeful for second summer sales:** Post the lockdown, demand has largely been witnessed from cities in the northern region and some parts of the southern (Andhra Pradesh) region. Channel partners in the western regions and metro cities continue to have higher-than-average inventory. Current inventory with channel partners is around 55–60 days on a pan-India basis. Additionally, Voltas would have ~90 days of inventory (45–50 days of finished goods + raw materials). Increasing electrification is an enabler for people to purchase fans and gradually scale up to air coolers/conditioners. Voltas expects the AC market to grow at a >10% CAGR over the next five years. In the near term, with the major part of AC season sales lost, the second summer of September–October'20 is the key monitorable period.
- **Import duty hike risks:** There is the risk of higher import duty in AC components due to the government's 'Make in India' initiative. As per existing WTO guidelines, duty on compressors and components could rise to 35–40% (currently 20%). However, the industry has appealed to the government to have duties on finished goods rather than components as component manufacturing is yet to scale up in India. Earlier, the government's raising import duty on TV panels led to brands importing the complete product from countries with free trade agreements (FTAs) with India. However, this trend reversed when custom duty was cut to zero once again.
- **Reducing dependence on imports:** Currently, window ACs (WACs) and outer door units (ODUs) of split ACs are entirely locally produced in India. The company relies on China only for the supply of inner door units (IDUs) owing to the multiple range of stock-keeping units (SKUs) offered by Voltas. However, dependence on IDU imports from China was as high as 93–94% three to four years back. This has now come down to ~70%. With Voltas actively investing in its own IDU molds every year, this dependence could further reduce to 50% over the next three to four years.
- **Projects business remains muted:** With labor migration witnessed due to the COVID-19 crisis, ~40% of labor is now available across 60–70% of open project sites. Management expects new orders to be lower as the government and other agencies would first focus on the execution of projects in hand. Voltas may create certain provisions in the event that payments are delayed. However, this could eventually be reversed as well once payments resume.
- **Strengthening reach in Volt-Bek:** Competition in refrigerators and washing machines is less than in ACs, with four players occupying a large portion of the market. Even without direct cool (DC) refrigerators, the company has garnered ~2% market share in frost-free (FF) refrigerators and washing machines. Dishwashers may see higher pent-up demand, leading to a year's worth of sales in two to three months. Volt-Bek products are priced lower than LG and Samsung products and are at par with Whirlpool and Panasonic. DC refrigerators have seen a good response from channel partners, with Voltas being unable to fulfill demand due to production constraints at the Sanand plant. The company has ~98 SKUs in the Refrigerator category, 38 of which belong to the DC

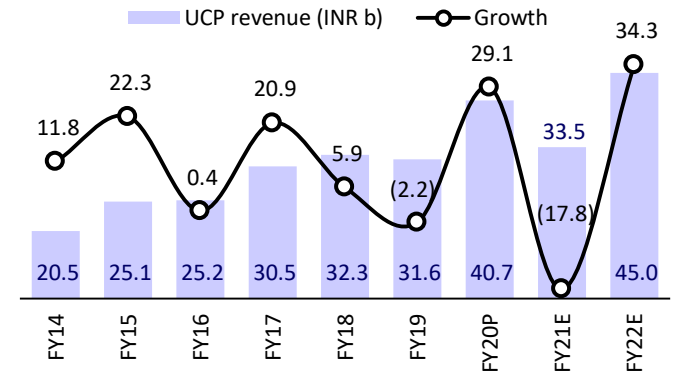
category. The Sanand facility has the capacity to manufacture 2.5m DC refrigerator units, in addition to the flexibility to manufacture FF refrigerators and washing machines. Volt-Bek currently has a presence across ~6k touchpoints, with the company ready to leverage the distribution strength of the Voltas brand. Overall, the AC category has around 31k distribution touchpoints, while those for Appliances are higher at 40–45k. Brand spending would continue as planned and be higher than that for Voltas.

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 have built-in lower revenue and profitability for the EMP business given the weak macro environment for the Projects business.
- Our FY20–22E revenue / EBITDA / adj. PAT CAGR stands at 7%/8%/8%. The stock has corrected 25% from peak levels due to higher system-level inventory. However, this is an industry-wide issue, and on a relative basis, we expect Voltas to continue to outperform peers in the RAC segment. Voltas remains the best play on the underpenetrated AC market in India. Maintain **Buy,** with TP of INR600.

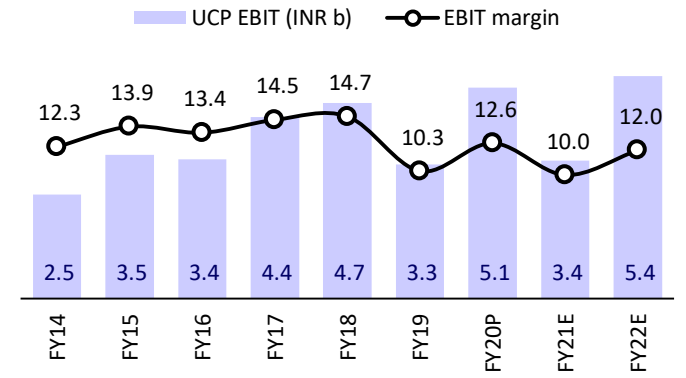
Key charts

UCP sales expected at 5.1% CAGR over FY20–22E



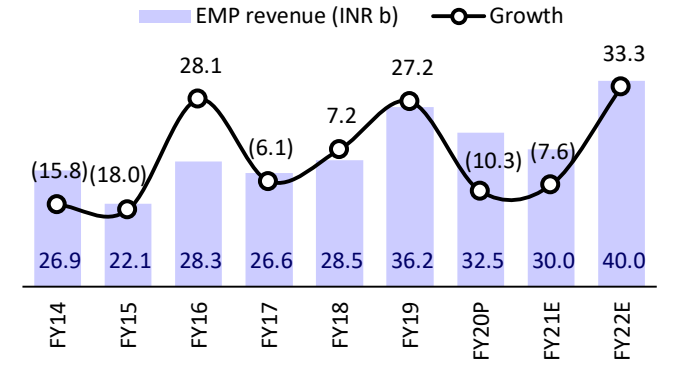
Source: MOFSL, Company

Margins to normalize once again as operating leverage kicks in



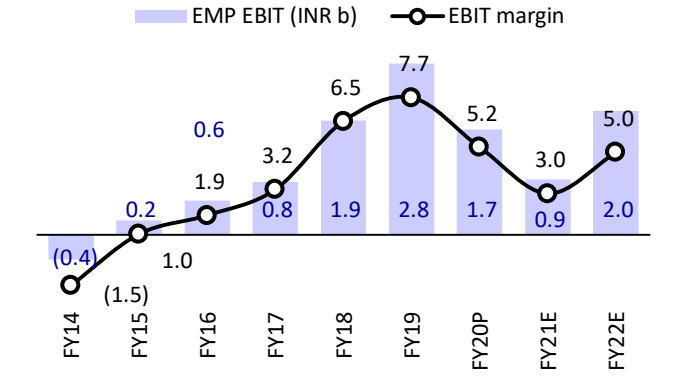
Source: MOFSL, Company

EMP sales expected at 3.4% CAGR over FY20–22E



Source: MOFSL, Company

Margins to stabilize in FY22E post normalization of construction activities



Source: MOFSL, Company

ICICI Lombard General Insurance

Representatives

Mr Bhargav Dasgupta
MD & CEO

Mr Gopal Balachandran
CFO

Focus on profitable growth

ROE to be at ~20% despite fall in investment yield

Key highlights from the interaction:

ROE of 20% possible despite fall in yield

- In the last decade, investment yield has been between 7–14%, with an average of 9–10%. Although new flows would generate lower investment yield, the management is confident of delivering at 7%+ returns on investment owing to a high-yielding legacy book. Leverage of 4x+ translates into pre-tax return of 28% and post-tax of 20%+ RoE, considering a 100% combined ratio.
- If investment yield comes in below 5% on a structural basis, the management expects the industry to be more disciplined in terms of pricing and target underwriting profits (combined ratio of less than 100%). Companies with large back books may benefit in the short term as legacy investments could help negate the pressure on underwriting profits.

Good traction in retail indemnity; cautious on Group Health segment

- The company recorded robust growth (high conversions of leads generated in April) in retail indemnity during the lockdown (largely sold through agencies). However, retail benefit products are witnessing a slowdown (as these were primarily sold through lending attachments via bank partners). Note that the company has a 50:50 mix of indemnity to benefit health insurance (compared with 75–80% share of indemnity in the industry).
- In the Corporate segment, while the SME segment is faring well, pricing is still reasonable. Group Health pricing is still competitive and not profitable. Within the Corporate segment, there is good traction in Fire Insurance.
- Motor Insurance sales would be impacted due to weak Auto numbers. However, the management believes Personal Mobility would fare better going forward and 2W / small car / lower-end vehicle sales would recoup faster, especially in rural.

Renewal rates improving; near-term growth pressures to continue

- Lagging overall renewal rate numbers are increasing MoM, and the normal run rate should recover in one to two months. In the Auto segment, the company is looking to increase the retention rate.
- Overall YoY premium growth is still negative, dragged down by New Auto Insurance and retail benefit products. Overall, the first half is likely to be negative at the industry level and would see some improvement from 2HFY21.

Seeks opex ratio reduction

- The management is actively considering having a sizeable proportion of the workforce continue into the “WFH regime” for the long term. This would aid the company’s endeavors to cut related costs.
- While the company would continue to invest in the necessary technology and human resource, it has undertaken the following steps to calibrate fixed costs (salaries / admin branch associated expenses, which constitute 9–10% of premiums). A) For FY21, the senior management would not take any increments. B) The company would cut down on new hires. C) It would reshuffle its human resource capabilities from businesses facing slowdown. Furthermore, other operating expenses are likely to be lower.

Key changes post COVID-19

- The management cited increased demand for higher sum insured policies, stating that a large number of insurers were looking to increase the sum insured. The management believes this is likely to continue even after the situation has normalized.
- Demand for phone consultations is also likely to persist; people would prefer to avoid unnecessary hospital/doctor visits. ICICIGI normally targets INR0.5m and above sum-insured policies through the agency channel.
- Claims frequency in certain segments, such as Auto and Health, is lower. With fewer vehicles on the road, claims in Auto have reduced. Hospitalization claims are down, except related to COVID-19, as elective and accident cases are lower.
- In other developments: a) ICICIGI has launched small ticket size COVID-19 insurance, b) 100% of home care expenses are being reimbursed, c) the sum insured is being restored if it was consumed for COVID-19-related expenses, d) COVID-19 claim durations have been reduced, e) drone are being used to settle claims for select insured in distress, and f) usual health claims may decline in the short term. The magnitude of COVID-19 claims is uncertain.

Comments on reserve triangles

- Of the 10 accident years, 8–9 usually see negative percentage balance; this indicates ICICIGI has been conservative at source, and as the portfolio matures, reserve releases would be witnessed.
- Motor OD and Health claims usually get played out within two years or so (short tailed). On the other hand, for Motor TP, although the policy duration is short, the liabilities tail is very long; hence, experience gets paid out over a very long period of time.

Others

- The establishment of indemnity health insurers may not increase health penetration per se, but may result in a change of hands. ICICIGI would compete with LI on the basis of scale and by providing end-to-end cover. Standalone health insurers could face some pressure as they primarily use LI agents for distribution.
- Regarding the recent withdrawal of long-term Motor OD policies for 2Ws and cars, the management stated this would not impact the company in any meaningful way, especially car insurance. Some impact would be seen on 2W/OD renewals.
- Scale and digitalization have helped significantly over the last decade. The company has reported 7–8x the business with a 40% smaller workforce over the last decade.
- In other developments: a) ICICIGI awaits individual OPD cover approval from the regulator, b) the business mix percentage in the Health segment constitutes 10% for Govt., 40% for Retail, and 50% for Group (B2B2C), c) Engineering/Aviation is a bit slow, while Marine is faring fine, d) all claims overdue for large corporates were cleared during the lockdown, e) new vehicles account for 38% share of the Motor business.

Representatives

Mr. Jayesh Doshi
CFO and Director
Dalmia Bharat

Ms. Aditi Mittal
Investor Relations

Balance sheet discipline in focus; Capex to continue

3.0mt clinker line commissioned; Emphasis on cost reduction

- **COVID-19 impact lowers 4QFY20 volumes by 0.8mt:** DBL lost 0.8mt volume in Mar'20, which led to INR1.5b EBITDA loss in 4QFY20. The company drew down additional debt of INR6b in Mar'20 and raised cash balances further amid uncertainties related to COVID-19. Subsequently, INR3.5b gross debt repayment has been made in 1QFY21.
- **East – least impacted; West – worst hit; DBL operating at 50-60% utilization:** Regionally, due to COVID-19, East India was the least impacted while West India was the worst hit market. Demand in the East is driven by the IHB segment and resumption of highway projects. However, DBL remains cautious on the sustainability of this demand and is evaluating the situation on an ongoing basis. West India has been the worst hit in terms of demand as migrant labor issues continue. Also, urban real estate is likely to remain a drag on demand as it has much unsold inventory. The company is currently operating at 50-60% utilization across geographies and is not facing any production or logistical challenges. Industry is operating at ~50% utilization.
- **Capacity expansion to continue even in FY21:** DBL has commissioned its new 3.0mtpa clinker line at Rajgangpur (Odisha). However, commissioning of 4.5mt grinding units in Bihar and Orissa has been pushed ahead by 3-6 months (to Dec'20) due to labor issues. Mr. Doshi has informed that DBL would continue adding capacity while maintaining balance sheet strength. The company has guided for capex of INR12.0b for FY21, including INR4.0b to be paid in Jul-Aug'20 for the acquisition of Murli Industies. Capex in FY20 stood at INR16.0b.
- **Guides for Net Debt/EBITDA of <1.5x:** FY20 Net Debt stood at INR28.3b, implying Net Debt/EBITDA of 1.34x. DBL has guided for maintaining Net Debt/EBITDA below 1.5. Scheduled debt repayment for FY21 is INR11.5b; of this, DBL has already paid INR7.0b in 1QFY21 (partly through refinancing).
- **Premium cement accounts for 13% of trade sales, targeted to reach 25%:** Dalmia DSP and composite cement accounts for 13% of trade sales; DBL is targeting to achieve 25% of trade sales for the premium segment. Dalmia DSP has seen good traction in the East while it's trying to establish itself in the South. The price differential between Dalmia DSP and Konark stands at INR30-40/bag. DBL has launched one more brand of the Konark range in Odisha in 1QFY21.
- **Cost reduction in focus:** DBL is focused on fixed cost reduction; it will save on traveling expenses while marketing budgets will be restructured. Full impact of the cost reduction measures is expected to occur from 4QFY21. DBL expects to benefit from lower pet coke prices, which should range between USD60-70/t, while slag prices should remain stable (currently at INR900-1,000/t).
- **Murli to be operational from Jul'21:** With the company receiving approval for acquisition of Murli Industries, it expects to pay INR4.0b in Jul-Aug'20 to acquire the business. It expects Murli to be operational from Jul'21. Murli Industries has cement capacity of 3mt in Maharashtra, which would give DBL an exposure in the West India market.

