Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	34,916	-0.1	-15.4
Nifty-50	10,302	-0.1	-15.3
Nifty-M 100	14,704	-0.2	-14.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,100	1.5	-4.0
Nasdaq	10,059	1.9	12.1
FTSE 100	6,170	-0.9	-18.2
DAX	12,311	0.6	-7.1
Hang Seng	9,759	0.0	-12.6
Nikkei 225	22,288	1.3	-5.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	41	-0.7	-38.4
Gold ($/OZ)	1,781	0.5	17.4
Cu (US$/MT)	6,005	0.9	-2.3
Almn (US$/MT)	1,602	0.8	-10.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.5	-0.1	5.8
USD/EUR	1.1	-0.1	0.2
USD/JPY	107.9	0.3	-0.6
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	-0.02	-0.7
10 Yrs AAA Corp	7.1	-0.02	-0.6
Flows (USD b)	**30-Jun**	**MTD**	**CYTD**
FIIs	-0.26	2.66	-1.98
DIIs	0.27	0.15	11.41
Volumes (INRb)	**30-Jun**	**MTD***	**CYTD***
Cash	523	664	510
F&O	10,799	16,686	14,661

Note: *Average

Today's top research idea

M&M: Strong rural recovery to drive mix improvement

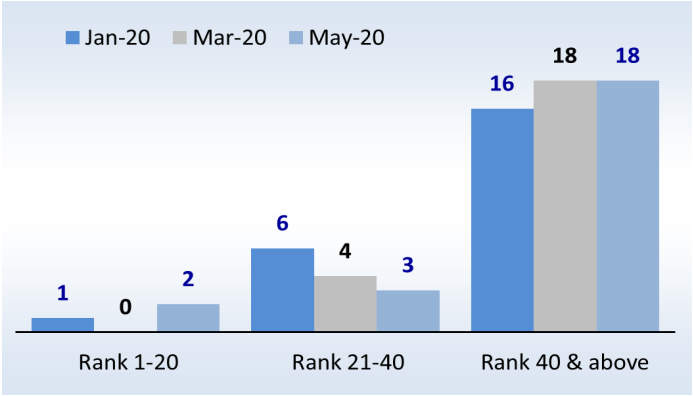
- Our last report on M&M – '*A generational shift underway*' (3rd Jun'20), highlights big changes within the company (CEO change) and its operating environment (agri reforms). The CEO Designate laid out a clear path to address underlying issues and create value through (a) tough actions on loss-making subsidiaries, (b) tightening of capital norms, (c) differentiation of the core SUV positioning, and (d) the realization of nine businesses' potential identified as billion-dollar candidates.
- One of the key questions from the investors has been regarding how much of the recent outperformance of MM was driven by change in the CEO and capital allocation promise. M&M's top-quartile stock performance is lagging other rural focus names. The analysis of DII portfolio suggests they remain skeptical of the change (under-weight at 0.47% of AUMs v/s 1.07% weight of M&M in Nifty).
- We believe M&M's operating performance on its own warrants a good 17% upside as the stock is trading at ~29% discount to 5-year average P/E, with scope of re-rating if capital allocation is indeed corrected. Maintain Buy with TP of INR600.

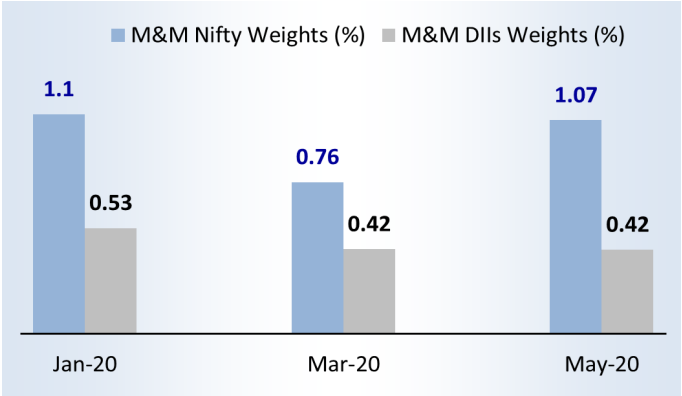
Research covered

Cos/Sector	Key Highlights
M&M	**Strong rural recovery to drive mix improvement**
ONGC	**Huge losses due to COVID-19 led impairment**
Petronet LNG	**Reiterate strong utilization rates; Huge potential for ssLNG**
Tata Steel	**A challenging year ahead**
Tata Consumer	**Merger paving way for next phase of growth**
Vodafone Idea	**Steady ARPU growth partly diluted by subscriber loss**
Bharat Electronics	**Welcome improvement in working capital cycle**
Jindal Steel	**Divests Oman operations for >USD1b**
Phoenix Mills	**Earnings disappoint; Near-term outlook challenging**
EcoScope	**4QFY20 current account in surplus**
	Central government expenditure declines 20.7% YoY in May'20

Chart of the Day: M&M (Strong rural recovery to drive mix improvement)

M&M's position remains at the lower end of the pecking order and underweight in DII portfolio





Note: Rank of MM in DII portfolio is based on descending order of weight in the portfolios

Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Core sector contraction slows in May, fertiliser growth turns positive

The pace of contraction of India's infrastructure industry slowed in May with the core sector shrinking 23.4% official data released on Tuesday showed. In April, the output of the core sector -- coal, crude oil, natural gas, refinery products…

2

March quarter current account ends in a surplus after more than a decade

India's external position improved with the current account turning a surplus in the fourth quarter for the first time in more than a decade as a surge in private transfers and software services income helped. The full year current account deficit was the lowest in three years, data from the RBI showed. But a possible slowdown in inward remittances and software services income could pare the gains in FY'21…

3

Cheaper, assured long-term natural gas supply for India: Petronet to soon sign unique LNG deal

In an effort to produce natural gas at cheap prices, India's biggest LNG importer Petronet may soon sign a long-term LNG deal, benchmarked to daily or spot prices, which are often less than normal rates. However, the CEO and Managing Director of Petronet LNG, Prabhat Singh refused to give details…

4

Jindal Steel & Power to sell Oman unit to promoter firm for $1 billion

Naveen Jindal-owned Jindal Steel and Power has accepted a binding offer to sell its entire stake in its Oman asset Jindal Shadeed Iron and Steel Co LLC (JSIS Oman) to promoter company Templar Investments Ltd. JSIS Oman was held through JSPL's subsidiary Jindal Steel & Power (Mauritius) Ltd…

5

India's fiscal deficit at Rs 4.66 trn, 58.6% of annual target in 2 months

India's federal fiscal deficit in the first two months through May stood at Rs 4.66 trillion ($61.67 billion), or 58.6% of the budgeted target for the current fiscal year, government data showed on Tuesday. Net tax receipts during April-May period were Rs 33,850 cr ($4.48 billion), while total expenditure was Rs 5.12 trillion, the data showed, indicating the government was front-loading its budgeted spending to combat the impact of pandemic…

6

Modi gives farmers, taxpayers credit for the free food grain scheme

Prime Minister Narendra Modi on Tuesday sought to comfort sections of society worried about high taxes on petrol and diesel by thanking honest tax payers who have enabled financing of the free food grain scheme, a major humanitarian effort in dealing with the coronavirus…

7

India's solar power tariffs hit a record low of ₹2.36 per unit

India's solar power tariffs hit a record low of Rs2.36 per unit during a bid conducted by state run Solar Energy Corporation of India Ltd (SECI). According to government officials, the lowest bid was placed by Spain' Solarpack Corporación Tecnológica, S.A., with Italy's Enel Group' Avikaran Surya India Private Ltd…

Mahindra and Mahindra

BSE SENSEX	S&P CNX
34,916	10,302

Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USDb)	634.9 / 8.4
52-Week Range (INR)	675 / 246
1, 6, 12 Rel. Per (%)	9/11/-11
12M Avg Val (INR M)	2419

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	455	415	481
EBITDA	58.0	48.1	63.3
Adj. PAT*	35.8	28.0	38.2
Adj. EPS (INR)	30.0	23.4	32.0
EPS Gr. (%)	-30.3	-21.8	36.6
BV/Sh. (INR)	289	304	325
Ratios			
RoE (%)	9.7	7.2	9.3
RoCE (%)	5.9	6.6	8.6
Payout (%)	24	27	30
Valuations			
P/E (x)	17.0	21.8	16.0
P/BV (x)	1.8	1.7	1.6
Div. Yield (%)	0.5	1.0	1.5
FCF Yield*	0.3	3.9	7.2

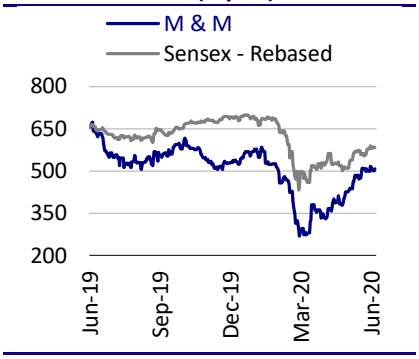
*(incl MVML)

Shareholding pattern (%)

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

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR511 TP: INR600 (+17%) Buy

Strong rural recovery to drive mix improvement

Stock outperformance on rural strength & not CEO change led re-rating

- **Our last report on M&M – '*A generational shift underway*' (3rd Jun'20), highlights big changes within the company (CEO change) and its operating environment (agri reforms). The CEO Designate laid out a clear path to address underlying issues and create value through (a) tough actions on loss-making subsidiaries, (b) tightening of capital norms, (c) differentiation of the core SUV positioning, and (d) the realization of nine businesses' potential identified as billion-dollar candidates.**
- **One of the key questions from the investors has been regarding how much of the recent outperformance of MM was driven by change in the CEO and capital allocation promise. M&M's top-quartile stock performance is lagging other rural focus names. The analysis of DII portfolio suggests they remain skeptical of the change (under-weight at 0.47% of AUMs v/s 1.07% weight of M&M in Nifty).**
- **We believe M&M's operating performance on its own warrants a good 17% upside as the stock is trading at ~29% discount to 5-year average P/E, with scope of re-rating if capital allocation is indeed corrected. Maintain Buy with TP of INR600.**

Rural recovery strong, augurs well for M&M

- Since resumption of operations, M&M is seeing good on-ground momentum in its key business of tractors as well as for products like Bolero and Scorpio.
- According to the management, its internal index for rural spend has been at the highest level for many quarters. The company is seeing huge upside in rural recovery due to the many enablers for the rural economy.
- This is vindicated through our channel checks that suggest tractor sales have recovered to FY20 levels and is even growing in some regions due to improved outlook for farm income. It is driven by (a) unusually strong water reservoir levels, (b) good Rabi crop, and (c) expectation of normal monsoons. LCVs have also seen good upswing in demand post easing of the lockdown.
- However, supply side constraints are a bigger challenge considering that demand is strong. While the company ramped up production in Jun'20, it might not be sufficient. Demand in Jun'20 is higher than last year. We do not expect retails to get affected due to inventory issues.
- With one of the highest exposures to rural markets (~65% of volumes), M&M is well positioned to benefit from rural recovery considering its dominance in tractor/LCV business. According to our estimates, rural markets should contribute ~63% to M&M's revenues and 81% to core PAT in FY22E.

