Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	39,879	0.8	-3.3
Nifty-50	11,739	0.7	-3.5
Nifty-M 100	17,128	-0.5	0.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,419	1.7	5.8
Nasdaq	11,365	1.9	26.7
FTSE 100	5,946	-0.1	-21.2
DAX	12,929	0.2	-2.4
Hang Seng	9,629	1.0	-13.8
Nikkei 225	23,423	0.0	-1.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	41	0.7	-38.3
Gold ($/OZ)	1,887	0.5	24.4
Cu (US$/MT)	6,666	2.3	8.4
Almn (US$/MT)	1,762	1.3	-1.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	73.3	-0.2	2.7
USD/EUR	1.2	0.2	4.9
USD/JPY	106.0	0.3	-2.4
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	6.0	-0.01	-0.5
10 Yrs AAA Corp	6.9	-0.02	-0.8
Flows (USD b)	**7-Oct**	**MTD**	**CYTD**
FIIs	0.15	0.40	4.29
DIIs	-0.15	-0.12	9.09
Volumes (INRb)	**7-Oct**	**MTD***	**CYTD***
Cash	564	536	549
F&O	23,428	24,510	16,630

Note: *Average

Today's top research idea

TCS: Above estimates; better-than-expected recovery

- TCS impressed with revenue growth of 4.8% QoQ CC (v/s est. of 2.5% QoQ CC) and an EBIT margin expansion of 260bp QoQ (v/s est. of 120bp QoQ). Broad-based growth across geographies and verticals indicates healthy recovery across segments.
- The company reported strong deal wins of USD8.6b. A healthy deal pipeline, continued healthy cash conversion (OCF/PAT of 126%), and reduced attrition have also been encouraging.
- We expect TCS to be relatively better positioned (v/s the sector) to navigate the current challenges and continue to gain market share from weaker/smaller players in vendor consolidation deals. We upgrade our EPS estimates by ~6% for FY21/FY22E as we relook at our revenue growth / margin estimates. While we continue to be positive on the company, we remain Neutral on rich multiples. Our TP implies ~27x FY22E EPS.

Research covered

Cos/Sector	Key Highlights
TCS	Above estimates; better-than-expected recovery
Cement	Resilience amid seasonal weakness
Titan	Jewelry recovery better than expected
Bandhan Bank	Collection efficiency recovers sharply
RBL Bank	CASA mix improves, while advances growth declines
Insurance Monthly	Private players' individual WRP back in black

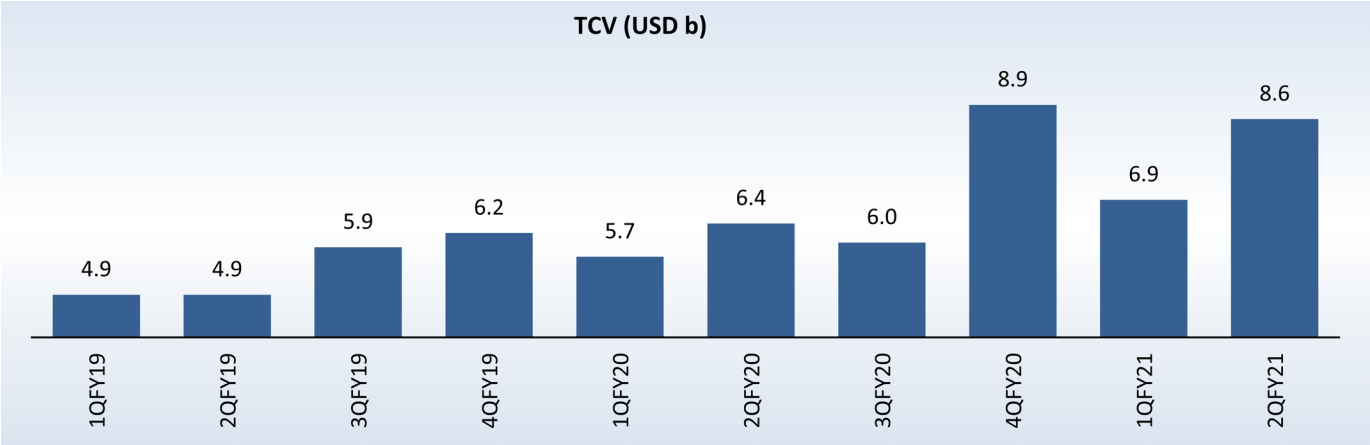
Piping hot news

Govt grants pricing, marketing leeway to gas producers, allows e-bidding

The government on Wednesday came out with a new model of granting marketing and pricing freedom for natural gas producers in India…

Chart of the Day: TCS (Above estimates; better-than-expected recovery)

Deal wins during the quarter were strong, indicating demand recovery



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

NHAI says may exceed FY21 target of 4,500 km in awarding projects

National Highways Authority of India (NHAI) is likely to exceed the 2020-21 target of awarding road projects covering 4,500 km, of which it has already awarded 40 projects covering 1,330 km in the first half of the fiscal 2020-21, the government agency said on Wednesday…

2

Govt grants pricing, marketing leeway to gas producers, allows e-bidding

The government on Wednesday came out with a new model of granting marketing and pricing freedom for natural gas producers in India, with the Union Cabinet clearing a standardised e-bidding process for price discovery from new production areas and high-pressure and high-temperature areas. Through the new platform, market players and consumers will discover the prices for new production areas that obtained clearance under the government's field development plan after February 2019. "Gas produced from high-pressure and high-temperature areas, coal-bed methane blocks, North East region and new discoveries will be getting this marketing…

3

Delhi govt allows reopening of cinemas, theatres with 50% seating capacity from October 15

The Delhi government on Wednesday permitted reopening of cinemas, theatres and multiplexes with up to 50 per cent of their seating capacity from October 15. According to an order issued by the Delhi Disaster Management Authority (DDMA), such establishments will remain closed in COVID-19…

4

London-based Kalrock Capital says it has won the bid for Jet Airways

Kalrock Capital, a London-based asset management company said it, along with a UAE investor Murari Lal Jalan have been chosen as the new owners of the bankrupt airline Jet Airways. "Our consortium was chosen by the committee of creditors in a meeting that concluded this evening," Igor Starha…

5

Govt names RBI executive director M Rajeshwar Rao as fourth dy governor

The appointment committee of the government named M Rajeshwar Rao, executive director of the Reserve Bank of India (RBI) as the fourth deputy governor of the central bank. This position lay vacant after N S Vishwanathan demitted office on March 31. Rao was the senior-most among RBI's 12 EDs. Until recently, he used to look after Internal Debt Management Department, Financial Markets Operation Department, International Department, and Secretary's Department…

6

Reliance-Future Group deal: Amazon sends legal notice, alleges breach of contract

Global retail giant Amazon has sent a legal notice to promoters of Future Group for allegedly breaching a non-compete contract over the latter's deal with Reliance Industries (RIL), ET Now reported on Wednesday.In late August, RIL said its unit Reliance Retail Ventures (RRVL)…

7

Saudi Aramco doubles down on oil to outlast rivals

The slump in demand for crude during the coronavirus pandemic has forced oil companies to contemplate the possibility that the fossil fuel market has peaked and the time for a global energy transition has come. But Saudi Aramco plans to boost its production capacity so it can pump as much of Saudi…

TCS

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	TCS IN
Equity Shares (m)	3,752
M.Cap.(INRb)/(USDb)	10271.8 / 139
52-Week Range (INR)	2769 / 1504
1, 6, 12 Rel. Per (%)	14/22/27
12M Avg Val (INR M)	8423
Free float (%)	28.0

