Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	40,626	0.1	-1.5
Nifty-50	11,935	0.0	-1.9
Nifty-M 100	16,913	-0.5	-1.1
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,512	-0.6	8.7
Nasdaq	11,864	-0.1	32.2
FTSE 100	5,970	-0.5	-20.9
DAX	13,019	-0.9	-1.7
Hang Seng	9,879	0.0	-11.5
Nikkei 225	23,602	0.2	-0.2
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	41	1.9	-38.0
Gold ($/OZ)	1,891	-1.6	24.7
Cu (US$/MT)	6,682	-0.7	8.7
Almn (US$/MT)	1,844	0.1	3.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	73.3	0.1	2.8
USD/EUR	1.2	-0.6	4.8
USD/JPY	105.5	0.1	-2.9
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	0.01	-0.7
10 Yrs AAA Corp	6.8	0.01	-0.9
Flows (USD b)	**13-Oct**	**MTD**	**CYTD**
FIIs	0.11	0.37	4.29
DIIs	-0.23	-0.19	9.09
Volumes (INRb)	**13-Oct**	**MTD***	**CYTD***
Cash	526	552	549
F&O	15,489	23,790	16,760

Note: *Average

Today's top research idea

Tata Consumer Products: Pricing power in tea to negate impact on margins

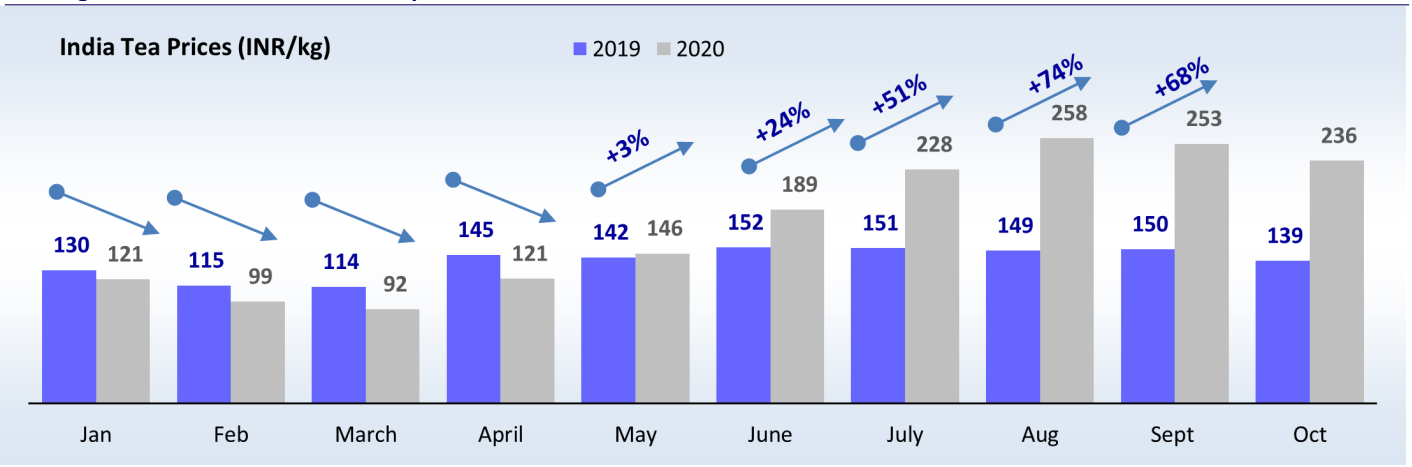
- North India weighted average tea prices have increased by 61% YoY over Apr-Sep'20 to INR261/kg v/s INR162/kg for the same period last year as production of North India tea (Assam and West Bengal), which accounts for 84% of India's tea production has been impacted due to the lockdown and floods.
- All India tea production (from Mar-Aug'20) is lower by 154m kg as compared to last year due to (a) first flush of the crop being lost as plucking activities were at a standstill due to lockdown, and (b) unfavorable weather conditions, which led to slower growth of the bush impacting production of the second flush in July'20.
- Thus, of India's annual tea production of ~1,350m kg, ~150m kg was lost, which created a supply crunch, leading to an increase in prices. On the back of increased tea prices, TCP's India tea business took price hike of 15-20% during May-Sep'20.
- Going forward, gross margin pressure can be expected in the segment from 3Q-4QFY21. However, this will be offset by the price hike and distribution rejig.

