## Market snapshot

| Equities - India | Close | Chg .% | CYTD.% |
|---|---|---|---|
| Sensex | 39,575 | 1.5 | -4.1 |
| Nifty-50 | 11,662 | 1.4 | -4.2 |
| Nifty-M 100 | 17,216 | 0.6 | 0.7 |
| **Equities-Global** | **Close** | **Chg .%** | **CYTD.%** |
| S&P 500 | 3,361 | -1.4 | 4.0 |
| Nasdaq | 11,155 | -1.6 | 24.3 |
| FTSE 100 | 5,950 | 0.1 | -21.1 |
| DAX | 12,906 | 0.6 | -2.6 |
| Hang Seng | 9,536 | 0.9 | -14.6 |
| Nikkei 225 | 23,434 | 0.5 | -0.9 |
| **Commodities** | **Close** | **Chg .%** | **CYTD.%** |
| Brent (US$/Bbl) | 41 | 1.0 | -38.8 |
| Gold ($/OZ) | 1,878 | -1.8 | 23.8 |
| Cu (US$/MT) | 6,514 | 0.0 | 5.9 |
| Almn (US$/MT) | 1,740 | -0.4 | -2.3 |
| **Currency** | **Close** | **Chg .%** | **CYTD.%** |
| USD/INR | 73.5 | 0.2 | 2.9 |
| USD/EUR | 1.2 | -0.4 | 4.6 |
| USD/JPY | 105.6 | -0.1 | -2.7 |
| **YIELD (%)** | **Close** | **1MChg** | **CYTDchg** |
| 10 Yrs G-Sec | 6.0 | 0.02 | -0.5 |
| 10 Yrs AAA Corp | 6.9 | 0.02 | -0.7 |
| **Flows (USD b)** | **6-Oct** | **MTD** | **CYTD** |
| FIIs | 0.15 | 0.40 | 4.29 |
| DIIs | -0.13 | -0.09 | 9.09 |
| **Volumes (INRb)** | **6-Oct** | **MTD*** | **CYTD*** |
| Cash | 526 | 527 | 549 |
| F&O | 16,555 | 24,870 | 16,594 |

Note: *Average

## Today's top research idea

### EcoScope: India's debt growth remains tepid in 1QFY21

- The outstanding debt of India's non-financial sector (NFS1) stood at INR322t or 167.3% of GDP in 1QFY21 (or 2QCY20), up from around 153% in the past few quarters. 9.1% YoY growth in NFS debt and 0.6% YoY decline in annualized nominal GDP led to a jump in NFS' debt-to-GDP ratio in 1QFY21.
- Almost the entire QoQ increase was attributable to government debt as NGNF debt remained broadly unchanged. Due to COVID-19 and the related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable.
- However, the pickup in India's debt growth in 1QFY21 was only marginal v/s the previous few quarters. Since the credit guarantee scheme in India was announced in mid-May'20 (later v/s other major nations – US, UK, Japan, and China¬), NGNF debt could grow faster in 2QFY21.

## Research covered

| Cos/Sector | Key Highlights |
|---|---|
| EcoScope | India's debt growth remains tepid in 1QFY21 |
| Consumer | Benign commodity cost trend continues |
| Bajaj Finance | Slow quarter for disbursements; Focus on liquidity |
| GCPL | Strong rebound in 2QFY21 aided by soft base |
| Sobha | Green shoots visible in residential sales pickup |
| Consumer Durables | PLI Scheme – Dixon selected under domestic category |

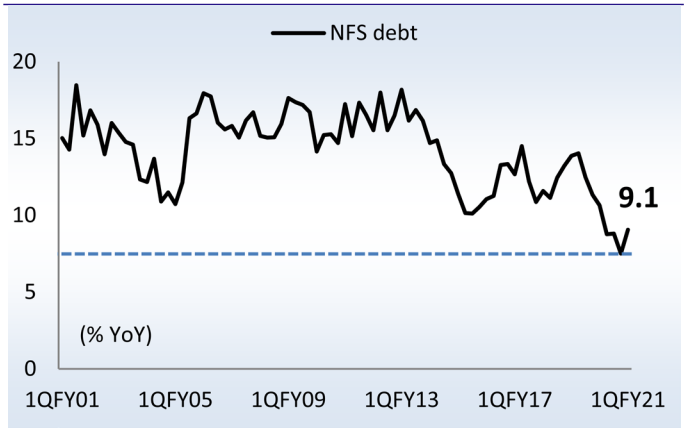
## Piping hot news

### Government clears 16 companies for product-linked incentive scheme

The government, on Tuesday, approved applications of 16 electronics companies including 10 mobile phone manufacturers for reward under the product-linked incentive scheme for total disbursement of Rs 40,000 crore. …

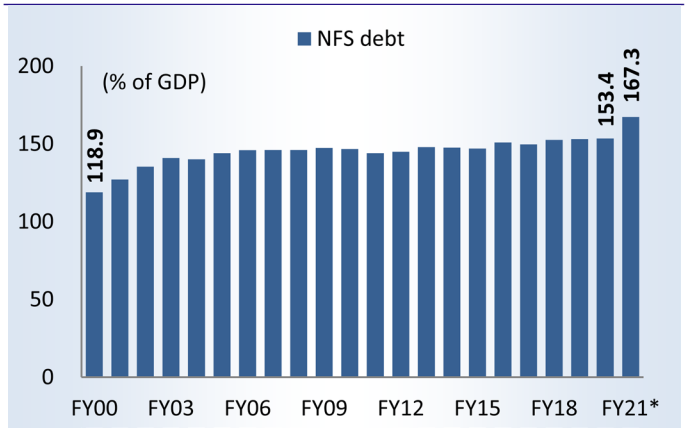
## Chart of the Day: EcoScope (India's debt growth remains tepid in 1QFY21)

**India's NFS debt grew 9.1% YoY in 1QFY21…**




Please see Appendix at end of the report for methodology

**…and rose to 167.3% of GDP from 153.4% in FY20**




Source: Reserve Bank of India (RBI), Government finances, Bloomberg, NBFCs/HFCs company reports, CEIC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

## In the news today

Kindly click on textbox for the detailed news link

1

### Government clears 16 companies for product-linked incentive scheme

The government, on Tuesday, approved applications of 16 electronics companies including 10 mobile phone manufacturers for reward under the product-linked incentive scheme for total disbursement of Rs 40,000 crore. The international mobile phone manufacturing companies…

2

### ADIA to invest Rs 5,512 crore in Reliance Retail

ADIA, a wholly owned subsidiary of the Abu Dhabi Investment Authority will invest Rs 5,512.50 crore into RRVL, a subsidiary of Reliance Industries. With this investment, RRVL has raised Rs 37,710 crore from leading global investors including Silver Lake, KKR, General Atlantic, Mubadala, GIC, TPG and ADIA in less than four weeks.…

3

### Service activity moves towards recovery, September PMI at 49.8

India's service sector output broadly stabilised in September amid relaxations in the Covid-19 restrictions, a private survey showed on Tuesday even though services employment decreased for the seventh month in a row and at a quicker rate than in August. The Services Business Activity Index rose for the fifth straight month in September …

4

### Centre extends deadline for new emission norms for tractors, construction vehicles

The central government has extended deadlines for the applicability of new emission norms for construction equipment vehicles and tractors to next year. According to an official release of the Ministry of Road Transport and Highways (MoRTH), the new emission…