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	1,569	1,633	1,861
EBIT Margin (%)	24.6	25.4	26.5
PAT	323	325	401
EPS (INR)	86.2	86.5	106.9
EPS Gr. (%)	3.7	0.3	23.6
BV/Sh. (INR)	230	249	256
Ratios			
RoE (%)	36.4	36.2	42.4
RoCE (%)	31.0	31.7	36.2
Payout (%)	99.1	90.6	93.0
Valuations			
P/E (x)	31.9	31.8	25.7
P/BV (x)	12.0	11.1	10.8
EV/EBITDA (x)	23.7	21.9	18.4
Div Yield (%)	2.7	2.4	3.1

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	72.1	72.1	72.1
DII	8.1	8.1	7.9
FII	15.9	15.7	15.9
Others	4.0	4.1	4.2

FII Includes depository receipts

CMP: INR2,737 TP: INR2,900 (+6%) Neutral

Above estimates; better-than-expected recovery

Broad-based growth; deal pipeline remains strong

- Tata Consultancy Services (TCS) impressed with revenue growth of 4.8% QoQ CC (v/s est. of 2.5% QoQ CC), coupled with EBIT margin expansion of 260bp QoQ (v/s est. of 120bp QoQ). Broad-based growth across geographies and verticals indicates healthy recovery across segments. The company reported very strong deal wins of USD8.6b. A healthy deal pipeline, continued healthy cash conversion (OCF/PAT of 126%), and reduced attrition have also been encouraging. We expect TCS to be relatively better positioned (v/s the sector) to navigate the current challenges and continue to gain market share from weaker/smaller players in vendor consolidation deals.
- We upgrade our EPS estimates by ~6% for FY21/FY22E as we relook at our revenue growth / margin estimates. While we continue to be positive on the company, we remain **Neutral** on rich multiples. The stock currently trades at ~26x FY22E EPS.

Beat on revenue and margins

- TCS reported revenue (USD) / adj. EBIT / adj. PAT growth of -2%/12%/5% YoY v/s our estimates of -4%/4%/-1% YoY. In 1H, Revenue (USD)/ Adj.EBIT/Adj.PAT grew by -5%/5%/-5% YoY.
- Barring Communication & Media (-2.4% QoQ, CC), growth was broad-based across verticals. Retail (8.8% QoQ, CC), Life Sciences and Healthcare (6.9% QoQ, CC), and BFSI (6.2% QoQ, CC) grew above the company average growth rate (4.8% QoQ, CC).
- Continental Europe (6.1% QoQ, CC) grew largely on account of countries' faster recovery from the pandemic and initial investments made by the company. Key geographies such as North America (3.6% QoQ, CC) and the UK (3.8% QoQ, CC) also reported decent growth.
- Improved utilization resulted in gross margin expansion of 150bp QoQ.
- Adjusted for a one-off legal provision made by the company (INR12.2b), EBIT margins expanded by ~260bps, largely owing to impressive control on the SGA front (14.7% v/s 15.8% in 1Q).
- Cash conversion (OCF/PAT = 126%) continued to be very healthy. DSO of 65 days has also been at an all-time low.
- Deal wins of USD8.6b were very strong. Notably, this includes the Phoenix-Standard Life deal (USD2.5b), for which the company awaited certain regulatory approvals.
- It saw net headcount additions of 9.9k in the quarter. Attrition (LTM, IT Services) at 8.9% has been at an all-time low as well.
- In line with its capital allocation policy to return majority of its profits to shareholders, the board has approved a buyback of INR 160b (at INR 3000/share). They have also announced an interim dividend of INR 12/share. In 2017/18, TCS had done couple of similar buybacks of INR 160b each. Currently, TCS has a cash and bank balance of INR 470b and generated FCF of INR 187b in 1HFY21.

Key highlights from management commentary

- Revenue growth was broad-based across verticals and geographies. Margin expansion was largely driven by revenue growth. Overall, the performance in 2QFY21 was better than the management's expectation.
- The deal pipeline is strong, with a good mix of large and small deals. Deal wins in 2QFY21 comprised a larger number of small and medium deals and fewer large deals.
- Management expects to see the typical seasonal impact of furloughs in 3Q.
- The company plans to offer wage hikes (similar to last year) across the hierarchy, effective from 1st October.
- Management hinted at the ability to maintain margins in a narrow band despite the impact of furloughs and wage hikes in the near term.
- TCS has won several vendor consolidation deals in the quarter, resulting in market share gains in certain accounts.
- Demand recovery is seen across verticals. Travel and Hospitality would take longer to recover, while BFSI, Retail (excluding Discretionary), and Healthcare continue to do well.
- The pandemic has turned out to be a catalyst as clients now see business value in resiliency, which was neglected in the past. This change in views has resulted in accelerated demand for cloud, security, and digital technologies.
- The medium- to long-term outlook for IT Services is healthy as technology spends / budgets are expected to increase on the back of increasing digital investments.

Valuation and view – rich multiples justified!

- TCS has a historical track record of adapting to multiple business challenges and technology change cycles.
- In addition, it has consistently maintained its market leadership, best-in-class operational metrics, and high return ratios.
- Sharper-than-expected recovery in 2QFY21 is encouraging. The commentary to defend margins in a narrow band going forward is another positive.
- We expect the company to be relatively better positioned (v/s the sector) to navigate COVID-related challenges and benefit from the uptick in digital investments.
- Our TP implies 27x FY22E EPS on our revised estimates.
- While we continue to be positive on the company, we remain **Neutral** on rich multiples.

Quarterly Performance (IFRS) (INR b)

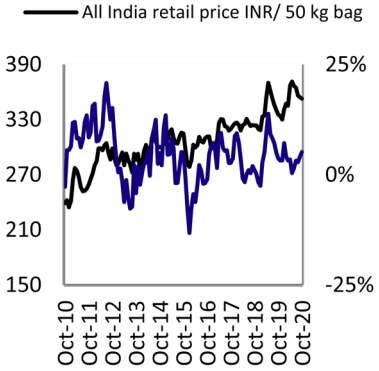
Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY21	(% / bp)
IT Services Revenue (USD m)	**5,485**	**5,517**	**5,586**	**5,444**	**5,059**	**5,424**	**5,532**	**5,698**	**22,032**	**21,714**	**5,287**	**2.6**
QoQ (%)	1.6	0.6	1.3	-2.5	-7.1	7.2	2.0	3.0	5.4	-1.4	4.5	271bp
Overall Revenue (INR b)	**382**	**390**	**399**	**399**	**383**	**401**	**418**	**430**	**1,569**	**1,633**	**394**	**1.8**
QoQ (%)	0.4	2.1	2.3	0.2	-4.1	4.7	4.1	3.0			2.9	182bp
YoY (%)	11.4	5.8	6.7	5.1	0.4	3.0	4.8	7.7	7.2	4.0	1.2	179bp
GPM (%)	**40.5**	**40.8**	**41.4**	**42.0**	**39.4**	**40.9**	**40.6**	**41.0**	**41.2**	**40.5**	**41.7**	**-75bp**
SGA (%)	16.3	16.8	16.3	16.9	15.8	14.7	14.9	15.0	16.6	15.1	16.9	-218bp
EBITDA	**100**	**102**	**109**	**110**	**100**	**115**	**118**	**123**	**421**	**456**	**106**	**8.3**
EBITDA Margin (%)	**26.3**	**26.2**	**27.3**	**27.5**	**26.2**	**28.7**	**28.2**	**28.5**	**26.8**	**27.9**	**27.0**	**172bp**
EBIT	**92**	**94**	**100**	**100**	**90**	**105**	**107**	**112**	**386**	**415**	**98**	**7.7**
EBIT Margin (%)	24.2	24.0	25.0	25.1	23.6	26.2	25.7	26.0	24.6	25.4	24.8	144bp
Other income	14	12	6	5	5	7	7	7	37	27	6	14.9
PBT	**106**	**105**	**106**	**105**	**95**	**113**	**115**	**119**	**422**	**442**	**104**	**8.1**
ETR (%)	23.4	23.5	23.0	23.0	25.8	24.8	23.0	23.0	23.2	24.1	23.0	182bp
Adj. PAT	**82**	**81**	**81**	**81**	**70**	**85**	**88**	**92**	**324**	**325**	**80**	**5.6**
Exceptional items	**0**	**0**	**0**	**0**	**0**	**-10**	**0**	**0**	**-10**	**0**	**-12**	**-21.3**
Reported PAT	**82**	**81**	**81**	**81**	**70**	**75**	**88**	**92**	**315**	**325**	**68**	**10.4**
QoQ (%)	-0.3	-1.2	1.1	-0.6	-12.9	6.5	17.7	4.0			-3.6	1001bp
YoY (%)	10.7	1.7	0.3	-1.1	-13.5	-6.9	8.5	13.6	-0.8	3.1	-15.6	876bp
EPS (INR)	21.7	21.4	21.6	21.5	18.7	19.9	23.5	24.4	86.2	86.5	18.0	10.6