Research covered

Cos/Sector	Key Highlights
Tata Cons. Products	Pricing power in tea to negate impact on margins
Wipro	Guidance beats estimates; large buyback announced
Fund Folio (October 2020)	Equities see slowdown in outflows; Gross inflows in equities at 6-month high
MSME	Asset quality remains under watch; MSME credit declines 6% YoY
Metals	China's steel consumption remains strong

Chart of the Day: Tata Consumer (Pricing power in tea to negate impact on margins)

Leading to substantial increase in tea prices



Oct'20 are based on 3rd Oct'20 prices Source: Tea Board of India, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Centre permits 20 states to raise Rs 68,825 crore via borrowing to meet GST shortfall

The Centre on Tuesday permitted 20 states to raise Rs 68,825 crore through open market borrowings to bridge the GST revenue shortfall. The decision came a day after the GST Council meeting failed to reach a consensus…

2

Wipro to acquire Eximius Design for $80 million

IT services major Wipro on Tuesday said it will acquire engineering services company Eximius Design for USD 80 million (about Rs 586.3 crore). In a regulatory filing, Wipro said the purchase consideration is USD 80 million. This acquisition will help Wipro to expand into newer market segments and elevate the customer's journey in next-generation technologies such as connected products, embedded AI and security, it said. Eximius Design has around 1,100 employees and had registered consolidated revenues of USD 35.2 million in 2019. It provides end-to-end solutions and services for building smarter, smaller and faster-connected products for various use cases of IoT, Industry 4.0, Edge Computing, Cloud, 5G and Artificial Intelligence…

3

IMF scales up India's GDP contraction to 10.3% from 4.5% for FY21

The International Monetary Fund (IMF) has projected India's economy to contract at a higher rate of 10.3 per cent than its earlier prediction of 4.5 per cent due to rise in Covid cases. On the other hand, the Fund now expected the world economy to fall less severely by 4.4 per cent than 5.2 per cent it projected earlier for 2020…

4

Maruti to introduce new SUVs to take on rivals, strengthen pole position

Maruti Suzuki India plans to introduce a slew of new sport utility vehicle (SUVs) models over the next couple of years as it seeks to straddle the segment with multiple product offerings at varied price points, said people aware of the company's plans. Starting mid-2021, the car market leader is set to launch five…

5

Bajaj Finserv applies for mutual fund license

Financial services major Bajaj Finserv has applied for a license for mutual fund business with the markets regulator The Securities and Exchange Board of India (Sebi). An update on Sebi's website showed the financial services firm had filed for an application on September 28, and that the granting of an in-principle approval was under consideration. A similar application from the country's largest broking house Zerodha is also pending with the markets regulator.

6

Bank credit to micro, small businesses up 5.4% in August from year ago but contracts 3.9% in FY21 so far

Deployment of gross bank credit to micro and small enterprises (MSE) as on August 28, 2020, stood at Rs 11.04 lakh crore – up 5.4 per cent from Rs 10.48 lakh crore as on August 30, 2019, and marginally by 0.35 per cent from Rs 11 lakh crore as on July 31…

7

Tea consumption outside home rises; reaches pre-Covid levels

As lockdowns ease across the country and economic activities picked up, tea consumption outside the home has gone up since last fortnight and has reached the pre-Covid levels, packet tea players and producers said. About 300 million kg of India's annual domestic tea…

