Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	35,430	1.5	-14.1
Nifty-50	10,471	1.5	-13.9
Nifty-M 100	15,022	1.5	-12.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,131	0.4	-3.1
Nasdaq	10,131	0.7	12.9
FTSE 100	6,320	1.2	-16.2
DAX	12,524	2.1	-5.5
Hang Seng	9,993	1.2	-10.5
Nikkei 225	22,549	0.5	-4.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	42	-1.2	-37.2
Gold ($/OZ)	1,768	0.8	16.6
Cu (US$/MT)	5,892	0.5	-4.2
Almn (US$/MT)	1,576	-0.8	-11.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.6	-0.5	6.0
USD/EUR	1.1	0.4	0.8
USD/JPY	106.5	-0.4	-1.9
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	0.03	-0.7
10 Yrs AAA Corp	7.1	0.03	-0.6
Flows (USD b)	**23-Jun**	**MTD**	**CYTD**
FIIs	0.02	2.95	-1.98
DIIs	0.06	-0.06	11.41
Volumes (INRb)	**23-Jun**	**MTD***	**CYTD***
Cash	873	673	505
F&O	13,827	16,119	14,493

Note: *Average

Today's top research theme

India Strategy: Indo-China Conflict: A look at sectoral inter-linkages with China

- The recent border conflict with China in the Galwan valley of Ladakh is unprecedented and has heightened geopolitical tensions. This has caused significant backlash in India.
- Further, the narrative of reducing trade dependence on China is gaining steam. In this report, we look at key India-China macro trade metrics and highlight sector-wise exposure to China on imports, supply-chains and raw materials.
- India's trade deficit with China has doubled in the last decade. From barely any deficit in FY00, India ran a trade deficit of USD48.6b (1.7% of GDP) with China in FY20.
- From sectoral perspective, Pharma, Consumer Durable, Telecom Equipment and Automobiles will be relatively more impacted along with a spill-over to stringent trade policy actions/retaliations if the India-China conflict escalates further.

Research covered

Cos/Sector	Key Highlights
India Strategy	Indo-China Conflict: A look at sectoral inter-linkages with China
Asian Paints	Vulnerability to downturn and social distancing drives earnings cut
Marico	Resilient portfolio; inexpensive valuations
Info Edge	Near-term outlook soft; Strategic acquisition on way
Bank of Baroda	Higher provisions lead to PBT loss, while tax reversal results in profit
Page Industries	Weak results; No earnings recovery in sight
Aegis Logistics	Normalcy to return in 2HFY21; strong growth likely in FY22
Other Notes	DCB Bank | EcoScope | Resurgent India Conference 2020

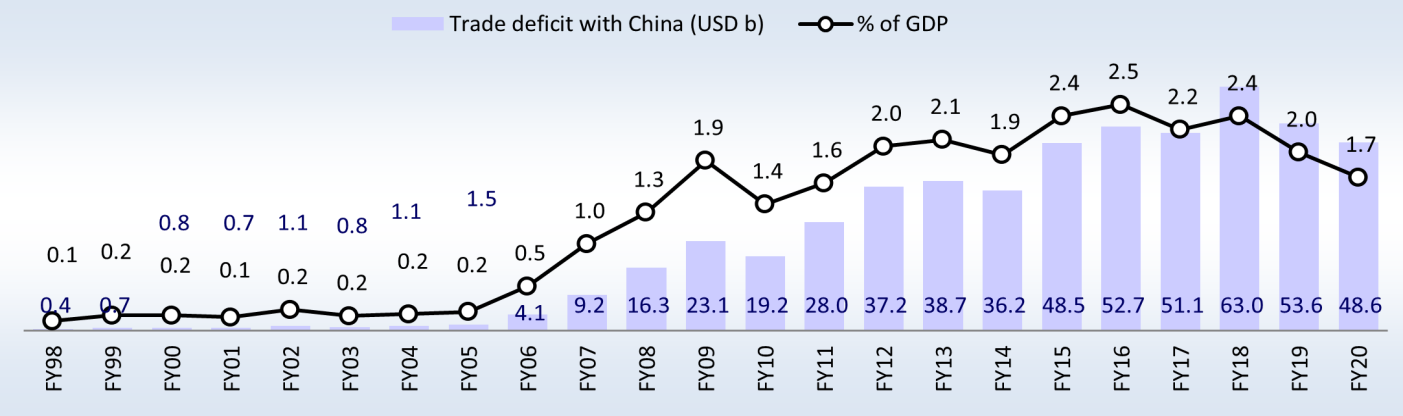
Piping hot news

FinMin sees green shoots of revival led by farm sector

The Finance Ministry on Wednesday claimed that economic activity has increased, with agriculture leading the revival. The Finance Ministry noted that though agriculture has a lower share (about 13 per cent) in Gross Value Added (GVA).

Chart of the Day: Strategy (Indo-China Conflict: A look at sectoral inter-linkages with China)

India's trade deficit with China has hovered around USD50b in the past six years



Source: CEIC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

India plans power sector overhaul to discourage Chinese imports

More tariff barriers, subsidised financing for encouraging domestic equipment usage, rigorous testing of foreign equipment and prior permission requirements for imports from adversary countries, are some of the focus areas of India' proposed power sector…

2

Reliance Infra will be debt-free in FY21: Anil Ambani

Reliance Infrastructure (RInfra) chairman Anil Ambani on Tuesday said the company will be completely debt-free this financial year. RInfra, which is sitting on a debt of over Rs 6,000 crore, has been working towards monetising its assets to reduce debt. Addressing the company's 91st annual shareholders meeting through an online platform, Ambani said, "RInfra will be a debt-free company this year."…

3

Three year old Amtek Auto case nears completion

The three year old case for the resolution of bankrupt Amtek Auto could finally see completion this week after the Supreme Court (SC) refused to give more time for US based hedge fund Deccan Value Investors LP (DVIL) to assess the impact of the economic contraction caused by the Covid-19 virus. Amtek was among the 12 debt laden companies taken to the National Company Law…

4

US-India to create green corridor for resumption of international flights

India and the United States are working on a plan to create a travel corridor which will significantly ease travel restriction between the two countries. This will be the first green corridor India will establish with any country. Senior officials from New Delhi and Washington confirmed…

5

Indian customs may start inspection of all imports from China at ports and airports

Indian customs authorities could soon start inspecting all import consignments from China at ports and airports across the country following heightened security concerns after the skirmish at the border, people familiar with the development said. This 100 per cent check of imports from China could lead to delay in the release of consignments, a non-tariff barrier possibly...

6

RBI extends Rs 50,000-crore special liquidity facility to Yes Bank for 3 more months

With private sector lender Yes Bank still facing capital woes, the Reserve Bank of India (RBI) has agreed to extend the special liquidity facility for the lender for another three months, a central bank official said on condition of anonymity. "Considering the prevailing capital situation…

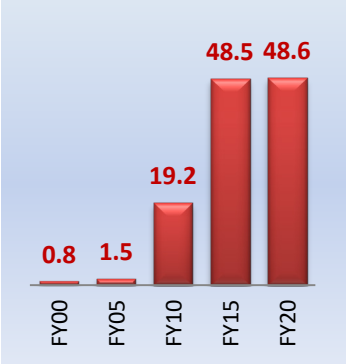
7

Malls reports 30% footfall, shorter stay time of customers

Malls in North India have reported 30% footfall and upto 70% sales in the two weeks of opening. In a webinar by the Shopping Centres Association of India (SCAI), mall operators said over 400 malls that are operational at the moment and safety norms and steps being taken by the malls are making it the safest place…

BSE Sensex: 35,430 **S&P CNX: 10,471**

Trade Deficit with China (USD b)



Trade Deficit with China (% of GDP)

Indo-China Conflict: A look at sectoral inter-linkages with China

Pharma, Auto, Consumer Durables, Telecom Equipment most exposed

- **The recent border conflict with China in the Galwan valley of Ladakh is unprecedented and has heightened geopolitical tensions. This has caused significant backlash in India.**
- **Further, the narrative of reducing trade dependence on China is gaining steam.**
- **In this report, we look at key India-China macro trade metrics and highlight sector-wise exposure to China on imports, supply-chains and raw materials.**
- **India's trade deficit with China has doubled in the last decade. From sectoral perspective, Pharma, Consumer Durable, Telecom Equipment and Automobiles will be relatively more impacted along with a spill-over to stringent trade policy actions/retaliations if the India-China conflict escalates further.**

Unprecedented geopolitical flare-up in Indo-China relations

The recent (15-16th Jun'20) flare-up on the Indo-China border in the Galwan Valley of Ladakh is unprecedented. It has heightened geopolitical tensions between the two nations leading to reports of potential escalation. The situation is currently fluid with diplomatic and political emphasis on disengagement and a desired return to normalcy at the earliest. However, these events have caused significant backlash in India, giving rise to a narrative of reducing dependence on China – both on business and commercial fronts. Media reports suggest that the Government of India has asked the industry to prepare a list of products imported from China; this would help identify non-essential imports for which local substitutes could then be made available (Refer here). Further, business contracts awarded to Chinese firms have been cancelled by some state governments (Maharashtra and Haryana). While we would not like to hypothesize on the possible future steps being contemplated, in this note we look at key macro trade parameters between India and China and the inter-linkages of different sectors with China in terms of sales, supply chains as well as investments. Moreover, we have also highlighted sectors and companies, which would get impacted in case of import curbs or tariffs.