Key Performance Indicators

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	2.5	1.6	0.3	-1.4	-6.7	4.8			7.1	
Costs (% of revenue)										
COGS	59.5	59.2	58.6	58.0	60.6	59.1	59.4	59.0	58.8	59.5
SGA	16.3	16.8	16.3	16.9	15.8	14.7	14.9	15.0	16.6	15.1
Depreciation	2.1	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.2	2.5
Margins										
Gross Margin	40.5	40.8	41.4	42.0	39.4	40.9	40.6	41.0	41.2	40.5
EBITDA margin	26.3	26.2	27.3	27.5	26.2	28.7	28.2	28.5	26.8	27.9
EBIT Margin	24.2	24.0	25.0	25.1	23.6	26.2	25.7	26.0	24.6	25.4
Net Margin	21.3	20.6	20.4	20.1	18.3	18.6	21.1	21.3	20.6	19.9
Operating metrics										
Headcount (k)	437	451	447	448	444	454			448	
Attrition (%)	11.5	11.6	12.2	12.1	11.1	8.9			12.1	
Deal Win TCV (USD b)	5.7	6.4	6	8.9	6.9	8.6			27	
Key Verticals (YoY CC %)										
BFSI	9.2	8.0	5.3	-1.3	-4.9	-1.1			5.2	
Retail	7.9	4.8	5.1	4.2	-12.9	-5.7			5.5	
Key Geographies (YoY CC%)										
North America	7.7	5.3	4.1	0.2	-6.1	-3.0			4.3	
UK	16.0	13.3	7.5	5.4	-8.5	-8.1			10.4	
Continental Europe	15.0	16.0	15.9	11.9	2.7	3.7			14.6	

Cement

All-India prices up 3% YoY



Resilience amid seasonal weakness

Pricing declines seasonally, but improves YoY

- **India's Cement industry has shown resilience amid the phase-wise opening up of the economy in a seasonally weak quarter. The volume recovery seen in May and June, driven by strong demand from the rural and semi-urban areas, has largely sustained in 2QFY21 (adjusted for monsoon seasonality).**
- **As per our channel checks, we estimate industry volumes to have grown 3% YoY / 33% QoQ in 2QFY21. Higher growth was reported in North and East, while demand remained weak in South and Maharashtra (down 15–20% YoY). Supported by expansions, we estimate JK Cement and Shree to have had the best volume growth at 26% YoY and 13% YoY, respectively. South-based companies Ramco and India Cements, on the other hand, are expected to see volume decline of 10% YoY and 25% YoY, respectively (Exhibit 8).**
- **Prices fell sequentially (3–5% QoQ) across regions in 2QFY21 on account of seasonally lower demand (due to the monsoons), but have remained 3% higher YoY on a pan-India basis (at INR358/bag). Prices in South have been particularly strong and were up 13% YoY (-2% QoQ) as per our checks. Prices in North/Central were also up 3%/1% YoY, but down 3–4% QoQ. Non-trade prices, though, have been weak (particularly in North) due to lower institutional demand (such as urban real estate / infrastructure).**
- **Variable costs have risen on account of higher costs of petcoke (+17% YoY) and diesel (+12% YoY). On the other hand, we estimate total cost per ton to have still declined ~5% YoY on lower fixed costs (lower spends on sales promotion, travel, rent, repairs, and so forth). Thus, we estimate EBITDA per ton to be strong even in 2QFY21, supporting EBITDA growth of >20% YoY for the industry. Margins have been strongest in South.**
- **We remain constructive on the sector and expect EBITDA growth for the industry even in FY21, as demand and margins continue to stay above consensus estimates. Our top sector picks are UltraTech and JK Cement.**

Volume recovery on track despite strong monsoons

- 2QFY21 is seasonally the weakest quarter of the year due to heavy monsoon rains across most parts of the country. Accordingly, we have seen cement demand decline on an MoM basis since July even this year. However, on a YoY basis, demand recovery seen in June has sustained even in this quarter – a positive for the sector outlook.
- Volume recovery post the COVID-19 lockdown, however, has not been uniform across India. While volumes have recovered well in East, North, and Central, they remain weak in South (down 15–20% YoY) and Maharashtra. Thus, companies with a higher exposure to South and Maharashtra (India Cements and Ramco Cements) are expected to report weaker volumes (on a YoY basis) v/s those with higher exposure to North and East (JK Cement, Shree Cement, and Dalmia Bharat).

- JK Cement, particularly, is expected to report very strong volume growth (+26% YoY), supported by capacity expansion. We further expect volumes to grow 13% YoY for Shree, 10% YoY for JK Lakshmi, 7% YoY for Dalmia, 6% YoY for Ambuja, and 4% YoY for UTCEM. On the other hand, we expect decline of 25% YoY for India Cements and 10% YoY for Ramco due to their high exposure to South.

South – pricing remains high

- Industry in South has exhibited a strong production discipline thus far in the face of weak volumes in the region (down ~20% YoY).
- Led by hikes of INR70–90/bag (~20%) in April and May, prices in South are still up by ~INR50/bag or 13% YoY to INR390/bag.
- In 2QFY21, prices were up 26%/13%/6%/11% YoY in Andhra Pradesh and Telangana / Tamil Nadu / Karnataka / Kerala.

North and Central – prices still up 2–3% YoY

- Prices in North are currently up 3% YoY to INR370/bag even though they declined 4% QoQ in 2QFY21. Non-trade prices, though, have been under pressure; sharp declines of INR40–50/bag were reported for 2QFY21 during our checks in most states due to seasonal weakness. The trade to non-trade price gap has thus increased to INR80–90/bag. In our view, this should soon normalize to ~INR50/bag as demand picks up post the monsoons.
- Prices in Central are currently up 2% YoY to INR350/bag even though they declined 3% QoQ in 2QFY21. Madhya Pradesh saw larger price decline of 4.5% QoQ in 2QFY21, and Uttar Pradesh declined 2% QoQ.

East – largest price erosion on supply overhang

- Demand in East has been the strongest of all the regions. This is attributable to government spending as well as increased labor availability as migrant workers have returned to their hometowns due to COVID-19.
- Pricing in East has, however, been weak. It has declined by ~INR25/bag since May'20, resulting in a decrease of ~5% QoQ to INR325/bag (-1% YoY) in 2QFY21.
- East has also seen the weakest pricing among the regions in the past three years, with current prices lower than even September 2017 levels. Meanwhile, the rest of the country has seen a >10% increase in prices over this period.
- We believe this is due to aggressive capacity expansion and an exacerbated fight for market share among various players (Shree, UltraTech, Dalmia Bharat, ACC, Ramco, Nuvoco, etc.) in this region in the past three years. As a result, we expect prices in East to remain weak even over the next 12 months as another ~25% regional capacity expansion by various players is in the pipeline. East, therefore, is our least preferred Cement market.