Improving mix could possibly dilute impact of operating deleverage in Autos

- With faster rural recovery, tractor volumes are expected to be flat in FY21E compared to the 20% expected decline in the auto segment. This should result in higher revenue contribution from FES – 38.4% in FY21E (v/s 34.4% in FY20 and 32% in FY19).

Please refer our earlier report


MOTILAL OSWAL

2 June 2020
Update | Sector: Automobile

Mahindra and Mahindra

BSE SENSEX	S&P CNX
33,828	9,878

Motilal Oswal values your support in the Institutional Investors Poll (2020 for India Research, Sales and Trading) Vote. We appreciate your ratings.

Bloomberg	MM IN
Equity Shares (m)	1,320
M Cap.(INRb)/(USDb)	575 / 7.6
52-Week Range (INR)	675 / 246
1, 6, 12 Rel. Per (%)	26/40/-14
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Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	455	410	482
EBITDA	55.4	45.5	61.6
Adj. PAT*	35.1	25.9	37.9
Adj. EPS (INR)	29.5	21.7	31.5
EPS Gr. (%)	-41.9	-26.3	45.1
BV/Sh. (INR)	312	322	342
Ratios			
RoE (%)	10.1	6.9	8.8
RoCE (%)	9.5	6.1	6.4
Payout (%)	30	38	40
Valuations			
P/E (x)	15.7	21.3	14.7
P/BV (x)	1.5	1.4	1.4
Div. Yield (%)	2.2	2.2	3.2
FCF Yield*	2.7	5.8	6.4

*Excl MVAML

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	18.9	18.9	20.4
DII	26.8	29.2	22.5
FII	41.3	41.4	39.2
Others	12.9	10.6	17.9

FII includes depository receipts

Stock Performance (1-year)

CMP: INR463 TP: INR576 (+25%) Buy

A generational shift underway

Best rural proxy | Valuations at discount to 15D below 5-yr average P/E

- Mahindra & Mahindra's (MM) senior leadership is in midst of a generational shift, at a time when all its key businesses are facing cyclical or structural challenges.
- While the cycle for tractors should turn positive in the near term and for LCVs too in the not so distant future, the new CEO would have to address two major issues – (a) restore its positioning in the fast growing SUV segment, and (b) circumvent the drag of underperforming subsidiaries in the core/non-core businesses.
- We believe MM's valuations reflect the challenges of the Passenger UV business as well as no major changes on capital allocation policy.
- Any positive surprises in the SUV business, positive evolution of the Ford India JV or correction of capital allocation by the new CEO should act as re-rating triggers.

Management change – A generational shift underway

- After a gap of almost 24 years, MM would see a leadership change with both Executive Chairman (Mr. Anand Mahindra) and MD & CEO (Dr. Pawan Goenka) retiring in 2021. Dr. Anish Shah would take over as MD & CEO from 2nd Apr'21, in turn becoming the 5th MD of MM over the last 40 years.
- Dr. Shah's priorities seem clearly set out for the next few years, which includes (a) revisiting capital allocation in subsidiaries (over next 12 months), (b) funding of other group businesses, and (c) evaluating segregation of auto and FES business (over next 3-5 years).
- We believe there are several low hanging fruits in the form of loss-making non-core businesses (Aerospace, Global ZMS, Retail etc.), which could be divested or closed. The initial signs on capital allocation are positive as is visible from the MM board's decision against investing a further USD400m in Ssangyong in Apr'20. We, despite giving an approval earlier in Feb'20.

Best rural proxy with 2 of 3 core businesses on strong footing

- MM has one of the highest exposures to rural markets (~45% of volumes), which are expected to be less impacted by the on-going impact of the COVID-19 pandemic. According to our estimates, rural markets should contribute ~42% to revenues, 81% to core PAT and ~70% to SOTP in FY22E.
- We have clotted MM's core business into three buckets viz. Tractors, Pick-up UVs and Passenger UVs. Tractors and Pick-up UVs are on strong footing in terms of outlook, MM's competitive positioning as well as industry-level consolidation. However, MM's SUVs business is severely challenged and we do not see any respite for MM in this category in the foreseeable future.

Tractors primed for fastest recovery in Autos | Reforms to potentially drive next phase of farm mechanization

- The Tractor segment is seeing volume recovery since Dec'19, driven by improvement in farm-level indicators such as output prices, lower input prices, higher government spends in rural areas and unusually strong water reservoir

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Vipul Agrawal - Research analyst (Vipul.Agrawal@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Improvement in mix was one of the key margin drivers in FY20, despite the 15% decline in revenues. EBITDA margins were stable at 14.2% in FY20.
- While we estimate EBITDA margins in FY21 to decline by 90bp on back of 9% decline in revenues, we are conservatively estimating FES PBIT margins at 18% (v/s 19% in FY20 and 19.3% in FY19) on flat tractor volumes. Also, we estimate sharp drop of ~220bp in Auto business' PBIT margins to 1.5%. This, despite the possibility of the Auto business seeing an improvement in mix toward stronger products in the form of LCVs, Bolero and Scorpio.
- Hence, we believe are margin estimates are conservative and there is enough room for the company to exceed our estimates led by the product mix.

Capital allocation roadmap by CEO designate has potential

- Dr. Shah (designated CEO) has laid out a clear game plan on capital allocation for the future. In case of loss-making subsidiaries with no clear path to profitability (excl. businesses of strategic importance), M&M would make an exit (explore partnership or shutdown).
- All subsidiaries would be categorized into three buckets. These include (a) the potential to deliver 18% RoE over next 3-5 years, (b) strategic contribution, and (c) no path to profitability. Businesses with no path to profitability might be divested fully or partly, though bringing in a partner may take time. Initially, it would focus on international subsidiaries as there can be huge impact. This process started a year back and would continue till Mar'21. While the COVID-19 outbreak might have accelerated this process, it is not its key driver, according to management.
- The 18% RoE target has been communicated to all the group companies, with clarity that the new management is focused on value creation. Also, evaluation parameters for the senior management is now seeing inclusion of RoE/RoCE targets (constitutes 15-20% weight), over and above the top line/bottom line targets. The key change, however, is accountability part of the capex.
- Management has decided against further investments in Ssangyong and is looking to sell it. Also, M&M has closed its GenZe (E-Scooter) business in the US, which was making net loss of INR1.3-14b p.a.
- Although it plans to tighten capital allocation norms, the company is not scaling back its growth ambition. M&M would continue investing in growth with a hurdle rate of 18% RoE.

Stock's outperformance reflects rural recovery; Re-rating not due to CEO change; DIIs substantially underweight on M&M stock

- The M&M stock features among the top-quartile performances for CY20 YTD, with strong outperformance vis-à-vis Nifty (8pp outperformance) and Nifty Auto Index (11pp outperformance).
- M&M's stock has lagged only two other auto stocks – HMCL and ESC. This implies that the outperformance is being driven by rural recovery rather than changes in the approach to capital allocation.
- Also, our analysis of DII portfolio (key MFs and top-3 private insurers) suggests that their allocation to M&M as at May'20 stood at ~0.42% of aggregate AUM vis-à-vis 1.07% weight of M&M in the Nifty.

- Further, only two DIIs are overweight on M&M with weight of 1.5-1.6% of their AUM, with the company ranking #16 in their portfolio. Interestingly, in all other DII portfolios that we analyzed, M&M ranks between #21-40 in 2 portfolios and beyond #41 in other 18 portfolio. We see scope of M&M's rank rising considerably in DII portfolio as the company delivers both on business and capital allocation promise.

Valuation and view

- M&M is witnessing generational shift – both in its core business (led by agri reforms) and in its leadership. M&M should see faster recovery (v/s auto peers) led by higher rural exposure. Also, the company enjoys strong positioning in two of its three core businesses, resulting in robust profitability.
- Despite MM's recent outperformance, valuations are still at substantial discount to its 5-year average (which captures both pain point of deterioration in UV market share and subsidiaries' performance).
- We believe M&M's valuations reflect (a) challenges of the Passenger UV business, and (b) lack of major changes on its capital allocation policy. Any positive surprise in the SUV business, positive evolution of the Ford India JV or correction of capital allocation by the new CEO should act as re-rating triggers.
- Implied Core P/E for MM is ~11.7x FY22E S/A EPS (incl. MVML) and 1.2x Core P/BV, which implies ~26% discount to 5-year average P/E and ~39% discount to 5-year average P/B.
- Our Jun'22E-based SOTP TP is ~INR600/share – an upside of ~20%. At our TP, implied Core P/E is ~13.9x (v/s 5-year average core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

ONGC

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	ONGC IN
Equity Shares (m)	12,833
M.Cap.(INRb)/(USDb)	1024 / 13.7
52-Week Range (INR)	170 / 52
1, 6, 12 Rel. Per (%)	-10/-20/-40
12M Avg Val (INR M)	1994

Financials & Valuations (conso) (INR b)

Y/E March	2020E	2021E	2022E
Sales	4,250	4,193	4,553
EBITDA	612	434	599
Adj. PAT	168	142	244
Adj. EPS (INR)	13.1	11.1	19.0
EPS Gr. (%)	-51.8	-15.7	72.0
BV/Sh.(INR)	161.3	169.0	182.6
Ratios			
Net D:E	0.5	0.5	0.4
RoE (%)	7.9	6.7	10.8
RoCE (%)	6.3	5.3	8.1
Payout (%)	66.9	29.8	28.9
Valuations			
P/E (x)	6.2	7.4	4.3
P/BV (x)	0.5	0.5	0.4
EV/EBITDA (x)	3.3	4.9	3.3
Div. Yield (%)	6.1	3.4	5.8
FCF Yield (%)	3.7	-6.9	20.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	60.4	62.8	64.3
DII	17.9	15.7	15.7
FII	7.6	8.7	6.5
Others	14.1	12.8	13.6

FII Includes depository receipts

CMP: INR81 TP: INR105 (+29%) Buy

Huge losses due to COVID-19 led impairment

- **ONGC's 4QFY20 oil and gas sales were 3%/8% higher than estimate while net realization was 3% lower than estimate. This resulted in marginal beat on revenue. Higher other expenditure and COVID-19 led impairment resulted in a huge loss on the bottom line for the company during the quarter.**
- **ONGC did not see any reduction in crude oil demand starting 1st Apr'20. However, gas production saw modest decline of 9% during the lockdown, but has now been restored to normal pre-COVID levels.**
- **Global lockdowns on account of COVID-19 led to huge demand destruction, which saw crude oil prices sink to historic lows. With lifting of the lockdowns across the world, demand is again seeing an uptick.**
- **On the supply side, production cuts, both intentional (OPEC++) and unintentional (due to poor economies/bankruptcies), appear to be putting upward pressure on oil prices.**
- **ONGC is also expected to grow its gas production by ~12%/26% to 27.9bcm/35.2bcm in FY21/FY22E. While no oil production growth is expected, ONGC's efforts to arrest decline from age-old fields (accounting for 60–70% of the total oil production) is commendable. Maintain Buy.**

Higher other expenditure and impairment charges

- Standalone revenue of INR214.6b (-20% YoY, -10% QoQ) was marginally higher than our estimate. The YoY decline was primarily due to lower oil price realization (at USD49/bbl in 4QFY20).
- However, EBITDA came in lower than estimate at INR85.9b (~-30% YoY/QoQ), impacted by higher other expenditure.
- ONGC recorded INR11.1b on account of exchange loss and INR3.7b on account of Ind-AS 116 related adjustment. If adjusted for the above stated two charges, EBITDA stands at INR101b (in line v/s est. INR99b).
- DDA stood at INR80.4b (v/s est. +26%, -6% YoY, +14% QoQ). Higher DDA and lower other income resulted in PBT of INR10.1b (lower ~82% YoY/QoQ).
- The company recorded an impairment of INR49b considering the possible impact of COVID-19 (at crude price of USD45/bbl).
- Factoring in the aforementioned, standalone PAT stood at a loss of INR31b (v/s gain of INR40.4b in 4QFY19 and INR42.3b in 3QFY20).
- After adjusting for impairment, PAT stands at INR8b.