Snapshot of key macro trade metrics between India-China

From barely any deficit in FY00, India ran a trade deficit of USD48.6b (1.7% of GDP) with China in FY20. India's imports from China have risen steeply from just 2.6% of total imports in FY00 to an all-time high of 16.4% in FY18 before easing to 14% (USD65.3b) in FY20. India's exports to China, as a percent of total exports, have just started picking up pace after touching 3.4% in FY16. In FY20, it stood at USD16.6b or 5.3% of total exports from India. Finally, as per official data from the Department of Industrial Policy and Promotion (DIPP), China's FDI inflow over FY00-20 to India stood at a mere USD2.4b out of India's total FDI inflow of USD470.1b.

Several sectors have material linkages with China

From a sectoral perspective Auto, Consumer Durables, Pharmaceuticals, Telecom, Chemicals and Renewable Power sector (Solar) seem to be the most dependent in terms of sourcing from China. Also, in many cases there appears to be a lack of alternative suppliers at the same scale or costs. While Consumer Durables is dependent on China for components, Pharma is dependent for API sourcing. Telecom is dependent on China from a network standpoint as well as for 4G

smartphone handsets as China caters to more than 75% of the Indian handset demand. Various sectors have material inter-linkages with China and form a critical part of the supply-chain for many firms in India. Any potential escalation between the two nations could increase operational/supply-chain risks in the current economic backdrop, even as economies look to recover from the pandemic. Overall, it would be difficult and expensive for Indian firms to immediately find alternative suppliers, in our view.

Structural reforms crucial for manufacturing competitiveness/reducing long-term dependence on China

In the short-to-medium term, we believe the deep inter-linkages of several sectors preclude any meaningful retaliation on the trade front. However, as the world looks to de-risk its supply-chain from China given the backdrop of the COVID-19 pandemic, from a long-term perspective, the need for emphasis on Indian Manufacturing gets reinforced now. Further, the Indian government has also announced several measures to drive self-dependence in various aspects (Atmanirbhar Bharat). For sustained change, however, we believe structural reforms encouraging manufacturing (ease of doing business, ease of compliance burden, etc.) and market reforms (land, labor and capital) would augur well to augment India's manufacturing competitiveness.

SECTOR-WISE IMPACT FROM DEPENDENCE/INTER-LINKAGES WITH CHINA

AUTOS

- **Tata Motors, Motherson Sumi** and **Bharat Forge** would be the **least impacted** due to their business' diversified nature and global operations. The tyre industry has already seen multiple increases in anti-dumping duties, which has benefited tyre companies.

CONSUMER DURABLES

- **Havells** and **Crompton Greaves** would be the **least impacted** due to low exposure to China. **Voltas** would be the most affected in case of tariff hikes.

PHARMA

- Dependency on China is ~60-70% for key starting materials. In case of any tariff or import curbs, **Sun Pharma** and **Cipla** would be the **least impacted** as they are fully integrated and have considerable exposure to the branded business.

TELECOM

- **Vodafone** and **Bharti Airtel** would be the **most impacted** in case of tariff or import curbs on telecom network equipment providers. **Reliance Jio** would be the **least impacted** as it has no exposure to China in the network equipment space.

CHEMICAL AND AGRO CHEMICAL

- **Higher impact: Rallis, Dhanuka, Sumitomo India, Insecticide India.**
- **Lower impact: PI Industries, UPL, Coromandel** (at company level)**, Bayer India.**
- **Potential beneficiaries: SRF, Aarti Industries, Atul Ltd, Bharat Rasayan, Excel Industries.**

E-COMMERCE

- **Info Edge** would be impacted as its investee companies – Zomato and Policy Bazaar – have exposure to investments from China. Indian tech and E-commerce start-ups like **Paytm**, **Snapdeal**, **Ola**, **Swiggy**, **BigBasket** and **Byju** have significant investments from Chinese companies.

UTILITIES

- Within our coverage universe, **Tata Power** has exposure to execution and commissioning of solar power plants.

Asian Paints

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	APNT IN
Equity Shares (m)	959
M.Cap.(INRb)/(USDb)	1615 / 21
52-Week Range (INR)	1916 / 1291
1, 6, 12 Rel. Per (%)	-11/8/31
12M Avg Val (INR M)	3121

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	202.1	161.0	202.0
Sales Gr. (%)	5.0	-20.3	25.4
EBITDA	41.6	28.5	43.0
EBIT Margin (%)	20.6	17.7	21.3
Adj. PAT	27.8	15.9	27.2
Adj. EPS (INR)	29.0	16.6	28.3
EPS Gr. (%)	25.5	-42.7	70.6
BV/Sh.(INR)	105.6	115.7	122.9
Ratios			
RoE (%)	28.3	15.0	23.7
RoCE (%)	24.5	13.7	20.9
Payout (%)	51.6	70.5	74.3
Valuation			
P/E (x)	58.1	101.4	59.4
P/BV (x)	15.9	14.6	13.7
EV/EBITDA (x)	38.2	55.0	36.2
Div. Yield (%)	0.9	0.7	1.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.8	52.8	52.8
DII	10.0	10.3	9.6
FII	17.2	17.2	16.3
Others	20.0	19.7	21.3

FII Includes depository receipts

CMP: INR1684 TP: INR1,315 (-22%) Sell

Vulnerability to downturn and social distancing drives sharp earnings cut

- Asian Paints' (APNT) 4QFY20 sales and profits were below estimates. Absolute EBITDA declined 3% despite (a) the 18-quarter low EBITDA margin in the base quarter of 4QFY19, (b) impact of COVID-19 for only part of 4QFY20, and (c) sharp material cost decline.
- Decorative paints category growth was sharply affected during the lockdown. Also, it is highly vulnerable to the economic downturn impact on discretionary consumption. Further, it will be impacted due to social distancing becoming a new normal, particularly due to lack of do-it-yourself (DIY) culture with regards to house painting in India. Moreover, the impact of the severe real estate slowdown on demand for paints in new construction (~15% of decorative segment sales) will also affect growth prospects.
- Valuations are extremely expensive at 59.4x FY22E EPS for a company with (a) 7.7% PBT growth in the past 4 years, (b) highly uncertain earnings outlook, and (c) RoCEs that are lower than Consumer peers. Maintain **Sell**.

Lockdown impacts top line, benign commodity costs protect margins

- APNT reported consol. net sales decline of 7.1% YoY to INR46.4b (v/s est. INR52b). We estimate volume growth in the domestic decorative paints business to be in low single-digits (v/s est. 10%).
- Gross margins were up 410bp YoY to 45.8%. However, as % of sales, high employee costs (+70bp YoY) and higher other expenses (260bp YoY) led to EBITDA margin expansion of 80bp YoY to 18.5% (v/s est. 19%).
- EBITDA declined 3% YoY to INR8.6b (v/s est. INR9.9b).
- PBT declined 5.5% YoY to INR7b (v/s est. INR8.3b).
- Adj. PAT declined 1.8% YoY to INR4.8b (v/s est. INR5.5b).
- FY20 revenue/ EBITDA/ adj. PAT growth stood at 5%/10.5%/25.5% YoY.

Highlights from management commentary

- Paints being a discretionary category are vulnerable to pressures of economic slowdown.
- Safety is a concern among consumers in the COVID environment. Thus, APNT is starting safe painting campaign to alleviate some of the concerns.
- Even after taking into account INR depreciation, raw material costs will be lower in 1QFY21 compared to 4QFY20.
- While the company has not taken any price reduction in 4QFY20 and in 1QFY21, it intends to pass on some of the substantial benefits arising from lower material costs to boost sales.

Valuation and view

- Changes to the model have led to 39.2%/13.6% correction in FY21/FY22E EPS. Demand vulnerability to economic downturn and social distancing concerns, absence of sales in lockdown and exposure to automotive and industrial segments offset the substantial material cost gains.

- Additionally, the massive capacity addition in recent years (depreciation and interest costs were ~21% of EBITDA in FY20) leads to an even sharper impact on the net profit on an already likely severe decline in EBITDA. PBT growth has been unimpressive in recent years and outlook is highly uncertain, leading to further RoCE deceleration to 21% in FY22E, a sharp decline from the nearly 40% levels seen at the beginning of the decade.
- Despite the above factors, valuations are highly expensive at 59.4x FY22E EPS. Maintain **Sell** with TP of INR1,315 (45x Jun'22E EPS).