West – Maharashtra remains weak, but Gujarat now steady

- Maharashtra's cement demand has been among the most impacted in the country due to COVID-19. It declined by 20–25% YoY in 2QFY21 on account of (a) lower labor availability (due to the mass migration), (b) weak urban real estate demand, and (c) slow infrastructure activity. Gujarat, on the other hand, has recovered well, with volumes now nearly flat YoY.
- Prices in West are currently flat YoY at INR338/bag, although they edged down 1% QoQ in 2QFY21. While prices in Gujarat have been very stable in the past year, Maharashtra has witnessed some volatility due to its high dependence on supplies from South India.

Fixed costs remain in control, but variable costs on the rise

- Lower diesel and petcoke prices have been tailwinds for the Cement sector in the past year. Power and fuel cost declined for the fourth successive quarter in 1QFY21, with companies under our coverage reporting average decline of 20% YoY. Freight also declined by 10% YoY in 1QFY21.
- Even for 2QFY21, we expect average cost per ton for our coverage universe to decline 5% YoY (flat QoQ) to INR3,780/t. This is because fixed costs (such as sales promotion, dealer spends, travel, rent, and repairs) have been curtailed due to COVID-19. Led by lower costs, we expect EBITDA/t to increase 20% YoY (-9% QoQ) to INR1,205/t for our coverage universe.
- Freight costs, though, would come in higher by 5–6% QoQ in 2QFY21 due to a rise in diesel prices (+17% YoY, 16% QoQ). The impact would be lower at 4–5% QoQ for UltraTech, ACC, and Ambuja, which move only 60–70% of their volumes by road.
- Power and fuel costs should remain in control in 2QFY21. However, we expect costs to rise 8–10% QoQ in 3QFY21 on a 17% YoY increase in imported petcoke prices (to ~USD90/t). Petcoke price averaged at USD82/t (+5%/+32% YoY/QoQ) in 2QFY21, but impacts the P&L of companies with a two months' lag.
- However, total costs should remain under control in the near term due to still lower YoY spends in terms of fixed costs.

Valuation and view

- Given the sub-optimal utilization expected across regions, the sustenance of production discipline would be critical for cement prices and margins. This, we believe, would be tougher to achieve for regions with higher capacity growth.
- East, with ~25% capacity growth, is the worst placed and thus our least preferred region. North and Central, on the other hand, are better placed.
- Given an uncertain demand environment, we prefer companies that: (a) are moving down the cost curve, (b) have potential for market share gains, and (c) provide valuation comfort.
- Thus, UltraTech is our top large-cap pick and JK Cement our top mid-cap pick.
- We also like ACC as a value pick, but do not see much upside in Shree and Ramco, whose potential market share gains are already priced-in.

Cement: Valuation summary

	Mcap (USD b)	CMP (INR)	RECO	P/E (x)		EV/EBITDA (x)		EV/Ton(x)		P/BV		ROE (%)		
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY20	FY21E	FY22E
UltraTech	16.5	4,211	Buy	26.3	20.4	13.2	10.9	162	153	2.7	2.4	10.5	11.2	12.9
Shree Cement	10.2	20,715	Neutral	45.9	34.4	19.5	15.1	202	187	5.2	4.6	13.9	11.9	14.2
Ambuja Cement	6.4	235	Neutral	19.6	19.3	10.1	9.9	116	111	1.4	1.3	7.1	7.3	7.0
ACC	3.8	1,480	Buy	21.8	19.5	9.2	7.7	91	82	2.2	2.0	12.3	10.6	11.0
The Ramco Cements	2.5	764	Neutral	26.9	22.9	15.1	13.1	130	128	3.3	2.9	12.8	12.8	13.4
Dalmia Bharat	2.1	791	Buy	26.5	22.6	7.6	6.8	72	64	1.4	1.3	2.1	5.4	6.0
JK Cement	1.7	1,584	Buy	27.7	17.4	10.9	8.1	109	106	3.6	3.1	16.9	13.8	19.3
Birla Corp	0.7	635	Buy	14.2	9.6	6.3	5.9	62	60	1.0	0.9	10.9	7.0	9.7
India Cements	0.5	118	Neutral	27.5	24.2	9.4	9.0	58	57	0.7	0.7	0.4	2.4	2.7
JK Lakshmi	0.4	265	Buy	12.3	10.6	5.6	4.8	38	35	1.6	1.4	16.4	13.8	14.0

Titan Company

BSE SENSEX	S&P CNX
39,879	11,739

Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	1112.6 / 14.5
52-Week Range (INR)	1390 / 720
1, 6, 12 Rel. Per (%)	4/0/-7
12M Avg Val (INR M)	3517
Free float (%)	47.1

Financials Snapshot (INR b)

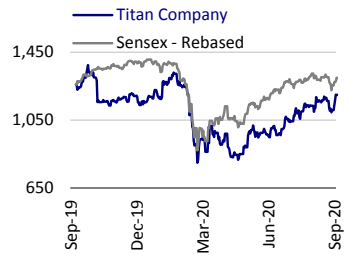
Y/E Mar	2020	2021E	2022E
Sales	210.5	181.9	245.0
Sales Gr. (%)	6.4	-13.6	34.7
EBITDA	24.9	16.1	29.9
EBITDA Margin (%)	11.8	8.9	12.2
Adj. PAT	15.2	9.0	19.7
Adj. EPS (INR)	17.1	10.2	22.2
EPS Gr. (%)	8.9	-40.3	117.7
BV/Sh.(INR)	75.2	77.4	88.5
Ratios			
RoE (%)	23.8	13.3	26.7
RoCE (%)	22.5	12.7	24.0
Payout (%)	23.8	45.0	50.0
Valuation			
P/E (x)	73.7	123.6	56.8
P/BV (x)	16.7	16.2	14.2
EV/EBITDA (x)	44.9	68.9	36.9
Div. Yield (%)	0.3	0.4	0.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	52.9	52.9	52.9
DII	11.2	11.1	6.9
FII	17.6	17.7	19.6
Others	18.4	18.3	20.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,253 TP: INR1,400 (+12%) Buy

Jewelry recovery better than expected; other businesses recovering gradually

TTAN has released its pre-quarterly update for 2QFY21. Here are the key highlights:

COVID-19 disruption: New normal established

- The country has been progressing well toward achieving normalcy. The lifting of restrictions, implemented in a phased manner over the past few months, is almost complete.
- A greater acceptance of the new normal is seen among consumers. They have been getting back to carrying out several routine activities. Consequently, walk-ins at stores and the time spent in stores have seen positive impact.
- TTAN has received very positive feedback on the safety measures it has employed in the lockdown. These include appointment-based customer visits, the regular and intensive sanitization of stores and products, staff trainings, and weekly rotation of sales staff.
- Mall openings (post the relaxation) have also helped the company's mall stores, but the footfall remains relatively low in these stores.
- **As sales are reviving at a healthy pace, network expansion has also resumed.**
- The 'War on Waste' program is tracking well on the company's internal milestones. A significant focus has also been on optimizing inventory and generating cash flow this year.

Accelerated digital transformation

- TTAN has been investing in digital initiatives over the last three+ years. The digital transformation journey has seen acceleration in the current situation.
- The rollout of omni-channel platforms and 'endless aisles', coupled with video conferencing options, have helped the company engage with the customers much better during these tough times.
- Additionally, the brand websites offer live chat and self-service options and have generated many customer leads, which are serviced by nearby stores.
- Investments in CRM tools, the Encircle platform (loyalty program), and data analytics tools are helping to identify customers with a high propensity to buy.
- **Business through the e-commerce channel has grown significantly across divisions**.