5

### Aequs to invest ₹3,500 crore to set up consumer electronics cluster in Karnataka

The Karnataka government on Tuesday approved ₹3540 crore investment by Aequs SEZ Private Limited to develop a consumer electronics and durables goods (CEDG) cluster in Hubballi, about 430 kilometers from Bengaluru. The investment was cleared at the State High Level Clearance Committee (SHLCC) chaired by the Karnataka chief minister, B S Yediyurappa. This is India's first sector-specific investment in line with Prime Minister Narendra Modi-led Union government's Atmanirbhar or self- reliance initiative, the state government and Aequs said. The investment is expected to generate around 20,000 jobs and the company has request the Karnataka Industrial…

6

### Govt to give incentives to boost domestic solar industry: Minister

Along with an interest subvention to boost domestic solar manufacturing in the country, the government is also looking at incentivising the use of advanced technology, union power and renewable energy minister RK Singh said. "We have schemes in the anvil, and …

7

### Government names Dinesh Khara as the new SBI chief

The government today gave its nod to the Banks Board Bureau's recommendation, thereby appointing Dinesh Khara as the chairman of SBI- country's largest public sector bank .The term of Rajnish Kumar, who was appointed for a period of three years comes to an end on Tuesday.

# India's debt growth remains tepid in 1QFY21

## Things could, however, change in 2QFY21

- **The outstanding debt of India's non-financial sector (NFS[1]) stood at INR322t or 167.3% of GDP in 1QFY21 (or 2QCY20), up from around 153% in the past few quarters. 9.1% YoY growth in NFS debt and 0.6% YoY decline in annualized nominal GDP[2] led to a jump in NFS' debt-to-GDP ratio in 1QFY21.**
- **Within NFS, general government (center + states[3]) debt grew at a 30-quarter high pace of 14.3% YoY. Moreover, non-government non-financial (NGNF[4]) debt grew 4.6% YoY in 1QFY21 (against record-low growth levels of 4% in 4QFY20). Within the NGNF sector, household debt grew at near-record lows of 6% YoY in 1QFY21 (8.9% in 4QFY20, but slowest growth of 5.7% in 4QFY09). Additionally, non-financial corporate (NFC) debt grew 3.7%, the second lowest to record-low growth levels of 1% in 4QFY20. A look at long-term trends suggests the country's debt growth weakened to the single digits for the first time in two decades in 2QFY20, and COVID-19 failed to change this in 1QFY21.**
- **Details of NGNF debt suggest: (a) banks' lending grew 5% YoY in the quarter (v/s record-low growth of 4.7% in 4QFY20); (b) borrowings through corporate bonds (CBs) grew ~6% YoY (v/s 0.5% in 4QFY20); and (c) external commercial borrowings (ECBs) grew 12.5% in 1QFY21 (similar to 12.4% in the previous quarter). In contrast, lending by NBFCs grew at record-low levels of just 3.6% in 1QFY21, and HFCs' loan book grew marginally (0.3% YoY) after declining for the first time in 4QFY20.**
- **Due to COVID-19 and the related collapse in economic activity, a jump in the debt-to-GDP ratio across nations was inevitable. However, the pickup in India's debt growth in 1QFY21 was only marginal v/s the previous few quarters. NFS debt growth was the highest in 15 years in the US (at 11.7%), the highest in 11 years in the UK (at 10.2%), the highest in 24 years in Japan (at 4.6%), and the highest in 10 quarters in China (at 12.4%). Since the credit guarantee scheme in India was announced in mid-May'20 (later v/s other major nations), NGNF debt could grow faster in 2QFY21.**

**India's NFS debt grew 9.1% YoY to reach 167.3% of GDP in 1QFY21:** Our estimates suggest India's NFS debt stood at INR322t in 1QFY21, up from INR312t in 4QFY20 and INR295t in 1QFY20. Almost the entire QoQ increase was attributable to government debt as NGNF debt remained broadly unchanged *(Exhibit 1)*. Against average growth of 9% in FY20, India's NFS debt grew 9.1% YoY in 1QFY21 – the highest in the past four quarters, but slower than growth in the previous quarters (*Exhibit 2*). Furthermore, NFS debt rose from 153% of GDP over the past three years to an all-time peak of 167.1% in 1QFY21 *(Exhibit 3)*.

**Estimates of India's non-financial sector (NFS) debt**

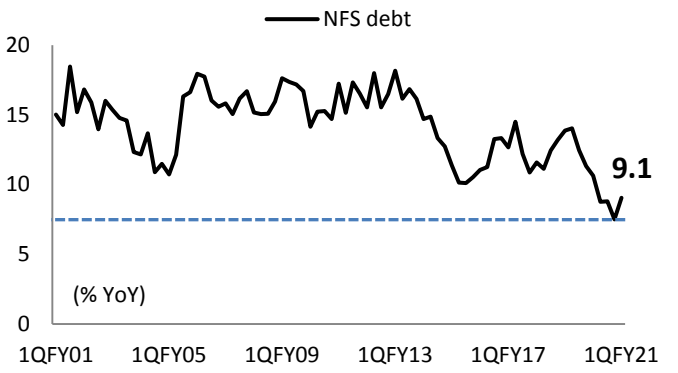
| | INR billion | | | | % of (annualized[2]) GDP | | | | % YoY |
|---|---|---|---|---|---|---|---|---|---|
| | FY18 | FY19 | FY20 | 1QFY21 | FY18 | FY19 | FY20 | 1QFY21 | 1QFY21 |
| Households* | 42,269 | 49,665 | 56,506 | 58,915 | 30.3 | 31.3 | 31.8 | 33.1 | 6.0 |
| Non-financial corporate (NFC*) | 133,881 | 144,412 | 157,766 | 162,237 | 51.5 | 51.8 | 48.8 | 52.4 | 3.7 |
| General government (GG) | 120,913 | 132,616 | 148,144 | 157,227 | 70.7 | 69.9 | 72.8 | 81.8 | 14.3 |
| Central government | 77,988 | 84,681 | 94,623 | 101,356 | 45.6 | 44.6 | 46.5 | 52.7 | 14.9 |
| State governments[3] | 42,925 | 47,935 | 53,521 | 55,871 | 25.1 | 25.3 | 26.1 | 29.1 | 13.3 |
| **Non-financial sector (NFS[1])** | **260,782** | **290,324** | **312,111** | **321,674** | **152.5** | **153.0** | **153.4** | **167.3** | **9.1** |
| Non-government non-financial (NGNF) | 139,869 | 157,708 | 163,968 | 164,447 | 81.8 | 83.1 | 80.6 | 85.5 | 4.6 |

* Please see Appendix at end of the report for methodology

Source: Reserve Bank of India (RBI), Government finances, Bloomberg, NBFCs/HFCs company reports, CEIC, MOFSL

[1] Non-financial sector = Non-financial corporate sector + Household sector + General government (Center + states)
[2] Annualized nominal GDP = sum/average of last four quarters to smoothen the sharp changes in nominal GDP on quarterly basis
[3] Debt of state governments in 1QFY21 is our estimates based on fiscal deficit of 16 states (21 states in FY19 and 19 states in FY20)
[4] Our previous publications cover only NGNF (non-financial corporate + households) sector. We have improved our database by including government debt on quarterly basis from this quarter onwards.