Quarterly Perf. (Consol.) **(INR m)**

Y/E March	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Est. Dom. Deco. Vol. growth (%)	**10.0**	**11.0**	**21.0**	**10.0**	**16.0**	**14.0**	**11.0**	**2.5**	**13.0**	**10.9**	**10.0**	
Net Sales	**43,903**	**46,155**	**52,630**	**49,915**	**51,047**	**50,507**	**54,203**	**46,356**	**192,401**	**202,113**	**51,971**	**-10.8%**
Change (%)	15.1	8.2	23.5	11.3	16.3	9.4	3.0	-7.1	14.4	5.0	3.6	
Gross Profit	**18,980**	**18,403**	**21,623**	**20,817**	**22,280**	**21,435**	**23,313**	**21,250**	**79,756**	**88,278**	**22,550**	
Gross Margin (%)	43.2	39.9	41.1	41.7	43.6	42.4	43.0	45.8	41.5	43.7	43.4	
EBITDA	**9,297**	**8,447**	**11,044**	**8,864**	**11,579**	**9,548**	**11,894**	**8,596**	**37,655**	**41,618**	**9,864**	**-12.9%**
Margin (%)	21.2	18.3	21.0	17.8	22.7	18.9	21.9	18.5	19.6	20.6	19.0	
Change (%)	39.7	5.4	23.9	5.5	24.5	13.0	7.7	-3.0	17.8	10.5	19.9	
Interest	210	257	291	296	267	259	241	257	1,053	1,023	240	
Depreciation	1,358	1,436	1,650	1,786	1,918	1,972	1,971	1,945	6,221	7,805	2,007	
Other Income	617	649	493	572	735	1,052	698	558	2,330	3,043	646	
PBT	**8,346**	**7,402**	**9,597**	**7,355**	**10,131**	**8,369**	**10,381**	**6,953**	**32,712**	**35,833**	**8,263**	**-15.9%**
Tax	2,761	2,425	3,269	2,523	3,511	72	2,776	2,190	10,981	8,549	2,555	
Effective Tax Rate (%)	33.1	32.8	34.1	34.3	34.7	0.9	26.7	31.5	33.6	23.9	30.9	
Adjusted PAT	**5,700**	**5,057**	**6,481**	**4,890**	**6,742**	**8,450**	**7,797**	**4,803**	**22,138**	**27,791**	**5,538**	**-13.3%**
Change (%)	30.1	-3.9	14.3	-1.4	18.3	67.1	20.3	-1.8	9.2	25.5	13.6	

E: MOFSL Estimates; FY19 numbers have been restated

Key Performance Indicators (Consol.)

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Realization growth (%)	**5.1**	**-2.8**	**2.5**	**1.3**	**0.3**	**-4.6**	**-8.0**	**-9.6**
2Y average growth (%)								
Volume	7.0	10.0	13.5	10.0	13.0	12.5	16.0	6.3
Sales	10.7	11.6	17.0	13.0	15.7	8.8	13.3	2.1
EBITDA	10.6	9.5	20.8	12.1	32.1	9.2	15.8	1.3
PAT	4.8	1.8	16.9	1.0	24.2	31.6	17.3	-1.6
3Y average growth (%)								
Volume	8.3	10.7	9.7	10.0	10.0	11.3	12.7	7.5
% of Sales								
COGS	56.8	60.1	58.9	58.3	56.4	57.6	57.0	54.2
Operating Expenses	22.1	21.6	20.1	23.9	21.0	23.5	21.1	27.3
Depreciation	3.1	3.1	3.1	3.6	3.8	3.9	3.6	4.2
YoY change (%)								
COGS	14.3	10.8	26.0	14.3	15.4	4.8	-0.4	-13.7
Operating Expenses	0.0	3.7	16.5	8.8	10.5	19.4	7.9	5.9
Other Income	-21.3	21.5	-0.7	45.9	19.2	62.1	41.6	-2.5
EBIT	38.1	-1.6	17.2	-5.4	21.7	8.1	5.6	-6.0

E: MOFSL Estimates

Marico

BSE SENSEX	S&P CNX
34,732	10,244

Stock Info

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	428.6 / 5.6
52-Week Range (INR)	404 / 234
1, 6, 12 Rel. Per (%)	-9/16/2
12M Avg Val (INR M)	878
Free float (%)	40.4

Financials Snapshot (INR b)

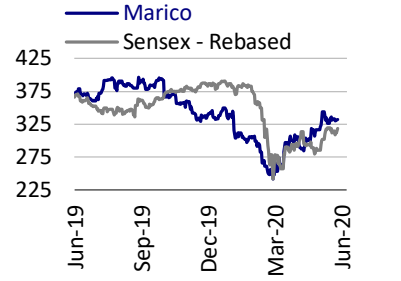
Y/E March	2020	2021E	2022E
Sales	73.2	73.8	84.3
Sales Gr. (%)	-0.3	0.9	14.1
EBITDA	14.7	14.6	16.7
EBITDA Margin (%)	20.1	19.8	19.9
Adj. PAT	10.5	10.4	12.0
Adj. EPS (INR)	8.1	8.1	9.3
EPS Gr. (%)	13.4	-0.7	14.9
BV/Sh.(INR)	23.4	30.2	30.7
Ratios			
RoE (%)	34.9	30.1	30.5
RoCE (%)	31.9	27.3	27.9
Payout (%)	96.0	94.8	94.5
Valuation			
P/E (x)	40.5	40.8	35.5
P/BV (x)	14.1	10.9	10.7
EV/EBITDA (x)	28.7	28.1	24.6
Div. Yield (%)	2.3	2.3	2.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	59.6	59.6	59.7
DII	10.7	9.7	5.6
FII	22.8	23.9	26.6
Others	6.9	6.8	8.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR330 TP: INR385 (+17%) Buy

Resilient portfolio; inexpensive valuations

With the COVID-19 crisis having impacted nearly every industry, we were interested in learning about the strategies being adopted by large corporates to cope with the changing times. Therefore, we interacted with the management of Marico (MRCO) in this regard, as well as to obtain a longer term perspective on the company's prospects. Here are the key highlights from our discussion:

- **Commendable revival in performance:** The Company's overall business has seen gradual improvement from mid-April to date, and is currently clocking more than 90% of its FY20 average monthly sales. Moreover, pipeline inventory is also at a manageable rate at the company level and MRCO has started producing most of the range. In terms of working capital, normalcy has already returned in trade, but consumers are expected to continue to downtrade or prefer LUPs going ahead as well.
- **Rural to fare better than urban,** given that: a) Agriculture has been least impacted by COVID-19 among the sectors, b) a significant share of migrant labor has returned to villages, potentially resulting in the lower end of consumption shifting to rural, c) the forecast for monsoon is better than the long-term average, and d) MGNREGA wages have been raised.
- **COVID-19 to accelerate shift from unorganized to organized:** Copra costs are deflationary, and given the pandemic situation, a number of smaller/regional players are finding it difficult to manage their working capital. Hence, large players such as MRCO should gain share from them.
- **With premiumization taking a backseat in FY21, company likely to focus on innovative, sustainable portfolio rather that opportunistic one:** MRCO expects relatively discretionary categories (35% of the portfolio) such as male styling, premium hair nourishment, and premium hair oil in the Value-Added Hair Oil (VAHO) to witness impact on sales in the near term. Hence, company will focus on launching products in more relevant categories (mass), such as Health, Wellness, & Immunity and Hygiene.
- **Market share gains on improved availability and the right pricing**: MRCO is witnessing deflation in copra by ~10% (v/s 2–3 months ago). A benign raw material cycle should allow the company to offer products at a lower price and make the material available across channels.
- **Robust outlook:** MRCO believes that, if Covid situation remains as is and doesn't worsen, than on steady state its revenue growth for the balance nine months of the fiscal should be in positive trajectory and this will be supported by significant share gains opportunities available in 65% of its portfolio. Furthermore, the company targets same EBITDA margins as last year and this should be supported by various cost management initiatives, such as reducing: a) A&P spends as a percentage of sales (to 9% in FY21 from 9.9% in FY20), b) fixed overheads cost except employee spends, and (c) material costs as indicated above thereby offsetting impact of downtrading and faster growth in the relatively lower margin foods portfolio.

- **Valuations and view:** MRCO has a more resilient portfolio of products than peers to withstand the COVID-19-led sales and earnings decline in FY21. This is possible on account of: a) recovery seen in Parachute volumes even prior to the COVID-19 outbreak, b) successful turnaround and strong growth in Saffola Edible Oils and Foods, and c) a better outlook for the international business v/s peers. Furthermore, the outlook on material costs is also better than the earlier expectation of possible inflation.
- While the longer term growth trajectory and eventual rerating would be determined by the success of its new products (an area in which it has seen limited success thus far), valuations at 35.5x FY22 EPS (close to 10 year average of 35.6) appear comfortable for a business that has better earnings visibility over peers. We maintain Buy rating with TP of INR385 (40x June'22 EPS).