- **Expect to receive INR3.0-4.0b each in incentives over FY21-22E:** DBL received INR4.1b incentive in FY20 and has outstanding incentive receivables of INR7.0b. In FY20, the company booked incentive income of INR1.25b and expects to book a similar amount even in FY21 and FY22. At the same time, it expects to receive INR3.0-4.0b each in FY21 and FY22. DBL also expects to book incentives of INR11.0b over the next 10 years for the acquired Murli plant.

Other highlights

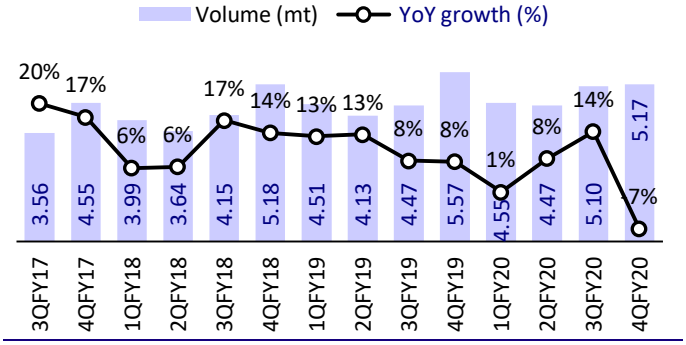
- Divestment strategy for the non-core stake in IEX will be finalized by Dec'20.
- Refractory business will be hived off by Dec'20.
- The mutual fund issue is under resolution and timeline of the same is uncertain.
- Kalyanpur plant is currently operating at 55-60% utilization and is expected to achieve its full potential over the next 6 months.

Valuation and view

- DBL with its recent clinker expansion in East India is well placed to gain market share in the region. We estimate DBL's volume at 6% CAGR over FY20-22E, much higher than the industry's growth rate.
- We expect this growth to, however, come at the cost of lower price and margins, resulting in lack of EBITDA growth during this period.
- DBL should, however, still be able to generate strong FCF (in FY22E) and reduce its net debt substantially from ~INR28b currently. The stock trades at an attractive valuation of 5.5x FY22E EV/EBITDA and USD53/t of EV/capacity. Thus, we rate it a **Buy** and value the stock at 7.5x FY22E EV/EVITDA to arrive at a target price of INR705 (implied EV/t of USD60 on FY21E capacity).

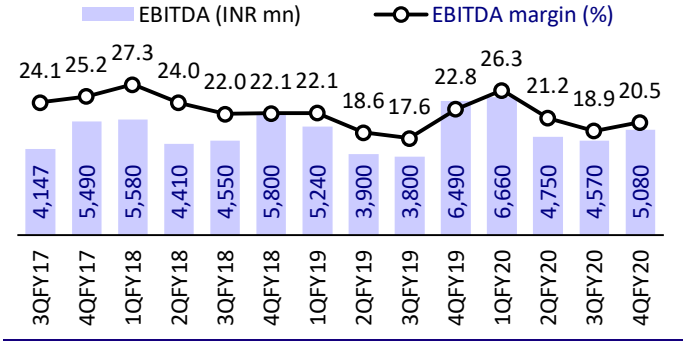
Story in charts

Volumes down ~7% YoY in 4QFY20



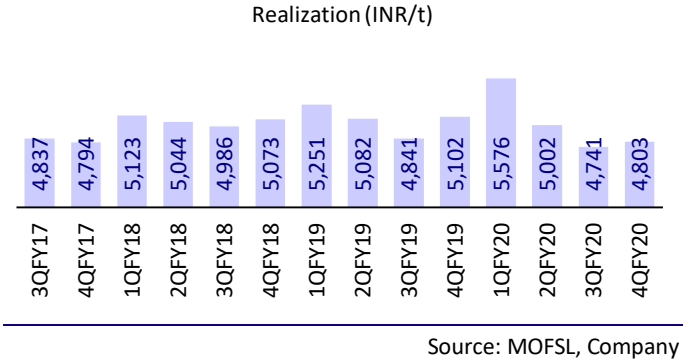
Source: MOFSL, Company

Trend in margins



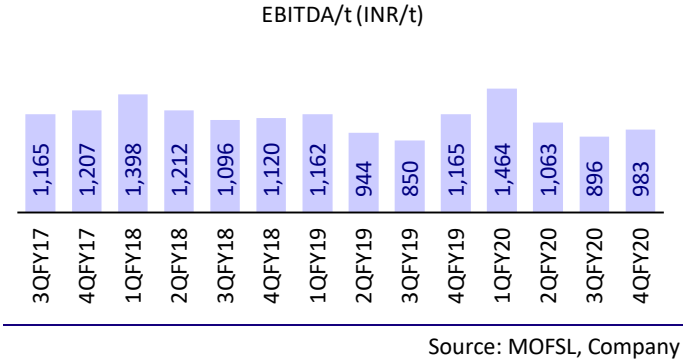
Source: MOFSL, Company

Blended realizations increased 1% QoQ



Source: MOFSL, Company

Trend in EBITDA/t



Source: MOFSL, Company

Representatives

Mr Suraj Moraje
Chief Executive Officer

Mr.Subramanian Ramakrishnan
Chief Financial Officer

Recovery expected from mid-2QFY21

Simplification of labor laws key for industry growth

Key highlights from the interaction:

- **Trough expected to pass in July:** The General Staffing headcount is expected to see a reduction of 5% MoM in 1Q (overall 15% impact for 1QFY21). Furthermore, the management expects the trough to pass mostly by July before the industry starts to recover. Retail (Fashion Retail) and NBFCs have seen a high impact. The severe disruption caused by COVID-19 in Tier-I cities in India poses a risk to recovery. The company has benefited from its customers being large enterprises (150 are Fortune 500 companies). Specialized Staffing has been largely stable, with delays witnessed in some cases.
- **Improved productivity, labor reforms to drive industry growth:** The simplification of 44 central labor laws in four labor codes is an extremely positive step toward the growth of the Flexi Staffing industry. This would encourage increased compliance to regulations and aid the formalization of the sector. Enterprises (customers) are expected to further adopt temporary staffing in search of better productivity from quality service providers. Players such as Quess, with a relatively broad set of offerings, are expected to gain significantly.
- **To improve margins by adding new customers:** Facilities Management and Security Services have seen increased pricing pressure. The focus would be on acquiring new customers and modernizing service offerings to improve margins. 40 new customers have been added recently, but the company has not seen huge requirements from them yet as they wait for the economy to recover.
- **Debt reduction to be high priority:** The new management has alluded to the high debt presence being on account of serial acquisitions in the recent past; its current priority is to reduce debt going forward.
- **No more goodwill impairment / acquisitions in sight**: The new management has set a target of achieving ROE of 20% in the medium term. The balance sheet cleanup is expected to be complete. The management's plan to not pursue acquisitions and digest the recently acquired entities is a welcome step.
- **Focus on improving OCF/EBITDA to 55–60%:** The management is working to improve the OCF/EBITDA conversion to the 55–60% range from the current level of 45%. The primary focus would be on reducing debt. The company plans to stay away from government projects (in some cases) and projects where payments are milestone-based rather monthly in order to improve collections.
- **Collections largely on track:** Quess is not facing any collections-related challenges as of today given the good quality of its clientele. DSO has gone up by a few days in the Facilities Management division. However, this is primarily on account of lockdown and not because of the cash crunch at the customers' end.
- **Divestment of non-performing assets:** The company would look to divest non-performing assets, such as its Logistics business unit (Dependo). This business has seen increased relevance in the market due to the COVID-19 impact and should help realize a better valuation.
- **Monster to see challenges in near term:** While the pricing for Monster is one-eighth that of Naukri (market leader), recovery has not happened as the

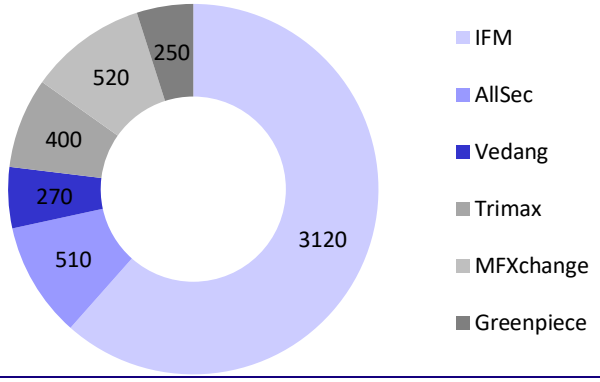
Recruitment segment is yet to pick up. Search activity increased in Jan/Feb, but fell 60% post the COVID-19 outbreak.

Valuation and view

As the economy prepares for a gradual re-opening and enterprises look to dodge supply disruption, we believe the company/sector has already passed the peak of uncertainty. As both the central and state governments look forward to liberalizing and formalizing the labor markets, QUESS should be among the biggest direct beneficiaries. We expect a 13%/21% revenue/EPS CAGR over FY20–22E. Our TP of INR360 implied 14x FY22E EPS is still at a steep 60% discount to TeamLease.

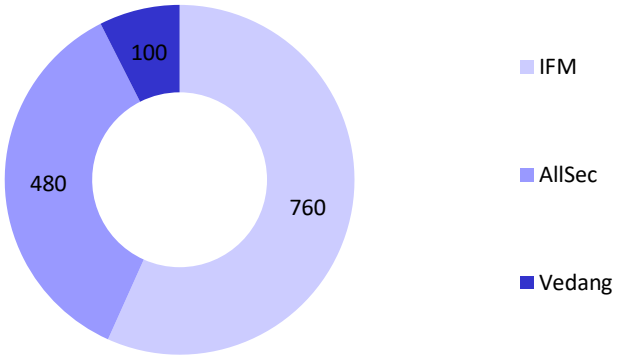
Story in charts

Goodwill impairment (INR m) across businesses



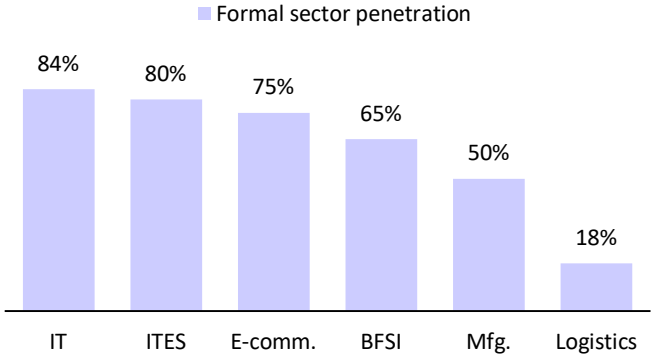
Source: Company, MOFSL

Intangible impairment (INR m) across businesses



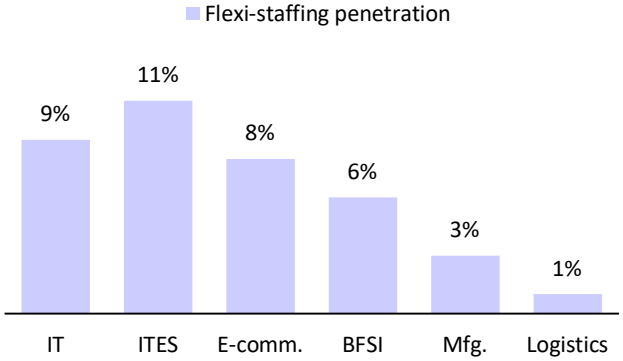
Source: Company, MOFSL

As formality of workforce increases...



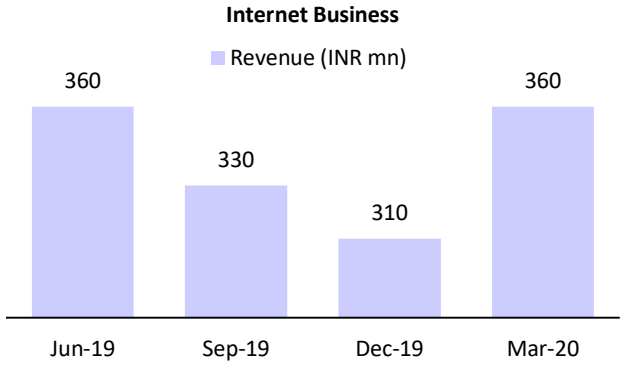
Source: Indian Staffing Federation, MOFSL. Note: Penetration is calculated as percentage of total workforce

...demand for flexi staffing is also expected to rise



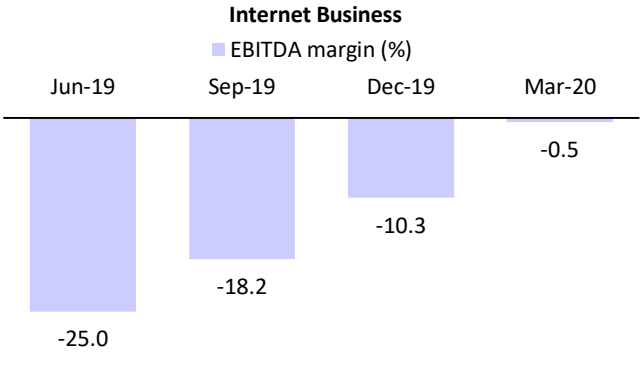
Source: Indian Staffing Federation, MOFSL. Note: Penetration is calculated as percentage of total workforce

In Monster, revenue run-rate improved...