Operational parameters for 4QFY20

- Crude oil sold was down 7% YoY to 5.4mmt (v/s est. +3%, +4% QoQ). Production was down 1.4% YoY to 5.8mmt.
- Gas sold was down 11% YoY to 4.7bcm (v/s est. +8%, -3% QoQ). Production was down 7.9% YoY to 6.04bcm.
- VAP sales stood marginally lower YoY to 866tmt (-2% YoY, -3% QoQ).

FY20 highlights

- Crude oil realization stood at USD58.8/bbl in FY20 (v/s USD68.9/bbl in FY19), thus, resulting in revenue decline of 12% YoY to INR962b.

- EBIDTA was 17% lower YoY to INR493b, while higher depreciation and lower other income resulted in PBT before exceptional item at INR252b (-37% YoY). The company did not opt for the lower tax rate, and thus, reported PAT stood at INR133b (down 50% YoY). Adj. PAT (for impairment charges in 4QFY20) stood at INR172b (-36% YoY).
- Crude oil and gas sold were down 5% YoY to 21.3mmt and 19.4bcm, respectively. Production of crude oil and gas was down 4% YoY to 23.4mmt and 24.9bcm, respectively.

Valuation and view

- Although gas production has been delayed, we expect it to jump significantly over the next 2-3 years. This would be led by the 13 projects that the company is working on. Oil production is expected to remain flat.
- As a result of the capex cuts, demand revival, and better cooperation among OPEC++ countries, we expect oil prices to stabilize at USD40–50/bbl over the next few months.
- According to a media article, the government is formulating a structure to give Indian upstream companies some relief in royalty and cess as well as other reliefs. According to our model calculation, 1% change in cess results in 2% consol. EPS change for ONGC.
- ONGC has not recommended any final dividend apart from the interim dividend of INR5/share during the year.
- ONGC is trading at 3.3x FY22E EV/EBITDA and 4.3x FY22E P/E. We value the company at 10x FY22E adj. EPS of INR7.8 and add value of investments to arrive at a target price of INR105. Reiterate **Buy**.

Standalone - Quarterly Earning Model (INR B)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est (%)
Net Sales	**272.1**	**279.9**	**276.9**	**267.6**	**265.5**	**244.9**	**237.1**	**214.6**	**1,096.5**	**962.1**	**204.6**	**5%**
YoY Change (%)	42.7	47.6	20.4	11.6	-2.4	-12.5	-14.4	-19.8	29.0	-12.3	-23.5	
EBITDA	**147.3**	**157.9**	**165.7**	**123.7**	**151.1**	**132.9**	**123.0**	**85.9**	**594.6**	**492.9**	**98.9**	**-13%**
Margins (%)	54.1	56.4	59.8	46.2	56.9	54.3	51.9	40.0	54.2	51.2	48.4	
Depreciation	50.3	48.5	61.5	85.1	61.6	62.6	70.2	80.4	245.4	274.7	64.0	26%
Interest	7.5	6.3	5.8	5.3	6.5	6.8	6.3	8.7	24.9	28.2	6.1	42%
Other Income	6.5	23.9	22.2	22.5	7.5	26.9	14.0	13.3	75.2	61.6	28.1	-53%
PBT before EO expense	**96.1**	**127.1**	**120.6**	**55.8**	**90.6**	**90.4**	**60.5**	**10.1**	**399.5**	**251.6**	**56.9**	**-82%**
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.0	0.0	49.0	0.0	
PBT	**96.1**	**127.1**	**120.6**	**55.8**	**90.6**	**90.4**	**60.5**	**-38.9**	**399.5**	**202.6**	**56.9**	**NM**
Rate (%)	36.0	35.0	31.5	27.5	34.8	30.7	30.2	20.4	33.1	34.4	33.3	
Reported PAT	**61.4**	**82.6**	**82.6**	**40.4**	**59.0**	**62.6**	**42.3**	**-31.0**	**267.2**	**133.0**	**38.0**	**NM**
Adj PAT	**61.4**	**82.6**	**82.6**	**40.4**	**59.0**	**62.6**	**42.3**	**8.0**	**267.2**	**172.0**	**38.0**	**-79%**
YoY Change (%)	58.2	61.1	64.8	-31.6	-3.9	-24.2	-48.8	-80.2	33.9	-35.6	-6.1	
Margins (%)	22.6	29.5	29.8	15.1	22.2	25.6	17.8	3.7	24.4	17.9	18.6	
Key Assumptions (USD/bbl)												
Fx rate (INR/USD)	67.0	70.2	72.3	70.6	69.6	70.3	71.2	72.4	70.0	70.9	72.0	1%
Net Oil Realization	74.2	73.1	66.4	61.9	66.3	60.3	59.7	49.0	68.9	58.8	50.6	-3%
Crude oil sold (mmt)	5.8	5.4	5.4	5.9	5.3	5.4	5.2	5.4	22.4	21.3	5.3	3%
Gas sold (bcm)	4.9	5.0	5.3	5.2	5.0	4.9	4.8	4.7	20.5	19.4	4.3	8%
VAP sold (tmt)	856.0	914.0	920.0	884.0	952.0	850.0	890.0	866.0	3,574.0	3,558.0	858.1	1%

E: MOFSL Estimates

Petronet LNG

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USDb)	387.2 / 5.2
52-Week Range (INR)	296 / 171
1, 6, 12 Rel. Per (%)	-6/12/17
12M Avg Val (INR M)	821

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	354.5	285.3	365.9
EBITDA	39.9	46.7	51.1
Adj. PAT	27.7	28.8	32.3
Adj. EPS (INR)	18.5	19.2	21.5
EPS Gr. (%)	28.5	4.1	12.0
BV/Sh.(INR)	73.0	82.6	93.4
Ratios			
Net D:E	-0.4	-0.5	-0.6
RoE (%)	26.4	24.7	24.5
RoCE (%)	25.4	21.7	22.7
Payout (%)	43.2	50.0	50.0
Valuations			
P/E (x)	14.0	13.4	12.0
P/BV (x)	3.5	3.1	2.8
EV/EBITDA (x)	9.4	7.7	6.6
Div. Yield (%)	2.7	3.1	3.5
FCF Yield (%)	7.3	7.9	9.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	50.0	50.0	50.0
DII	7.8	9.2	11.0
FII	29.3	28.6	25.7
Others	12.9	12.2	13.3

FII Includes depository receipts

CMP: INR258 TP: INR340 (+32%) Buy

Reiterate strong utilization rates; Huge potential for ssLNG

- **Volumes at Dahej were down QoQ (and below est.), as three cargoes were cancelled/deferred due to the COVID-19 led lockdown in Mar'20.**
- **In Apr-May'20, the company claimed force majeure on eight cargoes from Qatar and one from ExxonMobil under the contractual clause of pandemic. The revocation is expected to settle in favor of PLNG.**
- **Dahej terminal is currently operating at ~100% utilization, up from 50-55% in Apr-May'20. Various power plants are switching off the coal in the current lower spot price environment, resulting in higher gas offtake and imports.**
- **Negotiations are on with Qatar Gas over LNG pricing. PLNG also said that MOU with Tellurian may get extended with a final decision expected in FY21.**
- **Recently, PNGRB allowed any entity to set up LNG station across geographical area (GA) or anywhere in India to promote LNG as an alternative fuel for trucks. Small Scale LNG (ssLNG) has potential of 8-9mmtpa of LNG for trucks in next 8-10 years.**
- **Also, the NGT's actions against severely/critically polluted industrial clusters would lead to higher adoption of gas from industries.**
- **PLNG expects utilization to be healthy at ~100% going into the year, further aided by power sector demand. Maintain Buy.**

Higher opex drives EBITDA miss

- 4QFY20 EBITDA stood at INR7b (v/s est. INR11.2b; +11% YoY and -37% QoQ), led by higher other expenditure. Other expenditure was higher by ~INR2.8b in 4QFY20, primarily due to ~INR1.78b on account of forex related changes on lease liability and higher-than-normal expenditure on CSR.
- Also, lower other income led to PAT coming in 18% lower YoY at INR3.6b (v/s est. -51%; -47% QoQ). Tax rate was 26.2% in 4QFY20.
- Total volumes stood at 219tbtu (v/s est. -9%, +7% YoY and -6% QoQ)
- Utilization at Dahej came in lower than est. at 93% (100% in 3QFY20), with volumes at 206tbtu (+4% YoY and -7% QoQ), primarily due to COVID-19.
- Utilization at Kochi was higher than est. at 21% (17% in 3QFY20), with volumes at 13tbtu (+84% YoY, 18% QoQ).

Robust performance at Dahej in FY20

- For FY20, average utilization at Dahej stood at 104% (on expanded capacity of 17.5mmt established in 2QFY20); utilization at Kochi was ramped up to 17% (v/s 10% in FY19). Total volumes were up 10% YoY to 928tbtu.
- Thus, EBITDA for FY20 came in at INR39.9b (+21% YoY). On the other hand, reported PBT stood flat YoY at INR31.8b due to lower other income.
- The company opted for a lower tax rate during the year and re-measured its DTL (of INR3.7b), resulting in reported PAT of INR27b (+25% YoY).
- Adj. PAT came in 28% higher YoY at INR27.7b on account of one-time settlement payment of lease rent to CPT (of INR0.7b).

Insight into Kochi re-gas tariff

- In light of an expected increase in capacity utilization at the Kochi terminal, pending the finalization of tariff, the company recognized revenue on the basis of offered regasification tariff. Offered tariff at Kochi is INR79.14/mmbtu (v/s INR104/mmbtu earlier).
- The Kochi-Mangalore pipeline is expected to be completed by end-Jul'20. Post completion, utilization should go to 30-35% (which is already factored into the offered new tariff).
- The new tariff is approved by the board and credit note has been issued for FY20. However, some customers have raised queries that it should be reduced further.
- Management is confident that the revised price would not be materially different from the offered tariff. Also, it does not expect any material financial impact on account of further revision and PLNG will ensure that there is no impairment of Kochi assets (carrying cost is ~INR33b).
- The company also guided that 5% tariff hike at Kochi would also continue, however we do not built any tariff hike in our model on a conservative consideration. We estimate that for every 5% hike in tariff at Dahej and Kochi, EPS change stands at ~7%.