Info Edge

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	INFOE IN
Equity Shares (m)	104
M.Cap.(INRb)/(USDb)	362.7 / 4.5
52-Week Range (INR)	3125 / 1580
1, 6, 12 Rel. Per (%)	7/29/49
12M Avg Val (INR M)	913

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	12.7	11.9	14.8
EBIT Margin (%)	28.4	19.5	26.6
PAT	2.1	2.3	3.6
EPS (INR)	16.7	18.7	29.1
EPS Gr. (%)	-27.1	11.6	56.1
BV/Sh. (INR)	199.5	207.5	222.5
Ratios			
RoE (%)	13.8	9.3	13.7
RoCE (%)	13.9	9.2	13.6
Payout (%)	42.4	57.6	49.2
Valuations			
P/E (x)	176.3	158.0	101.2
P/BV (x)	14.8	14.2	13.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	40.5	40.5	40.8
DII	13.4	12.9	15.2
FII	35.7	36.4	33.5
Others	10.5	10.3	10.6

FII Includes depository receipts

CMP: INR2,960 TP: INR2,550 (-14%) Neutral

Near-term outlook soft; Strategic acquisition on way

- Impact of the COVID-19 led lockdown dragged 4QFY20 financial performance for Info Edge (INFOE). While the last quarter of the financial year is seasonally strong, INFOE saw billings decline for Naukri and 99acres.
- The INFOE board has approved QIP of INR18.75b, which would be utilized for additional investments in the standalone entity, and strategic acquisition to compliment one or more of the standalone businesses.
- Given the company's market positioning, multi-dimensional growth can be expected across its core businesses in the medium to long term. Further, led by INFOE's inclination toward gaining profitability in investee companies, we expect consol. losses to be contained over a time period.
- Our SOTP valuation indicates target price of INR2,550. Maintain **Neutral.**

Billing decline to induce near-term pain

- Standalone (S/A) revenue was up 1% QoQ/10.3% YoY to INR3.2b (in-line).
- Recruitment revenues grew 11.2% YoY (v/s 13.1% YoY in 3QFY20). 99acres grew 3.7% YoY (v/s 15.3% in 3QFY20).
- Recruitment billings declined 6% YoY on sharp fall in new job postings. 99acres saw billings drop 24% on sluggishness in the underlying industry.
- Billings for 1QFY21 is expected to plunge ~50%, giving a sluggish outlook for FY21 revenue.
- EBIT margin stood at 26.5% (down 300bp YoY) but 150bp above our estimate of 25.1%.
- On a S/A level, the company accounted for provision in the carrying value of investment to the tune of INR372m. This was majorly done to reconcile impact of the current environment on investments done by S/A entity.
- On consolidated level, total losses from investee companies stood at INR1.36b (v/s INR1.47b in 3QFY20).
- Adj. PAT was down 5.9% YoY/13.4% QoQ to INR788m (largely in-line).
- The INFOE board has approved fund raise through issue of equity shares of Face Value (FV) of INR10 each via QIP for an aggregate amount not exceeding INR18.75b.

Management commentary highlights

- **Recruitment:** Billings during the quarter declined 6%, despite growing at 13% till mid-Mar'20. This was due to seasonality in the billing cycle as most renewals of subscription packages happen in the last two weeks of March. Near-term momentum will remain muted as INFOE expects sharp drop in 1QFY21 billings.
- **99acres:** Paid listings declined by 58k during the quarter. Brand share of 99acres was a notch above Magicbricks. There has been a 3-4pp decline in share due to higher TV ads by a competitor. Billings during the quarter declined 24% on account of pain in the underlying industry.

- **Jeevansathi:** Jeevansathi remains at 3rd position in the matrimony segment. Overall market share is less than 15%. Traffic share remains higher in the North/West (~25%) while it is insignificant in South India, which is majorly dominated by Matrimony.com. Ad spends continued increasing in the segment in order to gain higher market share. Losses are expected to remain inflated in the near to medium term.
- **QIP:** INFOE took the Board's approval to raise a maximum of INR18.75b through QIP. While approval has been taken for a higher amount, the company will decide the amount to be raised based on investment opportunities in the market. Funds will be mainly utilized for investment in standalone entities and for big-ticket M&A to strengthen its market position. INFOE believes that liquidity crunch in the market led by COVID-19 and screening of Chinese investment will give opportunities for M&A at reasonable valuations. Funds will not be invested in AIF, for which the company will bring an additional investor on board.
- **Zomato:** After steep drop in partner restaurants during Apr-May'20, the company is seeing more and more restaurants coming back to the platform. Overall cash burn has reduced significantly and the company has now turned unit economics positive. Zomato is seeing some investor traction for additional funding.

Valuation and view

- We foresee a halt in near-term momentum, led by the expectation of billing decline in the Recruitment/Real Estate segments for 1HFY21. However, given the market positioning of its entities, multi-dimensional growth could be expected in the medium to long term, backed by Recruitment, Real Estate, Zomato (its biggest investee company) and PolicyBazaar. INFOE has thus far shown prudence with its investments (XIRR >40%). Therefore, we believe that some of its current investments would scale up in the medium to long term and further contribute to the group's valuations.
- We arrive at TP of INR2,550 using SOTP approach. Maintain **Neutral.**

Quarterly Performance (Standalone) **(INR Million)**

Y/E March	FY19				FY20				FY19	FY20	Est.	Var. (%
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QFY20	/ bp)
Revenues	**2,595**	**2,650**	**2,811**	**2,927**	**3,128**	**3,166**	**3,205**	**3,228**	**10,983**	**12,727**	**3,229**	**0.0**
YoY (%)	16.7	17.7	23.7	21.6	20.5	19.5	14.0	10.3	20.0	15.9	10.3	0bp
Salary costs	1,106	1,118	1,151	1,212	1,298	1,349	1,357	1,392	4,586	5,396	1,489	-6.5
Ad and Promotion costs	376	404	503	474	549	514	498	484	1,757	2,044	484	-0.1
Other Expenses	270	304	324	328	272	310	291	387	1,226	1,260	338	14.3
EBITDA	**843**	**825**	**833**	**913**	**1,010**	**993**	**1,059**	**965**	**3,413**	**4,027**	**917**	**5.2**
EBITDA Margin (%)	32.5	31.1	29.6	31.2	32.3	31.4	33.0	29.9	31.1	31.6	28.4	150bp
Depreciation	53	52	50	49	99	101	104	110	204	414	106	3.3
EBIT Margin (%)	30.4	29.2	27.9	29.5	29.1	28.2	29.8	26.5	29.2	28.4	25.1	140bp
Other Income	236	275	296	304	245	232	204	195	1,112	876	271	-28.2
PBT bef. Extra-ordinary	**1,026**	**1,048**	**1,079**	**1,168**	**1,139**	**1,107**	**1,143**	**1,034**	**4,320**	**4,423**	**1,066**	**-3.0**
Provision for Tax	236	267	335	331	390	266	232	246	1,169	1,133	267	-7.7
ETR (%)	23.0	25.5	31.1	28.3	34.2	24.0	20.3	23.8	27.1	25.6	25.0	-120bp
PAT bef. Minority	**630**	**781**	**744**	**663**	**667**	**93**	**880**	**416**	**2,818**	**2,057**	**800**	**-47.9**
EOI	-160	0	0	-174	-82	-749	-30	-372	-334	-1,233	0	
Adjusted PAT	**790**	**781**	**744**	**838**	**749**	**842**	**911**	**788**	**3,152**	**3,290**	**800**	**-1.4**
QoQ (%)	39.5	-1.1	-4.8	12.6	-10.6	12.4	8.2	-13.4			-12.2	
YoY (%)	22.9	-5.5	5.8	48.0	-5.1	7.8	22.5	-5.9	15.1	4.4	-4.5	
EPS (INR)	**5.1**	**6.4**	**6.1**	**5.4**	**5.4**	**0.8**	**7.2**	**3.4**	**23.0**	**16.7**	**6.5**	

E: MOFSL Estimates

Bank of Baroda

BSE SENSEX	S&P CNX
35,430	10,471

Analyst Meet Webinar

Date: 24th June 2020

Time: 11:00am IST

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
NII	274.5	289.2	314.9
OP	196.9	204.0	225.3
NP	5.5	30.4	48.1
NIM (%)	3.0	2.7	2.8
EPS (INR)	1.5	6.6	10.5
EPS Gr. (%)	-8.2	-300.2	58.0
BV/Sh. (INR)	149.9	148.4	157.0
ABV/Sh. (INR)	112.7	93.4	104.1
Ratios			
RoE (%)	0.9	4.4	6.6
RoA (%)	0.1	0.3	0.4
Valuations			
P/E(X)	33.6	7.6	4.8
P/BV (X)	0.3	0.3	0.3
P/ABV (X)	0.4	0.5	0.5

CMP: INR50 TP: INR70 (+39%) Buy

Higher provisions lead to PBT loss, while tax reversal results in profit; provision coverage improves