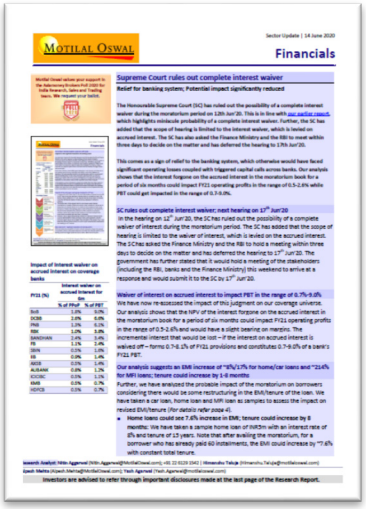
Source: Company, MOFSL

...while loss run-rate moderated



Source: Company, MOFSL

Financials



SC directs Center/RBI to review interest waiver matter

Next hearing scheduled for first week of Aug'20

- **The Supreme Court (SC), in a hearing on 17th Jun'20, has maintained its stance that the Government should make the benefit of the moratorium available to all. The SC stated that it does not see any merit in charging interest on accrued interest for loans, which are under the moratorium.**
- **The banks' association along with SBI have stated that this waiver could dent the credit culture and impact the financial health of banks, and thus, any decision to waive interest should be taken on a case-to-case basis. Thus, the SC has directed the Government/RBI to review the matter and has deferred the hearing to the first week of Aug'20.**
- **In our earlier report titled 'Supreme Court rules out complete interest waiver', according to our analysis, the interest forgone for the accrued interest on the moratorium book for a period of six months could impact FY21 operating profits in the range of 0.5-2.6% while PBT could get impacted in the range of 0.7-9.0%.**

Government/RBI to review matter; Hearing scheduled for first week of Aug'20

- In a hearing on 17th Jun'20, the SC asked the government to intervene in the said matter citing that the matter cannot be left for the banks to decide on. The SC has added that benefit of the moratorium should be made available to people and that it does not see any merit in charging interest on accrued interest for loans that are under the moratorium.
- In its response, SBI stated that ~90% of borrowers have not even availed the moratorium and that the interest waiver cannot be given like a free gift as it could dent the credit culture and should be viewed on a case-to-case basis. To this, the SC replied by stating that customers have not availed the moratorium as they know that there is no benefit due to interest being charged.
- The banks' association along with SBI argued that the situation is evolving and that the hearing should be deferred by thee months. Thus, the SC has directed the government/RBI to review the matter and deferred the hearing to the first week of Aug'20. It has further requested the Indian Bank Association (IBA) to see if new guidelines can be brought in force for the moratorium issue.

Waiver of interest on accrued interest to impact PBT in the range of 0.7-9.0%

In our earlier report, we have assessed the impact of this judgment on our coverage universe. Our analysis shows that the NPV of the interest forgone on the accrued interest on the moratorium book for a period of six months could impact FY21 operating profits in the range of 0.5-2.6%, and would slightly impact margins. The incremental interest that would be lost – if the interest on accrued interest is waived – forms 0.7-8.1% of FY21 provisions and could impact FY21 PBT in the range of 0.7-9.0%. Also, according to our analysis (our report), availing the six-month moratorium could result in an EMI increase of ~8%/17% for home/car loans and ~214% for MFI loans with the original loan tenure unchanged. However, the tenure of loan could increase by up to 8 months if a borrower chooses to keep the same EMI.

MOFSL view

The SC has limited the scope of hearing to the waiver of interest, which is being levied on accrued interest. This has significantly reduced the potential impact on the banking system and brought a huge relief to banks, many of which would have seen capital calls getting triggered. Loan waivers in the past have impacted credit behavior, and thus, **this event remains important from the credit behavior perspective within both moratorium and regular paying loans. This is especially true given that the hearing has been deferred to the first week of Aug'20 while the moratorium period terminates by end-Aug'20**. According to our assessment, the impact of potential interest waiver on accrued interest will be quite manageable at 0.7-1.6% of PBT for large private banks and SBI. **We continue to maintain our preference for ICICIBC, HDFCB and SBIN.**

Chronology of events in the interest waiver plea at the Supreme Court

Date	Events
27th Mar'20	❖ Plea filed by Mr. Gajendra Sharma for interest forgo during the moratorium period
26th May'20	❖ The court asked RBI response on the plea seeking interest waiver on the moratorium on term loans
3rd June'20	❖ RBI filed a counter affidavit against the interest waiver
4th June'20	❖ SC asked Finance Ministry to intervene and submit a joint response with the RBI; next hearing scheduled on 12th June'20
12th June'20	❖ SC ruled out complete waiver of interest. The question remains on the waiver of interest charged on accrued interest ❖ Government to hold a meeting with Finance Ministry and RBI; next hearing scheduled on 17th Jun'20
17th June'20	❖ SC argued that the benefit or moratorium should be available to people and see no merit in charging interest on accrued interest on loans under the moratorium. People are not availing the moratorium as they are not getting any benefits ❖ Banks association/SBI argued that blanket waiver could dent the credit culture and should be seen on a case to case basis ❖ SC asked Government to intervene and review the matter; next hearing scheduled for first week of Aug'20

Source: Media articles, MOFSL

Moratorium book for the banking system stands at ~39% of the total book.

As per our assessment, waiver of interest on accrued interest for six months on moratorium loans could impact the banking system by ~INR102b – equating to ~0.8% of systemic net-worth

Systemic Level	INR t
Advances as on Feb'20	101.0
Moratorium availed (%)	39%
Moratorium book	38.6
Monthly Interest waiver	0.34
Total interest waiver for 6 months	**2.01**
Waiver of Interest on accrued interest for 6 months (Present Value)	**0.10**
Total Net-worth as on FY19	**13.31**
Interest waiver as a % of net-worth	**0.8%**

Source: RBI, MOSL, Media articles

Snapshot of moratorium availed by customers and COVID related provisions made by banks

FY20 (INRb)	Advances	Moratorium availed			Provisions		
		as a % of customers	as a % of loans	In value terms	COVID-19/Standstill related	Contingent	Total
AXSB	5,714.2	10%-12%	25%-28%	1,428.6	30.0	29.8	59.8
BANDHAN	666.3	NA	~71%	473.1	6.9	NA	6.9
DCBB	253.5	NA	~60%	152.1	0.6	1.0	1.6
HDFCB**	9,937.0	NA	NA	NA	15.5	44.5	60.0
ICICIBC	6,452.9	NA	~30%	1,935.9	27.3	NA	27.3
IIB*	2,067.8	NA	~5%	57.7	2.8	NA	2.8
KMB	2,197.5	NA	~26%	571.3	6.5	NA	6.5
YES	1,714.4	15%-25%	35%-45%	685.8	2.4	NA	2.4
FB	1,222.7	NA	~35%	427.9	0.9	0.1	1.0
RBK	580.2	NA	~33%	191.5	1.2	NA	1.2
AUBANK	269.9	~29%	~25%	67.5	1.4	NA	1.4
Equitas	137.5	~98.3%	~93%	127.8	1.0	NA	1.0
UJJIVAN	140.4	NA	~90%	126.4	0.7	NA	0.7
SBIN***	23,252.9	~22%	~23%	5,348.2	9.4	NA	9.4
SBI Cards	228.1	~20%	~17%	38.0	4.9	NA	4.9

**For IIB, the proportion of customers availing moratorium is as a proportion of vehicle financing, MFI and unsecured loans. The bank indicated that very few corporates have applied for the moratorium*

***For HDFCB, Contingent provisions includes floating provision of INR14.5b*

****For SBIN, moratorium book does not include Agri segment while no clarity on inclusion of working capital loans* Source: MOSL, Company

Waiver of interest on accrued interest on moratorium loans for a period of 6m could result in an impact of 0.9-8.1% in provisions.

Waiver of interest on accrued interest on moratorium book for 6 months could impact 0.5-2.6%% of PPoP while impact to PBT could be in the range of 0.7-9.0%

FY21 (%)	Interest waiver on accrued interest for 6 m			
	% of NII	% of PPoP	% of Prov.	% of PBT
AXSB	0.5%	0.5%	0.9%	1.4%
DCBB	1.5%	2.6%	4.3%	6.6%
BANDHAN	2.0%	2.4%	8.1%	3.4%
HDFCB*	0.4%	0.5%	1.7%	0.7%
ICICIBC	0.5%	0.5%	1.1%	1.1%
IIB*	0.8%	0.9%	2.2%	1.4%
KMB	0.4%	0.5%	1.9%	0.7%
FB	0.7%	1.1%	1.9%	2.4%
RBK	0.7%	1.0%	1.3%	3.8%
AUBANK	0.5%	0.8%	2.1%	1.2%
BoB	1.3%	1.8%	2.2%	9.0%
PNB	1.1%	1.3%	1.7%	6.1%
SBIN	0.3%	0.5%	0.7%	1.6%

Note: We have taken the respective banks YOA for purpose of interest calculations and calculated the NPV to arrive at the impact since interest income would have been earned in a deferred manner. Actual impact may vary given the assumptions in our calculation. *For HDFCB and IIB we have taken the average moratorium of private banks for the purpose of our calculation. Source: MOSL, Company

Financials

Proposed press release

Department of Regulation (NBFC) / विनियमन विभाग (गै.बै.वि.सं)
Central Office-HFC Division/ केंद्रीय कार्यालय- एच.एफ.सी. प्रभाग

Review of extant regulatory framework for Housing Finance companies (HFCs) – Proposed Changes

The Finance (No.2) Act, 2019 (23 of 2019) amended the National Housing Bank Act, 1987, conferring powers for regulation of Housing Finance Companies (HFCs) with Reserve Bank of India. Following the issue of notification by the Government appointing August 09, 2019 as the date on which Part VII of Chapter VI of the Finance (No.2) Act, 2019 (23 of 2019) shall come into effect, a Press Release was issued on August 13, 2019 in which it is mentioned that a review of the extant regulatory framework applicable to the HFCs will be carried out and revised regulations will be issued.

2. A review of the extant directions/guidelines applicable to HFCs has been carried out with a view to regulating HFCs as a category of Non-Banking Financial Company (NBFC). Accordingly, it has been decided that in areas where the extant regulation of HFCs are in tandem with that of NBFCs, the relevant paras in the NBFC Master Directions would be made applicable mutatis mutandis to HFCs. In areas where extant HFC regulation differs from that of NBFCs, either existing provisions would be retained, or changes would be brought out wherever possible while ensuring that the changes are made in a least disruptive manner. Given below are the major changes envisaged in the regulatory framework for HFCs:

2.1. Applicable law for the regulation of HFCs

In order to avoid dual regulation, HFCs were granted exemption from the provisions of Chapter IIIB of the RBI Act, 1934 vide notification dated June 18, 1997 by exercising powers under Section 45NC of RBI Act, 1934. With the transfer of regulation of HFCs to RBI it was decided to withdraw these exemptions and make the provisions of Chapter IIIB except Sec 45-IA of RBI Act applicable to all HFCs. The Gazette Notification No.DOR.047/CGM (MM)-2019 withdrawing the exemptions granted to HFCs was issued on November 19, 2019. Companies intending to function as HFCs shall seek registration with the Reserve Bank under Section 29A of NHB Act, 1987 and existing HFCs holding CoR issued by NHB need not approach RBI for fresh CoR.

RBI releases proposed changes in regulations applicable for HFCs

Proposed harmonization of policies between NBFCs, HFCs to a large extent

The RBI released draft guidelines concerning the harmonization of policies between NBFCs and HFCs (as HFCs were governed by NHB earlier).

50% housing finance assets (75% comprising individual housing loans) the key criterion

- A minimum of 50% of net assets should be in the nature of 'qualifying assets' for HFCs, of which at least 75% should be toward individual housing loans. For an HFC that does not match the 75% criterion but wants to retain the HFC license, the following timelines are given: it would have to reach 60%/70%/75% share of individual housing loans by FY22/FY23/FY24. **While loans given to the developer for the construction of residential units continue to be classified as housing finance, they do not come under the sub-criterion of the 75% requirement.**
- Note that **loans given against the mortgage of property**, including those for furnishing dwelling units, for any purpose other than the purchase/construction of a new dwelling unit(s) or renovation of an existing dwelling unit(s) would be treated as **non-housing loans**.
- Companies that do not meet these criteria would be reclassified as NBFCs: investment and credit companies (ICC).

Definition of 'Systematically Important' HFC

- All non-deposit-taking HFCs with an asset size more than INR5b and all deposit-taking HFCs are classified as 'Systematically Important'.
- For Systematically Important non-deposit-taking HFCs, PDIs (Perpetual Debt Instruments) would now be part of Tier-I and Tier-II capital (in line with NBFCs). For deposit-taking HFCs, existing PDIs would be considered a part of Capital Adequacy only for the next three years.
- Investments in the share of other HFCs/NBFCs in excess of 10% of NW would be deducted from Tier-I capital for CAR calculations.

Tightening regulations on inter-group lending

- As per the revised guidelines, an HFC can either lend to construction companies within its group or lend to homebuyers purchasing from projects of said construction companies. Also, if the HFC decides to finance the group company, the exposure is capped at 15%/25% of networth for the single company / all group companies.