**India's NFS debt grew 9.1% YoY in 1QFY21…**

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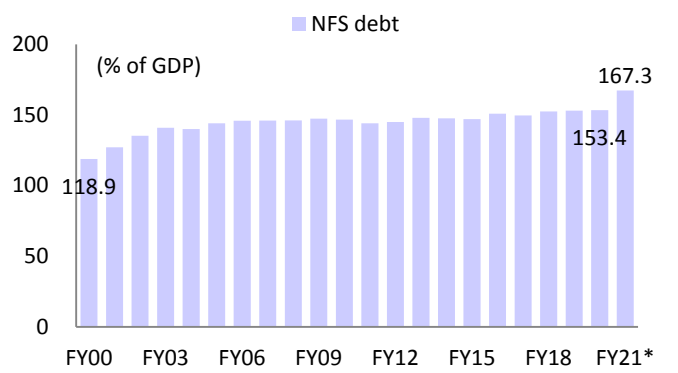
**…and rose to 167.3% of GDP from 153.4% in FY20**

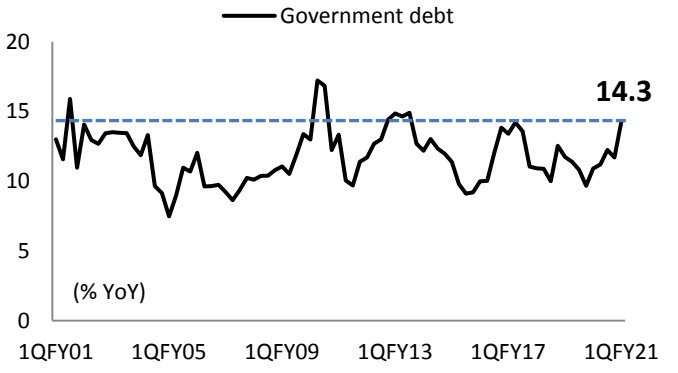



Source: Reserve Bank of India (RBI), Government finances, Bloomberg, NBFCs/HFCs company reports, CEIC, MOFSL

Government debt grew 14.3% YoY in 1QFY21, marking the fastest growth in the past 30 quarters.

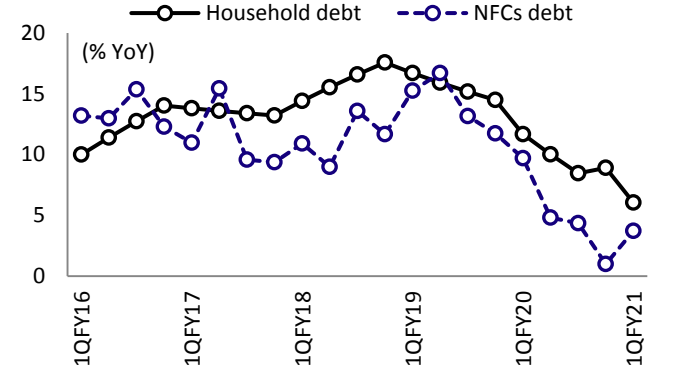
**Government debt grew at 30-quarter high pace…:** For the past few years, we have been working on estimating India's non-government non-financial (NGNF) sector debt on a quarterly basis. However, we have improved on our database this time by including the quarterly debt of the general government (center + states) and then estimating India's non-financial sector debt. Within India's NFS debt, government debt grew 14.3% YoY in 1QFY21, marking the fastest growth in the past 30 quarters. Notably, while central government debt grew 15% YoY in the quarter to rise to decadal highs of 52.7% of GDP, state debt (based on actual deficit data for 16 states) is estimated to have increased 13.3% YoY to 13-year highs of 29.1% of GDP in 1QFY21 *(Exhibit 4)*. Therefore, government debt is estimated to have risen to 13-year highs of 82% of GDP in 1QFY21 from 73% in FY20.

**Government debt grew at 30-quarter highs of 14.3% YoY in 1QFY21…**




Source: Ministry of Finance, CAG, CEIC, MOFSL

**…however, NGNF debt growth was only slightly higher than record-low levels in 4QFY20**



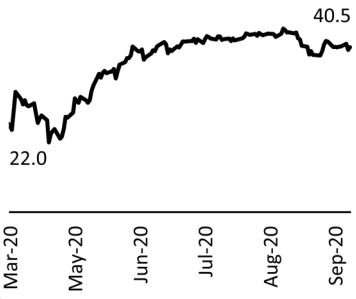

Source: RBI, NHB, CSO, NBFCs/HFCs company reports, CEIC, MOFSL

**…however, NGNF debt growth was near all-time low growth:** In contrast, NGNF debt increased by just 4.6% YoY in 1QFY21, only marginally better than record-low growth levels of 4% YoY posted in the previous quarter. Within the NGNF sector, while household debt[5] grew at a near-record-low pace of 6% YoY (the slowest was 5.7% in 4QFY09), outstanding debt in the non-financial corporate (NFC) sector increased 3.7% YoY – second-lowest levels to the previous quarter's record-low growth levels of 1% in the past two decades *(Exhibit 5)*.

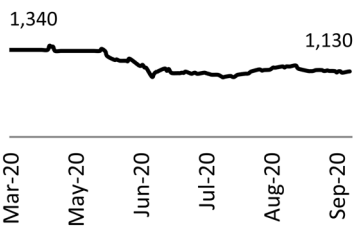
[5] As mentioned in our last quarter's report, we have revised our estimates of India's household debt in line with the recently published data by the Reserve Bank of India (RBI), which released quarterly outstanding debt of Indian household for the period 1Q FY18 to 4Q FY20. According to the RBI, only 55% of the HFC loan book and 20% of the NBFC loan book accounts for household debt.

# Consumer

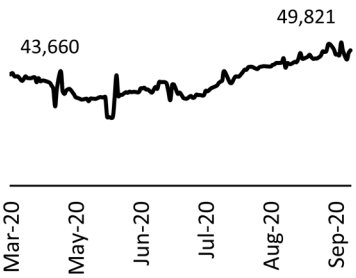
### Brent Crude Index




### Mentha Oil prices INR/kg




### Palm Fatty Acid price (INR/MT)




## Benign commodity cost trend continues

**In this edition of our Consumer sector update, we have analyzed price movement in key commodities. Additionally, we have also identified Consumer companies under our coverage that could benefit or get negatively impacted by it. It is relevant to analyze price trends from the perspective of 2QFY21 earnings and beyond as top line growth in the sector is expected to remain muted amid the gradual recovery post unlock in May'20. Further, we believe the commodity cost impact would be quite sharp in certain cases.**