- BOB reported PAT of INR5.1b (v/s MOSLe loss of INR12.4b), led by the tax reversal of INR22.3b; however, the bank reported PBT loss of INR17.2b, affected by higher provisions of INR68.4b (v/s our estimate of INR34.7b).
- NII increased by 5% YoY to INR68b (in-line). However, global NIMs declined 13bp QoQ and domestic NIMs 10bp QoQ. Overall, total net revenues grew at ~3% YoY to INR96.3b.
- Opex declined 23% YoY (8% QoQ); thus, the C/I ratio declined to 46.8% QoQ (v/s 49.8% in 3QFY20). PPoP, thus, grew at 48% YoY to INR51.2b.
- Loan growth increased 5.4% QoQ to INR6.9t and deposits 5.6% QoQ to INR9.5t. Thus, the CD ratio stood stable at 73%. The domestic CASA ratio also improved by ~20bp QoQ to ~39.1%.
- Fresh slippages declined to INR30.5b (2.6% annualized), primarily led by the asset classification benefit availed on overdue accounts of INR40.5b; absolute GNPL declined ~5% QoQ as a result. The bank also made higher provisions, leading to the NNPL declining ~19% QoQ. In ratio terms, the GNPL/NNPL ratios declined by 103bp/92bp QoQ to 9.4%/~3.1%. PCR therefore improved by ~510bp QoQ to 68.9% (PCR incl. TWO stood at 81.3% v/s 77.8% in 3QFY20).
- On the capital adequacy front, the CET-I ratio declined ~40bp QoQ to 9.4%, while total CRAR stood at 13.3% (v/s ~13.5% in 3QFY20).
- **Valuation and view:** We would revise our estimates and TP post the analysts' webinar scheduled tomorrow. The stock currently trades at 0.5x FY22E ABV.

Quarterly performance (INR m)

	FY19				FY20				FY19	FY20E	FY20	V/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Interest Income	**43,811**	**44,925**	**47,432**	**50,670**	**64,981**	**70,279**	**71,291**	**67,982**	**186,838**	**274,533**	**68,205**	**0%**
Other Income	11,478	13,516	16,211	19,704	19,156	28,239	27,412	28,347	60,910	103,153	28,740	-1%
Total Income	**55,289**	**58,441**	**63,644**	**70,374**	**84,137**	**98,519**	**98,702**	**96,328**	**247,748**	**377,686**	**96,945**	**-1%**
Operating Expenses	25,233	27,622	28,258	31,766	41,375	45,160	49,118	45,120	112,880	180,772	49,782	-9%
Operating Profit	**30,056**	**30,819**	**35,385**	**38,608**	**42,762**	**53,359**	**49,585**	**51,208**	**134,868**	**196,914**	**47,164**	**9%**
% Change (YoY)	13.5	1.3	-3.1	44.8	42.3	73.1	40.1	32.6	12.3	46.0	22.2	
Provisions	21,656	24,295	27,942	53,993	32,849	42,092	71,554	68,441	127,887	214,935	34,686	97%
Profit before Tax	**8,400**	**6,524**	**7,443**	**-15,385**	**9,913**	**11,268**	**-21,970**	**-17,233**	**6,982**	**-18,021**	**12,478**	**-238%**
Tax	3,120	2,270	2,731	-5,471	2,815	3,901	-7,900	-22,299	2,646	-23,483	24,846	-190%
Net Profit	**5,280**	**4,254**	**4,712**	**-9,914**	**7,099**	**7,367**	**-14,070**	**5,066**	**4,335**	**5,462**	**-12,368**	**-141%**
% Change (YoY)	159.6	19.7	321.6	-68.0	34.5	73.2	-398.6	-151.1	-117.8	26.0	24.8	
Operating Parameters												
Deposit (INR b)	5,815	6,070	6,106	6,387	8,955	8,941	8,962	9,460	6,387	9,460	9,152	3%
Loan (INR b)	4,145	4,335	4,487	4,688	6,332	6,373	6,545	6,901	4,688	6,901	6,644	4%
Deposit Growth (%)	1.9	4.1	6.5	8.0	54.0	47.3	46.8	48.1	8.0	48.1	43	483
Loan Growth (%)	9.8	11.9	12.3	9.7	52.8	47.0	45.9	47.2	9.7	47.2	42	548
Asset Quality												
Gross NPA (INR B)	559	551	532	482	697	700	731	694	482	694	760	-9%
Gross NPA (%)	12.5	11.8	11.0	9.6	10.3	10.3	10.4	9.4	9.6	9.4	10.7	(127)
Net NPA (INR B)	223.8	210.6	191.3	156.1	250.3	248.9	265.0	215.8	156.1	215.8	279.9	-23%
Net NPA (%)	5.4	4.9	4.3	3.3	4.0	3.9	4.1	3.1	3.3	3.1	4.2	(108)
PCR (%)	59.9	61.8	64.0	67.6	64.1	64.4	63.8	68.9	67.6	68.9	63.2	571

E:MOFSL Estimates; Please note that YoY numbers for 4QFY20 & FY20 are not comparable in the table due to merged numbers

Page Industries

Estimate changes	↓
TP change	↔
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	213.8 / 2.9
52-Week Range (INR)	26891 / 16187
1, 6, 12 Rel. Per (%)	-10/2/1
12M Avg Val (INR M)	719

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	29.5	25.0	33.7
Sales Gr. (%)	3.3	-15.3	35.0
EBITDA	5.3	4.5	6.5
EBITDA Margin (%)	18.1	18.0	19.3
Adj. PAT	3.4	2.7	4.2
Adj. EPS (INR)	307.7	240.5	378.9
EPS Gr. (%)	-12.9	-21.8	57.5
BV/Sh.INR	735.1	805.5	896.1
Ratios			
RoE (%)	41.9	29.9	42.3
RoCE (%)	39.9	29.4	41.2
Payout (%)	61.2	66.2	71.2
Valuations			
P/E (x)	62.2	79.6	50.5
P/BV (x)	26.0	23.8	21.4
EV/EBITDA (x)	40.2	47.2	32.9
Div. Yield (%)	0.8	0.7	1.2

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	48.3	48.3	48.3
DII	10.3	8.5	3.2
FII	29.2	31.5	36.4
Others	12.2	11.7	12.1

FII Includes depository receipts

CMP: INR19,170 TP: INR17,905 (-6%) Neutral

Weak results; No earnings recovery in sight

- Page Industries' (PAG) 4QFY20 results missed estimates significantly on top line, and particularly, on EBITDA/PAT levels. Even with gradual reopening of stores, demand trend for the first 2-3 quarters of FY21 is likely to be weak.
- There is no evidence yet that the company has turned the corner toward recovering anywhere close to the ~30% earnings CAGR witnessed during FY08-18. The PAG stock is fully valued at 50.5x FY22E EPS.

Significant miss on estimates

- **In 4QFY20, PAG posted 11% YoY sales decline** to INR5.4b (v/s est. INR5.7b). Volumes declined 18.8% (v/s est. 11.5% decline). EBITDA/PBT/Adj. PAT declined 51.4%/62.9%/58.6% YoY to INR581m/INR432m/INR310m (v/s est. INR981m/INR797m/INR608m).
- **Gross margins contracted by 480bp YoY to 58.8%.** EBITDA margins contracted by 890bp YoY to 10.7% as employee costs as a % of sales were up (+440bp YoY), which was offset by lower other expenses (-20bp YoY).
- **FY20 revenue/EBITDA/PAT** grew +3.3%/-13.7%/-12.9% YoY.
- **Balance sheet performance:** Cash conversion cycle stood at 90 days on an average basis. This was driven by lower debtor days (12 days), lower creditor days (13 days) and higher inventory days (91 days). OCF was up 125% while PAT was down 12.9%. FCF stood at INR4.4b (+130% YoY).

Highlights from management commentary

- Current situation is better than feared. Production facilities are running at 85% now.
- According to management, in 6-9 months, the company would be back to where it was last year unless there is a second wave of COVID-19.
- PAG received INR900m worth of orders in 4QFY20 that were not dispatched or billed; however, the same will now be part of 1QFY21 revenues.

Valuation and view

- Changes to the model have resulted in 26.4%/2.9% decline in FY21/FY22E EPS owing to the weak near-term top line/earnings outlook and lack of clarity on recovery.
- PAG has an immensely impressive earnings growth track record. Its recent efforts on balance sheet improvement are commendable. Also, management's endeavors to improve channel efficiency and revitalize growth are likely to eventually bear fruit. However, the path to earnings recovery is unclear.
- Category slowdown, weak channel liquidity and competitive headwinds present other significant near-term challenges in addition to the COVID-19 impact.
- The stock is trading at 50.5x FY22E EPS. We value the company at 45x Jun'22E EPS to arrive at TP of INR17,905. Maintain **Neutral**.