Tata Consumer Products

BSE SENSEX	S&P CNX
40,626	11,935

TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	432 / 6
52-Week Range (INR)	592 / 214
1, 6, 12 Rel. Per (%)	-19/21/65
12M Avg Val (INR M)	1989
Free float (%)	65.3

Financials Snapshot (INR b)

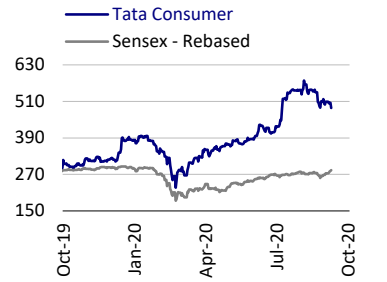
Y/E MARCH	FY20	2021E	2022E
Sales	96.4	108.2	118.8
EBITDA	12.9	17.0	19.7
Adj. PAT	7.3	9.5	11.4
EBITDA Margin (%)	13.4	15.7	16.6
Cons. Adj. EPS (INR)	8.0	10.3	12.4
EPS Gr. (%)	66.4	29.5	19.7
BV/Sh. (INR)	150	157	166
Ratios			
Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	6.9	6.7	7.6
RoCE (%)	8.5	8.6	10.0
Payout (%)	54.1	27.3	26.7
Valuations			
P/E (x)	58.8	45.4	38.0
EV/EBITDA (x)	32.1	24.4	21.1
Div. Yield (%)	0.9	1.4	1.6
FCF Yield (%)	4.8	4.0	5.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	34.7	34.7	34.5
DII	19.8	21.8	13.1
FII	19.5	17.1	26.6
Others	26.0	26.4	25.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR469 TP: INR558 (+19%) Buy

Pricing power in tea to negate impact on margins

Tea prices in North India have increased to INR261/kg (weighted average) over Apr-Sep'20 (v/s INR162/kg during the same period last year). Note that all India weighted average tea prices have increased to INR224/kg (v/s INR149/kg last year). In this note, we have analyzed the impact of the increase in tea prices on Tata Consumer Products (TCP) in the near term as well as over the long term. Key insights highlighted below:

Lower supply and higher demand drives Indian tea prices higher

- India is the largest producer of black tea in the world and accounts for the highest consumption of tea globally.
- In FY19, tea production in India stood at 1,350m kg. Of this, 1,090m kg was consumed domestically (81% of India's production) and balance 260m kg was exported. In FY19, TCP sold 124m kg, accounting for 11% of India's total tea consumption. TCP has ~20% volume market share in the domestic organized market.
- Production of North India tea (Assam and West Bengal), which accounts for 84% of India's tea production has been impacted due to the lockdown and floods. This led to an increase in North India weighted average tea prices by 61% YoY over Apr-Sep'20 to INR261/kg (v/s INR162/kg for the same period last year). According to the Tea Board of India, all India weighted average tea prices have increased by 50% YoY to INR224/kg (v/s INR149/kg last year).
- Indian Assam tea is usually harvested in three flushes:
  - the first flush is from mid-March to late-June (forms 32% of the whole tea cycle volumes and is of the best quality),
  - the second flush is from July to September (forms 38% of volumes and is the second best quality), and
  - the third flush is from October to December (forms 28% of volumes and is of inferior quality v/s the first and second flush) (as per 2019 production data)
- According to the Tea Board of India, all India tea production (from Mar-Aug'20) is lower by 154m kg as compared to last year due to (a) first flush of the crop being lost as plucking activities were at a standstill between 25th Mar-13th Apr'20 on account of the COVID-induced lockdown, and (b) unfavorable weather conditions, which led to slower growth of the bush impacting production of the second flush in July'20. Thus, of India's annual tea production of ~1,350m kg, ~150m kg was lost, which created a supply crunch, leading to an increase in prices.