Harmonizing few guidelines between HFC and NBFCs

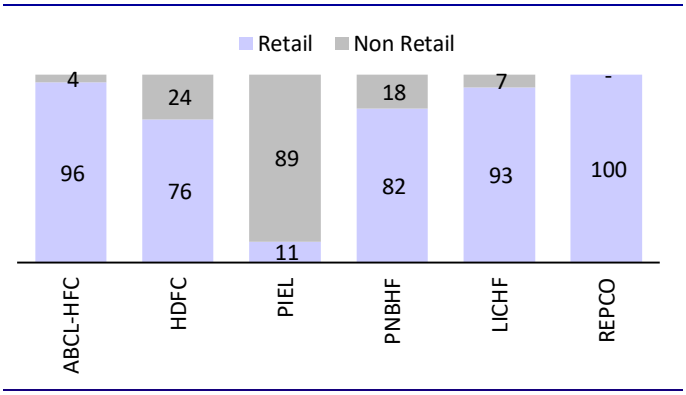
- Existing NBFC guidelines on the following apply to HFCs as well: LCR, securitization, loan against shares, outsourcing financial services, and floor ECL. We do not foresee any impact of this on our coverage companies as all have sufficient liquidity and excess provisioning on the balance sheet.
- No foreclosure charges would be levied on floating rate loans taken, other than for business purposes.

- Additionally, while there are differences in the guidelines for NBFCs and HFCs in the following categories, the RBI has proposed to harmonize them over the next two to three years.
  - **CAR and risk weights on assets**: HFC norms on RWA are stricter than those of NBFCs. CAR norms are likely to align very soon (by FY22). This should not impact our coverage universe as the entities are already operating at >15% CAR.
  - **IRAC norms' difference in provisioning over standard, sub-standard, doubtful assets**: Existing ECL is significantly higher than provisioning as per IRAC norms; hence, there would be no issues on this front
  - **Regulations on the acceptance of public deposits**: These include: a) period of public deposit (12–120 months for HFCs v/s 12–60 months for NBFCs), b) ceiling on the quantum of deposit (3x of NOF for HFCs v/s 1.5x for NBFCs with a minimum investment grade rating), c) interest on the premature repayment of deposit (1–4% below the prescribed rate for HFCs v/s 2–3% below the prescribed rate for NBFCs depending on the duration and prescription of the rate), d) maintenance of liquid assets (13% for HFCs v/s 15% for NBFCs), etc. **HDFC has the highest base of public deposits of INR1.3t, ~1.5x of networth (~1,9x - adjusted for investments in subs and HDFCB). PNBHF's deposit base is INR165b, ~2x of NW.**

View

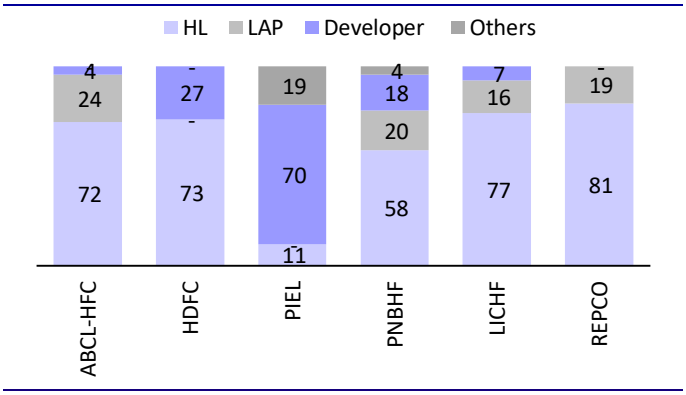
The key regulation pertains to the qualifying criteria for classification as an 'HFC'. Furthermore, the RBI has introduced LCR requirements for HFCs and extended the existing guidelines related to securitization, LAS, and floor ECL to HFCs as well. Additionally, over the next two to three years, the RBI aims to harmonize the guidelines related to CAR and risk weights, provisioning norms under IRAC, and the acceptance of deposits between NBFCs and HFCs. **In our coverage, all HFCs are well-placed to meet the draft guideline requirements, and we do not foresee major issues with the implementation**. PIEL may not meet the qualifying criteria for HFCs (at one of two lending subsidiary) due to its high share of residential construction finance to developers within housing loans. However, since it also owns another NBFC within the group, it could transfer part of the HFC exposure to the NBFC to meet the qualifying criteria in our view. **HDFC remains our top pick within the HFC and NBFC space**

Loan mix (%)



Source: MOFSL, Company, as per latest company disclosures

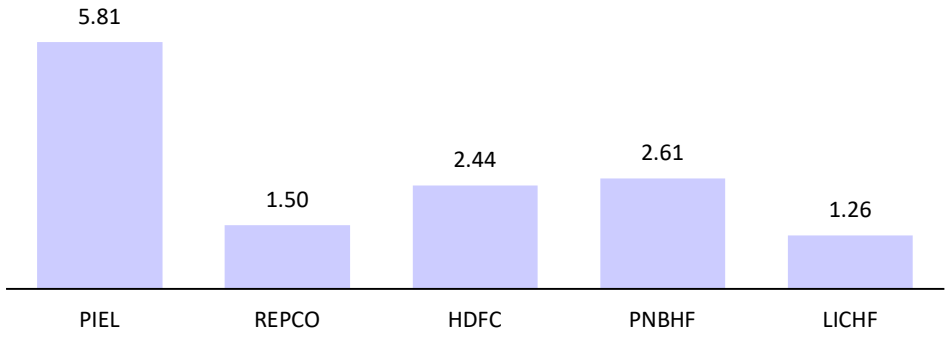
Most companies have adequate share of individual home loans (%)



Source: MOFSL, Company

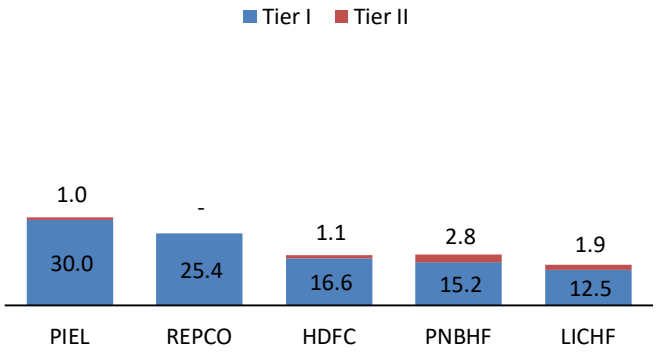
PIEL had the highest ECL %, as of March'20 among the HFCs

ECL/EAD across players (%)



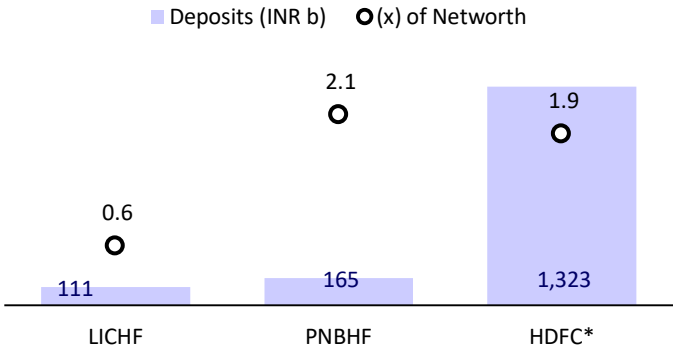
Source: MOFSL, Company

Capital Adequacy across players (%)



Source: MOFSL, Company

Outstanding Deposits



Source: MOFSL, Company, *Networth adjusted for investments in subsidiaries

Muthoot Finance

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	401.1 / 5.2
52-Week Range (INR)	1012 / 478
1, 6, 12 Rel. Per (%)	14/58/75
12M Avg Val (INR M)	1227

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	57.7	66.5	76.4
PPP	41.5	48.6	56.4
PAT	30.2	34.4	40.4
EPS (INR)	75.3	85.9	100.6
EPS Gr. (%)	52.9	14.1	17.2
BV/Sh.(INR)	289	357	437
Ratios			
NIM (%)	14.9	14.4	14.6
C/I ratio (%)	30.0	28.9	28.2
RoA (%)	6.8	6.4	6.6
RoE (%)	29.0	26.6	25.4
Payout (%)	19.9	17.0	17.0
Valuations			
P/E (x)	13.3	11.6	9.9
P/BV (x)	3.5	2.8	2.3
Div. Yld. (%)	1.5	1.5	1.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	73.4	73.4	73.5
DII	7.1	7.8	9.8
FII	14.4	14.5	12.4
Others	5.1	4.2	4.3

FII Includes depository receipts

CMP: INR1,000 TP: INR1,100 (+10%) Neutral

Stellar performance on growth; Spreads stable

- Muthoot Finance's (MUTH) 4QFY20 PAT surged 59% YoY to INR8.2b (in-line), driven by strong AUM growth and improvement in asset quality.
- In FY20, MUTH delivered growth of 22%/34%/53% for loans/PPoP/PAT. RoA/RoE for the year stood at 6.8%/29%.
- **Given the sharp increase in gold prices and expected demand surge as businesses slowly resume operations, we have increased our EPS estimates by 8-12% for FY21-22E.** However, given the uncertain outlook for MUTH's subsidiaries and the re-rating in the stock, we maintain **Neutral** with TP of INR1,100.

Gold loan book growth robust; Spreads improve YoY

- **Standalone loan book increased 8% QoQ and 22% YoY to INR416b – the strong sequential growth was driven by higher gold prices.** Calculated spreads were up 200bp YoY due to higher penal interest and lower cost of funds (down 80bp YoY). **Management has guided to marginally lower yields in FY21 given the lower auctions.**
- GS3% declined 40bp QoQ to 2.16%. The company made INR48m provisions during the quarter.
- Similar to 3QFY20, MUTH raised USD550m via ECBs in the quarter. Opex jumped 17% QoQ due to an accounting treatment on hedging cost for the ECBs raised.

Highlights from management commentary

- Customer footfall at 65-70% of run-rate now. Pent-up demand has normalized now.
- **Belstar: Collection efficiency – 95%/17%/35% in Mar/Apr/May; expect 65% for Jun'20.**

Key subsidiary performance

- **Muthoot Homefin:** Disbursements declined ~40% QoQ to INR583m. AUM stood at INR19.8b. PAT for the quarter was only INR12m.
- **Belstar Investment and Finance:** Loan book grew 43% YoY to INR26b while PAT grew only 9% QoQ to INR222m. GNPL ratio improved 20bp QoQ to 0.9%.

Valuation and view

Over the past two quarters, MUTH raised USD1b from ECBs – this liability diversification will be helpful going ahead. Spreads have sustained at ~15%, though we expect some compression due to lower penal interest income. Over the next 12 months, the company is likely to benefit from (a) sharp run-up in gold prices, and (b) higher gold loan demand due to the impact of the lockdown on customers. Thus, we increase our EPS estimates by 8-12%. However, we turn cautious on the outlook for the HFC and MFI subsidiaries. We expect FY21 to be a tough year for these companies. Hence, we maintain **Neutral** with TP of INR1,100 (2.5x FY22E BVPS).

Quarterly Performance (INR M)

Y/E March	FY19				FY20				FY19	FY20	4QFY20E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Income from operations	16,108	16,316	16,827	18,319	18,274	21,057	22,806	23,506	67,570	85,644	23,483	0
Other operating income	215	181	338	478	294	312	399	497	1,212	1,502	252	97
Total Operating income	**16,323**	**16,496**	**17,165**	**18,797**	**18,568**	**21,369**	**23,206**	**24,004**	**68,782**	**87,146**	**23,735**	**1**
YoY Growth (%)	18.5	-0.7	8.6	14.1	13.8	29.5	35.2	27.7	9.8	26.7	26.3	5
Total Income	**16,330**	**16,501**	**17,171**	**18,804**	**18,587**	**21,405**	**23,209**	**24,026**	**68,806**	**87,228**	**23,768**	**1**
YoY Growth (%)	18.6	-0.7	7.9	10.4	13.8	29.7	35.2	27.8	8.6	26.8	26.4	5
Interest Expenses	5,016	5,354	5,889	6,111	6,416	6,699	7,094	7,700	22,368	27,909	7,111	8
Net Income	**11,314**	**11,148**	**11,282**	**12,694**	**12,171**	**14,707**	**16,115**	**16,326**	**46,438**	**59,319**	**16,657**	**-2**
Operating Expenses	3,738	3,669	3,440	4,547	3,972	3,969	4,542	5,304	15,394	17,787	4,809	10
Operating Profit	**7,577**	**7,478**	**7,842**	**8,147**	**8,199**	**10,738**	**11,573**	**11,021**	**31,044**	**41,531**	**11,848**	**-7**
YoY Growth (%)	36.5	-12.7	-1.2	-7.3	8.2	43.6	47.6	35.3	0.6	33.8	45.4	-22
Provisions	27	25	19	205	33	265	612	48	275	957	1,128	-96
Profit before Tax	**7,550**	**7,453**	**7,823**	**7,942**	**8,166**	**10,473**	**10,961**	**10,974**	**30,769**	**40,574**	**10,720**	**2**
Tax Provisions	2,634	2,615	2,971	2,827	2,866	1,894	2,809	2,822	11,047	10,391	2,592	9
Net Profit	**4,916**	**4,838**	**4,852**	**5,115**	**5,300**	**8,579**	**8,152**	**8,151**	**19,722**	**30,183**	**8,128**	**0**
YoY Growth (%)	42.5	8.6	1.4	0.6	7.8	77.3	68.0	59.4	10.9	53.0	58.9	1
Key Operating Parameters (%)												
Yield on loans (Cal)	21.7	20.8	21.2	22.5	21.2	23.9	25.0	24.0	21.0	22.1		
Cost of funds (Cal)	9.0	9.0	9.5	9.4	9.3	9.5	9.3	8.8	9.3	8.7		
Spreads (Cal)	12.7	11.8	11.7	13.2	11.9	14.4	15.7	15.1	11.7	13.4		
NIMs (Cal)	15.1	14.1	13.9	15.2	13.9	16.4	17.4	16.3	14.0	14.9		
Credit Cost	0.0	0.0	0.0	0.2	0.0	0.3	0.7	0.0	0.1	0.2		
Cost to Income Ratio	33.0	32.9	30.5	35.8	32.6	27.0	28.2	32.5	33.2	30.0		
Tax Rate	34.9	35.1	38.0	35.6	35.1	18.1	25.6	25.7	35.9	25.6		
Balance Sheet Parameters												
AUM (INR b)	310	323	325	342	358	357	385	416	349	426		
Change YoY (%)	11.3	17.0	14.9	17.5	15.5	10.6	18.6	21.5	18.4	22.0		
Gold Stock Holding (In tonnes)	161	168	166	169	176	171	173	176				
Avg gold loans per branch (INR m)	70	73	72	75	78	77	83	89				
Borrowings (INR b)	232	243	252	269	281	285	326	372	268	371		
Change YoY (%)	5.2	8.9	19.6	26.6	21.2	17.0	29.2	38.3	26.8	38.4		
Borrowings Mix (%)												
Listed secured NCDs	30.6	30.9	29.0	27.9	28.1	30.4	31.9	26.0				
Term loans	47.2	48.5	48.1	48.7	48.9	47.0	39.6	39.1				
Commercial Paper	11.8	12.4	15.9	17.7	17.1	17.2	14.1	9.7				
Others	10.4	8.2	7.0	5.8	5.8	5.5	4.5	4.9				
Debt/Equity (x)	3.0	2.9	2.7	2.7	2.9	2.6	2.7	2.9				
Asset Quality Parameters (%)												
GS 3 (INR m)	8,835	6,170	6,372	9,326	11,474	12,267	9,769	8,992	9,326	8,992		
Gross Stage 3 (% on Assets)	2.9	1.9	2.0	2.7	3.2	3.4	2.5	2.2	2.67	2.11		
Total Provisions (INR m)	8,096	8,096	8,096	8,096	8,095	8,213	8,377	8,381				
Return Ratios (%)												
RoAUM (Rep)	6.5	6.1	6.0	6.3	6.1	9.6	8.8	8.1	5.7	6.8		
RoE (Rep)	24.4	22.7	21.5	21.5	21.7	33.7	29.6	28.4	23.2	29.0		