Quarterly Performance (INR Million)

Y/E MARCH	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**8,153**	**6,908**	**7,383**	**6,079**	**8,350**	**7,754**	**7,938**	**5,413**	**28,522**	**29,454**	**5,745**	-5.8%
YoY change (%)	17.0	10.4	18.9	-0.1	2.4	12.3	7.5	-11.0	11.8	3.3	-5.5	
Gross Profit	**4,481**	**3,994**	**4,215**	**3,866**	**4,598**	**4,344**	**4,220**	**3,185**	**16,555**	**16,346**	**3,072**	
Gross margin (%)	55.0	57.8	57.1	63.6	55.1	56.0	53.2	58.8	58.0	55.5	53.5	
Other Expenditure	2,588	2,566	2,562	2,669	2,731	2,853	2,832	2,603	10,385	11,020	2,092	
% to sales	31.7	37.1	34.7	43.9	32.7	36.8	35.7	48.1	36.4	37.4	36.4	
EBITDA	**1,893**	**1,428**	**1,653**	**1,197**	**1,866**	**1,490**	**1,388**	**581**	**6,170**	**5,326**	**981**	-40.7%
Margins (%)	23.2	20.7	22.4	19.7	22.4	19.2	17.5	10.7	21.6	18.1	17.1	
YoY change	38.0	11.4	28.3	-18.5	-1.4	4.4	-16.0	-51.4	14.0	-13.7	-18.1	
Depreciation	72	76	82	80	140	147	164	163	311	614	149	
Interest	40	40	41	41	83	81	90	85	161	339	96	
Other Income	72	108	95	87	55	57	35	99	362	246	61	
PBT	**1,852**	**1,420**	**1,625**	**1,163**	**1,699**	**1,321**	**1,169**	**432**	**6,060**	**4,620**	**797**	-45.8%
Tax	608	494	606	413	592	175	299	122	2,121	1,188	189	
Rate (%)	32.8	34.8	37.3	35.5	34.8	13.3	25.6	28.2	35.0	25.7	23.7	
PAT	**1,244**	**926**	**1,019**	**750**	**1,107**	**1,145**	**870**	**310**	**3,939**	**3,432**	**608**	-49.0%
YoY change (%)	44.8	10.5	22.2	-20.4	-11.1	23.6	-14.6	-58.6	13.4	-12.9	-18.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Volume growth (%)	8.8	-0.1	12.1	1.0	-2.5	9.1	-2.8	-18.8
Realisation growth (%)	8.3	10.1	6.8	-1.1	4.3	2.9	10.3	7.8
2Y average growth (%)								
Volume	11.0	3.9	11.7	3.3	3.1	4.5	4.6	-8.9
Sales	19.7	13.7	18.2	11.1	9.7	11.3	13.2	-5.5
EBITDA	31.5	15.2	29.1	15.7	18.3	7.9	6.1	-34.9
PAT	35.1	16.0	27.4	9.7	16.8	17.0	3.8	-39.5
% of Sales								
COGS	45.0	42.2	42.9	36.4	44.9	44.0	46.8	41.2
Employee Expenses	13.2	17.2	15.8	20.5	15.4	17.3	17.0	24.8
Other Expenses	18.5	20.0	18.9	23.4	17.3	19.5	18.7	23.3
Depreciation	0.9	1.1	1.1	1.3	1.7	1.9	2.1	3.0
YoY change (%)								
COGS	15.2	9.9	14.9	-2.7	2.2	17.1	17.3	0.7
Employee Expenses	6.7	11.1	16.5	26.2	19.2	13.2	15.3	8.0
Other Expenses	7.8	9.9	20.1	5.0	-4.2	9.4	6.6	-11.6
Other Income	79.2	121.8	77.8	19.2	-23.6	-46.9	-63.3	13.8
EBIT	39.4	11.3	28.9	-19.8	-5.1	-0.6	-22.1	-62.5

E: MOFSL Estimates

Aegis Logistics

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	AGIS IN
Equity Shares (m)	334
M.Cap.(INRb)/(USDb)	67.5 / 0.9
52-Week Range (INR)	267 / 108
1, 6, 12 Rel. Per (%)	2/33/5
12M Avg Val (INR M)	40

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	71.8	77.4	91.1
EBITDA	2.8	5.9	6.8
Adj. PAT	1.0	3.5	4.1
Adj. EPS (INR)	3.0	10.4	12.4
EPS Gr.%	-55.0	247.4	19.7
BV/Sh.INR	49.5	57.6	67.2
Ratios			
Net D:E	0.0	-0.2	-0.3
RoE (%)	6.5	19.3	19.9
RoCE (%)	9.0	20.2	20.5
Payout (%)	65.6	22.3	22.3
Valuation			
P/E (x)	66.3	19.1	15.9
P/BV (x)	4.0	3.4	2.9
EV/EBITDA (x)	23.7	10.7	8.6
Div. Yld (%)	0.9	1.0	1.2
FCF Yld (%)	-4.2	6.0	8.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	59.6	59.6	60.6
DII	2.7	2.4	2.3
FII	12.5	12.5	12.4
Others	25.3	25.6	24.7

FII Includes depository receipts

CMP: INR199 TP: INR245 (+23%) Buy

Normalcy to return in 2HFY21; strong growth likely in FY22

- **Higher-than-estimated other expenditure, combined with lower LPG throughput, led to an EBITDA miss during the quarter. Due to COVID-19-led lockdown, LPG logistics volumes were down 24% QoQ (up by a mere 3% YoY). The company kept LPG terminals operational during lockdown to fulfill higher LPG demand.**
- **Despite the impact of the shutdown witnessed in the quarter, LPG distribution volumes were up 13% QoQ (+49% YoY), primarily aided by a surge in LPG cylinder volumes (45% YoY) and LPG industrial volumes (+66% YoY). This was supported by expansion in the company's distribution network.**
- **For FY20, the company recorded LPG logistics volumes growth of 20% YoY, and LPG distribution volumes growth was up 44% YoY.**
- **According to management, due to economic slowdown, expect the Liquids segment's volume to be flattish YoY in FY21. On the other hand, expect a boost in gas volumes in 2HFY21 from the Uran-Chakan pipeline and Pipavav Railway Gantry.**
- **With some minimal delay in project developments led by nationwide lockdowns, the company is still expected to see gas throughput jump ~1.0mmtpa over the next two years (on base of 3.0mmtpa in FY20).**
- **We remain positive on the company's Gas division and reiterate Buy.**

EBITDA miss led by higher other expenditure

- AGIS reported 4QFY20 EBITDA of INR930m (-10% YoY), 29% below est., on higher other expenditure and lower LPG throughput.
- The company recognized ESOP expenses of INR0.4b (in addition to INR1.9b for 9MFY20). It continues to take an INR20m commission provision toward the managing directors (in addition to INR60m for 9MFY20) in the other expenses for the quarter.
- Other income came in higher than estimated, resulting in PBT of INR860m (flat YoY and QoQ). Tax rate for the quarter stood at 45.8% as the company adopted the new lower tax rate (by realizing deferred tax assets).
- PAT for the quarter stood at INR341m (-45% YoY).
- EBITDA for Liquids increased 28% YoY to INR370m and EBITDA for Gas increased 37% YoY to INR1,220m in the quarter.
- Autogas volumes decreased 6% QoQ to 6.8kmt (4% YoY) due to lockdown in the latter part of March. AGIS operates 115 stations, and the company had earlier guided for ~200 stations over the next five years.

Provisioning for ESOPs hurts bottom line in FY20

- In FY20, EBITDA stood at INR2.8b (-25% YoY), PBT at INR2.1b (-31% YoY), and PAT at INR1b (-55% YoY), with the tax rate at 35.5% for the year (due to DTA benefits).
- However, adjusting for ESOPs (of INR2.4b) and commissions (of INR0.8b), adj. EBITDA was up 41% YoY to INR5.2b and PBT 50% YoY to INR4.5b (due to higher other income); PAT stood at INR2.9b (+32% YoY).
- The Liquids division's EBITDA grew by 32% YoY to INR1.4b, primarily due to ramp-up witnessed at the Kandla and Haldia terminals. The Gas division's EBITDA grew at 37% to 4.2b, led by a strong performance in the LPG Logistics segment.

Outlook for FY21 – expect normalcy from 2HFY21

- **Liquids business:** AGIS expects economic slowdown to impact chemical imports in the country in the current fiscal, particularly in 1HFY20. Thus, the company has guided that growth in the Liquids business would remain subdued in FY21. Factoring the aforementioned, we have built in logistics at 0.69m KL (flat YoY in FY21) and growth of 11% YoY to 0.76mn KL in FY22.
- **Gas business:** In April, imports from OMCs were higher (owing to higher LPG demand). However, the current LPG inventory is huge as refineries have ramped up their throughput gradually coming out of lockdown.
- Thus, expect lower LPG imports by OMCs in the coming months. Also, company expects 1QFY21 LPG throughout volumes to marginally decline (v/s 4Q). Volumes at Pipavav are likely to be disturbed due to the ongoing Railway Gantry project.
- Expect the Uran-Chakan pipeline and railway gantry to add gas volumes in FY21; volume additions would happen in 2HFY21 after some softness witnessed in 1HFY21. Factoring this, we have built in volumes at 3.2mmtpa for FY21 (v/s 3mmtpa in FY20) and ~4.1mmtpa in FY22.
- **Retail business:** The Auto segment saw a huge impact from the lockdown over Apr–May; however some rebound in volumes has been observed in June as states stagger out of lockdown. Karnataka, the largest market for the company, is seeing good volume traction. For its Retail segment, the company expects activity to return to normal only after 1HFY21.