### Commodity costs remain largely benign for consumer companies

- Most consumer companies are expected to witness muted sales and EBITDA growth in 2QFY21 due to (a) the gradual resumption of business activities post unlock, and (b) though reviving, weak consumer sentiment. Rural market is leading the revival on account of higher government spends, low COVID impact, and strong monsoons and agri outlook. However, urban recovery remains slow. In this environment, we believe lower input cost would offer some relief to companies. Most companies in the sector have resumed ad spends and brand investments (though not back to pre-COVID levels) and are expected to continue curtailing discretionary spends as part of their efforts on stringent cost savings. All these factors are likely to offset the impact on earnings due to muted sales growth or even sales decline in some cases.
- **Crude prices have bottomed out:** Crude prices have rebounded with a 35.8% increase sequentially in 2QFY21, but remains down 31.0% YoY. However, prices were down 7.2% MoM at USD41.1/barrel (monthly average for Sep'20).
- **Agri commodity basket largely seeing moderate deflation in 2QFY21:** The sugar index was down 0.9% QoQ /1.4% YoY. Copra costs were up 4.6% YoY/ down 1.3% QoQ (YTD Aug'20).On the other hand, wheat costs declined 14.6% YoY/3.5% QoQ. Mentha prices declined 21.1% YoY/11.2% QoQ. Barley costs were down 25.3% YoY/8.1% QoQ. However, palm oil costs remained at high levels, rising +37.5% YoY and 21.7% QoQ.
- **Non-agri commodity basket largely saw moderate sequential inflation:** VAM costs fell 16.2% YoY but increased 9.0% QoQ. Titanium dioxide (TiO2) costs were down 4.2% YoY, but up 0.4% sequentially. Up to Aug'20, HDPE costs declined 1.3% YoY YTD while LLP costs were up 5.8% YoY YTD. Gold prices (MCX Gold) rose 40.4% YoY and 18.9% QoQ. Palm fatty acid distillate (PFAD) prices were up 58.1% YoY/13.5% QoQ.
- **On an average, the entire commodity cost basket was flat on YoY/MoM basis (down 0.2%/0.1%), while rising 4.3% QoQ.**

### Impact on our top picks: HUVR, DABUR, MRCO

- **Hindustan Unilever (HUVR)**: With PFAD costs increasing sequentially and YoY, HUVR is likely to experience some gross margin pressure. Price increases taken by soap companies in Mar'20 might help offset the inflationary impact to some extent. Additionally, packaging costs (crude-related) have also increased sequentially, which would further weaken gross margin on a QoQ basis.

However, the company's cost-saving measures, along with a portfolio that could straddle the price pyramid, should protect significant operating margin decline.

- **DABUR:** It is a significant beneficiary of the moderate crude price-related packaging cost as well as benign LLP costs.
- **Marico (MRCO):** Copra costs increased YoY, but it remains benign sequentially. Moreover, other costs continue to decline, aiding overall margin growth.

## Other material beneficiaries: APNT, PIDI, UBBL, HMN

- **APNT and PIDI:** APNT and PIDI are significant beneficiaries of lower vinyl acetate monomer (VAM), Tio2, and crude costs. Despite muted sales growth, soft commodity prices coupled with cost reduction measures should help EBITDA margin improvement for both companies in 2QFY21.
- **CLGT:** It is a significant beneficiary of the moderate crude price-related packaging cost.
- **HMN:** It is expected to be a key beneficiary of the ongoing decline in mentha and packaging costs. A muted growth outlook, however, would likely restrict the potential upside from such benefits.
- **UBBL and GSKCH:** Decline in barley costs is likely to benefit gross margin of UBBL and GSKCH (now merged with HUVR). UBBL, however, should continue with its weak sales and earnings owing to the expected slow recovery as bars and pubs continue to remain shut in most parts of India.

**2QFY21 RM scenario — Commodity costs witnessing moderate inflation/deflation**

| Commodities (%) | Segment impacted | 2QFY21 Change | | MoM Change |
|---|---|---|---|---|
| | | YoY | QoQ | |
| **Non-Agri commodities** | | | | |
| Brent Crude Index | Paints, Adhesives, Packaging and Logistics | (31.0) | 35.8 | (7.2) |
| TiO2 (INR/kg) | Paints | (4.2) | 0.4 | (0.4) |
| Titanium Dioxide (CNY/metric tonne) | Paints | (11.2) | (7.1) | 2.1 |
| India WPI Phthalic anhydride^ | Paints | (15.4) | (9.4) | (16.6) |
| VAM prices (USD/MT)^ | Polymers and resins for adhesives, paints and end-products | (16.2) | 9.0 | 0.4 |
| HDPE (INR/Kg)^ | Packaging (Plastic bottles) | (1.3) | 8.8 | 5.3 |
| Liquid Paraffin (INR/Lt)^ | Hair oils | 5.8 | 9.6 | 9.5 |
| **Agri commodities** | | | | |
| Malaysian Palm Oil (MYR/MT) | Foods (palm oil from the flesh of the fruit) and others (mainly palm kernel oil) | 37.5 | 21.7 | 3.8 |
| Copra Cochin INR/100Kg ^ | Hair oil | 4.6 | (1.3) | 3.5 |
| Mentha Oil (INR/kg) | Flavors & Fragrances | (21.1) | (11.2) | (1.5) |
| Wheat Prices (INR/Quintal) | Food products | (14.6) | (3.5) | (4.4) |
| Sugar index | Food products | (1.4) | (0.9) | (1.0) |
| India Wholesale Price Ind. Cashew Nut^ | Food products | (0.8) | (2.6) | 1.3 |
| SMP Prices (INR/Kg) | Food products | (6.6) | 0.3 | 2.2 |
| NCDEX Barley Spot (INR/quintal) | Beer | (25.3) | (8.1) | (1.7) |
| **Other key commodities** | | | | |
| PFAD (INR/MT) | Soaps | 58.1 | 13.5 | 7.0 |
| MCXGOLd Comdty | Jewelry | 40.4 | 18.9 | (4.0) |

#Cal. on qtr. avg. price, ^data till Aug'20

Source: Company, MOFSL

# Bajaj Finance

| BSE SENSEX | S&P CNX |
|---|---|
| 39,575 | 11,662 |

| | |
|---|---|
| Bloomberg | BAF IN |
| Equity Shares (m) | 600 |
| M.Cap.(INRb)/(USDb) | 2093.5 / 27.7 |
| 52-Week Range (INR) | 4923 / 1783 |
| 1, 6, 12 Rel. Per (%) | -7/14/-16 |
| 12M Avg Val (INR M) | 17598 |
| Free float (%) | 43.8 |

**Financials & Valuations (INR b)**

| Y/E March | 2020 | 2021E | 2022E |
|---|---|---|---|
| Net Income | 169.1 | 169.9 | 208.1 |
| PPP | 112.5 | 120.7 | 148.2 |
| PAT | 52.6 | 40.6 | 69.2 |
| EPS (INR) | 87.7 | 67.8 | 115.3 |
| EPS Gr. (%) | 26.7 | -22.8 | 70.2 |
| BV/Sh. (INR) | 540 | 601 | 705 |
| **Ratios** | | | |
| NIM (%) | 10.5 | 9.4 | 10.2 |
| C/I ratio (%) | 33.5 | 28.9 | 28.8 |
| RoA (%) | 3.6 | 2.4 | 3.6 |
| RoE (%) | 20.2 | 11.9 | 17.7 |
| Payout (%) | 13.8 | 10.0 | 10.0 |
| **Valuations** | | | |
| P/E (x) | 39.6 | 51.3 | 30.1 |
| P/BV (x) | 6.4 | 5.8 | 4.9 |
| Div. Yield (%) | 0.3 | 0.2 | 0.3 |

**Shareholding pattern (%)**

| As On | Sep-20 | Jun-20 | Sep-19 |
|---|---|---|---|
| Promoter | 56.2 | 56.2 | 58.3 |
| DII | 10.1 | 10.1 | 8.6 |
| FII | 21.5 | 21.5 | 21.0 |
| Others | 12.2 | 12.2 | 12.1 |