Jewelry: Better-than-expected resilience

- **The division had a revenue recovery rate of ~98% (excluding the sale of raw gold) in 2QFY21 v/s 2QFY20.**
- **Walk-ins have been improving, with the conversion rates and average ticket size higher v/s the same period last year.**
- The recovery rate in the metros most impacted by the pandemic has been improving gradually. Non-metros seem to have recovered substantially, and many cities have actually recorded growth v/s last year.

- September saw decent sales despite the inauspicious 'Shradh' period.
- The quarter, like last year, had a studded activation, which saw a decent response. However, the studded ratio is yet to recover to the previous year's levels.
- **Gold coin sales have also been high, reflecting the customer's preference to invest in gold as an asset class.**
- **The Wedding Jewelry segment did particularly well in the quarter.**
- TTAN continued to sell the excess gold in its inventory, with ~INR3.9b of raw gold sales posted in 2QFY21. This helped improve the division's cash flow significantly.
- **The division added 14 Tanishq stores on a net basis in the current fiscal**, with the retail space addition being ~60K sq. ft**.**

Watches & Wearables: Recovery improving month on month

- **The division had a revenue recovery rate of ~55% in 2QFY21 v/s 2QFY20. Recovery was at ~70% in Sep'20.** The recovery rate for the business has been steadily increasing MoM, primarily driven by an increase in walk-ins to the stores.
- **The conversion rate and ticket size (led by high-value customers) have been tracking higher vis-à-vis pre-COVID levels.**
- E-Commerce is leading recovery with absolute growth, but the trade channel continues to face challenges, primarily due to destocking.
- Walk-ins have been impacted by the general decline in traffic in shopping zones – which also brought in customers from the surrounding catchment areas and customers shopping for other categories. Comparatively, neighborhood stores surrounding residential areas have fared better. Sales have been impacted by (a) the work-from-home culture in metros affecting sales in after-office hours and (b) lower traffic around office areas. Lower traffic at malls has impacted the LFS channel.
- As the need for dressing up has been lower, the focus on social relationships has increased, leading to strong demand for gifting to close family members (for birthdays, anniversaries, and so forth).
- Titan launched its first full-touch smartwatch, 'Titan Connected X', in the quarter. It received a very positive response from customers and reported high sell-through rates.
- Another significant product launch was 'Titan Pay', the result of collaboration between SBI and Titan. The watches have a chip embedded in the strap that enables contactless payments. It has received a very positive response from consumers and industry experts.
- The division added seven World of Titan (WOT) stores and four Helios stores, while it closed three Fastrack stores on a net basis in the current fiscal; hence, it added a retail space of ~3K sq. ft.

Eyewear: Recovering well

- **The division saw revenue recovery of ~58% in 2QFY21 v/s 2QFY20. Recovery was at ~70% in Sep'20.**
- After a gap of 1.5 years, the division has once again started selling its products through Amazon and Flipkart, which are seeing a good response.

- 15 stores were added, while 42 stores were closed by the division in the year to date, resulting in a net reduction of 27 stores.

New businesses

- *Taneira* – This brand launched its first store in Chennai in 2QFY21, taking the total store count for the business to 13 across six cities. All existing Taneira stores were re-opened post the lockdown and were operational at the end of the quarter.
- Fragrances and accessories – The recovery rate was ~50%, dragged down by slow recovery in two of the biggest channels: trade and LFS.
- *CaratLane* – The brand had a strong recovery in 2QFY21 with growth of ~14%. Growth was driven by (a) continued high demand in the online channel and (b) sequential improvement in store revenues – many more of which were able to operate during the quarter as lockdown restrictions were lifted. The brand added five new stores in the quarter, taking the total store count to 97. Both the alternative channels – Try at Home and CaratLane Live (video calling) – have seen strong traction from customers.

Other points

- TEAL recorded revenue decline of ~15% in 2QFY21.

Valuation and view

- TTAN's end-of-quarter update indicating 98% recovery in Jewelry in 2QFY21 (excluding pure gold sales) reflects a faster-than-expected rebound.
- Management had guided for growth to resume in 4QFY21, which we factored in our estimates. However, we believe that with the bunching up of wedding and festive demand, growth may be seen in 3QFY21, earlier than guided.
- Some of the demand rebound may be attributable to the advancement of purchases as gold costs fell in Sep'20. Nevertheless, it does seem that a large part of the COVID travails are now behind.
- Despite recovery, we do expect some pressure on margins due to the impact of INR3.9b pure gold sales and some ineffective hedges. However, both of these factors are temporary in nature and would not affect subsequent quarters.
- The structural investment case for TTAN remains extremely strong. Maintain **Buy**, with TP of INR1,400 at 55x Sep'22 EPS.

Bandhan Bank

BSE SENSEX	S&P CNX
39,879	11,739

Stock Info

Bloomberg	BANDHAN IN
Equity Shares (m)	1,610
M.Cap.(INRb)/(USDb)	506.5 / 6.7
52-Week Range (INR)	650 / 152
1, 6, 12 Rel. Per (%)	-1/55/-41
12M Avg Val (INR M)	3978
Free float (%)	60.0

Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	63.2	76.3	89.4
OP	54.5	67.2	78.6
NP	30.2	35.4	45.6
NIM (%)	9.0	8.2	8.3
EPS (INR)	21.6	22.0	28.3
EPS Gr. (%)	31.9	1.9	28.8
BV/Sh. (INR)	94	112	134
ABV/Sh. (INR)	93	108	132
Ratios			
RoE (%)	22.9	21.3	23.1
RoA (%)	4.1	3.6	4.0
Valuations			
P/E(X)	14.6	14.3	11.1
P/BV (X)	3.3	2.8	2.3
P/ABV (X)	3.4	2.9	2.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	61.0	61.0	82.3
DII	8.0	8.8	9.5
FII	14.5	13.1	6.3
Others	16.6	17.2	2.0

FII Includes depository receipts

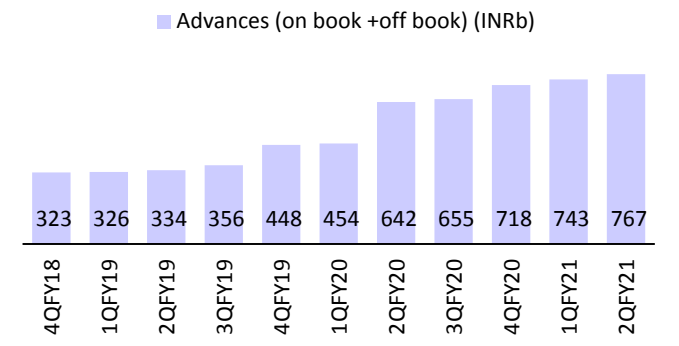
CMP: INR315 TP: INR425 (+35%) Buy

Collection efficiency recovers sharply; deposit traction remains strong

Bandhan Bank released its quarterly business update highlighting the trends for 2QFY21. Here are the key highlights:

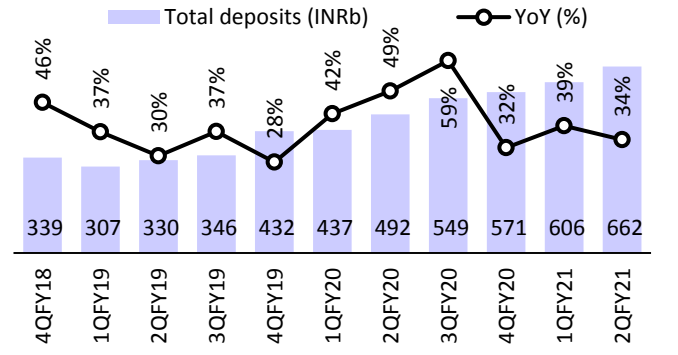
- Advances (on book + off book + TLTRO investments) grew at 19.5% YoY (3.2% QoQ) despite the challenging environment. We believe this growth will have been enabled by both the MFI and HFC books as economic activity has begun to show early signs of pickup, particularly in rural India.
- Bandhan's collection efficiency in the MFI portfolio recovered substantially to 89% for Sep'20 v/s ~70% in the first week of Jul'20. This was achieved despite lockdown being imposed in certain states during the quarter. Management had earlier guided to reach collection efficiency of ~90% by 2QFY21; the bank has come close to this despite the odds. Furthermore, Bandhan highlighted ~94% of MFI customers made payments in Sep'20.
- Furthermore, collection efficiency in the Mortgage/SME book improved to ~98% for Sep'20 v/s 85%/82% in Jun'20. Therefore, the bank's total collection efficiency stands at ~92% v/s 76% in Jun'20.
- Bandhan continues to report strong deposit growth at ~34.5% YoY / 9.1% QoQ to INR662b, led by growth in CASA deposits at 56.2% YoY / 12.5% QoQ to ~INR253b. Thus, the CASA ratio improved by ~110 to 38.2% v/s 37.1% in 1QFY21. Overall, the proportion of retail deposits stood stable at ~77%.
- In 2QFY21, the bank reduced its minimum savings deposit rate to 3% (from 4% earlier). This is likely to result in reduced cost of funds (SA mix of 32.1% in 1QFY21), thereby supporting margins. The LCR ratio stood at ~157% as of 2QFY21.
- **Valuation and view:** As economic activity continues to recover, we are seeing a steady improvement in collection trends. Bandhan's collection efficiency in the MFI portfolio has improved to ~89% (guidance of 90%). For the overall portfolio, it has improved to ~92%, which should keep asset quality / restructuring book under control. Furthermore, the bank holds COVID-19-related / excess standard provisions of INR17.7b to manage higher delinquencies over FY21. We expect LGD to remain lower (v/s peers) given Bandhan's strong market share and higher unique customer base. Nevertheless, we estimate credit cost of 2.7% for FY21, of which ~1.2% has already been recorded in 1QFY21 (1.6% in 4QFY20). We maintain a **Buy** rating, with unchanged TP of INR425 (3.2x FY22E BV).

Advances grew ~20% YoY (~3.2% QoQ)



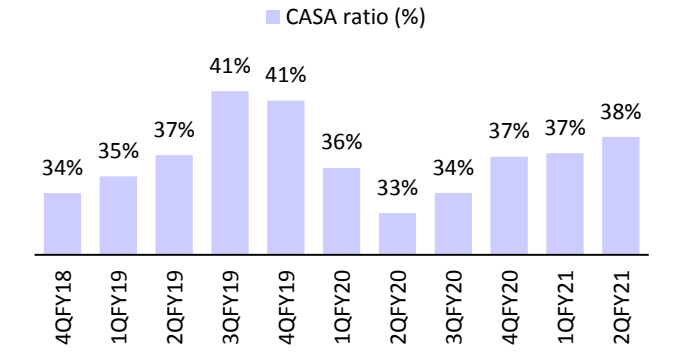
Post 1QFY20 reflects merged numbers Source: MOFSL, Company

Deposits grew ~34% YoY (~9% QoQ)



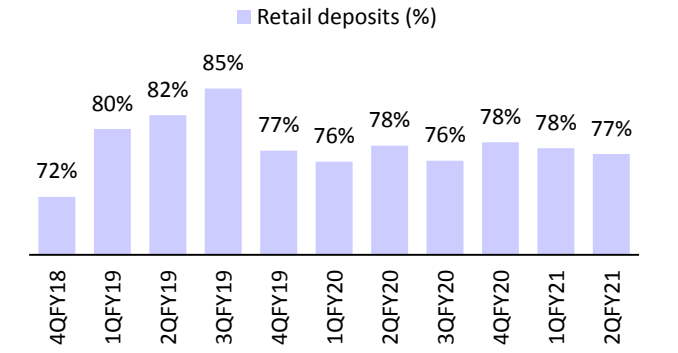
Source: MOFSL, Company

CASA ratio improves by 110bp QoQ to 38.2%



Source: MOFSL, Company

Retail deposit mix broadly stable at ~77%



Source: MOFSL, Company

RBL Bank

BSE SENSEX	S&P CNX
39,879	11,739

Stock Info

Bloomberg	RBK IN
Equity Shares (m)	509
M.Cap.(INRb)/(USDb)	90.1 / 1.3
52-Week Range (INR)	391 / 102
1, 6, 12 Rel. Per (%)	-9/20/-48
12M Avg Val (INR M)	5204
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	36.3	43.3	48.3
OP	27.5	31.8	36.9
NP	5.1	6.9	10.8
NIM (%)	4.5	4.8	4.8
EPS (INR)	9.9	11.6	18.1
BV/Sh. (INR)	208.0	213.4	228.5
ABV/Sh. (INR)	189.8	196.2	210.5
Ratios			
RoE (%)	5.6	5.9	8.2
RoA (%)	0.6	0.7	1.0
Valuations			
P/E(X)	17.8	15.3	9.8
P/BV (X)	0.9	0.8	0.8
P/ABV (X)	0.9	0.9	0.8

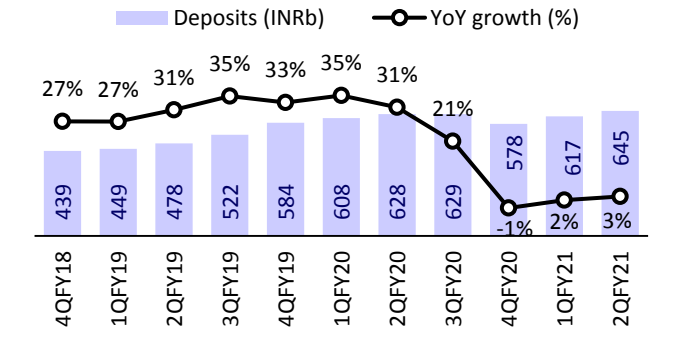
CMP: INR177 TP: INR230 (+30%) Buy

CASA mix improves, while advances growth declines

RBL Bank (RBL) has released its quarterly update emphasizing its 2QFY21 business numbers. Here are the key highlights:

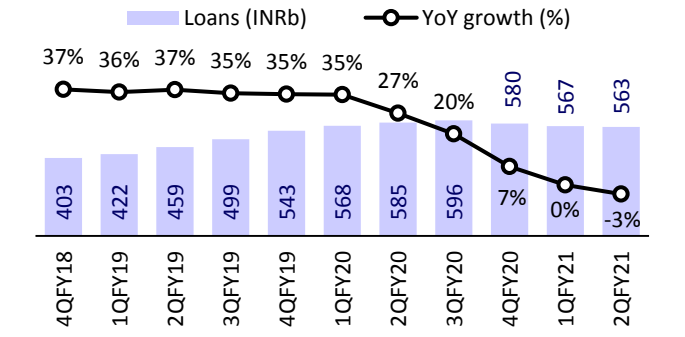
- **Gross advances growth declined 3.1% YoY (0.8% QoQ decline) to INR573b due to weak economic trends. However, retail advances growth came in strong at 23% YoY (7% QoQ), while the wholesale portfolio declined. Thus, the share of the wholesale portfolio contracted to 44% (v/s 47% in 1QFY21).**
- **The bank's deposit base increased to INR645b, implying growth of 4.5% QoQ (2.7% YoY). CASA reported healthy growth of ~21% YoY (8% QoQ), and TD grew at 3% QoQ (~4% YoY decline). The CASA ratio thus improved by ~100bp QoQ to 31.1%.Overall, the CD ratio declined to ~87% v/s ~92% in 1QFY21.**
- **The liquidity coverage ratio (LCR) further improved to 170.7% (v/s 164% in 1QFY21).**
- **Valuation and view:** RBL reflected weak advances growth, led by decline in the wholesale portfolio. On the other hand, the retail portfolio reflected strong sequential growth. We believe the uptick in retail growth would be led by MFI and Credit Cards. Also, credit card growth at the systemic level stood at ~13% QoQ. The bank reflects strong traction in garnering CASA deposits. On the asset quality front, we expect slippage trends to remain elevated in the unsecured and BB & below rated portfolios. Thus, credit cost would remain high at 3.7% for FY21E. Maintain Buy, with TP of INR230 (1.1x FY22E ABV).