Capex guidance and key developments

- The company has planned capex of INR3.5b in FY21 (INR1.26b for small scale, INR0.6b on two tanks, and INR0.7b on corporate office at Delhi).
- Capex budgeting for FY22 is not yet done, however, the company has few projects under consideration like:
  - The LNG terminal on the east coast (board yet to approve),
  - The LNG terminal in Sri Lanka (USD300m capex – if Sri Lankan government approves the project),
  - Current expansion at Dahej: Two new tanks (~INR14b) and an additional jetty (~INR12-13b).
- PLNG also plans to set up ~50 small scale LNG (ssLNG) stations on 5 highways over the next 2-3 years (under Phase-I). It has entered into a MoU with GUJGA to set up 5 stations on the Delhi-Mumbai highway; IGL will put up 3 stations (total 8 stations on that highway). Another MoU has been signed with IOC for setting up 5 LNG stations in southern India.
- The company would target ~300 stations in Phase-II by 2025 and ~1,000 stations pan India in Phase-III. PLNG is trying to set up stations by tying up with CGDs and OMCs (land by companies and dispensing unit by PLNG).

Valuation and view

- The current low spot price environment bodes well for the government's plan to bring about major reforms in the gas sector, including the revival of gas-based power plants.
- The three concerns on PLNG – (a) competition, (b) usage of cash, and (c) long-term growth – are well answered by management (as mentioned above). Also, NGT's actions against severely/critically polluted industrial clusters could provide a huge boost to gas consumption in the country.

- The company has declared final dividend of INR7/share in FY20. We expect the dividend payout to remain strong, presenting an attractive dividend yield of 3-3.5% over FY21-22E.
- The stock trades at 12.0x FY22E EPS of INR21.5 and 6.6x FY21E EV/EBITDA, with expected EBITDA CAGR of ~13% over FY20-22E. We value PLNG on DCF to arrive at a fair value of INR340 (upside of 32%). Reiterate **Buy**.

Standalone - Quarterly Earning Model **(INR Million)**

Y/E March	FY19				FY20				FY19	FY20	FY20	Var. v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est.
Net Sales	**91,692**	**1,07,453**	**1,00,977**	**83,832**	**86,134**	**93,612**	**89,102**	**85,672**	**3,83,954**	**3,54,520**	**81,136**	**6%**
YoY Change (%)	42.5	38.3	30.2	-2.9	-6.1	-12.9	-11.8	2.2	25.5	-7.7	-3.2	
EBITDA	**9,344**	**8,837**	**8,481**	**6,272**	**10,239**	**11,605**	**11,076**	**6,975**	**32,935**	**39,895**	**11,205**	**-38%**
Margins (%)	10.2	8.2	8.4	7.5	11.9	12.4	12.4	8.1	8.6	11.3	13.8	
Depreciation	1,022	1,037	1,037	1,016	1,899	1,960	1,960	1,942	4,112	7,761	2,122	-8%
Interest	300	249	215	225	1,005	1,051	940	1,035	989	4,032	1,014	2%
Other Income	990	1,115	884	1,514	1,044	975	842	865	4,503	3,726	1,691	-49%
PBT before EO expense	**9,012**	**8,666**	**8,113**	**6,545**	**8,379**	**9,568**	**9,017**	**4,863**	**32,336**	**31,827**	**9,760**	**-50%**
PBT	**9,012**	**8,666**	**8,113**	**6,545**	**8,379**	**8,848**	**9,017**	**4,863**	**32,336**	**31,107**	**9,760**	**-50%**
Tax	3,142	3,037	2,460	2,143	2,777	-2,184	2,265	1,272	10,782	4,131	2,434	-48%
Rate (%)	34.9	35.0	30.3	32.7	33.1	-24.7	25.1	26.2	33.3	13.3	24.9	
Reported PAT	**5,870**	**5,629**	**5,653**	**4,402**	**5,603**	**11,031**	**6,752**	**3,590**	**21,554**	**26,976**	**7,326**	**-51%**
Adj PAT	**5,870**	**5,629**	**5,653**	**4,402**	**5,603**	**11,752**	**6,752**	**3,590**	**21,554**	**27,697**	**7,326**	**-51%**
YoY Change (%)	34.1	-4.4	6.9	-15.8	-4.5	108.8	19.4	-18.4	3.7	28.5	66.4	
Margins (%)	6.4	5.2	5.6	5.3	6.5	12.6	7.6	4.2	5.6	7.8	9.0	
Key Assumptions												
Total Volumes (Tbtu)	220.2	217.0	202.0	205.1	226.0	250.0	233.0	219.0	844.3	928.0	241.2	-9%

Tata Steel

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	TATA IN
Equity Shares (m)	1,145
M.Cap.(INRb)/(USDb)	370.5 / 4.8
52-Week Range (INR)	515 / 251
1, 6, 12 Rel. Per (%)	3/-15/-24
12M Avg Val (INR M)	5696

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	1,398	1,234	1,455
EBITDA	175	132	226
Adj. PAT	10.4	-34.2	47.6
EBITDA Margin (%)	12.5	10.7	15.5
Cons. Adj. EPS (INR)	9.1	-29.8	41.6
EPS Gr. (%)	-89.8	-429.4	-239.3
BV/Sh. (INR)	587	546	575
Ratios			
Net D:E	1.6	1.7	1.6
RoE (%)	1.6	-5.3	7.4
RoCE (%)	5.8	2.8	7.5
Payout (%)	89.3	-27.1	19.5
Valuations			
P/E (x)	36.0	-10.9	7.8
P/BV (x)	0.6	0.6	0.6
EV/EBITDA(x)	8.3	10.9	6.3
Div. Yield (%)	3.1	3.1	3.1
FCF Yield (%)	26.2	24.6	24.4

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	33.1	33.1	33.1
DII	29.5	30.2	29.1
FII	15.3	13.7	15.1
Others	22.1	23.0	22.7

FII Includes depository receipts

CMP: INR326 TP: INR328 (+0%) Neutral

A challenging year ahead

Adverse volume mix to impact near-term margin

- Tata Steel's (TATA) 4Q EBITDA rose 28% QoQ to INR46.5b and surprised positively led by improved performance in Europe and Bhushan.
- Near term earnings outlook is weak due to lower domestic demand necessitating higher exports which adversely impacts EBITDA. Moreover, leverage remains discomforting at 8x of FY21 EBITDA. Given the challenges in Europe, we cut our FY21/22 EBITDA estimates marginally and maintain our **Neutral** rating on the stock.

Tata Steel BSL and Europe drives beat

Consol. EBITDA increased 28% QoQ (-43% YoY) to INR46.5b (our estimate: INR40.4b) in 4QFY20 due to improved profitability in Tata Steel BSL and Europe. Consolidated sales volumes stood at 6.5mt, down 11%/14% QoQ/YoY. Other income was substantially higher at INR13.2b (2.7x YoY, 14.x QoQ), due to one-off gains. Consol. PAT loss stood at INR13.3b vs loss of INR11.9b in 3QFY20, however, adj of exceptional item related to impairment of non-current assets, Adj PAT stood at INR13.8b (our est loss of INR3.5b).

- **Standalone:** Reported EBITDA declined 3% QoQ to INR36.5b (-27% YoY), in-line with our estimate. On adjusted basis, EBITDA was up 10% QoQ as 3QFY20 had a one-time cost reversal of INR4.8b. EBITDA/t stood at INR12,538, up 14% QoQ (-9% YoY) (our est.: 11,353/t) due to 10% QoQ higher realisation (INR48,837/t, +4% higher than our est.). Sales volumes declined ~15% QoQ/19% YoY to 2.91mt (our est: 3.08mt). Adj. PAT stood at INR13.2b, down 9% QoQ (-47% YoY). On a reported basis, however there was a PAT loss of INR4.4b due to impairment of INR20b on investments in subsidiaries/affiliates.
- **Tata Steel Europe (TSE):** Tata Steel Europe reported EBITDA of INR650m (-96% YoY) vs loss of INR9.6b in 3QFY20 (Our est.: EBITDA loss of INR3.4b). Volume declined 7% YoY to 2.39mt (+2% QoQ) and EBITDA/t stood at USD4/t. Improvement in EBITDA was due to better spreads led by lower raw material costs.
- **Tata Steel BSL**: Tata Steel BSL reported EBITDA of INR7.7b (est: INR4.5b), up 170% QoQ (flat YoY). EBITDA/t improved to INR7,908/t (+260% QoQ, +15% YoY) led by 9% QoQ higher realisation (INR43,609/t).
- FY20 OCF/ FCF stood lower at INR202b/ INR97.8b vs INR253b/ 162b in FY19 respectively.
- Net-debt rose by INR99b YoY to INR1,071b vs INR972b in FY19 (flat QoQ).
- Capex (excl. acquisition) stood at INR104b in FY20.
- FY20 Rev/EBITDA/Adj. PAT stood at INR1,398b/ 175b/ 13b, down 11%/ 40%/ 87% YoY respectively

Management commentary

- Steel demand in India is improving in rural market and areas not hit by COVID. Demand from Govt projects is improving, however, demand from auto segment is likely to improve only in 2HFY21.
- Tata Steel guides for achieving flattish (YoY) sales volumes in FY21 (12.3mt in FY20). Currently, it is operating at ~80% capacity utilization.
- Debt-maturities for FY21/FY22 stands lower at ~USD250m each.
- FY21 capex is curtailed to INR40-50b with 50:50 split between India and Europe business (FY20 Capex: INR104b). Most of the capex would be on safety and sustenance projects.
- Domestic realisations have declined by just INR500/t during 1QFY21, however, adverse mix due to higher exports (50% of volumes) would lower blended realisation by INR4,000-5,000/t QoQ in 1QFY21.

Valuation and view

- While volumes and margins would be impacted in FY21 due to weak domestic demand and adverse sales mix, we expect them to recover to normal levels in FY22.
- Tata Steel Europe however is expected to remain a drag on overall profitability with EBITDA loss expected in FY21 and PAT loss in FY22.
- Despite curtailing growth capex, we expect net-debt/ EBITDA to remain high at 8.1x in FY21 and 4.7x in FY22.
- Maintain Neutral with a TP of INR328/sh (based on SOTP).