E: MOFSL estimates

Pidilite

BSE SENSEX	S&P CNX
33,508	9,881

Conference Call Details

Date: 18th June 2020

Time: 5:00pm IST

Dial-in details:

+91 22 6280 1145/

+91 22 7115 8046

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	72.9	72.4	83.8
Sales Gr. (%)	3.0	-0.7	15.7
EBITDA	15.8	15.8	18.5
EBITDA Margin (%)	21.6	21.8	22.0
Adj. PAT	11.7	11.7	13.9
Adj. EPS (INR)	23.1	23.1	27.3
EPS Gr. (%)	24.5	0.0	18.2
BV/Sh.(INR)	97.9	111.9	130.1
Ratios			
RoE (%)	25.7	22.0	22.6
RoCE (%)	24.0	20.6	21.3
Payout (%)	30.2	32.4	27.4
Valuations			
P/E (x)	62.0	61.9	52.4
P/BV (x)	14.6	12.8	11.0
EV/EBITDA (x)	44.7	44.2	37.4
Div. Yield (%)	0.5	0.5	0.5

CMP: INR1,432 — Neutral

Disappointment on all fronts

Consolidated performance

- Net sales declined 5.8% YoY to INR15.4b (v/s est. INR17.4b).
- Consumer bazaar segment sales were down 6.1% YoY to INR11.2b with segmental EBIT declining 3% YoY to INR2.8b. Segmental EBIT margins expanded by 80bp YoY to 24.8%.
- Industrial segment sales declined 3% YoY to INR4.4b with segment margins up 420bp to 16.6%.
- Overall gross margins expanded 510bp YoY to 55.4%.
- Higher employee expenses as % of sales (up 50bp YoY to 13.8%) and higher other expenses as % of sales (up 210bp YoY to 22.1%) led to EBITDA margin expanding 250bp YoY to 19.5% (v/s est. 22.7%).
- EBITDA grew 7.9% YoY to INR3b (v/s est. INR4b).
- PBT declined 11.9% YoY to INR2.6b (v/s est. INR3.9b).
- Adj. PAT declined 23.1% YoY to INR1.9b (v/s est. INR3b).
- FY20 revenue/ EBITDA/ PAT grew 3%/ 15.2%/ 24.5% YoY.
- FY20 inventory/receivable/payable days increased by 2/2/1 days YoY to 47/54/30 days. This led to an increase in cash conversion cycle by 3 days YoY to 70 days.
- FY20 OCF increased by 51.5% YoY to INR12.8b.

Standalone performance

- The company did not share volume growth for 4QFY20. We estimate that overall volumes have declined ~6.5% YoY.
- Net sales declined 4.4% YoY to INR13.2b. As a result of the nationwide lockdown declared in Mar'20, standalone net sales in the last 10 days of the quarter (and the year), were lower by ~INR1.5b YoY. This is equivalent to ~11% of 4QFY19 net sales. Net sales growth for 4QFY20 until 21st Mar'20 was 9.6% YoY.
- Consumer bazaar segment revenues were down 4.8% YoY to INR9.9b. Segment EBIT was flat YoY at INR2.8b. Segmental EBIT margins expanded 120bp YoY to 28.5%.
- Industrial segment declined 3.7% YoY to INR3.3b. Segment margins expanded 750bp YoY to 22.4%.
- Overall gross margins expanded 470bp YoY to 55.9% and EBITDA margins expanded 260bp YoY to 21.6%.
- EBITDA grew 8.9% YoY to INR2.9b. Due to the lockdown, the company estimates EBITDA growth to have been impacted by 29% for 4QFY20.
- PBT declined 7.2% YoY to INR2.6b.
- Adj. PAT declined 19.1% YoY to INR2b.
- FY20 revenue/ EBITDA/ PAT grew 3.9%/ 14.8%/ 18.5% YoY.
- FY20 sales volume and mix grew 2% YoY. This was driven by growth of 2% YoY in Consumer and Bazaar segment and 4% YoY in the Industrial segment.
- In 4QFY20, imputed subsidiary revenues declined 13.1% YoY to INR2.3b.

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**18,341**	**17,572**	**18,483**	**16,389**	**20,166**	**18,066**	**19,266**	**15,447**	**70,785**	**72,945**	**17,449**	**-11.5**
YoY change (%)	20.0	14.9	19.8	10.3	10.0	2.8	4.2	-5.8	16.5	3.1	6.5	
Gross Profit	**9,267**	**8,680**	**8,731**	**8,241**	**10,361**	**9,644**	**10,363**	**8,552**	**34,919**	**38,920**	**9,438**	
Margin (%)	50.5	49.4	47.2	50.3	51.4	53.4	53.8	55.4	49.3	53.4	54.1	
EBITDA	**3,817**	**3,666**	**3,368**	**2,788**	**4,437**	**3,682**	**4,632**	**3,009**	**13,638**	**15,760**	**3,967**	**-24.2**
YoY change (%)	18.9	-2.5	-9.0	1.8	16.3	0.5	37.5	7.9	1.7	15.6	42.3	
Margins (%)	20.8	20.9	18.2	17.0	22.0	20.4	24.0	19.5	19.3	21.6	22.7	
Depreciation	301	316	321	390	377	402	419	501	1,327	1,699	434	
Interest	73	60	62	66	73	83	82	98	261	336	34	
Other Income	321	276	307	562	399	558	398	140	1,466	1,494	386	
PBT	**3,764**	**3,566**	**3,291**	**2,895**	**4,385**	**3,755**	**4,530**	**2,550**	**13,516**	**15,219**	**3,885**	**-34.4**
Tax	1,361	1,230	1,110	431	1,444	293	1,084	656	4,132	3,477	897	
Rate (%)	36.1	34.5	33.7	14.9	32.9	7.8	23.9	25.7	31.0	23.7	23.1	
Adj PAT	**2,404**	**2,336**	**2,181**	**2,464**	**2,941**	**3,462**	**3,445**	**1,894**	**9,384**	**11,742**	**2,988**	**-36.6**
YoY change (%)	6.4	-7.2	-8.0	-0.1	22.4	48.2	58.0	-23.1	-2.4	25.1	21.3	
Margins (%)	13.1	13.3	11.8	15.0	14.6	19.2	17.9	12.3	13.3	16.1	17.1	

E: MOFSL Estimates

Standalone Quarterly Performance (INR m)

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Sales	**16,083**	**15,177**	**15,897**	**13,787**	**17,789**	**15,717**	**16,634**	**13,186**
Change (%)	19.2	11.3	15.6	8.2	10.6	3.6	4.6	-4.4
Gross Profit	**8,115**	**7,534**	**7,585**	**7,067**	**9,173**	**8,441**	**8,976**	**7,373**
Gross Margin %	50.5	49.6	47.7	51.3	51.6	53.7	54.0	55.9
Operating Expenses	4,539	4,068	4,326	4,448	4,993	4,930	4,682	4,521
% of sales	28.2	26.8	27.2	32.3	28.1	31.4	28.1	34.3
EBITDA	**3,576**	**3,465**	**3,259**	**2,619**	**4,180**	**3,510**	**4,294**	**2,852**
EBITDA Margin %	22.2	22.8	20.5	19.0	23.5	22.3	25.8	21.6
Change (%)	16.8	-7.1	-9.0	2.6	16.9	1.3	31.8	8.9
Depreciation	229	237	234	298	281	303	318	357
Interest	20	17	16	19	27	36	34	37
Other Income	645	435	309	525	390	572	391	165
PBT	**3,972**	**3,648**	**3,318**	**2,828**	**4,262**	**3,743**	**4,334**	**2,623**
Tax	1,302	1,201	1,071	396	1,387	280	1,030	657
Effective Tax Rate (%)	32.8	32.9	32.3	14.0	32.5	7.5	23.8	25.0
Adj PAT	**2,669**	**2,446**	**2,247**	**2,432**	**2,876**	**3,463**	**3,304**	**1,966**
Change (%)	23.0	-6.3	-6.0	2.1	7.7	41.6	47.0	-19.1

E: MOFSL Estimates

Indraprastha Gas

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	331.7 / 4.4
52-Week Range (INR)	534 / 285
1, 6, 12 Rel. Per (%)	-4/29/56
12M Avg Val (INR M)	1128

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	64.9	44.6	68.6
EBITDA	15.2	11.4	17.8
Adj. PAT	11.4	7.6	12.5
Adj. EPS (INR)	16.2	10.9	17.9
EPS Gr. (%)	44.5	-32.8	64.1
BV/Sh.(INR)	72.3	80.9	95.3
Ratios			
Net D:E	-0.4	-0.3	-0.5
RoE (%)	28.3	14.2	20.3
RoCE (%)	27.1	13.8	19.7
Payout (%)	17.2	18.3	16.8
Valuation			
P/E (x)	29.3	43.5	26.5
P/BV (x)	6.6	5.9	5.0
EV/EBITDA (x)	20.4	27.5	16.9
Div. Yield (%)	0.6	0.4	0.6
FCF Yield (%)	2.3	-0.3	4.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	45.0	45.0	45.0
DII	21.8	20.7	23.0
FII	22.8	24.5	21.1
Others	10.5	9.8	10.9

FII Includes depository receipts

CMP: INR474 TP: INR485 (+2%) Neutral

CNG volumes sway amidst COVID-19 crisis

- **IGL reported lower-than-estimated EBITDA owing to a miss on volumes, which stood at ~6.2mmscmd (v/s est. -9%, -1% YoY). EBITDA/scm was at INR6.6 (v/s est. INR7); however, it was up YoY (INR5.9) and QoQ (INR6.4). The company has reported negative volume growth for the first time in the last five years.**
- **For FY20, the company reported single-digit volume growth of 9% YoY to 6.44mmscmd (9MFY20 growth was ~13% YoY), primarily led by the huge impact of the COVID-19 lockdown. This comes after IGL recording three years of strong double-digit growth of ~14% YoY.**
- **Growth strategies by IGL include improving CNG infrastructure in its geographical areas (GAs), increasing PNG penetration, and creating new synergies by bidding for new cities/areas.**
- **Although COVID-19 has impacted demand drastically, CNG volumes were down to ~10%/20% of normal levels in Apr'20/May'20, and are not even at 50% of the normal levels currently. CNG volumes are expected to remain low over the next 5-6 months before normalcy returns. Factoring in the same, we model in total volumes of 4.7mmscmd for FY21 (expecting normalcy in CNG volumes from 3QFY21).**
- **Also, there is an impact on new developments as we are entering the monsoon season while exiting the lockdowns. Thus, the Minimum Work Program for new GAs would be impacted. However, for FY22E, we build in total volumes growth of 14% over FY20 levels (to 7.4mmscmd).**
- **The aforementioned changes have led to downward EPS revision of ~30%/~12% for FY21/22E (to INR10.9/INR17.9), with EBITDA/scm of INR6.6 (unchanged) v/s INR6.4 in FY20, as companies would benefit from lower APM and spot LNG prices.**
- **The board has recommended final dividend of INR2.8/share (up from INR2.4 in FY19). We value the company at 24x FY22E adj. EPS of INR17.7, and add value from JV to arrive at a target price of INR485 (from earlier INR530). Maintain Neutral.**

EBITDA miss led by lower volumes

- Volumes were lower 1% YoY at 6.2mmscmd. CNG volumes were down 3% YoY to 4.49mmscmd while PNG volumes were up 5% YoY to 1.74mmscmd (primarily led by higher cooking gas usage).
- EBITDA/scm was also lower than est. at INR6.6 (v/s est. INR7); thus, reported EBITDA came in at INR3.8b (v/s est. -14%, +14% YoY, -4% QoQ).
- Lower other income resulted in PBT of INR3.4b (+3% YoY). Tax rate for the quarter stood at 25.4%, clocking PAT of INR2.5b (v/s est. -21%, +12% YoY).