Deposits grew at 4.5% QoQ



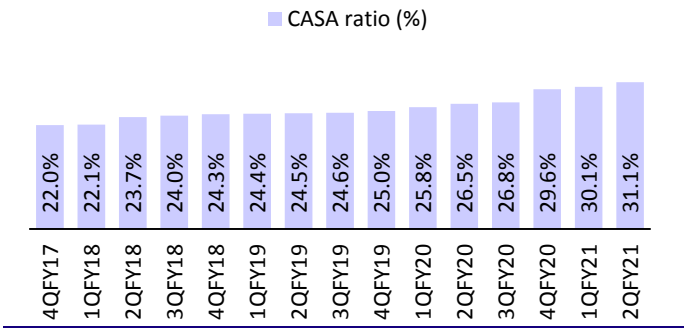
Source: MOFSL, Company

Loan growth declined ~3% YoY



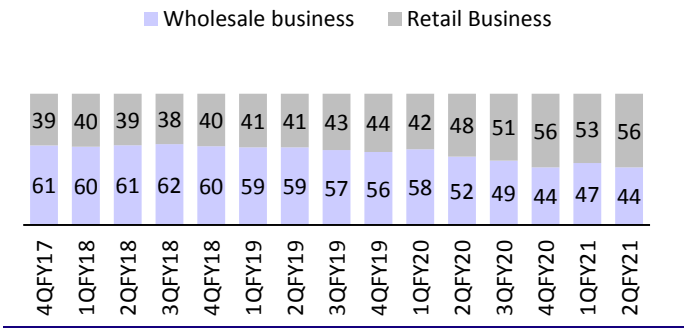
Source: MOFSL, Company; Net Advances projected for 2QFY21

CASA ratio improved ~100bp QoQ to 31.1%



Source: MOFSL, Company

Retail proportion improved to 56%



Source: MOFSL, Company

India Life Insurance

Insurance Tracker

Private players' individual WRP back in black; ~4% YoY growth posted in Sep'20

LIC reports growth of ~5% YoY; market share increases to 44% in 1HFY21

- **After reporting six consecutive months of decline, private players' individual weighted received premium (WRP) rebounded at 3.6% YoY in Sep'20 (v/s -5.8% YoY in Aug'20). The industry also posted growth of 4.1% YoY (v/s -2.3% YoY in Aug'20). The overall industry, which has reported decline since the COVID-19 outbreak, has thus reverted to the positive trajectory for the first time since Jan'20. Private players' individual WRP declined 11.4% YoY for 1HFY21; for the industry, it dropped 7.4% YoY.**
- **Among the listed players, HDFC Life reported robust growth of 43% YoY, followed by Max Life (16% YoY growth), while SBI Life posted 4% YoY decline. On the other hand, IPRU Life, which declined 24% YoY, continued to witness pressure.**
- **Mid-sized players reported healthy trends. Birla Sun Life / Tata AIA / Bajaj Allianz reported growth of 36%/25%/16% YoY, while Kotak Life saw decline of 6% YoY.**
- **LIC continues to report a positive trend with growth of 4.8% YoY in individual WRP (v/s 2.1% YoY in Aug'20). In 1HFY21, LIC's individual WRP declined 1.7% YoY.**

Private players' individual WRP market share expands to ~63% for Sep'20 (57% as of 1HFY21)

Private players' individual WRP market share expanded ~840bp MoM to ~63% in Sep'20 (v/s 54% in Aug'20) as private players posted an increase of ~4% YoY. In 1HFY21, SBI Life (11.7%) remained the largest private insurer in terms of individual WRP, followed by HDFC Life (9.9%) and IPRU Life (6.6%). On an unweighted basis, SBI Life was the largest private insurer with market share of 7.2%, followed by HDFC Life (6.9%) and IPRU Life (3.6%).

Performances of key private players

The combined market share of listed players – SBI Life, ICICI Prudential Life, HDFC Life, and Max Life – on an individual WRP basis stood at ~61.0% as of Sep'20 (v/s 62.9% in FY20). Tata AIA, Bajaj Allianz, and Birla Sun Life are getting firmly positioned among the 5–7th largest private insurers on individual WRP. Among the key listed players, on the basis of individual WRP:

- **HDFC Life** reported growth of 43.2% YoY (+2.4% YoY in 1HFY21); total unweighted premium grew ~55% YoY (+6.9% YoY in 1HFY21).
- **SBI Life** reported decline of 4.4% YoY (-20.4% YoY in 1HFY21); total unweighted premium grew 18% YoY (+15.2% YoY in 1HFY21).
- **IPRU Life** reported decline of 23.9% YoY (-38.2% YoY in 1HFY21); total unweighted premium grew 29.6% YoY (-13.5% YoY in 1HFY21).
- **Max Life** reported growth of 16.3% YoY (+4.0% YoY in 1HFY21); total unweighted premium grew 21.3% YoY (+9.0% YoY in 1HFY21).

Individual WRP and YoY growth (%)

Individual WRP, INR m	Sep'20	YoY growth
Grand Total	**60,531**	**4.1%**
Total Public	**22,573**	**4.8%**
Total Private	**37,958**	**3.6%**
SBI Life	8,381	-4.4%
HDFC Life	6,113	43.2%
ICICI Prudential	4,422	-23.9%
Max Life	4,232	16.3%
Tata AIA	2,763	25.0%
Bajaj Allianz	1,838	16.2%
Birla Sun Life	1,674	36.1%
Kotak Life	1,380	-5.7%
PNB Met Life	1,201	11.0%
Canara HSBC OBC	899	-23.3%

Source: Company, MOFSL

Un-weighted new business premium and growth – sorted on Sep'20 basis

INR m	Sep'20	YoY growth	FY21YTD	YoY growth	FY20	YoY Growth
Grand Total	**253,663**	**26.5%**	**1,247,276**	**-0.8%**	**2,588,966**	**20.6%**
Total Public	**166,028**	**30.1%**	**880,180**	**-2.2%**	**1,779,771**	**25.2%**
Total Private	**87,634**	**20.1%**	**367,096**	**2.6%**	**809,196**	**11.5%**
SBI Life	22,259	18.0%	89,990	15.2%	165,918	20.3%
HDFC life	20,287	55.2%	85,616	6.9%	173,963	16.2%
ICICI Prudential	12,158	29.6%	44,564	-13.5%	123,482	20.4%
Max Life	6,013	21.3%	24,948	9.0%	55,836	8.2%
Kotak Life	4,814	36.4%	16,553	-18.9%	51,058	28.4%
Bajaj Allianz	4,137	-20.5%	21,140	-6.0%	51,787	5.2%
Birla Sun Life	3,883	8.4%	20,004	40.6%	36,571	-6.6%
TATA AIA	3,469	30.6%	16,160	23.5%	32,411	30.9%
Canara HSBC OBC	1,825	22.3%	9,711	27.4%	15,275	4.6%