Gross margins may be impacted in short term…

In 1QFY21, TCP's India tea business witnessed expansion in EBIT margin of 620bp to 21.5% driven by favorable commodity costs and lower discretionary expenditure; the company took a price hike (value growth of 7% in 1QFY21) on the back of an increase in tea prices and carry-forward of low cost inventory, which was sold in 1QFY21 (was acquired by TCP in Aug-December'19). As per our channel checks, TCP's India tea business took price hike of 15-20% during May-Sep'20.

Additionally, the company has removed one layer from its distribution of tea, which should aid margin expansion.

- Owing to the pandemic, out-of-home consumption of tea has taken a hit. However, in-home consumption of tea has increased materially, which has aided branded players like TCP as typically customers consume branded tea at home whereas unbranded tea is consumed outside.
- Going forward, gross margin pressure can be expected in the segment from 3Q-4QFY21. However, this will be offset by the price hike and distribution rejig (will aid in expanding EBITDA margins by 100-150bp).
- Nevertheless, while gross profit per kg is likely to be maintained, gross margin should be lower on higher base due to the price increase in 3Q-4QFY21.

…but higher tea prices to drive value growth in FY21

- Tea prices currently stand at INR234/kg, which is likely to stabilize around INR170/kg (up 23% when compared to average tea prices of 2019) as per industry sources, which is higher than the pre-COVID levels.
- Over the last five years, tea prices have posted 2% CAGR owing to an increase in the production of tea, which impacted prices adversely.
- Over FY15-20, TCP's standalone tea business revenue showcased 5% CAGR to INR36.3b, driven by 6% volume CAGR (to 133m/kg in FY20).
- Thus, once prices stabilize, it would aid in driving value growth for TCP in FY21.

Valuation and view

- TCP's India beverages business, which houses mainly the India tea business reported 11% revenue growth during 1QFY21, aided by 4% volume growth and balance by value growth; EBIT margins in 1QFY21 expanded 620bp YoY to 21.5% and EBIT grew 56% YoY. The performance was aided by better realizations, favorable commodity costs and lower discretionary expenditure.
- We expect margin expansion to moderate in the near term as high cost tea inventory, which is procured by the company will be sold in the quarters to come (3QFY21 and 4QFY21).
- However, once tea prices stabilize, it is likely to be higher v/s pre-COVID prices. This should aid in driving value growth for the company, which wasn't the case over the last five years where growth in the standalone business was driven by volumes.
- Currently, TCP has two strong legs in the India business – Tata Tea and Tata Salt – wherein TCP is targeting lower double-digit growth, driven by cross-selling between Tata Chemicals and TCP's distribution channels and also expansion into new geographies.
- TCP is building its third leg, which should grow in high double-digits – Tata Sampann – dealing in pulses and spices. Market size of pulses/spices in India currently stands at INR1,500b/INR600b with the unorganized players forming 99%/70% of the market. Thus, growth is expected by grabbing market share from unorganized players with increasing distribution reach. Apart from the above, TCP has launched nutrimixes (Chilla), poha and chutney in the ready-to-cook space, which should aid growth.
- We value TCP on an SOTP basis to arrive at target price of INR558. Maintain **Buy**.

Wipro

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	2147.2 / 29.4
52-Week Range (INR)	382 / 160
1, 6, 12 Rel. Per (%)	24/66/50
12M Avg Val (INR M)	2544

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	613	624	676
EBIT Margin (%)	17.1	18.4	18.5
PAT	98	101	110
EPS (INR)	16.6	17.6	19.1
EPS Gr. (%)	8.5	5.9	8.6
BV/Sh. (INR)	97.9	100.3	107.8
Ratios			
RoE (%)	17.3	17.8	18.4
RoCE (%)	12.8	13.3	13.7
Payout (%)	7.0	93.0	61.1
Valuations			
P/E (x)	22.6	21.3	19.6
P/BV (x)	3.8	3.7	3.5
EV/EBITDA (x)	14.9	13.1	11.7
Div Yield (%)	0.3	3.7	2.7