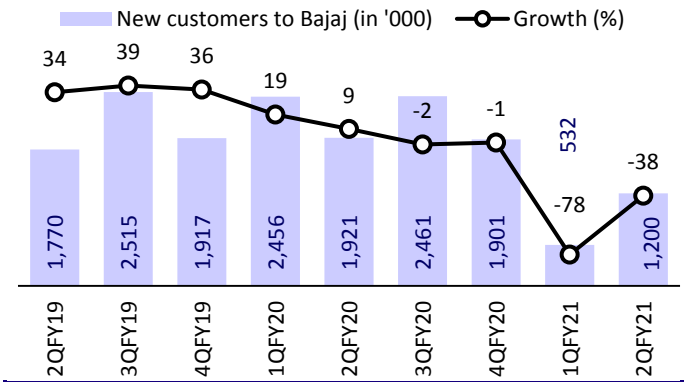
FII Includes depository receipts

## CMP: INR3,474 — Neutral

## Slow quarter for disbursements; Focus on liquidity

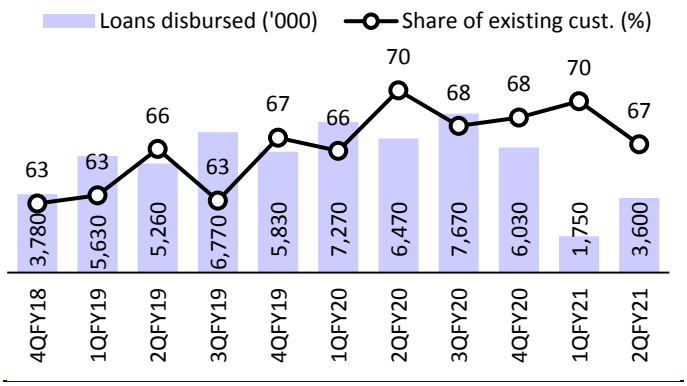
- **Bajaj Finance (BAF) reported key data for 2QFY21.**
- **Business volumes in the quarter were at 50–60% of YoY levels in terms of number of loans disbursed and number of new customers acquired. The company acquired 1.2m new customers in the quarter (compared with 1.9m YoY), taking the overall customer base to 44.1m.**
- **While the number of loans disbursed doubled sequentially, it was down ~45% YoY to 3.6m. We expect the company to have seen healthy traction in consumer B2B loans and to have gone slow in consumer B2C and SME lending.**
- **As a result, AUM was largely flat both QoQ and YoY at INR1.37t. We believe the upcoming festive season would be key for the growth trajectory for FY21.**
- **Liquidity on the balance sheet improved 9% QoQ to INR223b (16% of AUM). The deposit book grew 5% QoQ to INR216b.**
- The sharp decline in disbursement volumes has come as a bit of a disappointment (in the context of healthy trends witnessed by peers such as HDFC). Nevertheless, we believe it is a good strategy to curtail disbursements in this uncertain environment. In our opinion, this stance is likely to continue for another quarter or so. Hence, we now cut our FY21 AUM growth estimate to 6% from 12% earlier. Margins are likely to be stable as the drag due to excess liquidity is offset by lower cost of funds. Given the collection efficiency performance across various asset classes in the industry, we keep our credit cost estimate of ~4.5% for FY21 largely unchanged. We cut our FY21/FY22E EPS estimates by 8%/4%. With normalization expected from the next fiscal, RoE is likely to rebound to 19% in FY23E from 12% in FY21E.

**Customer additions down 38% YoY...**



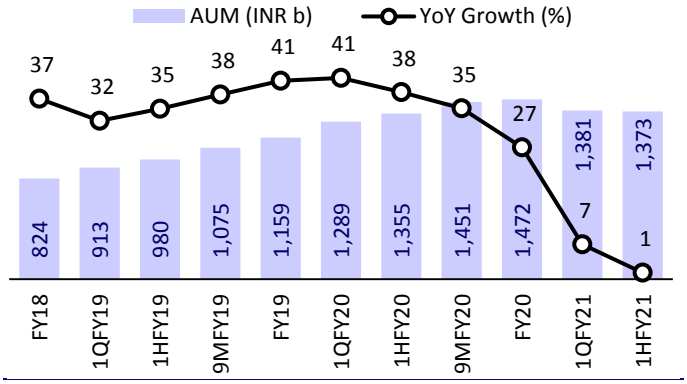

Source: MOFSL, Company

**...Similar performance in disbursements (volumes)**



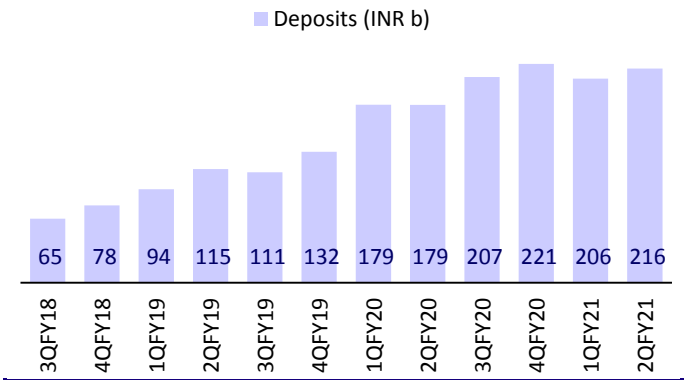

Source: MOFSL, Company

**AUM largely flat QoQ and YoY**




Source: MOFSL, Company

**Marginal uptick in deposits**




Source: MOFSL, Company

# Godrej Consumer Products

| BSE SENSEX | S&P CNX |
|---|---|
| 39,575 | 11,662 |


**Stock Info**

| | |
|---|---|
| Bloomberg | GCPL IN |
| Equity Shares (m) | 1,022 |
| M.Cap.(INRb)/(USDb) | 757.3 / 10.5 |
| 52-Week Range (INR) | 772 / 425 |
| 1, 6, 12 Rel. Per (%) | 10/-4/6 |
| 12M Avg Val (INR M) | 996 |
| Free float (%) | 36.8 |

**Financials Snapshot (INR b)**

| Y/E Mar | 2020 | 2021E | 2022E |
|---|---|---|---|
| Sales | 99.1 | 106.6 | 115.5 |
| Sales Gr. (%) | -3.9 | 7.5 | 8.4 |
| EBITDA | 21.4 | 23.8 | 26.1 |
| Margins (%) | 21.6 | 22.3 | 22.6 |
| Adj. PAT | 14.5 | 16.2 | 17.6 |
| Adj. EPS (INR) | 14.2 | 15.8 | 17.2 |
| EPS Gr. (%) | -2.9 | 11.6 | 8.8 |
| BV/Sh.(INR) | 77.3 | 77.2 | 76.2 |
| **Ratios** | | | |
| RoE (%) | 19.1 | 20.5 | 22.4 |
| RoCE (%) | 15.4 | 16.2 | 17.7 |
| Payout (%) | 56.5 | 84.3 | 88.1 |
| **Valuations** | | | |
| P/E (x) | 52.3 | 46.9 | 43.1 |
| P/BV (x) | 9.6 | 9.6 | 9.7 |
| EV/EBITDA (x) | 36.6 | 32.7 | 29.9 |
| Div. Yield (%) | 1.1 | 1.8 | 2.0 |