Source: Company, MOFSL

Individual WRP, growth, and market share – sorted on Sep'20 basis

INR m	Sep'20	YoY growth	Mkt share	FY21YTD	YoY growth	Mkt share	FY20	YoY growth	Mkt share
Grand Total	**60,531**	**4.1%**	**100.0%**	**283,946**	**-7.4%**	**100.0%**	**734,885**	**6.2%**	**100.0%**
Total Private	**37,958**	**3.6%**	**62.7%**	**160,324**	**-11.4%**	**56.5%**	**420,314**	**4.8%**	**57.2%**
Total Public	**22,573**	**4.8%**	**37.3%**	**123,622**	**-1.7%**	**43.5%**	**314,572**	**8.3%**	**42.8%**
SBI Life	8,381	-4.4%	13.8%	33,236	-20.4%	11.7%	97,711	9.1%	13.3%
HDFC Life	6,113	43.2%	10.1%	28,110	2.4%	9.9%	59,646	19.0%	8.1%
ICICI Prudential	4,422	-23.9%	7.3%	18,845	-38.2%	6.6%	66,427	-6.4%	9.0%
Max Life	4,232	16.3%	7.0%	17,578	4.0%	6.2%	40,785	5.2%	5.5%
Tata AIA	2,763	25.0%	4.6%	12,795	21.9%	4.5%	26,918	20.6%	3.7%
Bajaj Allianz	1,838	16.2%	3.0%	8,653	10.7%	3.0%	19,268	10.6%	2.6%
Birla Sun Life	1,674	36.1%	2.8%	7,439	7.4%	2.6%	17,018	0.5%	2.3%
Kotak Life	1,380	-5.7%	2.3%	5,979	1.7%	2.1%	16,454	-1.3%	2.2%
PNB Met Life	1,201	11.0%	2.0%	5,032	-11.2%	1.8%	12,964	-5.5%	1.8%

Source: Company, MOFSL

Market share among private players on un-weighted and individual WRP — sorted on individual WRP FY21YTD

INR m	Un-weighted Premiums			Individual WRP		
(%)	Sep'20	FY21YTD	FY20	Sep-20	FY21YTD	FY20
Grand Total	**253,663**	**1,247,276**	**2,588,966**	**60,531**	**283,946**	**734,885**
Total Private	**87,634**	**367,096**	**809,196**	**37,958**	**160,324**	**420,314**
SBI Life	25.4%	24.5%	20.5%	22.1%	20.7%	23.2%
HDFC Life	23.2%	23.3%	21.5%	16.1%	17.5%	14.2%
ICICI Prudential	13.9%	12.1%	15.3%	11.6%	11.8%	15.8%
Max Life	6.9%	6.8%	6.9%	11.1%	11.0%	9.7%
Tata AIA	4.0%	4.4%	4.0%	7.3%	8.0%	6.4%
Bajaj Allianz	4.7%	5.8%	6.4%	4.8%	5.4%	4.6%
Birla Sun life	4.4%	5.4%	4.5%	4.4%	4.6%	4.0%
Kotak Life	5.5%	4.5%	6.3%	3.6%	3.7%	3.9%
PNB Met Life	1.8%	1.8%	2.2%	3.2%	3.1%	3.1%
Reliance Life	1.0%	1.0%	1.2%	2.0%	2.2%	2.1%

Source: Company, MOFSL

M&M: There is higher opportunity in the retail segment; Veejay Nakra, CEO-Automatives

- Retail sales are as strong as wholesale numbers in September
- Enquiries, Bookings & Demand is strong in Urban & Rural areas
- Have ironed out all the supply chain issues
- Crossed 10,000 bookings for Thar. Have seen an unprecedented response
- Have 2 launches planned later on this year in our core UV segment

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Escorts: Retail sales stronger than wholesale; Bharat Madan, Group CFO

- Retail numbers have been much stronger than wholesale. Retail sales has been ~30%
- Demand has been very strong but facing supply side issues
- Will see good growth in next 2 months. Inventory situation will start improving from December
- There is some dip in market share in last 6 months
- Fixed costs have come down, margin improvement will be good. Focusing on cost rationalization

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Dixon Technologies: Expect revenues of Rs 25,000-30,000 cr from the PLI scheme in next 5 years; Saurabh Gupta, CFO

- Will reveal its partnerships with global OEMs in the next 30-35 days
- Plan to start production in Q4. Have identified space in Noida for mobile manufacturing and will start hiring people
- We may end up seeing a 10-15% growth in FY21
- In FY22 PLI will contribute Rs 4,000-4,500 crore revenues, the existing business will come back and we will have a normalised year
- Expect the company's revenue for FY22 to be Rs 10,000-11,000 crore, and then continue to grow at 20-25%, led by the mobile incentive scheme
- Current Capacity is 11 million mobile phones. Plan to take the total capacity to 27 million in next 2 years
- Enough cushion in the balance sheet to raise some debt. Will fund most of the capex through internal accruals
- Initially margins will be lower and as volumes pick up each year margins should expand
- Plan for backward integration of (manufacturing & assembly) batteries and chargers, printed circuit board (motherboard), this will further aide margins
- Asset turn will be very good, almost 40-45 times against 13 times currently
- Current RoC is 32-33%, will go up to 50-55%, led by mobile contributing 45-50% of the revenue over the next couple of years
- Contribution of mobile in operating profit will increase from current 8% to 40%
- Mobile margins, however, are 200 basis points lower than the company level. If the average margin is 5-5.5% at company level, then mobile margin will be 3-3.5%

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SBI: On business outlook; DK Khara, Chairman

- Maintaining loan book quality a priority
- We have ~23% plus market share in deposits and ~20% in advances in India
- Have created website for restructuring related enquiries
- Not many corporates have reached out for restructuring, it is within manageable limits
- Closely monitoring behavior of those customers who will be opting for restructuring
- Will think of capital raising as and when we see building up of assets, currently capital adequacy is at comfortable levels
- We have done well in terms of offering digital distribution channels

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ROADMAP NEEDED FOR RBI'S POLICY NORMALIZATION

- The Reserve Bank of India's (RBI's) response to the covid-induced economic crisis so far is optimum and well-calibrated. It also resorted to several "unconventional" measures to address market dislocations. Uncertainty over the bond supply absorption by the market is keeping "term premia" elevated even if liquidity remains in a surplus mode.
- The other lingering fear is of a sovereign rating downgrade if growth does not pick up as expected, creating further challenges to the government's revenue receipts. Against this backdrop, what is expected of the monetary policy committee (MPC) and the central bank in the upcoming policy review?
- First, there is no scope for a further policy rate cut in calendar year 2020 due to very high CPI inflation. But the MPC is expected to give its own projections of growth and inflation for FY21 and Q1, FY22. For the past three consecutive policy meetings, the MPC has refrained from providing inflation and growth forecasts citing data issues. This time, it can at least give the ranges by attaching probabilities. This is a must as its outlook for the macroeconomic situation plays an important role in explaining the motivation for its current policy decisions. It also influences inflation expectations.
- Second, the RBI should give a clear framework on the size and length of its ongoing and planned quantitative easing programme that would support government borrowings. This will greatly help in reducing the element of uncertainty that has created an upside bias in bond yields despite surplus liquidity.
- Third, while "quantitative easing" of this scale was needed for near-term stabilization, if pursued intensively without developing a tapering roadmap, there is a serious risk in the medium term of inflation overshooting and debt distress.
- Even before the pandemic, our public debt-to-gross domestic product (GDP) ratio was in excess of 70%, which is likely to go up to 85%-plus in the current year. Tackling the covid-induced recession is paramount currently, whatever the fiscal cost. And RBI's fiscal financing is the need of the hour. However, developing a clear-cut roadmap now itself to return to pre-pandemic monetary policy will go a long way in protecting investor confidence and avoiding future disruption.

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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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