FY20 growth dips to single-digit with just one week of lockdown

- For FY20, the company reported total volume growth of 9% YoY to 6.44mmscmd. CNG grew 8% YoY to 4.75mmscmd while PNG grew 12% YoY to 1.69mmscmd.
- EBITDA/scm for the year improved to INR6.4 (v/s INR5.8 in FY19), thus resulting in EBITDA of INR15.2b (+21% YoY).
- PBT was higher 18% YoY to INR14.2b, while PAT stood 44% higher YoY to INR11.4b (owing to DTL benefits of INR4.9b taken in 2QFY20).

Other highlights

- IGL added 55 CNG stations in FY20 (~40,000 CNG vehicles added in a year) and is planning to set up 95 new CNG stations (55/40 in old/new GAs).
- The company connected additional 2.7lac PNG households and 1,229 Industrial units (totalling to 5,566) in FY20.
- Capex for the year stood at INR10.5b (+20% YoY). IGL has capex plan of INR20b for the next three years (at its new and old GAs).
- IGL would consider inorganic growth in the coming years. It is also looking at international prospects (like Myanmar) and has MoU with Osaka Gas.

Valuation and view

- **The company believes CNG revival to be gradual in the coming months, which is in line with our thesis highlighted in** our earlier report.
- Virtual connect has impacted intra-city/intra-state travel. Schools are shut and other economic activities have come to a halt. Commercial segment is completely down with dubiety on people returning to restaurants and malls.
- All of these have led to a huge impact on demand for fuels (CNG and mainly PNG-commercial). Thus, the entire value chain (right from producer to end consumer) should be up and running to bring back normalcy, and in turn, stable volume consumption in the space.
- IGL has ~75% of its volumes coming from CNG and this segment was leading growth over the last couple of years, led by proliferation of CNG stations and higher conversions.
- **We believe that returning to normalcy may take more time. However, barring FY21, we have built in total volume growth of 14% for FY22E over FY20.**
- Also, CGDs have retained a portion of the APM gas price cut in Apr'20, and thus, are likely to earn higher margins. IGL retained ~20% of the reduction in APM gas prices (from Apr'20), while it has also hiked CNG prices by INR1/kg to cover various costs and expenditure in lieu of the COVID-19 impact.
- Thus, **we expect margins to remain strong for the company, although revival in demand/volume remains a key headwind for now.**
- We reiterate our belief in IGL's volume trajectory, led by growth in NCR, inter-city travel on CNG, the higher conversion to CNG due to BS-VI implementation and contribution from newer GAs.
- In the short-to-medium term, IGL could increase its sales volume from new areas such as Rewari, Karnal and Muzzafarnagar, Haryana City Gas and the newly-awarded (3) GAs in the 10th round — (a) Kaithal (Haryana), (b) Ajmer, Pali and Rajsamand (Rajasthan), and (c) Kanpur, Fatehpur and Hamirpur (Uttar Pradesh).
- The stock trades at around 26.5x FY22E EPS of INR17.9 and EV/EBITDA of 16.9x FY22E. We value the company at 24x FY22E adj. EPS of INR17.7 and add value from the JV to arrive at a target price of INR485 (from earlier INR530). Maintain **Neutral**.

Quarterly performance (INR Million)

Y/E MARCH	FY19				FY20				FY19	FY20	FY20	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	**12,874**	**14,215**	**15,084**	**15,426**	**15,761**	**16,925**	**16,642**	**15,525**	**57,600**	**64,853**	**19,812**	**-22%**
Change (%)	22.7	26.2	27.4	25.1	22.4	19.1	10.3	0.6	25.4	12.6	28.4	
EBITDA	**2,951**	**3,080**	**3,179**	**3,312**	**3,585**	**3,926**	**3,918**	**3,767**	**12,521**	**15,196**	**4,394**	**-14%**
EBITDA (Rs/scm)	5.8	5.7	5.8	5.9	6.3	6.5	6.4	6.6	5.8	6.4	7.0	-6%
% Change	6.4	9.4	20.8	20.3	21.5	27.5	23.3	13.7	14.1	21.4	32.7	
Depreciation	473	503	513	522	605	621	641	655	2,011	2,523	660	-1%
Interest	6	6	9	0	16	18	20	27	21	81	20	
Other Income	262	332	403	513	354	390	508	313	1,510.2	1,563.8	595.8	-48%
PBT	**2,735**	**2,903**	**3,060**	**3,303**	**3,318**	**3,677**	**3,764**	**3,398**	**12,000**	**14,157**	**4,309**	**-21%**
Rate (%)	35.7	35.5	35.3	31.7	34.2	-3.6	24.6	25.4	34.4	19.7	25.2	
PAT	**1,759**	**1,873**	**1,980**	**2,255**	**2,184**	**3,810**	**2,839**	**2,534**	**7,867**	**11,365**	**3,225**	**-21%**
PAT (Rs/scm)	3.5	3.5	3.6	4.0	3.8	6.3	4.6	4.5	3.6	4.8	5.2	-13%
Change (%)	9.1	10.9	19.3	29.1	24.1	103.4	43.4	12.4	17.3	44.5	43.0	
Gas Volumes (mmscmd)												
CNG	4.13	4.41	4.40	4.61	4.66	4.92	4.91	4.49	4.39	4.75	4.99	-10%
PNG	1.42	1.48	1.50	1.66	1.59	1.65	1.78	1.74	1.51	1.69	1.88	-8%
Total	**5.55**	**5.89**	**5.91**	**6.27**	**6.25**	**6.58**	**6.70**	**6.23**	**5.90**	**6.44**	**6.87**	**-9%**
YoY Change (%)												
CNG	11.6	12.8	13.1	15.9	12.8	11.6	11.6	(2.5)	13.4	8.2	8.11	
PNG	18.3	13.3	9.8	20.2	12.4	11.8	18.4	4.9	15.3	11.7	13.55	
Total	**13.2**	**12.9**	**12.3**	**17.0**	**12.7**	**11.6**	**13.4**	**(0.6)**	**13.9**	**9.1**	**9.55**	

E: MOFSL Estimates

HPCL

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	HPCL IN
Equity Shares (m)	1,524
M.Cap.(INRb)/(USDb)	326.4 / 4.2
52-Week Range (INR)	329 / 155
1, 6, 12 Rel. Per (%)	6/0/-13
12M Avg Val (INR M)	1478

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	2,691	1,941	2,407
EBITDA	56.6	105.9	126.3
Adj. PAT	36.4	57.4	71.6
Adj. EPS (INR)	23.9	37.7	47.0
EPS Gr. (%)	(45.6)	57.7	24.7
BV/Sh.(INR)	203.3	215.5	230.7
Ratios			
Net D:E	0.8	1.0	1.2
RoE (%)	11.9	18.0	21.1
RoCE (%)	12.0	7.9	8.6
Payout (%)	79.8	67.6	67.6
Valuations			
P/E (x)	9.0	5.7	4.6
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	12.7	7.4	7.0
Div. Yield (%)	4.6	9.9	12.4
FCF Yield (%)	(33.2)	(16.7)	(16.2)

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.1	51.1	0.0
DII	21.7	20.8	17.1
FII	17.7	19.2	18.6
Others	9.5	8.9	64.3

FII Includes depository receipts

CMP: INR214 TP: INR300 (+40%) Buy

A huge miss on marketing margin; Capex outweigh to continue

- **HPCL posted a miss on reported EBITDA due to higher inventory and forex loss. Also, better-than-expected reported GRM counterpoised weaker marketing margins (v/s -17% est., -43% YoY).**
- **However, refining throughput (-1% YoY) and marketing sales (-5% YoY) were in line with our estimates. The company stated that refinery utilization remains strong, with Vizag at ~100% and Mumbai at ~85%.**
- **Sales demand (for MS and HSD) has also revived to 82–88% of the normal levels, and the company expects this to reach ~90% by the end of the month.**
- **Although HPCL's leverage to marketing remains the highest, it is the least preferred in our pecking list due to its high ongoing capex, which would raise its net debt. Additionally, the Vizag expansion, involving a slurry hydrocracker, is expected to face challenges related to execution in FY22 and could hamper its performance/profitability.**

Marketing margins were lower than estimated

- Reported EBITDA stood at INR0.7b; while EBITDA adj. for inventory stood at INR41.8b (v/s est. of INR34.2b, +3% YoY).
- **Total inventory loss for the quarter stood at INR41.1b (refining at INR25.8b and marketing at INR15.3b).** Thus, core GRM stood at USD9.6/bbl, with inventory loss of USD10.8/bbl.
- HPCL recorded an exceptional item of INR10b on account of the downward revaluation of inventories due to the COVID-19 impact. **The company mentioned that the exceptional item of INR10b is part of inventory G/L, although it may reverse going forward.** This amount translates to USD4.2/bbl of inventory loss (resulting in adj. core GRM of USD5.4/bbl).
- **PAT stood at INR0.3b, while adj. PAT (for exceptional) came in at INR10.3b.**
- The company has re-measured its DTL benefits and has thus written back tax of INR15.5b during the quarter, moving to a new lower tax rate.
- After factoring the tax effect and exceptional item, PAT stands at -INR5.2b (v/s est. of INR12.1b; gains of INR29.7b in 4QFY19 and INR7.5b in 3QFY20).

Key operational performance

- **Refining:** Throughput was in line with est. at 4.5mmt (-1% YoY, +9% QoQ). Reported GRM stood at -USD1.2/bbl (v/s est. of -USD4.5/bbl; +USD4.5 in 4QFY19 and +USD1.8 in 3QFY20).
- **Marketing:** The margin was lower at INR3.7/liter (v/s est. of INR4.4/liter; INR6.4/liter in 4QFY19 and INR4.1/liter in 3QFY20). Marketing sales volumes stood at 9.6mmt (v/s est. of -4%; -5% YoY, -10% QoQ).

FY20 highlights

- **Refining throughput was 7% lower YoY at 17.2mmt, with core GRM at USD4.2/bbl v/s USD4.5/bbl in FY19.**
- **Marketing sales volumes were up 2% YoY to 39.6mmt, with margins at INR4.0/liter (v/s INR4.3/liter in FY19).**

- Thus, reported EBITDA stood 50% lower YoY at INR60b, while adj. EBITDA was down 7% YoY to INR102.5b. PBT before the exceptional item was down 72% YoY to INR25.8b, primarily led by higher forex loss and interest cost.
- Reported PAT for the year stood at INR26.4b (v/s INR60.3b in FY19), with adj. PAT for exceptional at INR36.4b in FY20.
- **The company declared final dividend of INR9.75/share.**

Debt increased to INR430b (including Long Term and Short Term debt)

- ST debt was required to compensate for the lower fuel retailing receipts due to lockdown (while payments for crude purchases had to be made).
- **Total debt has already reduced to ~INR360b, and by the end of the month, it should come down further to ~INR320b.**

Capex plan of INR120b for FY21

- **HPCL has capex plans for refinery at INR70b and marketing at INR50b for FY21. The company would continue with ongoing projects, while adopting a cautious stance on new projects.**
- The BS-VI upgrade has been completed at both the Mumbai and Vizag refineries, and expansions are in the advanced stage. The company has also completed the revamp of its current units; thus, it would not require another shutdown to complete the expansions. **Expect the commissioning of both Mumbai and Vizag by mid-2021.**
- Work at the Rajasthan refinery is underway, but capex may see some delay (commissioning expected by 2023).
- **Effective from 20th April, operations have been resumed at all project sights; however, the full workforce is yet to return.**

Valuation and view

- Refining margins are expected to remain weak for a few more months in light of poor global demand growth. Also, the huge discounts enjoyed by the company over Mar–May'20 have been eroded.
- HPCL believes demand is picking up, reflected in the improvement witnessed in product cracks. Even crude prices have seen a jump in prices, led by better-than-expected demand.
- The company expects crude prices to remain at current levels (with global surplus oil inventories to be absorbed first). Thus, expect some inventory gains in the current quarter (i.e., 1QFY21).
- **The company reiterated that on a long-term basis, GRMs would trend at normalized levels. On the other hand, OMCs have begun taking daily retail price hikes, leading to the normalization of gross marketing margins ~INR3/liter (in our model stands at INR3.3).**
- We believe that over the longer term, the normalization of an irrational GRM and marketing margin is likely; we have thus built-in GRM of USD5/6/bbl and blended marketing margin of INR4.5/4.4/liter for FY21/FY22E.
- The stock trades at 4.6x FY22E EPS of INR47 and 0.9x FY21E BV of INR231. The company made a strong dividend payout of ~80% in FY20, with dividend yield at 4.6%. **However, owing to higher capex, FCF generation for the company is forecasted to remain negative.**
- We value HPCL at 1.3x (20% discount to FY15–18 post the reform period, factoring heavy capex and project execution risk) FY22E PBV to arrive at TP of INR300. Maintain **Buy**.