**Shareholding pattern (%)**

| As On | Sep-20 | Jun-20 | Sep-19 |
|---|---|---|---|
| Promoter | 63.2 | 63.2 | 63.2 |
| DII | 3.2 | 3.2 | 2.2 |
| FII | 26.8 | 26.8 | 27.8 |
| Others | 6.8 | 6.8 | 6.7 |

FII Includes depository receipts

**CMP: INR741 TP: INR740 Neutral**

## Strong rebound in 2QFY21 aided by soft base

**Highlights from Godrej Consumer Product's (GCPL) pre-quarterly update for 2QFY21:**

- **Macros:** Demand trends in GCPL's categories remained stable and improved sequentially across key geographies.
- **In India,** GCPL expects to deliver close to **low double-digit YoY sales growth** in 2QFY21, led by the Hygiene (including Soap) and Household Insecticides (HI) categories. HI was marginally impacted by regional lockdowns and resultant back-end supply chain disruptions. Hair Color and Air Freshener categories continued to see sequential recovery.
- **In Indonesia,** GCPL expects to deliver **low single-digit YoY constant currency (CC) sales growth** in 2QFY21, led by the HI and Hygiene categories. Air Freshener category continued to see sequential recovery. However, business performance was marginally impacted by the worsening COVID-19 situation and stringent social distancing norms, which were implemented from mid-Sep'20.
- **In GAUM (Godrej Africa, the US and the Middle East),** GCPL recorded strong sequential recovery across most markets. It expects to deliver close to **low double-digit YoY CC sales growth** in the quarter.
- **Within the 'others' geographies,** sales performance in Latin America business is expected to remain steady in CC terms. SAARC business too continues to deliver healthy sales performance.
- **At the consolidated level, the company expects to deliver close to low double-digit YoY sales growth in INR terms in 2QFY21.**
- **Valuation and view:** Over FY10-20E, GCPL posted healthy growth on all fronts. However, domestic sales slowdown in recent years and continued inability to scale up margins and improve weak RoCEs in the international business have adversely affected GCPL's pace of earnings growth. Further, the loss of dominance in Hair Color, the advent of unorganized incense stick players in the HI segment and weak execution in the Africa business remain points of worry. Although the double-digit top line performance in 2QFY21 is encouraging, it is on a soft base of 1.1% sales decline in 2QFY20. **Given the uncertain outlook and inferior RoCE v/s peers, valuations of 43x FY22E EPS appear fair.**

# Sobha

| BSE SENSEX | S&P CNX |
|---|---|
| 39,575 | 9,526 |


**Financials & Valuations (INR b)**

| INR million | FY18 | FY19 | FY20 |
|---|---|---|---|
| Sales | 27.9 | 34.4 | 37.5 |
| EBITDA | 5.2 | 6.7 | 11.2 |
| EBITDA M (%) | 18.6 | 19.6 | 29.7 |
| Adj PAT | 2.2 | 3.0 | 2.8 |
| EPS (Rs) | 22.5 | 30.8 | 29.2 |
| EPS Gr (%) | 34.9 | 37.0 | (5.2) |
| BV/Share | 288 | 231 | 252 |
| **Ratios** | | | |
| Net D:E | 0.8 | 1.0 | 1.2 |
| RoE (%) | 8.0 | 11.9 | 12.1 |
| RoCE (%) | 7.1 | 9.1 | 13.9 |
| **Valuations** | | | |
| P/E (x) | 11.7 | 8.5 | 9.0 |
| P/BV (x) | 0.9 | 1.1 | 1.0 |
| EV/EBITDA (x) | 9.1 | 7.3 | 5.0 |
| EV/Sales (x) | 1.7 | 1.4 | 1.5 |

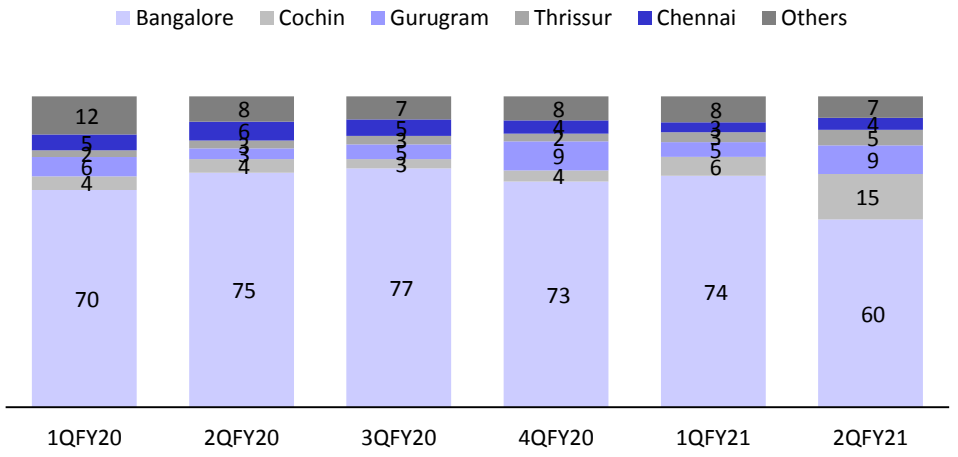
## CMP: INR262 — Not Rated

## Green shoots visible in residential sales pickup

**Sobha Ltd. released its quarterly update highlighting key business numbers for 2QFY21:**

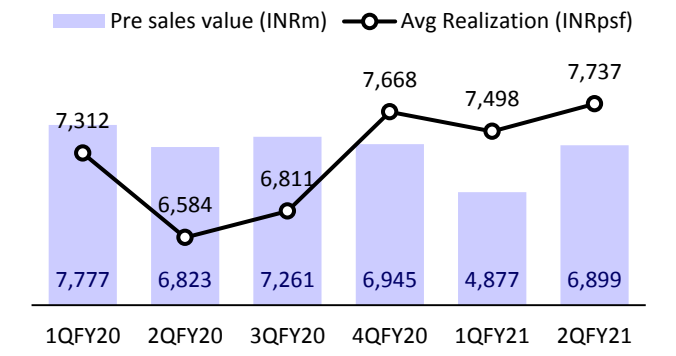
- **Operational performance**: 2QFY21 pre-sales volume was down 14% YoY to 0.89msf. Average price realization increased 18% YoY to INR7,737psf, driving 1% YoY pre-sales value growth to INR6.9b. On a sequential basis, sales volume/value grew 37%/41% QoQ, largely on account of a lower base quarter. Despite the extended lockdown in Jul'20 in Bengaluru, subdued economic environment and lack of any new launches, there was sequential pickup in the sales performance of the company.
- **Core market of Sobha:** Sobha's key market i.e. Bengaluru (~60% of pre-sales volume in 2QFY21) remained subdued for the third consecutive quarter with a decline of 31% YoY in pre-sales volume in 2QFY21 (+11% QoQ). Sobha's share of sales value was down 5% YoY (+35% QoQ) to INR5.3b.
- **Other markets:** NCR and Pune saw strong pre-sales volume growth of 131% YoY (+168% QoQ) and 18% YoY (+60% QoQ), respectively. Other Tier-II South Indian markets like Thrissur and Kochi saw robust sales volume growth, which enabled them to grab higher share in the overall sales volume.