Quarterly Performance (Consolidated) — INR million

Y/E March	FY19				FY20				FY19	FY20		vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**378.3**	**435.4**	**412.2**	**424.2**	**359.5**	**345.8**	**355.2**	**337.7**	**1,576.7**	**1,398.2**	**306.5**	10
Change (YoY %)	28	34.1	23.2	17.4	-5	-20.6	-13.8	-20.4	19.8	-11.3	-27.8	-27
EBITDA	**64.7**	**89.2**	**67.2**	**75.1**	**53.8**	**38.2**	**36.2**	**46.5**	**293.8**	**174.6**	**40.4**	15
Change (YoY %)	30	88.9	18	15.6	-16.9	-57.2	-46.2	-38.2	34.2	-40.6	-46.2	-17
(% of Net Sales)	17.1	20.5	16.3	17.7	15	11	10.2	13.8	18.6	12.5	13.2	4
EBITDA(USD/tss)	**148**	**172**	**133**	**142**	**122**	**83**	**70**	**100**	**148**	**93**	**102**	-2
Interest	16.7	21.5	19.4	19.4	18.1	18.7	19.3	19.3	76.6	75.3	18.8	2
Depreciation	18.1	19.1	19.3	18.8	20.8	21.3	20.2	22.2	73.4	84.4	20.1	10
Other Income	3.5	3.5	2.1	4.9	2.5	1.8	0.9	13.2	14.2	18.4	1.4	852
PBT (before EO Inc.)	**33.4**	**52.1**	**30.7**	**41.8**	**17.4**	**0.0**	**-2.4**	**18.1**	**158.0**	**33.3**	**2.9**	536
EO Income(exp)	-3.5	1.6	0.3	0.1	0.2	-0.3	-3.3	-34.1	-1.2	-37.5	3.5	-1,084
PBT (after EO Inc.)	**29.9**	**53.7**	**31.0**	**42.0**	**17.5**	**-0.3**	**-5.7**	**-15.9**	**156.8**	**-4.2**	**6.3**	-352
Total Tax	11.0	23.3	14.0	19.0	11.2	-40.5	6.2	-2.6	67.2	-25.7	4.8	-155
% Tax	33.1	44.6	45.6	45.4	64.6	-88,428	-263	-14.5	42.5	-77.1	169	-109
Reported PAT	**18.9**	**30.4**	**17.0**	**23.0**	**6.3**	**40.2**	**-11.9**	**-13.3**	**89.6**	**21.5**	**1.5**	-989
Adj. PAT (after MI & asso)	**23.0**	**34.4**	**22.5**	**24.2**	**6.8**	**-0.5**	**-7.0**	**13.8**	**101.4**	**10.4**	**-0.4**	-3,550

*Note: Sum of quarterly Adj. PAT does not match with full year due to pref. dividend accounted in full year

Tata Consumer Products

BSE SENSEX	S&P CNX
34,916	10,302

Stock Info

Bloomberg	TATACONS IN
Equity Shares (m)	631
M.Cap.(INRb)/(USDb)	355.1 / 4.7
52-Week Range (INR)	408 / 214
1, 6, 12 Rel. Per (%)	-2/37/55
12M Avg Val (INR M)	1453
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	FY20	2021E	2022E
Sales	96.4	104.2	114.8
EBITDA	12.9	14.6	16.9
Adj. PAT	7.3	8.5	10.3
EBITDA Margin (%)	13.4	14.0	14.8
Cons. Adj. EPS (INR)	8.0	9.3	11.2
EPS Gr. (%)	66.4	16.1	21.3
BV/Sh. (INR)	150	156	163
Ratios			
Net D:E	(0.1)	(0.1)	(0.1)
RoE (%)	6.9	6.1	7.1
RoCE (%)	8.5	7.8	9.1
Payout (%)	46.5	31.1	28.7
Valuations			
P/E (x)	48.6	41.8	34.5
EV/EBITDA (x)	26.4	23.4	20.1
Div. Yield (%)	0.9	1.4	1.6
FCF Yield (%)	4.8	3.1	4.5

CMP: INR388 TP: INR444 (+15%) Buy

Merger paving way for next phase of growth

Tata Consumer Products' (TCPL) FY20 annual report highlights the company's efforts to leverage the 'Tata' brand, create a single FMCG-focused company and participate in India's INR30t consumption story. FY20 was a milestone year as TCPL completed merger with Consumer Products business of Tata Chemicals (now India Food business), resulting into 33%/64% increase in revenue/EBITDA to INR96.3b and ~INR13b. Key highlights below:

India food business to lead next leg of growth

- Revenue from the recently merged Consumer Products business (now India Food business) of Tata Chemicals grew 12% YoY (to INR20.6b), majorly driven by *Tata Salt* and increased contribution from *Tata Sampann*. EBIT margins contracted by 410bp to 12.9% (or INR2.7b), largely due to aggressive expansion initiatives undertaken by the company in this segment.
- The India Food business – comprising *Tata Salt and Tata Sampan,* which includes pulses, spices and condiments, and ready-to-cook (RTC) – should orchestrate a major shift in the market from the unorganized to the organized sector. Thus, the segment should drive the next phase of TCPL's growth.
- India's pulses/spices markets is currently valued at INR1,500b/INR600b. Out of this, the share of organized branded players is a mere 1%/30%. Both segments are estimated to post 15% CAGR, thus leaving enough room for branded players like *Tata Sampann* to increase share and benefit the most.
- Moreover, *Tata Sampann* is expected to reap further benefits by leveraging (a) strong 'Tata' brand name, which is associated with trust and safety, and (b) the merged entity's distributor/retail network.
- Further, under the current circumstances, *Tata Sampann* is expected to gain from the shift toward branded products in the F&B segment, which is primarily due to increased awareness, hygiene and health reasons.
- In the salt segment, TCPL enjoys healthy market share of ~30% (market value at INR70b) among branded players. With robust growth of 16% in the F&B industry, the salt segment is also expected to report healthy growth. Expansion of capacity from 1MMT to 1.2MMT at the Mithapur facility should support volume growth.

India beverage business to sustain growth

- India's tea market is currently valued at INR260b and is dominated by organized players with 65-70% market share. While tea is a highly popular beverage in India, there is also an increasing preference in the country for Green/Black tea due to their health benefits. Thus, we believe the segment is poised to grow in the coming days.
- TCPL's India beverage business saw revenue/ EBIT growth of 7%/2% to INR33.8b/INR4.7b (EBIT margin down by 70bp to 14%). Volume growth stood at 7% in FY20.

- Acquisition of Dhunseri's branded tea business ('*Lal Ghoda*' and '*Kala Ghoda*'), with strong regional presence in the state of Rajasthan, should further complement growth of the India tea business.
- Further, investment in existing brands such as *Tata Gold, Chakra Gold* and *Tata Tea Premium*, coupled with new pilot launches in FY20 are some of the initiatives undertaken by TCPL.

International beverage business picking up

- International beverage business grew marginally by 0.4% on constant currency basis (excluding the Czech Republic, which TCPL exited in FY20) amidst a declining tea industry. However, EBIT increased by 30% to INR3.6b with EBIT margin expansion of 260bp to 11%, driven by new launches across the US/UK.
- Further, volume growth for branded tea/coffee businesses stood at 1%/4% on the back of new product launches. This was supported by panic buying and stocking-up of tea/ coffee during the latter part of FY20.
- The UK business declined 2% to INR11.2b. In the UK, TCPL undertook several new launches. One among them – Cold Infusions (four new blends) – has registered sharp growth of 25%.
- The US business grew marginally by 1% to INR16.7b. New ethnic range of Tetley in three new flavors (Masala, *Elaichi* (Cardamom) and Ginger) was launched in the US and is expected to gain traction in the medium to near term.
- Internationally, new launches across several brands coupled with gradually subsiding COVID-19 impact should help resuscitate operations, in our view.

Synergy benefits to kick in; COVID-19 impact gradually subsiding

- Merger of Tata Chemicals' Consumer Product business (now India Food business) with TCPL provides the newly merged entity an opportunity to capitalize the potential of the INR30,000b F&B industry.
- Post-merger, synergy benefits are expected to kick in and *Tata Sampann and Tata Salt* – brands of the India Food business – are expected to benefit the most by leveraging the vast distributor and retail network of TCPL.
- Branded businesses globally were moderately impacted due to COVID-19. Food service and out-of-home businesses continue to face significant headwinds; however, TCPL has low presence in these segments.
- Further, the impact of COVID-19 is expected to partially subside in the domestic market as majority of TCPL's businesses have resumed operations and are gaining normalcy.

Sharp rise in CFO, backed by higher operating profit and WC inflow

- In FY20, inventory days decreased by 16 days to 65 days. Further, receivables/ payable days increased by a mere 1/3 days (to 35/36 days). After merger of the India food business with TCPL, the overall working capital days reduced from 82 to 64 days.
- Post-merger, operating cash flow grew 4.2x YoY to INR10.8b in FY20 (v/s. INR2.5b in FY19), which can be attributed to higher operating profit (from both, existing and new business) and increased inflow from WC.

- Huge cash reserves of INR24.5b provide TCPL ample opportunities for its various expansions as well as for organic/inorganic acquisitions.
- During the year, Goodwill and brands saw sharp increase of ~2.5x (from INR37.8b in FY19 to INR94.2b in FY20). This was majorly due to addition of Goodwill and brands post the merger with Tata Chemicals' Consumer Products (now India Food) business.

Tata Consumer Products

Valuation and view

- The merger of the India food business with TCPL is in sync with the company's vision to create a single FMCG-focused company. The merger offers multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies.
- TCPL has a clear focus to leverage its brand and participate in India's consumption story of INR30t. To achieve this end, it merged Tata Chemicals' Consumer (India food) business with TCPL.
- Moreover, TCPL's new CEO, Mr. Sunil D'Souza, is clearly focused (Corner office) on aggressively leveraging the combined synergies of both the merged entities with emphasis on capitalizing the under-penetrated food segment products (pulses, *besan,* spices and *chilla* mix) with its robust existing distribution network and the 'Tata' brand.
- We maintain our estimates for FY21/FY22E as demand for salt/tea/coffee is not materially impacted due to the COVID-19 crisis. Also, effects of the pandemic are visibly subsiding. However, availability of labor and the logistics issue is still a challenge.
- We value the stock on SOTP basis to arrive at a target price of INR444. Maintain **Buy.**

Valuation table

EV/EBITDA	EBITDA	Multiple (x)	EV
India Tea (TCP Standalone)	5,404	28	1,51,310
Coffee India (ex-Starbucks) @57%	608	10	6,079
Coffee Overseas	2,370	10	24,649
Consumer (Salt & others)	5,413	28	1,51,563
Overseas tea (Tetley UK)	2,053	10	20,534
DCF			
Starbucks JV			25,532
Price/Sales			
NourishCo (JV with Pepsi) & others	2,000	4	8,000
Enterprise value			**3,87,666**
Less: Net debt			-21,113
Market value (INRm)			**4,08,780**
No. of shares (m)			922
Target price (INR)			**444**
CMP (INR)			388
Upside (%)			15%

Source: MOFSL

Vodafone Idea

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	IDEA IN
Equity Shares (m)	28,735
M.Cap.(INRb)/(USDb)	305.2 / 4.2
52-Week Range (INR)	13 / 3
1, 6, 12 Rel. Per (%)	54/89/-1
12M Avg Val (INR M)	2716

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	449.6	485.5	490.1
EBITDA	149.1	191.7	223.2
Adj. PAT	-217.3	-228.8	-221.0
EBIT Margin (%)	33.2	39.5	45.5
Adj. EPS (INR)	-7.6	-8.0	-7.7
EPS Gr. (%)	-59.1	5.3	-3.4
BV/Sh. (INR)	2.1	NM	NM
Ratios			
Net D:E	17.7	NM	NM
RoE (%)	NM	NM	NM
RoCE (%)	-7.9	-6.2	-6.2
Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	9.1	7.8	7.1
P/E (x)	NM	NM	NM
P/BV (x)	5.1	NM	NM
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-0.3	2.7	4.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	72.1	72.1	71.3
DII	6.0	7.8	4.5
FII	8.8	12.5	13.1
Others	13.1	7.7	11.1

FII Includes depository receipts

CMP: INR 11 — Under Review

Steady ARPU growth partly diluted by subscriber loss

- While ARPU showed healthy 11% QoQ growth led by the price hike taken in Dec'19, revenue grew a mere 6% due to subscriber decline of 4%. EBITDA on pre Ind-AS 116 basis (adj. for one-off credits) stood at INR17.1b, up 34% QoQ (12% above est.).
- Despite the beat on 4QFY20 estimates, we see limited upward revision for FY21 numbers. This is because ARPU growth (estimated earlier in 1QFY21) may get tapered in line with Bharti.