Quarterly performance (INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est
Net Sales	**676.3**	**675.2**	**721.1**	**679.4**	**709.9**	**608.7**	**707.5**	**661.5**	**2,752.0**	**2,687.6**	**541.1**	**22%**
YoY Change (%)	26.5	42.1	25.5	11.7	5.0	-9.8	-1.9	-2.6	25.5	-2.3	-20.3	
EBITDA	**37.3**	**30.1**	**3.7**	**49.6**	**14.5**	**24.5**	**20.4**	**0.7**	**120.7**	**60.0**	**4.1**	**-84%**
Margins (%)	5.5	4.5	0.5	7.3	2.0	4.0	2.9	0.1	4.4	2.2	0.8	
EBITDA adj. for inventory and one-offs	**14.0**	**17.3**	**38.3**	**40.5**	**19.9**	**23.9**	**16.9**	**41.8**	**110.1**	**102.5**	**34.2**	**22%**
Depreciation	7.1	7.4	7.4	8.3	8.2	8.1	8.7	8.1	30.1	33.0	9.0	-10%
Forex loss	5.4	8.9	-6.0	-2.0	-1.9	1.2	1.7	7.7	6.2	8.7	14.1	
Interest	1.9	2.0	1.5	1.9	2.1	2.9	2.5	3.4	7.3	10.8	2.8	20%
Other Income	3.1	4.1	3.9	5.2	6.2	3.9	4.1	4.2	16.4	18.4	3.8	13%
PBT before EO expense	**26.0**	**16.0**	**4.7**	**46.7**	**12.4**	**16.2**	**11.5**	**-14.3**	**93.4**	**25.8**	**-18.1**	**-21%**
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0	10.0	0.0	
PBT	**26.0**	**16.0**	**4.7**	**46.7**	**12.4**	**16.2**	**11.5**	**-24.3**	**93.4**	**15.7**	**-18.1**	**34%**
Tax	8.8	5.0	2.2	17.0	4.3	5.6	4.0	-24.6	33.1	-10.6	-6.0	NM
Rate (%)	33.9	31.6	47.4	36.4	34.6	34.9	35.1	101.1	35.4	-67.7	33.3	
Reported PAT	**17.2**	**10.9**	**2.5**	**29.7**	**8.1**	**10.5**	**7.5**	**0.3**	**60.3**	**26.4**	**-12.1**	**NM**
Adj PAT	**17.2**	**10.9**	**2.5**	**29.7**	**8.1**	**10.5**	**7.5**	**10.3**	**60.3**	**36.4**	**-12.1**	**NM**
YoY Change (%)	85.9	-37.1	-87.3	69.9	-52.8	-3.6	201.8	-65.3	-5.2	-39.6	-140.7	
Key Assumptions												
Refining throughput (mmt)	4.5	4.8	4.6	4.6	3.9	4.6	4.2	4.5	18.4	17.2	4.4	3%
Core GRM (USD/bbl)	3.2	2.7	10.0	2.1	3.3	2.5	1.5	9.6	4.5	4.2	2.0	NM
Marketing sales volume incl exports (mmt)	9.7	9.1	9.7	10.1	10.1	9.4	10.6	9.6	38.7	39.6	9.9	-4%
Marketing GM incld inv (INR/litre)	4.6	4.4	2.0	6.4	3.8	4.5	4.1	3.7	4.3	4.0	4.4	-17%

E: MOFSL Estimates

Ipca Laboratories

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	IPCA IN
Equity Shares (m)	126
M.Cap.(INRb)/(USDb)	197.4 / 2.6
52-Week Range (INR)	1821 / 844
1, 6, 12 Rel. Per (%)	-10/55/85
12M Avg Val (INR M)	431

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	46.5	54.1	61.0
EBITDA	9.6	11.8	13.7
Adj. PAT	6.5	8.3	9.7
EBIT Margin (%)	16.1	17.9	19.0
Cons. Adj. EPS (INR)	51.5	65.7	77.0
EPS Gr. (%)	42.0	27.4	17.2
BV/Sh. (INR)	287.9	343.7	409.2
Ratios			
Net D:E	-0.1	-0.2	-0.2
RoE (%)	19.3	20.8	20.5
RoCE (%)	17.8	19.3	19.3
Payout (%)	14.8	15.0	15.0
Valuations			
P/E (x)	30.2	23.7	20.2
EV/EBITDA (x)	20.3	16.1	13.4
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	2.1	3.0	3.7
EV/Sales (x)	4.2	3.5	3.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	15.7	15.7	18.2
DII	24.5	22.6	20.7
FII	46.5	49.6	51.0
Others	13.3	12.2	10.2

FII Includes depository receipts

CMP: INR1,563 TP: INR1,800 (+15%) Buy

4Q – Miss on margins; outlook remains promising

Momentum intact in exports

- Ipca Laboratories (IPCA) ended FY20 on a strong note, with 42% YoY growth witnessed in earnings to INR6.5b. This was led by 16% YoY growth in Domestic Formulations (40% of sales), 32% YoY growth in the API segment (20% of sales), and healthy improvement in profitability. IPCA remains on track to improve MR productivity in DF, with cost efficiency expanding the business scope in API and International Generics.
- We reduce our EPS estimate by 7%/3% for FY21/FY22 to factor COVID-19-led slowdown in Domestic Formulations (DF) and reduced business in its subsidiary (Pisgah). We continue to value IPCA on a 22x 12M forward earnings basis and revise our price target to INR1,800 (from INR1,885 earlier). We remain positive on the company owing to the sustained outperformance of the DF segment, improved growth prospects in API, and better operating leverage. Maintain Buy.

Stable growth YoY, but operationally below expectations

- Ipca reported 4QFY20 sales of INR10.7b (our estimate: INR11.6b), up 22.1% YoY, led by strong growth in the Exports (Generics), API, and DF businesses, partially offset by decline in Branded and Institutional exports.
- Exports (Generics) grew 40% YoY to INR1.7b (15% of sales) and DF sales 21% YoY to INR4.3b (40% of sales).
- API grew 30% YoY to INR2.8b (26% of sales) for the quarter, with Export APIs growing at 27% and Domestic APIs at 41%.
- Exports (Branded + Insti.) sales declined 14% YoY to INR1.2b (11% of sales).
- The gross margin stood at 66%, up 90bp YoY owing to a change in the product mix.
- The EBITDA margin expanded 180bp YoY to 20.5% and at a higher rate than the gross margin, led by lower other expenses (-220bp YoY), partially offset by higher employee cost (+130bp YoY as percentage of sales).
- IPCA took impairment of INR276m concerning the reduced scope of royalty income for its subsidiary (Pisgah). Adjusting for the same and forex loss of INR236m, EBITDA came in at INR2.2b (our estimate: INR2.5b), up 33.5% YoY.
- Adj. PAT stood at INR1.4b (our estimate: INR1.8b), up 39.2% YoY.
- For FY20, revenues / EBITDA / adj. PAT were INR46.5b/INR9.6b/INR6.6b, up 23.2%/33.6%/42% YoY.

Highlights from management commentary

- Overall sales are expected to grow 14–17% in FY21, with ~11% growth witnessed in the DF business, and better opportunities in API and Export Formulations. EBITDA margins are expected to expand ~150bps YoY in FY21.
- IPCA guided for capex of INR2.5b for FY21, constituting INR600–700m for the Devas facility, the brownfield expansion of the API facility, and maintenance capex.
- IPCA recently supplied *Hydroxychloroquine (*HCQS) worth ~INR420m to the Government of India.

- Business worth INR770m was impacted in promotional markets (CIS, Asia, the Middle East, Africa, and Latin America) due to delay in shipments.

Valuation and view

We remain positive on IPCA on account of an estimated earnings CAGR of 22% (FY20–22), supported by: a) a sales CAGR of 22% in International Generics and 16% in API, b) the healthy outperformance of DF, and c) improved profitability owing to better capacity utilization. Accordingly, we expect return ratios to sustain in the high teens over the next two to three years. We value IPCA at 22x 12M forward earnings to arrive at TP of INR1,800 (prior: INR1,885). Maintain **Buy.**

Quarterly Performance (INR M)

Y/E March	FY19				FY20				FY19	FY20	Est.	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Revenues (Core)	**8,754**	**10,120**	**10,061**	**8,796**	**10,782**	**12,839**	**12,129**	**10,738**	**37,732**	**46,487**	**11,604**	**-7.5**
YoY Change (%)	22.8	17.1	17.1	12.4	23.2	26.9	20.5	22.1	14.9	23.2	31.9	
EBITDA	**1,416**	**2,048**	**2,060**	**1,646**	**1,987**	**2,659**	**2,737**	**2,197**	**7,170**	**9,580**	**2,538**	**-13.4**
YoY Change (%)	723.4	33.3	20.3	40.4	40.4	29.8	32.8	33.5	57.7	33.6	**54**	
Depreciation	466	454	457	448	461	496	508	639	1,824	2,105	528	
EBIT	**950**	**1,595**	**1,603**	**1,198**	**1,526**	**2,162**	**2,228**	**1,558**	**5,346**	**7,475**	**2,011**	
YoY Change (%)	-463.2	45.4	25.8	61.8	60.7	35.6	39.0	30.0	93.0	39.8	68	
Interest	49	24	51	64	46	42	40	37	189	165	48	
Other Income	143	148	133	59	112	148	181	137	483	578	159	
PBT before EO Expense	**1,044**	**1,719**	**1,685**	**1,193**	**1,592**	**2,268**	**2,369**	**1,658**	**5,640**	**7,888**	**2,122**	
One-off (gain)/ Expense	230	305	-285	-94	-91	0	0	536	157	445	0	
PBT after EO Expense	**814**	**1,414**	**1,969**	**1,286**	**1,683**	**2,268**	**2,369**	**1,123**	**5,483**	**7,442**	**2,122**	
Tax	131	221	374	317	374	319	369	292	1,042	1,353	358	
Rate (%)	12.5	12.9	22.2	26.5	23.5	14.1	15.6	17.6	18.5	17.2	16.9	
Reported PAT	**683**	**1,193**	**1,595**	**970**	**1,310**	**1,949**	**2,001**	**830**	**4,423**	**6,090**	**1,764**	**-52.9**
Minority Interest					-16	-14	-25	-23	18	-78		
Adj PAT	**848**	**1,407**	**1,342**	**982**	**1,203**	**1,936**	**2,001**	**1,366**	**4,580**	**6,505**	**1,764**	**-22.5**
YoY Change (%)	-445.0	39.0	16.1	67.5	41.8	37.5	49.1	39.2	91.3	42.0	79.6	
Margins (%)	9.7	13.9	13.3	11.2	11.2	15.1	16.5	12.7	12.1	14.0	15.2	

Key Performance Indicators (Consolidated)

Y/E March	FY19				FY20				FY19	FY20
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Domestic formulations	4,009	4,686	4,216	3,557	4,528	5,432	4,856	4,310	16,249	18,687
YoY Change (%)	35.9	10.3	10.1	10.2	12.9	15.9	16.0	21.2	14.0	15.0
Exports formulations	2,240	2,883	2,824	2,536	2,448	3,408	3,534	2,825	10,916	13,279
YoY Change (%)	(5.0)	23.2	3.5	1.0	9.3	18.2	25.2	11.4	9.8	21.6
Domestic APIs	600	514	445	460	657	672	532	649	1,963	2,257
YoY Change (%)	65.8	7.5	(24.2)	29.1	9.5	10.0	18.0	40.9	10.0	15.0
Export APIs	1,577	1,737	1,856	1,656	2,326	2,472	2,322	2,102	6,224	6,847
YoY Change (%)	16.6	19.0	39.8	5.9	47.5	20.0	35.0	27.0	9.2	10.0
Cost Break-up										
RM Cost (% of Sales)	32.2	30.9	31.6	34.9	37.7	35.0	34.9	34.0	32.9	35.4
Staff Cost (% of Sales)	23.1	20.9	18.6	21.3	20.0	18.1	19.1	22.6	20.9	19.8
Other Cost (% of Sales)	28.5	27.9	27.6	25.2	23.9	26.2	23.4	23.0	27.3	24.2
Gross Margins(%)	67.8	69.1	68.4	65.1	62.3	65.0	65.1	66.0	67.1	64.6
EBITDA Margins(%)	16.2	20.2	20.5	18.7	18.4	20.7	22.6	20.5	19.0	20.6
EBIT Margins(%)	10.8	15.8	15.9	13.6	14.2	16.8	18.4	14.5	14.2	16.1

Cummins India

BSE SENSEX	S&P CNX
33,508	9,881

Conference Call Details

Date: 18th June 2020
Time: 11:00am IST
Dial-in details:
18001029810
(PIN: 85543435#)

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	51.6	47.4	57.2
EBITDA	5.9	5.3	7.1
PAT	6.4	4.8	6.2
EBITDA (%)	11.4	11.2	12.3
EPS (INR)	23.3	17.3	22.4
EPS Gr. (%)	(10.8)	(25.8)	29.3
BV/Sh. (INR)	150.6	164.7	173.7
Ratios			
Net D/E	0.0	(0.1)	(0.1)
RoE (%)	15.4	10.5	12.9
RoCE (%)	14.0	10.0	12.2
Payout (%)	90.3	60.0	60.0
Valuations			
P/E (x)	16.6	22.3	17.2
P/BV (x)	2.6	2.3	2.2
EV/EBITDA (x)	18.3	18.9	14.4
Div Yield (%)	4.2	2.2	2.8
FCF Yield (%)	3.4	1.9	(0.4)

CMP: INR386 — Neutral

Revenue miss, higher fixed cost lead to disappointing operating performance

4QFY20 snapshot

- Revenues were down 22% YoY to INR10.5b, **10% below our est.** Without the COVID-19 lockdown impact, revenue decline would be at 7%.
- Domestic sales were down 22% YoY to INR7.8b and exports 20% YoY to INR2.6b.
- EBITDA declined 61% to INR667m on account of lower absorption of fixed costs. **EBITDA was 49% below our expectation.**
- EBITDA margins came in lower at 6.3% (down 650bp YoY).
- Other income stood at INR898m (v/s our est. of INR617m).
- PBT stood at INR1.2b, down 42% YoY, and **was 23% below our expectation.**
- The company took tax write-backs of INR244m in 4QFY20. Thus, effective tax rate was negligible.
- On account of **lower tax expense**, adj. PAT stood at INR1.2b (-14% YoY) and **was 7% above our expectation.** Gross margins remained stable at 34.9% (3QFY19: 35.0%; 2QFY20: 34.9%).