Three-year ESOP – a non-cash expense

- ESOP expense is taken as credit against Reserves and Surplus in the balance sheet, translating to no change in the company's net worth.
- The company has granted ~5.66m shares under ESOP for FY20; the same number of shares (5.66m) would be issued in FY21 and FY22 each, resulting in the total shares issued under ESOP at ~17m.
- Expense under ESOP would be ~INR3.35b, of which ~INR2.4b has been recognized in FY20, and INR0.93b would be recognized in FY21 and INR0.17b in 1QFY22. The ESOPs are only for senior employees, and promoters are not eligible for it.

Gas logistics – the next leg of profitability

- Over FY20–22, AGIS is expected to post a logistics volume CAGR of ~16%, with a logistics EBITDA CAGR of ~18%. Logistics enhancement is also expected to help the company ramp up its market share.
- Logistics is expected to contribute ~60% to the Gas division's total EBITDA in FY22, led by improving utilization at the Mumbai, Pipavav, and Haldia LPG terminals. Kandla would add to sales volumes from FY22 as the company is already in talks with OMCs to pre-book volumes.
- AGIS currently has an EBITDA breakup of 75% for Gas and 25% for Liquids. We believe the EBITDA pie is set to incline more toward the LPG segment, which also enjoys the increasing impetus of governmental schemes (i.e., PMUY). The company further plans to set up an additional LPG terminal in southern India.
- The stock trades at 15.9x FY22 EPS of INR12.4 and EV/EBITDA of 8.6x FY22E. The company has declared final dividend of INR1.2/share (totaling INR1.7/share for FY20). We value AGIS using the DCF methodology to arrive at a fair value of INR245/share. Maintain Buy.

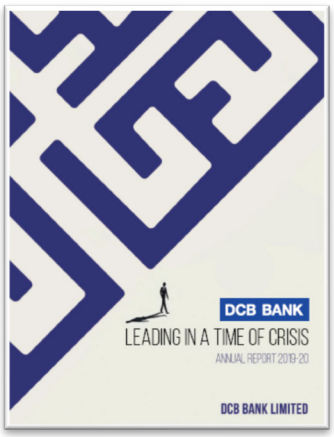
Consolidated – Quarterly Earnings Model (INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est (%)
Net Sales	**10,169**	**14,259**	**13,205**	**18,526**	**19,553**	**18,177**	**21,686**	**12,417**	**56,158**	**71,833**	**21,881**	**-43%**
YoY Change (%)	18.8	14.9	-8.4	48.0	92.3	27.5	64.2	-33.0	17.2	27.9	18.1	
EBITDA	**864**	**887**	**926**	**1,031**	**1,020**	**-281**	**1,096**	**930**	**3,709**	**2,765**	**1,319**	**-29%**
Margins (%)	8.5	6.2	7.0	5.6	5.2	-1.5	5.1	7.5	6.6	3.8	6.0	
Depreciation	121	125	129	131	159	170	172	187	505	687	175	7%
Interest	65	73	51	72	85	74	94	79	262	331	94	-16%
Other Income	12	21	12	37	62	26	46	195	82	328	70	180%
PBT	**690**	**710**	**758**	**865**	**839**	**-499**	**876**	**860**	**3,023**	**2,076**	**1,119**	**-23%**
Tax	98	135	106	163	215	-157	284	394	502	736	281	1%
Rate (%)	14.2	19.0	14.0	18.9	25.7	31.5	32.4	45.8	16.6	35.5	25.1	
MI & P/L of Asso. Cos.	75	86	61	85	54	72	93	125	307	344	88	42%
Reported PAT	**516**	**489**	**591**	**617**	**570**	**-414**	**499**	**341**	**2,214**	**996**	**749**	**-54%**
YoY Change (%)	17.5	-6.1	10.5	27.9	10.3	-184.6	-15.6	-44.7	11.9	-55.0	21.4	

E: MOSL Estimates

DCB Bank

BSE SENSEX	S&P CNX
34,911	10,311



Stock Info

Bloomberg	DCBB IN
Equity Shares (m)	310
M.Cap.(INRb)/(USDb)	26.7 / 0.3
52-Week Range (INR)	245 / 58
1, 6, 12 Rel. Per (%)	28/-32/-52
12M Avg Val (INR M)	204
Free float (%)	85.1

Financials Snapshot (INR b)

Y/E MARCH	FY20	FY21E	FY22E
NII	12.6	13.5	14.5
OP	7.5	7.9	8.4
NP	3.4	2.3	3.2
NIM (%)	3.7	3.7	3.7
EPS (INR)	10.9	7.6	10.4
EPS Gr. (%)	3.6	-30.6	37.5
BV/Sh. (INR)	106.0	113.1	122.9
ABV/Sh. (INR)	99.4	98.8	108.4
Ratios			
RoE (%)	11.2	7.1	9.1
RoA (%)	0.9	0.6	0.8
Valuations			
P/E (x)	7.9	11.4	8.3
P/BV (x)	0.8	0.8	0.7
P/ABV (X)	0.9	0.9	0.8

CMP: INR86 TP: INR85 (-1%) Neutral

Liability franchise gaining granularity; growth outlook modest

Movement in moratorium book remains the key

- **DCBB highlighted the challenges the bank and overall industry are facing. It further disclosed how its efforts toward building a strong and granular liability franchise are yielding strong results, with the top 20 deposits accounting for 9.3% of the total deposits (~270bp YoY decline).**
- **The bank remains focused on secured granular lending to self-employed customers and consistent growth in retail liabilities. The strategy of branch consolidation is yielding results, with a very high proportion of branches achieving breaking even in less than 24 months.**
- **The business outlook remains modest, and the bank's near-term focus is to preserve capital, manage portfolio stress, reduce cost, and carry adequate liquidity.**
- **DCBB's exposure to the top 20 borrowers has declined to industry-best levels of ~5%, while RWA growth has been under control.**
- **The bank recently reported a sharp reduction in the SMA book under moratorium from Mar'20 levels; collection trends would remain a key monitorable as the economy recovers. We estimate DCBB to deliver FY22 RoA/RoE at 0.8%/9.1% and maintain Neutral, with TP of INR85 (0.7x FY22E ABV).**

Growth outlook modest; near-term focus on protecting balance sheet

Economic activity has been significantly impacted by the COVID-19 outbreak, with the Self-Employed segment highly affected. The bank expects some disruption in the coming months and thus intends to have a re-look at all its credit policies in the light of the COVID-19 situation. Thus, in the near term, the focus would remain on preserving capital, managing portfolio stress, reducing cost, and maintaining adequate liquidity.

- **Mortgages:** Based on customer feedback, business activity has been picking up owing to relaxations in the lockdown. Most borrowers expect business activity to return to normal within three months of the complete lifting of the lockdown.
- **MSME & SME:** This segment contributes ~11% to the total book, and based on interactions with customers, it appears the majority would be able to revive their businesses within a few months of the lockdown restrictions being eased.
- **Commercial Vehicle (CV):** This segment contributes ~7% to the total book, with 95% of the CV portfolio categorized as PSL. The CV industry faces headwinds and is expected to witness some stress in the near term.

Granularization of liability franchise continues; concentration ratios showing strong improvement

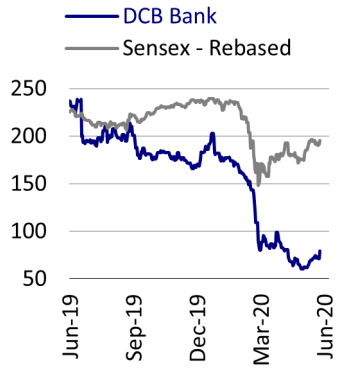
DCBB has substantially changed its liability profile, with a sharp focus on building a granular deposits franchise. As a result, the bank saw its Retail Term Deposits growing by 51%, with CASA + Retail TD forming ~80% of the total deposits. DCBB has successfully improved its concentration ratios. Its exposure to the top 20 borrowers has steadily declined and is currently at 5% v/s 10% in FY15. This is despite the bank delivering a 19% CAGR in loan growth over the same period. Even on the liability side, the concentration of the Top 20 depositors decreased to 9% in FY20 from 12% in FY19. The bank's LCR is also comfortable at 112%.

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	14.9	14.9	14.9
DII	35.3	32.8	25.1
FII	22.8	24.6	26.0
Others	27.0	27.7	34.0

FII Includes depository receipts

Stock Performance (1-year)



Sharp reduction in moratorium on SMA loans to INR7.1b

DCBB reported a sharp reduction in its SMA/overdue accounts, which had availed moratorium of INR7.1b as of 31st May'20 from INR19.1b as of 31st Mar'20. This implies a ~63% reduction from March numbers. Furthermore, the amount for which the asset classification benefit has been availed stands at INR893m, on which the bank has made the full required provision of INR90m. Overall, the bank holds INR630m (including INR90m) toward COVID-19-related provisions. As of end-Apr'20, Home Loans (52%), Business Loans – LAP (56%), and MSME (60%) were under moratorium, while 60% of the loan book was under moratorium overall as of Apr'20.