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	74.0	74.0	73.8
DII	7.6	7.0	6.9
FII	8.2	8.9	8.7
Others	10.1	10.1	10.6

FII Includes depository receipts

CMP: INR376 TP: INR385 (+2%) Neutral

Guidance beats estimates; large buyback announced

Deal pipeline at pre-COVID levels

- Wipro reported better-than-expected revenue growth for the quarter (2% QoQ CC v/s est. 0.5%). Broad-based recovery across verticals, continued margin resiliency, and strong cash generation were the key positives for the company. A robust deal pipeline and improved demand present an encouraging outlook.
- Management guidance for revenue growth (1.5–3.5% QoQ CC) in 3QFY21 stands above our estimate of 0–2%, which is another key positive.
- The key contours of the new CEO's refreshed strategy – growth from focused sectors/markets, continued investment in talent, and a simplified operational model to help improve focus on customers – seem to be steps in the right direction.
- We upgrade our FY21/FY22E EPS by 3%/2%, largely led by a revised revenue outlook based on guidance. **Maintain Neutral** as we await further evidence of execution of Wipro's refreshed strategy and a successful turnaround from its growth struggles over the past decade before turning more constructive on the stock. Our TP implies 20x FY22E EPS (30% discount to TCS).

Revenues beats estimates; margins slightly better than expected

- Wipro reported revenue (USD) / EBIT / PAT growth of -3%/5%/-4% YoY v/s our estimate of -4%/3%/-4% YoY. For 1HFY21, the company reported revenue (USD) / EBIT / PAT growth of -4%/7%/-2% YoY.
- Revenue growth of 2% QoQ CC (v/s est of 0.5% QoQ CC) was above our expectation. CC tailwind of 170bp (USD) was in-line.
- Revenue growth was broad-based, with the majority of the verticals reporting above company growth. Decline in Energy, Natural Resources, and Utilities (ENU) was as expected. In contrast to resilient expectation, Technology continued to decline (-4.7% QoQ CC).
- Among the geographies, recovery was driven by the Americas (2.2% QoQ CC) and RoW (3.7% QoQ CC), while Europe came in flattish.
- Across service lines, BPO (8% QoQ CC) was the key growth driver.
- The EBIT margin (IT) expanded 20bp QoQ to 19.2% (v/s the expectation of 18.8%). Margin improvement was driven by operational efficiency (80bp), offset by currency impact due to INR appreciation (60bp). Operational improvement factors consisted of higher offshore revenues, increased utilization, reduced sub-contractor expenses, and lower attrition.
- Utilization of 87% in 2Q was at multi-quarter highs, while attrition has been at multi-quarter lows (11%).
- FCF generation remained healthy during the quarter (164% PAT).
- The board announced buyback worth INR95b (4.16% of total paid-up equity capital) at INR400/share by way of tender offer. The buyback amount excludes transaction charges / taxes. The company had cash balance (including investments) of INR410b (2QFY21).

- Revenue growth guidance of 1.5–3.5% QoQ CC for 3QFY21 is encouraging.
- Wipro has also announced the acquisition of Eximius Design – an engineering services company with strong expertise in semiconductors, software, and systems design. Wipro has acquired 100% stake for USD80m. Eximius reported revenues of USD35m (in CY19). Transaction closure is expected in 3QFY21.