Steep operating leverage drives strong EBITDA growth

- Revenue grew 6% QoQ to INR117.5b (in-line) along with EBITDA growth of 28% QoQ to INR43.8b. However, adjusted for INR4b one-off credits related to manpower and network cost, EBITDA grew 16% to INR39.8b (4% above est.). EBITDA on pre Ind-AS 116 basis (adj. for one-off credits) stood at INR17.1b, up 34% QoQ (12% above est.).
- Net loss came in at INR116.4b (v/s INR64.4b in 3QFY20). Adjusted net loss (for exceptional) stood at INR55b on post Ind-AS 116 basis (v/s INR58.1b in 3QFY20 and est. INR44.6b).
- Subs base continued to see downward pressure with steeper 4% QoQ decline to 291m (lost 13m subs). Decline in active subs was slower at 3.5m.
- ARPU at INR121 was up 11% QoQ (v/s Bharti's 14% and RJio's 2% QoQ growth), and was the big silver lining aided by last quarter's price hike.
- Capex intensity reduced to INR18.2b in 4QFY20 (v/s INR33.3b in 3QFY20 due to the COVID-19 disruption). FY20 capex stood at INR101.3b.
- Net Debt stood at INR1,125b (v/s INR1,033.1b in 3QFY20), including the INR876.5b deferred spectrum liability. Gross debt stood at INR1,150b excluding lease liabilities. Cash stood at a mere INR24.8b, barely sufficient for one quarter's capex.
- Operational synergy target of INR84b has been fully achieved with no incremental benefit left.

Valuation and view

- **Needs cash to survive:** VIL's weak cash position with outstanding cash and equivalents of INR26.6b in FY20 and EBITDA (pre Ind-AS 116) of INR58.1b would be insufficient to service the estimated cash requirement of ~INR135b for FY21/22E and the much higher INR300b for FY23E (as the 2-year deferred spectrum payment moratorium ends). We believe ~50% price would be required to keep it afloat.
- **Losing competitive position:** With continued subscriber churn, especially in the data market and weakening competitive position, revenue growth through price hike is getting diluted. This is evident from 4QFY20's results as the 11% ARPU increase translated into just 6% revenue growth. Against this, VIL has incremental network investment requirements, which may turn out to be a tall task ahead.

- **High leverage leaves limited upside for equity holders:** VIL's fate is dependent on the AGR case resolution, as stated by its management. A positive outcome may provide the company with a new lease of life. It needs ~50% price hike to generate potential EBITDA of INR250b to garner sustainable cash flows, which would be sufficient to service debt (bank as well as deferred spectrum) and capex. Yet, this may leave limited incremental opportunity for equity holders, assuming 8x EV/EBITDA, INR1.1t net debt and an additional INR510b AGR liability.
- **Placing under review:** With an uncertain outlook, the stock may be highly volatile to media reports on regulatory/judicial outcomes. In such an environment, we place the stock under review until we get clarity on the company's business continuity.

Consol. - Quarterly Perf. (INR b)

Y/E March	FY19				FY20				FY19	FY20	4Q	Est Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			FY20E	(%)
Revenue	**59**	**77**	**118**	**118**	**113**	**108**	**111**	**118**	**371**	**450**	**117**	**0.4**
YoY Change (%)	-27.9	2.7	80.7	91.9	91.4	41.5	-5.7	-0.2	31.2	21.2	-0.6	
Total Expenditure	52	72	106	100	76	75	77	74	330	300	79	-6.5
EBITDA	**7**	**5**	**11**	**18**	**37**	**33**	**34**	**44**	**40**	**149**	**38**	**14.9**
YoY Change (%)	-64.8	-69.3	-7.1	23.4	453.5	625.4	200.9	145.3	-33.1	268.8	113.6	*3174*
Depreciation	21	30	48	47	61	63	59	60	145	244	70	-13.3
Share in Profits from Associates	1	0	0	1	1	1	1	1	2	4	1	-33.5
Net Finance Costs	14	20	26	28	34	34	34	40	87	144	34	19.7
PBT before EO expense	**-28**	**-45**	**-62**	**-56**	**-59**	**-62**	**-58**	**-56**	**-190**	**-234**	**-64**	**NM**
Extra-Ord expense	-34	6	8	11	8	308	6	61	-9	384	0	
PBT	**6**	**-50**	**-70**	**-68**	**-67**	**-370**	**-64**	**-117**	**-182**	**-618**	**-64**	**NM**
Tax	4	0	-20	-19	-18	140	0	-1	-36	121	-19	**NM**
Rate (%)	57.7	0.9	28.5	27.8	27.0	-37.8	-0.3	0.8	19.7	-19.5	30.3	
Reported PAT	**3**	**-50**	**-50**	**-49**	**-49**	**-509**	**-64**	**-116**	**-146**	**-739**	**-45**	**NM**
Adj PAT	**-14**	**-45**	**-62**	**-41**	**-42**	**-62**	**-58**	**-55**	**-161**	**-217**	**-45**	**NM**
YoY Change (%)	75.9	302.4	383.1	321.6	195.4	38.9	-6.4	35.6	287.4	34.5	9.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY19				FY20				FY19	FY20E	4Q
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			FY20E
Blended ARPU (INR)	92	88	89	104	108	107	109	121	116	120	119
Subscriber Base (m)	188	422	387	334	320	311	304	291	334	291	289
Data Subscribers (m)	47	140	146	146	143	140	142	140	146	140	153
Data usage/Subs (Mb)	7309	5740	6324	6716	7417	8209	8951	9687	7852	8511	9399
EBITDA Margins (%)	11.2	6.0	9.7	15.2	32.4	30.9	30.8	37.3	10.9	33.2	32.6
EBIT Margin (%)	-24.3	-33.2	-30.9	-24.4	-22.0	-27.3	-22.2	-14.1	-28.3	-21.0	-26.9
Adj. PAT Margins (%)	-24.3	-58.1	-52.7	-34.5	-37.6	-57.0	-52.4	-46.8	-43.5	-48.3	-38.1

E:MOFSL Estimates

Bharat Electronics

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BHE IN
Equity Shares (m)	2,437
M.Cap.(INRb)/(USDb)	216 / 2.8
52-Week Range (INR)	122 / 56
1, 6, 12 Rel. Per (%)	20/5/-10
12M Avg Val (INR M)	1163

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	129.2	133.2	160.0
EBITDA	27.3	24.6	29.8
PAT	17.9	16.5	20.2
EBITDA (%)	21.1	18.5	18.6
EPS (INR)	7.4	6.8	8.3
EPS Gr. (%)	(6.9)	(8.0)	22.7
BV/Sh. (INR)	40.7	43.8	47.5
Ratios			
Net D/E	(0.2)	(0.2)	(0.2)
RoE (%)	18.1	15.5	17.5
RoCE (%)	18.9	16.1	18.2
Payout (%)	46.2	46.2	46.2
Valuations			
P/E (x)	12.0	13.1	10.7
P/BV (x)	2.2	2.0	1.9
EV/EBITDA (x)	7.3	7.9	6.5
Div Yield (%)	3.8	3.5	4.3
FCF Yield (%)	8.6	6.7	5.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.1	55.3	58.8
DII	30.2	25.3	22.9
FII	10.7	12.2	7.5
Others	8.0	7.2	10.8

FII Includes depository receipts

CMP: INR89 TP: INR108 (+22%) Buy

Welcome improvement in working capital cycle

Margin surprise leads earnings beat

- Bharat Electronics (BHE)'s 4QFY20 earnings came in higher than estimated, led by a strong uptick in margins. While revenue was in-line, the major surprise was the EBITDA margin coming in at 25.5% v/s our estimate of 20.5%. Thus, net profit was 26% above our estimate.
- Adjusted for EVM/VVPAT orders in the base year, execution was strong at 56%/37% for 4QFY20/FY20. The EBITDA margin tends to be volatile on a quarterly basis as it depends on the sales mix between deliverables. The current order book is strong at INR520b, with an OB/rev ratio of 4.1x. We tweak our FY21/FY22E EPS by -6%/+2%. Maintain **Buy**, with revised TP of INR108.

Margin surprise leads strong earnings beat in 4QFY20

- **4QFY20 snapshot:** Revenues were up 50% YoY to INR58b, **in line with our estimates**. Strong execution and lower other expenses resulted in EBITDA growth of 60% YoY to INR14.8b (26% above our estimates). The EBITDA margin stood at 25.5% v/s our expectation of 20.5%. PBT was up 48% YoY to INR14.1b. Effective tax rate stood at 26.8% (v/s 29.8% YoY). Adj. PAT was up 55% YoY to INR10.3b, **26% above our estimates.**
- **FY20 snapshot:** Revenues were up 7% YoY to INR129b. EBITDA stood at INR27.3b, while the EBITDA margin stood at 21.1% (down 260bp YoY; base had a higher margin due to EVM and VVPAT orders in FY19). PBT was down 8% YoY to INR24.8b. Adj. PAT was down 7% YoY to INR17.9b. CFO stood at INR25.3b (v/s INR14.7b in FY19) on account of improvement in the working capital cycle.

Order inflow and order book position

- The order book stood at INR520b in FY20. OB/Revenue, stable since FY16, stands at 4.1x, providing adequate revenue visibility. BHE secured orders worth INR132b in FY20, lower than FY19 (INR243b) as the base year had one-time EVM/VVPAT orders.
- Key orders acquired in FY20 include the Akash Missile System (7 Sqdn) and Coastal Surveillance System - Phase II, and the upgrade of EW systems.
- Major orders expected in FY21 comprise: EW systems, avionics package for light combat aircraft, smart city business, and spares/services.

Sharp rise in exports; still forms small fraction of sales

- Major supplies made in FY20 consist of: the part supply of Long-range surface-to-air missile systems, smart city and homeland security business, an integrated air command and control system, and radar systems and thermal imaging cameras.
- Export revenues stood at ~INR3.6b (USD48.6m), forming 3% of overall revenue (v/s 1.2% in FY19)

Valuation and view

- We tweak our FY21/FY22E EPS by -6%/+2% respectively. We forecast a Revenue/EBITDA/PAT CAGR of 11%/5%/6% over FY20–22E. We have built-in a sufficient margin cushion as we assume an EBITDA margin of 18.6% by FY22 v/s 21.1% reported in FY20. Maintain Buy, with revised TP of INR108.