**Share of sales volume from Bengaluru drops to 60%**



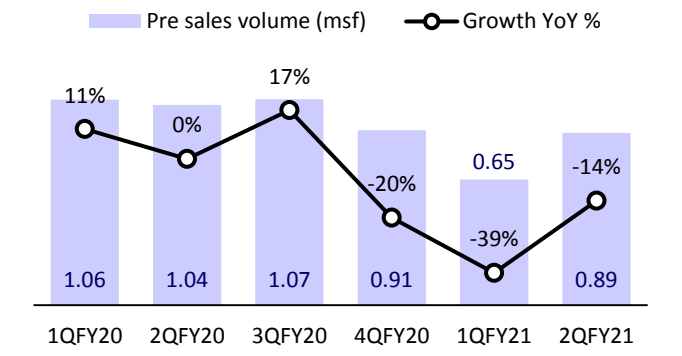

Source: MOFSL,Company

**Average realization increased 18% YoY**



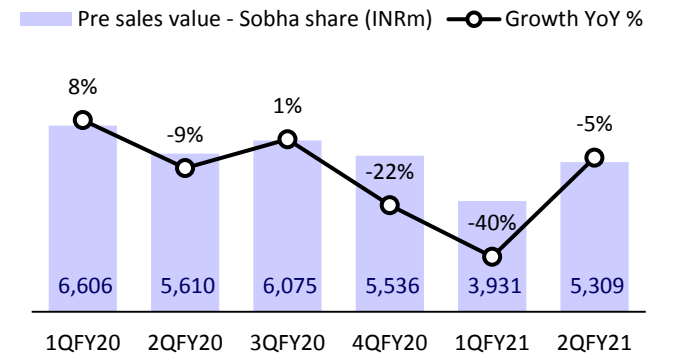

Source: MOFSL,Company

**Pre-sales volume declined 14% YoY**



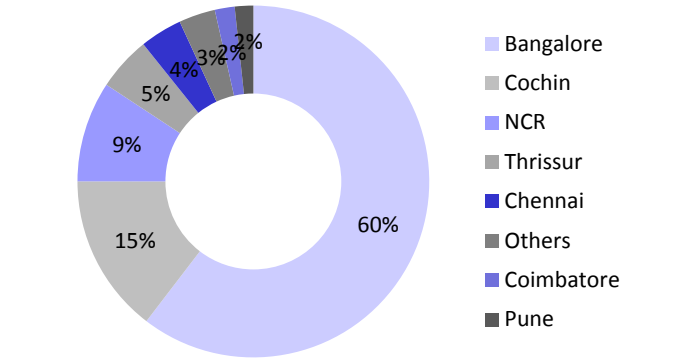

Source: MOFSL,Company

**Pre-sales value (Sobha share) declined 5% YoY**




Source: MOFSL, Company

**City-wise split of pre-sales volume (2QFY21)**




Source: MOFSL,Company

# Consumer Durables

| International Category |
|---|
| **Companies** |
| Samsung |
| Foxconn Hon Hai |
| Rising Star |
| Wistron |
| Pegatron |

Source: MOFSL, Company

| Domestic Category |
|---|
| **Companies** |
| Lava |
| Bhagwati (Micromax) |
| Padget Electronics (Dixon) |
| UTL Neolyncs (Karbonn) |
| Optiemus Electronics |

Source: MOFSL, Company

| Components |
|---|
| **Companies** |
| AT&S |
| Ascent Circuits |
| Visicon |
| Walsin |
| Sahasra |
| Neolyncs |

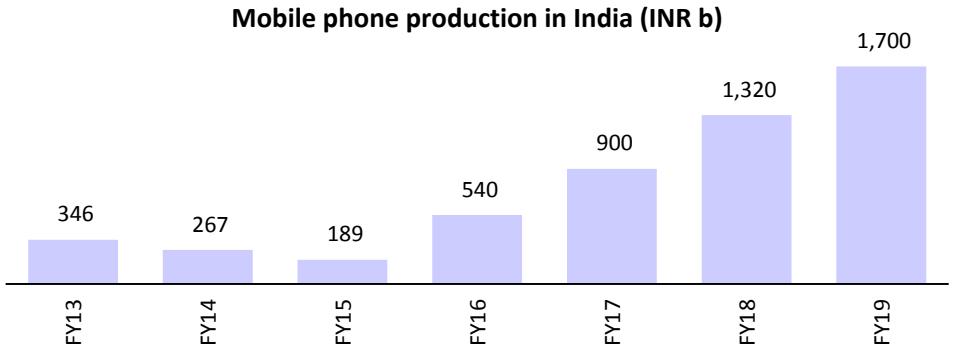
Source: MOFSL, Company

## PLI Scheme – Dixon selected under domestic category

**Ministry of Electronics and IT approves 16 eligible applicants under PLI Scheme**

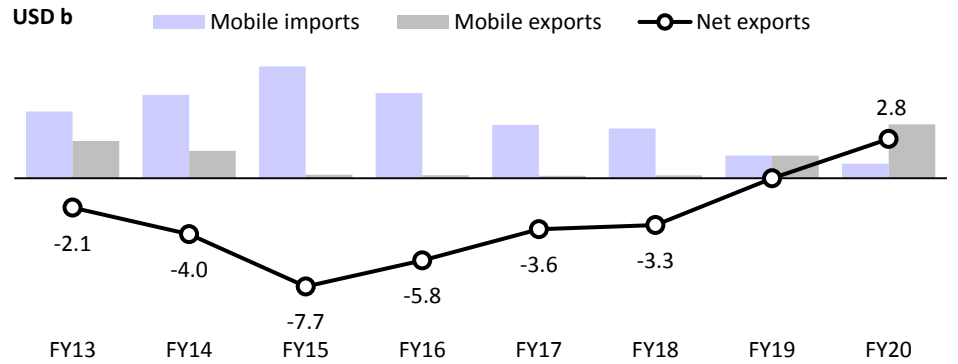
- **International category – An invitation to Apple and Samsung:** The international mobile phone manufacturing companies approved under the Mobile Phones segment (invoice value of INR15k+) are: **(i)** Samsung, **(ii)** Foxconn Hon Hai, **(iii)** Rising Star, **(iv)** Wistron, and **(v)** Pegatron. Of these, three companies – Foxconn Hon Hai, Wistron, and Pegatron – are contract manufacturers for Apple iPhones. Notably, Apple (37%) and Samsung (22%) together account for nearly 60% of global sales revenue in Mobile Phones. The PLI Scheme is expected to result in a manifold increase in these companies' manufacturing bases in the country.
- **Aim to create five domestic champions:** Under the Mobile Phones (domestic) segment, Indian companies such as **(i)** Lava, **(ii)** Bhagwati (Micromax), **(iii)** Padget Electronics (subsidiary of Dixon Technologies), **(iv)** UTL Neolyncs (Karbonn), and **(v)** Optiemus Electronics are approved by MeitY. These companies are expected to expand their manufacturing operations in a significant manner and grow into national champion companies in the mobile phone manufacturing space.
- **Six companies selected toward component ecosystem:** Six companies are approved under the Specified Electronic Components segment, including: **(i)** AT&S, **(ii)** Ascent Circuits, **(iii)** Visicon, **(iv)** Walsin, **(v)** Sahasra, and **(vi)** Neolyncs.
- Over the next five years, the approved companies under the PLI Scheme are expected to generate total production of more than INR10.5t. Of the total production, the approved companies under Mobile Phones segment (invoice value of INR15k+) have proposed the production of over INR9.0t. The approved companies under the Mobile Phone (domestic) segment have proposed the production of ~INR1.25t; those under the Specified Electronic Components segment have proposed the production of over INR150b.
- The companies approved under the scheme are expected to significantly promote exports. Of the total production of INR10.5t over the next five years, around 60% would be contributed by export orders (worth INR6.5t).
- The companies approved under the scheme would bring additional investment of **INR110b** in Electronics Manufacturing.
- The companies approved under the scheme would generate **more than 200k direct employment opportunities** over the next five years. They would also create additional indirect employment nearly three times the direct employment.
- **Domestic value addition** is expected to grow from the current **15–20% to 35–40%** for mobile phones and **45–50%** for electronic components.