FY20 snapshot

- Revenues fell 9% YoY to INR51.6b. Domestic sales were down 3% YoY to INR37.7b and exports 22% YoY to INR12.9b.
- EBITDA declined 20% YoY to INR5.9b, with the EBITDA margin at 11.4% (down 390bp YoY).
- PBT stood at INR7.8b, down 24% YoY.
- Effective tax rate stood lower at 17.2% (v/s 30% in FY19).
- Adj. PAT was down by 11% YoY to INR6.5b.
- CFO stood at INR6.0b (v/s INR 5.5b in FY19).

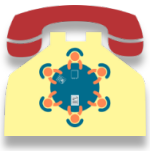
Quarterly Performance

	FY19				FY20				FY19	FY20	Vs Est.	Var.
Y/E March (INR m)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Sales	**13,280**	**14,869**	**15,038**	**13,404**	**13,430**	**13,084**	**14,534**	**10,528**	**56,590**	**51,577**	**11,702**	**-10.0%**
Change (%)	-1.0	28.9	11.0	8.7	1.1	-12.0	-3.3	-21.5	11.3	-8.9	-12.7	
EBITDA	**2,147**	**2,509**	**2,267**	**1,718**	**1,514**	**1,525**	**2,158**	**667**	**8,641**	**5,863**	**1,294**	**-48.5%**
Change (%)	9.9	49.8	15.3	-0.7	-29.5	-39.2	-4.8	-61.2	24.0	-20.2	-24.7	
As of % Sales	16.2	16.9	15.1	12.8	11.3	11.7	14.8	6.3	15.3	11.4	11.1	
Depreciation	271	274	279	280	291	293	296	308	1,103	1,187	296	
Interest	36	40	41	45	52	55	47	49	162	203	46	
Other Income	696	785	755	692	769	926	723	898	2,928	3,315	617	
PBT	**2,536**	**2,980**	**2,702**	**2,085**	**1,940**	**2,102**	**2,538**	**1,208**	**10,304**	**7,789**	**1,569**	**-23.0%**
Tax	706	865	831	676	525	269	551	-5	3,078	1,341	435	
Effective Tax Rate (%)	27.8	29.0	30.8	32.4	27.1	12.8	21.7	(0.4)	29.9	17.2	27.7	
Adjusted PAT	**1,830**	**2,116**	**1,871**	**1,409**	**1,415**	**1,833**	**1,988**	**1,213**	**7,226**	**6,448**	**1,134**	**6.9%**
Change (%)	10.2	38.4	8.7	(12.6)	(22.7)	(13.4)	6.2	(13.9)	10.8	(10.8)	(19.5)	
Extra-ordinary Income (net)	-	-	-	-	-	-	(125)	(30)	-	(155)	-	
Reported PAT	**1,830**	**2,116**	**1,871**	**1,409**	**1,415**	**1,833**	**1,862**	**1,183**	**7,226**	**6,293**	**1,134**	**4.3%**
Change (%)	(17.6)	38.4	8.7	(12.6)	(22.7)	(13.4)	(0.5)	(16.0)	2.0	(12.9)	(19.5)	

JK Cement

BSE SENSEX	S&P CNX
33508	9881

Conference Call Details



Date: 18th June 2020
Time: 04:00 PM IST
Dial-in details:
+91-7045671221

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	57.2	53.8	66.9
EBITDA	11.8	10.4	14.2
Adj. PAT	4.6	2.8	5.5
EBITDA Margin (%)	20.7	19.3	21.2
Adj. EPS (INR)	59.0	35.9	71.1
EPS Gr. (%)	72.8	-39.1	98.0
BV/Sh. (INR)	393	415	467
Ratios			
Net D:E	0.8	0.8	0.5
RoE (%)	15.9	8.9	16.1
RoCE (%)	10.7	7.5	11.2
Payout (%)	25.6	37.0	27.1
Valuations			
P/E (x)	20.7	34.0	17.2
P/BV (x)	3.1	2.9	2.6
EV/EBITDA(x)	10.0	11.5	7.9
EV/ton (USD)	99	98	92
Div. Yield (%)	1.0	0.9	1.3
FCF Yield (%)	-4.2	4.7	13.0

CMP: INR1,220 — Buy

Volumes in-line; higher realization drives beat in estimates

- JK Cement (JKCE)'s 4QFY20 revenue/EBITDA/PBT at INR14.8b/INR3.5b/INR2.6b was 1%/+24%/+22% YoY and +1%/+7%/+14% against our estimate. However, PAT was much weaker at just INR3m, weighed by INR1.8b impairment of the asset value of its UAE subsidiary JK Cement (Fujairah) FZC due to loss incurred in the last several years.
- Volume was in line with estimate, with Grey Cement (incl. clinker) down 6.6% YoY to 2.36mt and White Cement 13.1% YoY to 0.30mt.
- Blended realization at INR5,540/t rose 7% YoY and 1% QoQ, 2% above our estimate, driving the beat in estimates.
- Total cost per ton at INR4,241/t declined 4% QoQ (+1% YoY) and was in line with our est. of INR4,237/t.
- EBITDA per ton at INR1,298/t (+34% YoY,+20% QoQ) was 8% above our estimate of INR1201/t. EBITDA stood at INR3.46b (+24% YoY / +25% QoQ). The EBITDA margin came in at 23.4% (+4.71pp YoY / +3.66pp QoQ).
- Other income was 25% higher than est. at INR271m (-23% YoY / +14% QoQ).
- Capex for FY21 has been restricted to INR5.0b (including balance capex on a 4.2mtpa capacity expansion). Of this, INR1.0b would come from internal accruals and the balance from borrowed funds.
- FY20 revenue / EBITDA / adj. PAT came in at INR58.01b/INR12.13b/INR4.83b, with YoY growth at +10%/+45%/+83%.
- Net debt/equity stood at 0.6x for FY20 v/s 0.4x for FY19; FCF for FY20 stood at INR1.24b (+54.0% YoY).

Key questions for the management

- Demand trend in the focus markets
- Pricing trend in the focus markets
- Ramp-up plans in newly commissioned capacities
- Deleveraging roadmap

Quarterly Performance (Standalone) (INR m)

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			4QE	
Sales Dispatches (m ton)	2.32	2.16	2.50	2.88	2.31	2.24	2.56	2.67	9.88	9.79	2.69	-1
YoY Change (%)	8.9	-2.9	7.5	5.8	-0.3	3.6	2.4	-7.4	5.1	-0.8	-6.6	
Realization (INR/ton)	4,819	5,096	5,098	5,182	5,753	5,604	5,490	5,540	5,044	5,579	5,438	2
YoY Change (%)	-1.7	2.3	5.2	7.1	19.4	10.0	7.7	6.9	3.2	10.6	4.9	
QoQ Change (%)	-0.4	5.8	0.0	1.7	11.0	-2.6	-2.0	0.9			-0.9	
Net Sales	**11,156**	**11,006**	**12,732**	**14,919**	**13,280**	**12,542**	**14,042**	**14,774**	**49,813**	**54,638**	**14,621**	1
YoY Change (%)	7.1	-0.6	13.1	13.4	19.0	14.0	10.3	-1.0	8.5	9.7	-2.0	
Total Expenditure	9,652	9,309	10,627	12,124	10,245	10,002	11,264	11,312	41,712	42,822	11,392	-1
EBITDA	**1,504**	**1,698**	**2,105**	**2,795**	**3,035**	**2,540**	**2,777**	**3,463**	**8,101**	**11,815**	**3,229**	7
Margins (%)	13.5	15.4	16.5	18.7	22.9	20.3	19.8	23.4	16.3	21.6	22.1	
Depreciation	474	487	486	497	494	518	556	576	1,944	2,144	600	-4
Interest	547	583	564	533	534	561	561	572	2,221	2,229	575	-1
Other Income	158	180	118	349	172	180	237	271	799	859	217	25
PBT before EO expense	**640**	**808**	**1,173**	**2,114**	**2,179**	**1,641**	**1,897**	**2,585**	**4,736**	**8,302**	**2,270**	14
Extra-Ord expense	0	0	0	0	0	0	0	1,782	0	1,782	0	
PBT	**640**	**808**	**1,173**	**2,114**	**2,179**	**1,641**	**1,897**	**804**	**4,736**	**6,520**	**2,270**	-65
Tax	147	161	564	614	641	553	521	801	1,487	2,516	761	5
Rate (%)	22.9	20.0	48.1	29.1	29.4	33.7	27.5	99.7	31.4	38.6	33.5	
Reported PAT	**493**	**647**	**609**	**1,500**	**1,538**	**1,088**	**1,376**	**3**	**3,249**	**4,004**	**1,509**	-100
Adj PAT	**493**	**647**	**609**	**1,500**	**1,538**	**1,088**	**1,376**	**1,784**	**3,249**	**5,785**	**1,509**	18
YoY Change (%)	-37.8	-25.9	-16.6	42.5	211.8	68.2	125.8	19.0	-5.8	78.1	0.6	

Cement

JK Cement's operations stabilizing; demand to remain sluggish

JK Cement issued a press release on the impact of COVID-19 on operations. We present summarized takeaways from the announcement.

- **Plant operations:** Operations are gradually stabilizing post the partial relaxation of the lockdown. All four integrated and two split grinding units of Grey Cement as well as one unit of White Cement / Wall Putty are operational, with dispatches witnessed from all locations.
- **Input materials:** The availability of fly ash is currently lower as power plants are not operating consistently. Hence, the company is procuring fly ash from far-off power plants with more lead distance. The company is working to ensure the uninterrupted supply of petcoke.
- **Logistics:** Initially, all supplies were met only through road transport. 23rd May'20 onward, rail dispatches have commenced. The lower availability of truck drivers may have an impact on inbound and outbound logistics. Furthermore, labor shortage may have an impact on the clearance of materials at the railway yard and the turnaround time of the rakes.
- **Demand:** The major portion of cement demand is currently being witnessed from the Retail market in the rural and the semi-urban areas. Cement demand is expected to remain sluggish due to the shortage of labor in urban areas.
- **Finance:** The company has not availed of the moratorium facility on borrowings. Overall capex for the financial year was restricted to INR5.0b (including balance capex on 4.2mtpa capacity expansion). Of this, INR1.0b would be from internal accruals and the balance from borrowed funds.

Valuation and view

- We expect JKCE to deliver a higher-than-industry EBITDA CAGR of 9% over FY20–22E, driven by a 7% volume CAGR on account of its new capacity in the northern region.
- The expansion also improves its regional mix in favor of the northern/central regions of India and helps the company lower the cost curve by increasing the share of newer, cost-efficient capacities.
- We arrive at a target price of INR1,355/share, valuing the White Cement business at 10x FY22E EV/EBITDA and the Grey Cement business at 8x FY22E EV/EBITDA. **Maintain Buy.**

M&M: TO FOCUS ON CASH CONSERVATION AND TIGHTEN CAPITAL ALLOCATION DUE TO COVID-19; Pawan Goenka, MD

- The board took a decision that it needs to be much tighter on capital allocation and prioritise where they want to put money.
- Company is looking at all the subsidiaries right now to see whether they will be turning around profitable in the next two years. Everything is under examination and would be announcing things as company make some decisions.
- (Regarding Peugeot) Because of COVID-19, our China factories are down for quite some time, we lost a full peak season of Europe. Now we are examining how long will it take to get back on track. Then will take a decision this year on what will be the future for Peugeot.
- Mahindra Electric turned EBITDA positive in FY21 and the company is on the way to becoming profit positive or cash-flow positive.
- The company had a very strong balance sheet going into COVID-19 and a fairly strong cash position, more than Rs 10,000 crore of cash on hand right now.
- Company's primary objective is to find a third party investor in Korean manufacturer SsangYong as the it needs more cash infusion.

Read More

RUPEE DENOMINATED CONVERTIBLE DEBT INSTRUMENT – NEED TO ADD THIS ARROW TO THE FUND RAISING QUIVER?

- The urgent requirement for capital that many Indian companies are currently facing as they continue to grapple with the fallout of the ongoing pandemic is now well recognised. Certain banks and several non-bank financial institutions in India too are in dire need of capital to shore up their books for the additional loss provisioning that is viewed as inevitable as these challenging economic conditions show no sign of abating. With creditors and investors alike sagely electing to navigate these troubled times with a highly selective and cautious approach, and given the sheer amount of the capital that will need to be raised by domestic borrowers and lenders, the case for ensuring there is an arsenal of commercially viable options available now for fund raising from overseas is extremely compelling. In these very uncertain times, most investors are justifiably reluctant to assume pure equity positions in companies which, in many cases, are already under considerable stress or otherwise yet to fully fathom the scope and extent of the impact that COVID 19 will have on their business and operations - and are, therefore, very keen to have downside protection such that at least their investment amount can be safeguarded. From the creditors perspective, stressed borrowers are not much inclined at present to raise debt capital at high costs – whether payable on a current basis during the tenor of the borrowing or at maturity – and in relation to cross border financings, to take on the exchange risk that is inherent in any foreign currency denominated borrowing. The ability to optionally convert its outstanding debt into equity at a future point in time when the borrower rebounds – at a discount to the then prevailing price for the borrower's shares – is a valuable mechanism for a creditor to potentially realise an upside and materially improve its overall rate of return on the money it advanced.

Read More

NOTES

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

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

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOFSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

MOFSL, it's associates, Research Analyst or their relative may have any financial interest in the subject company. MOFSL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company in the past 12 months. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the past 12 months. MOFSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the past 12 months , MOFSL or any of its associates may have:

a) managed or co-managed public offering of securities from subject company of this research report,
b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
d) Subject Company may have been a client of MOFSL or its associates in the past 12 months.

MOFSL and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOFSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures. Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement	**Companies where there is interest**
Analyst ownership of the stock	No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Financial Services Limited(SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S:

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore:

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Disclaimer: The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.

CIN No.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579 ;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.* MOFSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Ben