Quarterly Performance

(INR m)

Y/E March	FY19				FY20				FY19	FY20	MOSL	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var
Sales	**21,021**	**33,814**	**27,165**	**38,846**	**21,015**	**27,427**	**22,710**	**58,058**	**1,20,846**	**1,29,211**	**57,300**	**1.3**
Change (%)	22.1	36.7	8.4	7.7	0.0	-18.9	-16.4	49.5	17.1	6.9	47.5	
EBITDA	**3,105**	**8,544**	**7,681**	**9,290**	**3,481**	**5,447**	**3,547**	**14,826**	**28,621**	**27,301**	**11,742**	**26.3**
Change (%)	87.5	44.1	72.5	16.7	12.1	-36.2	-53.8	59.6	43.1	-4.6	26.4	
As of % Sales	14.8	25.3	28.3	23.9	16.6	19.9	15.6	25.5	23.7	21.1	20.5	
Depreciation	689	743	797	933	828	857	861	950	3,162	3,496	913	
Interest	3	0	0	119	3	12	1	16	122	33	106	
Other Income	89	143	176	1,288	254	150	332	283	1,695	1,019	464	
PBT	**2,502**	**7,944**	**7,060**	**9,526**	**2,904**	**4,729**	**3,017**	**14,142**	**27,032**	**24,792**	**11,187**	**26.4**
Tax	705	2,230	1,984	2,840	856	1,334	866	3,797	7759	6853	2,949	
Effective Tax Rate (%)	28.2	28.1	28.1	29.8	29.5	28.2	28.7	26.8	28.7	27.6	26.4	
Reported PAT	**1,797**	**5,713**	**5,076**	**6,686**	**2,048**	**3,395**	**2,151**	**10,345**	**19,273**	**17,938**	**8,238**	**25.6**
Change (%)	43.4	38.5	67.6	19.7	13.9	-40.6	-57.6	54.7	37.7	-6.9	23.2	
Adj PAT	**1,797**	**5,713**	**5,076**	**6,686**	**2,048**	**3,395**	**2,151**	**10,345**	**19,273**	**17,938**	**8,238**	**25.6**
Change (%)	**43.4**	**38.5**	**67.6**	**19.7**	**13.9**	**-40.6**	**-57.6**	**54.7**	37.7	-6.9	23.2	

Jindal Steel

Bloomberg	JSP IN
Equity Shares (m)	1,020
M.Cap.(INRb)/(USDb)	164.8 / 2.1
52-Week Range (INR)	202 / 62
1, 6, 12 Rel. Per (%)	25/13/25
12M Avg Val (INR M)	2976
Free float (%)	39.5

Valuation snapshot (INR b)

Y/E MAR	2020	2021E	2022E
Sales	370.0	359.7	413.4
EBITDA	78.5	86.4	89.2
Adj. PAT	-2.8	3.1	7.8
EBITDA Margin (%)	21.2	24.0	21.6
Cons. Adj. EPS (INR)	-2.8	3.0	7.7
EPS Gr. (%)	-183.8	-210.2	153.3
BV/Sh. INR	315.1	318.1	325.8
Ratios			
Net D:E	1.2	1.0	0.9
RoE (%)	-0.8	1.0	2.4
RoCE (%)	4.8	5.9	6.5
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	-58.9	53.4	21.1
P/BV (x)	0.5	0.5	0.5
EV/EBITDA.x	6.9	5.8	5.3
Div. Yld (%)	0.0	0.0	0.0

Divests Oman operations for >USD1b

- JSPL's subsidiary, Jindal Steel & Power (Mauritius) has accepted a binding offer from Templar Investments Ltd, Mauritius (which is an investment company and part of the Promoter Group of JSPL) to divest its entire stake in its Oman asset, Jindal Shadeed Iron and Steel (JSIS).
- The enterprise value of the deal is ~USD1.0b (INR74/share of JSPL).
- The transaction is subject to approval from shareholders of JSPL and lenders of JSIS Oman among others. JSPL expects the deal to get completed in about a month's time.
- JSPL's Oman asset has capacity of 2.4mtpa and had outstanding debt of INR56b (USD750m) at end-FY20. It operated at ~80% utilization in FY20 and generated an EBITDA of USD138m (USD73/t).
- We estimate EBITDA of USD170m for FY22E, implying deal value of 5.8x FY22E EV/ EBITDA.
- JSPL had USD4.8b debt in FY20 and the deal should reduce its debt by ~20% and net debt/ EBITDA to 3.5x.
- Additionally, the deal would enable faster deleveraging, which adds more comfort on the balance sheet and improves focus on domestic steel operations.

Valuation and view

- While JSP has guided for ~15% volume growth in FY21 on the back of higher exports, we have factored in 6% volume growth. Lower export prices are likely to adversely impact realizations, thereby impacting margins. However, we expect this to be partly offset by usage of free iron ore/lower coal prices.
- We expect JSP to reduce its net debt by INR72b (INR71/share) over FY20-22E to INR307b from INR379b (incl. acceptances) at end-FY20 through FCF generation led by higher EBITDA. If this deal materializes, it would lead to an additional debt reduction of ~INR75b.
- We value JSPL on SOTP basis (valuing the steel business at 4.5x FY22E EV/EBITDA) and the power business using DCF methodology.
- In our TP, the Oman business contributes an EV of INR59b (INR58/share). As a result, our TP will rise by INR16/share if the deal is finalized at USD1.0b. Reiterate **Buy**.

Target price calculation

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Steel Business							
A. EBITDA				72,496	66,049	73,653	74,900
B. Target EV/EBITDA(x)							4.5
C. EV (AxB)							3,37,050
Jindal Power (JPL)							
D. PV of JPL's FCFF							1,38,938
Consolidated							
EBITDA	34,410	46,613	64,691	84,056	78,539	86,365	89,179
E. Enterprise Value (C+D)							4,75,988
F. Net Debt	4,63,928	4,61,427	4,38,319	4,10,943	3,79,230	3,39,866	3,06,794
Equity Value (E-F)							1,69,194
Target price (INR/share)							**166**

Phoenix Mills

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	PHNX IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	89.7 / 1.2
52-Week Range (INR)	980 / 466
1, 6, 12 Rel. Per (%)	2/-14/3
12M Avg Val (INR M)	117

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	19.4	16.2	21.5
EBITDA	9.7	8.0	10.9
EBITDAM %	49.8	49.5	50.8
NP (INRb)	3.3	1.8	3.8
EPS (INR)	21.5	11.8	24.9
EPS Gr. (%)	-14	-45	111
BV/Sh. (INR)	242	249	269
Ratios			
Net D:E	1.1	1.0	0.9
RoE (%)	9.2	4.8	9.6
RoCE (%)	7.9	6.2	8.5
Valuations			
P/E (x)	27.2	49.5	23.5
P/BV (x)	2.4	2.3	2.2
EV/EBITDA (x)	13.4	15.9	11.8
EV/Sales (x)	6.7	7.9	6.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	59.1	59.1	62.8
DII	10.9	9.2	5.7
FII	25.7	27.5	26.3
Others	4.3	4.2	5.2

FII Includes depository receipts

CMP: INR584 TP: INR792(+36%) Buy

Earnings disappoint; Near-term outlook challenging

- The near-term uncertainty in PHNX's business, especially retail malls (one of the worst hit businesses due to COVID-19), remains a challenge. However, in the medium-to-long term, PHNX still remains one of the best proxy plays on India's consumption story.
- Reiterate **Buy** on account of favorable risk-reward.

COVID-19 led disruption spells short-term uncertainty

- **4QFY20 performance**: Revenue declined 45% YoY to INR3,992m (v/s est. INR4,971m) in 4QFY20. EBITDA margin declined 100bp YoY to 51.2% (in line with est. 51.1%). EBITDA stood at INR2,043m (v/s est. INR2,538m), down 46% YoY. Adj. PAT declined 75% YoY to INR467m (v/s est. INR644m).
- **Segmental Performance**: Retail revenue declined 7% YoY to INR2,705m, largely impacted by COVID-19 led countrywide lockdowns in the second half of Mar'20. Commercial revenue was up 19% YoY to INR290m while Hospitality revenue declined 14% YoY to INR867m, impacted by lower occupancy at St. Regis (-1,800bp YoY to 69%) and Courtyard (-2,300bp YoY to 60%).
- **Unlock 1.0 and resumption of mall business**: According to the Indian government's latest directive to restart the economy, malls were allowed to open from 8th June in few states. PMC – Bangalore and PHNX's malls in UP (Lucknow and Barelli) have started operations. ~80% of the stores have opened up, barring few businesses like family entertainment and multiplexes (~20-25% of leasable space).

Highlights from management commentary

- Three of the eight operational malls in Bengaluru, Bareilly and Lucknow have started operations with ~80% of the permissible operational area active across assets.
- As a relief to retail tenants, PHNX has offered 3 months moratorium on renegotiated rentals – ~50% waiver in minimum guarantee (MG) portion of the rental income – for the lockdown period.

Valuation and view

- PHNX's 4QFY20 results highlight near-term headwinds in two of its key business segments viz. Retail and Hospitality. However, the company's existing liquidity position and plan to raise additional capital (up to INR12b) as a conservative measure to withstand the challenging business environment makes it a preferred play in the real estate space. Nevertheless, we cut our earnings estimate for FY21/FY22E by 31%/12% given the extended lockdown and uncertainty surrounding the commencement of operations at its key retail assets in Maharashtra (HSP Mumbai, PMC Kurla and PMC Pune, which contributes ~60% of the rental income). We value PHNX's retail assets using DCF-based NAV approach, assuming cap rate of 9.5% and discount rate of 13.5%. Maintain **Buy** with an SOTP-based TP of INR792/share.

Consolidated - Quarterly Earning Model (INR Million)

Y/E March	FY19				FY20E				FY19	FY20	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	**4,132**	**4,047**	**4,404**	**7,232**	**6,150**	**4,151**	**5,118**	**3,992**	**19,816**	**19,411**	**4,971**	**-20%**
YoY Change (%)	4.4	9.2	5.7	65.6	48.9	2.6	16.2	-44.8	22.3	-2.0	-31.3	
Total Expenditure	2,178	2,065	2,180	3,461	3,223	2,043	2,525	1,949	9,884	9,740	2,433	
EBITDA	**1,953**	**1,982**	**2,225**	**3,771**	**2,927**	**2,108**	**2,593**	**2,043**	**9,931**	**9,671**	**2,538**	**-19%**
Margins (%)	47.3	49.0	50.5	52.1	47.6	50.8	50.7	51.2	50.1	49.8	51.1	
Depreciation	499	506	523	514	507	509	514	545	2,042	2,076	503	
Interest	846	917	917	826	871	878	889	840	3,506	3,478	950	
Other Income	170	183	170	329	154	195	133	104	851	585	179	
PBT before EO expense	**778**	**741**	**955**	**2,761**	**1,703**	**915**	**1,323**	**761**	**5,235**	**4,702**	**1,264**	**-40%**
Extra-Ord expense	0	0	0	-481	0	-78	0	0	-481	-78	0	
PBT	**778**	**741**	**955**	**3,242**	**1,703**	**993**	**1,323**	**761**	**5,716**	**4,780**	**1,264**	
Tax	235	179	175	510	234	350	358	279	1,099	1,221	389	
Rate (%)	30.2	24.1	18.3	15.7	13.8	35.3	27.0	36.6	19.2	25.4	30.8	
Reported PAT	597	620	708	2,284	1,304	658	919	467	4,210	3,347	644	
Adj PAT	**597**	**620**	**708**	**1,879**	**1,304**	**608**	**919**	**467**	**3,821**	**3,297**	**644**	**-27%**
YoY Change (%)	40.3	48.6	8.5	103.0	118.3	-2.1	29.8	-75.1	57.8	-13.7	-65.7	
Margins (%)	14.5	15.3	16.1	26.0	21.2	14.6	17.9	11.7	19.3	17.0	13.0	

E: MOFSL Estimates

Key Performance Indicators (INR Million)