**Exhibit 1: Mobile phone production in India has grown exponentially at a 45% CAGR over FY14–19**



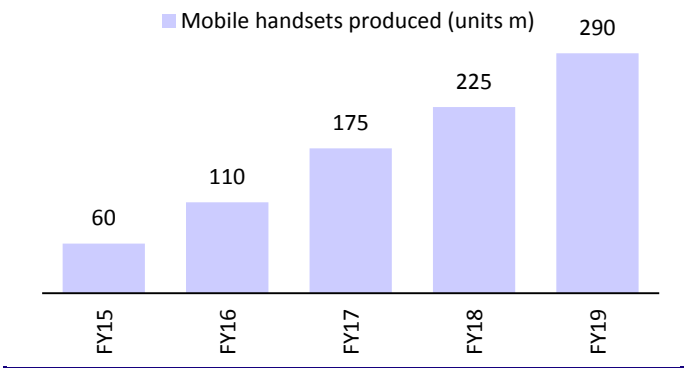

Source: MeitY

**Exhibit 2: ...As a result, India has turned a net exporter of mobile phones**



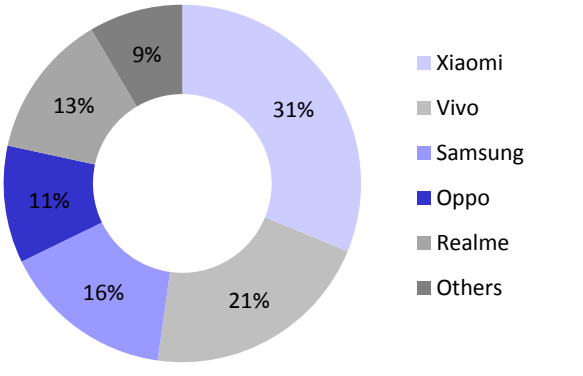

Source: Ministry of Commerce

**Exhibit 3: Rise in mobile handsets produced in India**




Source: MeitY

**Exhibit 4: Market share of mobile players in India (%)**




Source: IDC

## Parle Products: Q2 growth easing, but still higher than pre-COVID; Mayank Shah, Senior Category Head

- Growth in the Q2 moderated during Aug & Sept, but still lower than Q1
- Biscuits demand has moderated to 20-25% now from 50-60% earlier. It will further moderate as other options open up
- Expect current growth rate to sustain. Down trading not visible as even premium products witnessing traction
- First two quarters has been exceptionally good for all processed food companies and the category as a whole would see strong growth
- FMCG food segment witnessed growth of ~25% in Q1, expect growth of at least 15-20% for full year. Expect gross margins to expand by 40-45%
- The farm bill will enable us to directly procure from farmers which was not possible before, will help us reduce purchase costs

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## LIC Housing Finance: Disbursals have improved since June; Siddhartha Mohanty, MD & CEO

- Disbursals, particularly in the affordable segment, have shown good improvement since June
- September was a good month with double digit growth. Numbers are at pre-COVID levels
- Despite the inauspicious shradd period our Q2FY21 is better than Q2FY20. Expect double digit growth in Q3
- Housing demand to grow on the back of various govt. measures, attractive schemes offered by developers and low interest rates
- Collections have been better than expectations. Substantial portion of borrowers who were under moratorium have started paying since September
- Funding those developers who are into affordable housing. LAP too showed a good pick up in September
- Cost of funding is in the range of 5.7 to 5.9%. Spreads are in 1.9 to 2.1% range. Margins maintained at year ago levels

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## PVR: To reopen Cinemas in 3 phases; Gautam Dutta, CEO

- ~400 screens across 79 properties in 11 states (of 22 we are present in) will open up in October, approvals in place
- Of the 400 screen about 60-70% will open up on 15th October (1st phase) and balance will open by October end (2nd phase)
- By mid-November should have all the screens up and running (3rd phase)
- Will introduce attractive pricing models to attract audience in the initial weeks (eg. Weekly pass, Card offers, etc.). No intentions to raise ATP in short term
- New content will be at ATPs previously charged, discounts will be offered on older content
- In the short term F&B should be stable at 25-30%, Advertisement will take sometime to recover

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## SHAPE OF RECOVERY DOES NOT MATTER

- There is always an optical view involved when interpreting numbers. Even in FY21, ever since the unlock process began the economic indicators have been showing an improvement on a month-on-month basis, albeit in the negative zone. The PMI looks better month over month as does the IIP growth number, even though the latter is still negative. Yet economists tend to interpret such movements as a recovery. Recovery probably not, but improvement certainly. The same thought would prevail in FY22 as all numbers would tend to look better relative to the year before.
- Real GDP was valued at Rs 145 lakh crore in FY20 and will be down to a level of Rs 130-132 lakh crore this year. Hence even 10% growth in FY22 will take us back to the FY20 level, which is only a consolation. The aspiration of reaching a $5-trillion (nominal) GDP will still be a long distance away. Therefore, higher industrial growth, GDP growth, infrastructure growth, etc, could be expected. But what should we really be looking at in the next year to get solace that things have changed, considering that we are still not sure that the pandemic is behind us and it could just be that restrictions prevail in several sectors even in FY22?
- The first parameter to be monitored is employment. It may be recollected that even before the pandemic came in there was constant debate on whether there was growth with limited job creation. This issue has been exacerbated during the lockdown with the exodus of migrant labour amongst the working class and large-scale layoffs in the organised sector, especially services, as business activity slowed down sharply. Even today, with restrictions on the number of people that can occupy office space as well patrons in the services sector, the scale of operations has been affected, thus impacting the demand for staff. Future growth will be driven by job creation, which, in turn, will guide demand. The picture will be blurred to an extent by the substitution of labour with technology by several companies as the lockdown has forced businesses to change their way of work.
- Second, the capacity utilisation rates in industry would need to witness improvement. The latest RBI data shows that it is at just about 70%. This number has been volatile in the region of 68-72% in the last few years and should show movement towards 76%-plus to give assurance that production is picking up. This will also indicate the prospects for future investment because as long as there is surplus capacity, there is less incentive to increase investment. Production growth numbers would otherwise not be too significant and indicate just maintenance levels.
- Third, corporate profit margins must show an improvement on a continuous basis and is a necessary condition that must be satisfied. Growth in sales and profits may be an optical fact as it would be based on low negative numbers in FY21. Therefore, there must be an improvement in profit margins for sure to reflect a turnaround in the fortunes of India Inc.

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|---|---|
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| 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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