Furthermore, DCBB also shared a summary of the customers' responses within its Self-Employed segment in the Mortgage portfolio. As per the customers' responses:

- In Apr'20, ~10.5/9.7% of the businesses were completely/partially operational, and this number increased to 24.3%/30.8% in May'20.
- ~30% of the businesses do not depend on migrant workers, while another 31.5% did not witness any migration of workers.
- Moreover, ~68% of customers believed recovery could happen within three months, while another 24% believed it could take three to six months.

Top 4 NPA accounts form ~22% of net NPAs; RWA density improves to 61%

Conservative lending practices (such as lower ticket sizes, controlled RWA, and lower LTV) and a cautious underwriting approach have helped the bank maintain stable asset quality over the past few years and lower RWA density by 800bp to 61% since FY18. However, the COVID-19 outbreak impacted asset quality, resulting in an increase in the concentration of the Top 4 NPA accounts to ~21.6% v/s 12.4% in FY19. Within the priority sectors, industry/services saw a sharp increase to 3.6%/3.2% in FY20 from 1.6%/2.0% in FY19, while Agriculture GNPA was stable at 2.8%. DCBB holds floating provisions of ~INR963m, while creating standard asset provisions of INR1.75b in FY20 (including INR630m toward COVID-19-related issues).

Other key highlights from the Annual Report

- **Contingent liabilities:** A sharp increase was witnessed by ~51% to INR48.1b over FY20 from INR31.8b in FY19. This was primarily attributed to guarantees issued outside of India, which increased ~4x v/s FY19, in addition to a 25% YoY increase witnessed in outstanding forward exchange contracts. Total contingent liabilities have increased to ~12.5% of the total assets v/s ~9% in FY19.
- **Remuneration:** The average increase in remuneration for employees stood at 4%, while for the MD and CEO, remuneration increased by ~5% to ~INR55m. The chairman was paid an honorarium of INR2.4m.
- **Fraud:** In FY20, the bank witnessed a significant increase in the number of frauds, to 238 in FY20 from 128 in FY19. However, the amount was lower at INR77.7m and fully provided for (net of recoveries).
- **Penalties/Fines:** The RBI imposed a penalty of INR0.1m in FY20 on account of shortfall in the security of INR100m in the SGL account.
- **Credit ratings:** During the year, CRISIL reaffirmed the bank's rating for Tier-II bonds to CRISIL AA-/Stable and the bank's Certificates of Deposit Programme and Short-term Fixed Deposit Programme at CRISIL A1+.

- **Change in auditor:** During the year, the bank appointed M/s S R Batliboi & Associates LLP as statutory auditors as the current auditors M/s. Deloitte, Haskins & Sells are set to retire.

Valuation and view

DCBB reported moderation in business growth in 4QFY20, reflecting a challenging macro environment. The bank expects business trends to remain weak as the focus in the near term would be on preserving the balance sheet and risk reduction. Thus, we expect the bank to report moderation in NII and fee income, dragged down by reduced business activity. While the bank has reported a sharp reduction in its SMA accounts availing moratorium, collection trends are likely to remain an important metric as economic activity recovers gradually under Unlock 1.0. Therefore, we remain watchful of asset quality as the bank has a high proportion of the book under moratorium (~60%), and borrowers would require more time to recuperate from the COVID-19 crisis. Hence, we expect credit cost trends to remain elevated in the near term. We estimate DCBB to deliver FY22E RoA/RoE at 0.8%/9.1% and maintain Neutral, with revised TP of INR85 (0.7x FY22E ABV). The stock currently trades at 0.8x FY22E ABV.

Indian households more vulnerable v/s Chinese/American counterparts

Comparative analysis of PDI and PCE suggest so

- **One of the most-widely talked about but highly uncertain economic consequences of COVID-19 and the related national lockdowns is expected in the household sector – in terms of personal disposable income (PDI) and personal consumption expenditure (PCE). While high frequency reliable data to gauge the likely impact on corporate investments, fiscal spending and external trade is available, such analysis is almost entirely missing for PDI and PCE for India, where details on these components are available only on an annual basis with considerable lag of 10 months.**
- **In order to get some sense of the likely impact on PDI and PCE in India, we analyze the impact on these variables for two of the world's largest nations – China and the US. While quarterly surveys in China provide detailed information on PDI and PCE, such details are available on a monthly basis in the US.**
- **PDI has four components – compensation of employees (COEs), business income earned by households, property income (including interest, rent and dividends) and net transfers from the government. While nominal PDI's growth has eased from ~9% YoY to 0.8% YoY in 1QCY20 for China, it has actually improved from 4.3% in 2019 to 6.1% YoY in Jan-Apr'20 for the US, almost entirely thanks to fiscal transfers. In both nations, business income (earned by self-employed) is severely affected in 2020; business income accounts for 16%/10% of PDI in China/the US. Such income accounted for ~38% of PDI in India in FY18 (the latest data available), which makes Indian households much more vulnerable than their Chinese and American counterparts.**
- **Break-up of nominal PCE confirms that spending on only two broad components – 'Food' and 'Housing' – has increased in both the US and China in 2020, while it has declined for all other baskets. These components accounted for only about a quarter of the PCE in the US in 2019, but more than 50% in China. In India, the share of these items was ~43% in FY19 (down from 49% in FY12), which also makes it more sensitive than China. Further, the higher probability of a larger income impact may enlarge PCE contraction in India.**
- **Consequently, compared to an expected contraction of 10-12% in the US' real PCE in 2QCY20 and 5.6% contraction in China in 1QCY20 (the worst quarters respectively), we forecast that nominal PCE could contract ~15% YoY in 2QCY20 in India, implying a decline of ~20% in real terms. If so, real GDP could also decline ~20% YoY in 2QCY20 in India.**

One of the most-widely talked about but highly uncertain economic consequences of COVID-19 and the related national lockdowns would be on the household sector, in terms of their income (PDI) and consumption (PCE). Note that there is a large vacuum in terms of such data availability for the Indian economy. High frequency reliable data is available to gauge the likely impact on corporate investments, fiscal spending and external trade in India. However, such analysis is almost impossible for Indian households, where details on PDI and PCE are available only on an annual basis with considerable lag of 10 months. Thus, details pertaining to India's PDI and PCE for FY21 would be available only in Jan'22.

In order to bridge this gap and get some sense of the likely impact on PDI and PCE in India, we look at the impact on these variables in two of the world's largest nations – China and the US. While quarterly surveys in China provide detailed information on PDI and PCE, such details are available on a monthly basis in the US. Although the nuances (which are considered in our analysis) would definitely alter the actual impact on Indian households, the comparison throws up some interesting leads.

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.

- **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.

CORONA HAS PUT NEW FORMS OF ECONOMIC DATA INTO PLAY

- How do you measure economic activity? This was an irrelevant question through most of human history. Economic stagnation was the rule rather than the exception. Little was to be gained by measuring something that did not change for centuries. The business of measuring economic activity began in earnest only when economic growth became the norm after the Industrial Revolution. The measurement of economic activity truly came into its own only in the twentieth century. Some of it was for war purposes. Some of it was to satisfy the needs of national economic planning. Modern governments depend heavily on large surveys as well as administrative data to track their respective economies. Such data is the bedrock of estimates on gross domestic product, industrial production, farm output, inflation, etc. There are well established procedures for such estimates of economic activity. However, these procedures can sometimes crumble in extraordinary times, such as the one we are living through now. The covid-19 shock has disrupted the usual business of national statistics. For example, the Reserve Bank of India (RBI) has temporarily suspended its economic forecasts for the quarters ahead. The lockdown has meant that government surveys of prices are now based on telephone interviews, rather than field visits to various markets, thus threatening their credibility. But there are more profound challenges as well.

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WHY TRADE OPENNESS AND NATIONAL SECURITY GO TOGETHER

- David Ricardo, one of the world's most influential classical economists, was both tremendously successful and enjoyed lasting fame. Ricardo made most of his money (estimated to be $100 million in today's terms) speculating on the outcome of the Battle of Waterloo, where Napoleon Bonaparte was defeated by the British Army led by the Duke of Wellington. Ricardo, whose friends included other intellectuals like James Mill, Thomas Malthus and Jeremy Bentham, made his fame with his book Principles Of Political Economy And Taxation (1817). In Principles, Ricardo introduced the law of comparative advantage, as a model where economic participants have a comparative advantage in producing a particular good or service if they can produce that good at a relatively low opportunity cost. Even though Ricardo's law has been tested and updated since then, the core proposition of comparative advantage is the basis of an inter-dependent world in which trade has grown from about $50 billion in globally traded exports just after World War II (WW II) to about $19.5 trillion today. The upward momentum in global trade actually began in the early 1800s, during the industrial revolution, but paused during the two World Wars before it resumed again. Four factors are giving rise to another pause in global trade.

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NOTES

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

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

Disclosures:

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

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

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