Y/E March	FY19				FY20E				FY19	FY20E	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Retail	**2,905**	**2,839**	**2,899**	**2,908**	**3,046**	**3,024**	**3,218**	**2,705**	**11,551**	**11,993**	**3,055**	**-11%**
Growth %	12.1	11.0	6.6	7.8	4.9	6.5	11.0	-7.0	9.3	3.8		
Residential	**281**	**243**	**199**	**3,072**	**2,071**	**112**	**481**	**130**	**3,795**	**2,794**	**574**	**-77%**
Growth %	-41.1	2.1	-36.0	480.7	637.0	-53.9	141.7	-95.8	144.1	(26.4)		
Commercial	**149**	**161**	**327**	**244**	**250**	**264**	**334**	**290**	**881**	**1,138**	**345**	**-16%**
Growth %	-0.7	4.9	89.0	34.8	67.8	64.5	2.1	18.9	34.0	29.2		
Hospitality	**797**	**805**	**979**	**1,008**	**783**	**751**	**1,085**	**867**	**3,589**	**3,486**	**834**	**4%**
Growth %	16.0	17.4	11.1	5.2	-1.8	-6.7	10.8	-14.0	11.8	(2.9)		

4QFY20 current account in surplus

Expect current account to post first surplus in 18 years in FY21

- **India's current account posted a surplus of USD0.6b (0.1% of GDP) in 4QFY20 as against our expectation of a deficit. This is the first quarterly current account surplus after 4QFY07. The current account deficit (CAD) stood at USD2.6b (0.4% of GDP) in 3QFY20 and at USD4.6b (0.7% of GDP) in 4QFY19. This implies that India's CAD was at a 3-year low of USD24.6b (0.9% of GDP) in FY20 compared to USD57.2b (2.1% of GDP) in FY19.**
- **India's goods deficit in 4QFY20 came in lower at USD35b (4.8% of GDP) as against USD36b (5.0% of GDP) in the previous quarter. Moreover, net invisibles' receipts stood at USD35.6b in 4QFY20 (4.8% of GDP), the highest in 17 quarters.**
- **Net capital flows stood lower at USD17.3b (2.4% of GDP) in 4QFY20, largely due to net outflow of foreign portfolio investments worth USD13.7b as against an inflow of USD7.8b in 3QFY20 and USD9.4b in 4QFY19.**
- **According to our calculations, (implied) domestic savings (domestic investments minus CAD) rose marginally to 28.7% in 4QFY20 from 28.5% in 3QFY20. However, average domestic savings in FY19 was 29.6%, slightly higher than 28.8% in FY20.**
- **Due to the weak global and domestic economic activity along with the crash in crude oil prices, we believe the net impact on India's external account would be positive in FY21. Consequently, we expect India to post its first current account surplus of ~0.4% in 18 years in FY21 from 0.9% deficit in FY20.**

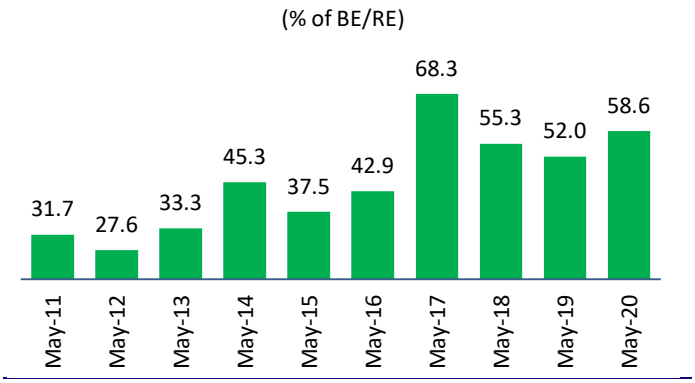
- **4QFY20 current account in surplus contrary to expectations of deficit…**: India's current account posted a surplus of USD0.6b (0.1% of GDP) in 4QFY20 as against the consensus of a deficit of USD2.5b (0.3% of GDP) and our expectation of a deficit of USD2.8b (0.4% of GDP). This is the first current account surplus after 4QFY07 *(Exhibit 1)*. Current account deficit (CAD) stood at USD2.6b (0.4% of GDP) in the previous quarter and was at USD4.6b (0.7% of GDP) in 4QFY19. This implies that India's CAD was at a 3-year low of USD24.6b (0.9% of GDP) in FY20 compared to USD57.2b (2.1% of GDP) a year ago *(Exhibit 2)*.
- **…on account of 12-quarter low trade deficit:** India's trade (goods) deficit in 4QFY20 came in lower at USD35b (4.8% of GDP) as against USD36b (5.0% of GDP) in the previous quarter. Moreover, net invisibles' receipts stood at USD35.6b in 4QFY20 (4.8% of GDP), the highest in 17 quarters. While a lower gold deficit aided overall goods balance, an 18-quarter high balance of net income worked in favor of India's net services account. Further details suggest that current account balance (excluding petroleum and oil) came in at USD22.4b (3.0% of GDP) *(Exhibit 3-4)* even as net balance in the petroleum account stood at USD24.6b (3.3% of GDP) in 4QFY20.
- **Capital surplus moderated in 4QFY20:** Capital flows stood lower at USD17.3b (2.4% of GDP) in 4QFY20 from USD23.6b (3.2% of GDP) a quarter ago and USD19.2b (2.7% of GDP) in 4QFY19 *(Exhibit 5)*. The capital account surplus is higher than USD21.2b, the average of last four quarters. The major reason for a lower capital account balance is net outflow of foreign portfolio investments worth USD13.7b in 4QFY20 as against an inflow of USD7.8b a quarter ago and USD9.4b a year ago.

Central government expenditure declines 20.7% YoY in May'20

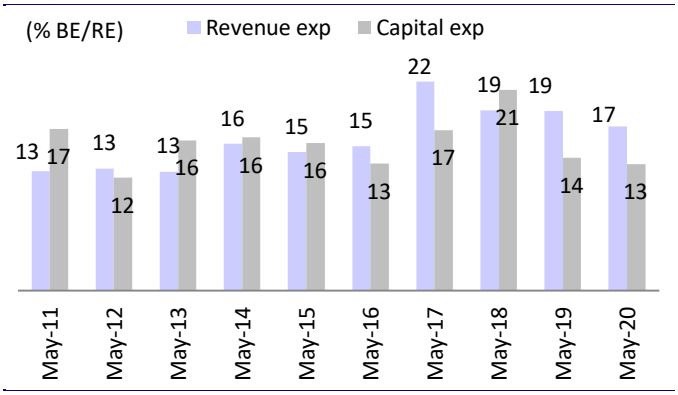
Apr-May'20 government spending largely flat v/s corresponding period last year

- Total spending of the central government contracted 20.7% YoY in May'20, the highest contraction in 26 months, leading to largely flat expenditure of INR5.1t during Apr-May'20. This implies that the government has spent 16.8% of the budgeted estimate in FY21, the lowest rate of spending in 4 years.
- Government receipts, on the other hand, declined by 63.5% YoY in May'20 from a decline of 71.8% in Apr'20. This decline was largely because net tax revenue contracted 71.5% YoY even as gross taxes fell 37.3% YoY during the month. Non-tax revenue, however, contracted only 1.6% YoY in May'20. Total receipts in the first two months of FY21, therefore, stood at INR0.5t or 2.0% of FY21BE, the lowest rate of receipts collected by the government in the past 21 years.
- Consequently, India's fiscal deficit came in at INR4.7t, 58.6% of the budgeted estimate for FY21.
- Within total spending, revenue spending declined 1.9% YoY during Apr-May'20. Government's capital expenditure, however, grew 15.7% YoY during the corresponding months. Interestingly, while government's interest payment grew slowly at 4.6% YoY to INR0.8t in Apr-May'20, its subsidy payments fell 30.2% YoY caused by 40%/~25% decline in food/fuel subsidy to INR0.5t/INR0.1t.
- On the revenue front, gross tax collections declined 41.2% YoY in Apr-May'20, following a 52% YoY decline in indirect taxes to INR0.7t (6.6% of FY21BE) – the lowest rate of indirect collection in 21 years. Direct taxes too declined 14.6% YoY to INR0.5t (4.0% of FY21BE) – the lowest rate in 9 years.
- Overall, the series of weak finances of the government during Apr-May'20 continued as expected. Government receipts, however, might pick up pace starting Jun'20 following the partial opening up of economic activity during the month. In any case, the government's fiscal accounts during the year would remain stretched given the INR2.5t or 1.3% of GDP (our estimate) worth actual fiscal stimulus announced in light of the COVID-19 pandemic. Further, a very low denominator (Nominal GDP) would add to their woes. We expect the center's fiscal deficit at ~7-7.5% of GDP in FY21.

Government's fiscal deficit target at 58.6% of FY21BE



It has spent only 16.8% of total expenditure budgeted during the year



Source: CGA, MOFSL

TATA STEEL: STEEL CONSUMPTION UP IN SECTORS LINKED TO RURAL ECONOMY; TV Narendran, CEO & MD

- Quarter on quarter, saw an EBITDA improvement in Kalinganagar and Jamshedpur of about Rs 2000-2500 a tonne which was on the back of cost takeout and price hikes. It should have been even better if we did not have the lockdown because company would have sold at least half a billion tonnes more which would have helped in cost as well as realisations. Company has lost half a billion tonnes of March sales which was at the highest price.
- The demand was still quite strong till the lockdown happened and then most of our customers were closed so we did not have a choice though we were allowed to run a plant as an essential service. Prices in India were static because there were no sales but the fact that inventories were building up meant that all Indian producers were trying to export. So the export markets were crowded with Indian suppliers towards the end of March and early April. Thankfully by the end of April, China started pulling in quite strongly and so a lot of steel exports started going to China and we saw a recovery of the international markets starting April. The steel prices went up by about $50 per tonne. So, that was the story of the last three-four months' roller coaster ride.
- Have seen consumption grow in sectors which are linked to the rural economy. In the automotive business, the tractors business has been reasonably strong. Motorcycles have been stronger than scooters because they are both dependent on the rural economy.
- Rural infrastructure spending by the government has been positive. Company sells a lot of steel -- about 20% of our revenues -- to the rural economy.
- The second area is where we are seeing pick up is where the government is spending. It could be oil and gas, it could be railways. So, sectors which are dependent on the government spend are showing positive signs.

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THE WTO SHOULD BE REVIVED FOR THE SAKE OF WELL-REGULATED TRADE

- The World Trade Organization (WTO) is in the news mostly for the wrong reasons nowadays. Many people regard it as an ineffective policeman of an outdated rulebook that is unsuited for the challenges of the 21st century global economy. And WTO members generally agree that the organization urgently needs reforming in order to remain relevant. Recent months have brought further challenges. The WTO's appellate body, which adjudicates trade disputes among member countries, effectively ceased functioning last December amid disagreements regarding the appointment of new judges to the panel. And in May 2020, director-general Roberto Azevêdo announced that he would step down at the end of August, a year before his current term was due to end. Whoever Azevêdo's successor is will face a major challenge. Since its establishment in 1995, the WTO has failed to conclude a single trade-negotiation round of global trade talks, thus missing an opportunity to deliver mutual benefits for its members. The Doha Development Round, which began in November 2001, was supposed to be concluded by January 2005. Fifteen years later, WTO members are still debating whether the Doha process should continue. Some think it has been overtaken by events, while others want to pursue further negotiations. The WTO has so far delivered disappointingly few other notable agreements as well, apart from the Trade Facilitation Agreement, which entered into force in February 2017, and the 2015 decision to eliminate all forms of agricultural export subsidies. Meanwhile, some of its members have worked together on a raft of much broader regional trade deals that cover pressing issues such as the digital economy, investment, competition, the environment, and climate change.

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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

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