Key highlights from management commentary

- The company has done better than the earlier expectation of a stable 2Q quarter with 2% QoQ CC revenue growth. Growth has been broad-based, driven by an increase in volumes. Strong growth in the BPO service line (8% QoQ CC) was largely driven by fresh demand across new/existing clients.
- Expect to maintain the IT EBIT margin in a narrow band at ~19% levels going forward. The company would offer promotions and wage hikes (similar to last year) to its junior employees effective from 1st Dec 2020.
- Demand has improved since 1Q. The deal pipeline is strong and at pre-COVID levels, with a good mix of large and small deals. Decision-making has improved, but remains slower for large deals. The intensity of sales activity has increased.
- The Consumer business unit is expected to grow in the near term on the back of healthy deal wins. The outlook for BFSI is optimistic, although it is expected to see the impact of seasonal furloughs in 3Q. ENU and Technology are expected to see growth going forward. Communication, Healthcare, and Manufacturing would also grow moderately in the near term.
- The company is seeing flight to safety/consolidation as clients are going ahead with fewer/trusted and stronger players.
- The company would continue with its 50% payout policy going forward – it gives higher payouts if and when the board feels comfortable with the cash position and environment.
- The new CEO announced his five-point plan as part of a strategy refresh:
  i. Growth focus – Focusing on existing accounts; shaping large deals
  ii. Focus and scale – Prioritizing markets/sectors and striving for leadership positions in these areas
  iii. Offerings – Evolving offerings beyond traditional IT offices, focusing on vertical-based solutions, and leveraging the partnership ecosystem
  iv. Talent – Continuing to invest in building talent
  v. Simplified operating model – Agile/Lean operating model that would help improve external focus on customers

Valuation and view – aptly priced; limited upside hereafter

- In the past few years, Wipro has underperformed Tier-I companies on growth, partly due to its higher exposure to challenged verticals (e.g., Healthcare and ENU). Additionally, changes at the company level (restructuring in India / the Middle East, etc.) have further constrained growth. However, we expect some verticals to recover and drive medium-term growth (e.g., Health BU).
- Margin resilience and cash generation have been impressive over the past couple of quarters. The buyback announcement, management guidance for revenue growth in 3Q, and outlook for maintaining margins within a narrow band are other key positives.

- We upgrade our FY21/FY22E EPS by 3%/2%, largely led by a revised revenue outlook based on guidance. **Maintain Neutral** as we await further evidence of execution of Wipro's refreshed strategy and a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP implies 30x FY22E EPS (30% discount to TCS).

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 Rev. (USD m)	**2,039**	**2,049**	**2,095**	**2,074**	**1,922**	**1,992**	**2,052**	**2,097**	**8,256**	**8,063**	**1,964**	**1.5**
QoQ (%)	-1.8	0.5	2.2	-1.0	-7.3	3.7	3.0	2.2	1.7	-2.3	2.2	148bp
Overall Revenue (INR b)	**148**	**152**	**155**	**158**	**150**	**151**	**159**	**163**	**613**	**624**	**152**	**-0.1**
QoQ (%)	-1.6	2.6	2.4	1.7	-4.9	0.6	5.3	2.4			0.8	-14bp
YoY (%)	5.3	3.6	2.6	5.1	1.6	-0.4	2.5	3.1	4.1	1.7	-0.2	-14bp
GPM (%)	**29.6**	**28.9**	**29.4**	**27.8**	**31.0**	**30.3**	**30.0**	**30.0**	**28.9**	**30.3**	**30.7**	**-34bp**
SGA (%)	12.9	11.3	11.9	11.4	13.2	11.8	11.7	11.7	11.9	12.0	12.3	-53bp
EBITDA	**30**	**31**	**33**	**32**	**33**	**35**	**36**	**37**	**126**	**141**	**34**	**3.4**
EBITDA Margin (%)	**20.0**	**20.7**	**20.9**	**20.4**	**21.9**	**22.9**	**22.8**	**23.0**	**20.5**	**22.7**	**22.2**	**78bp**
IT Serv. EBIT (%)	18.0	18.1	18.4	17.6	19.0	19.2	19.1	19.2	18.0	19.1	18.8	42bp
EBIT Margin (%)	16.7	17.6	17.5	16.7	17.9	18.6	18.4	18.6	17.1	18.4	18.1	53bp
Other income	6	5	4	3	4	4	4	4	18	16	4	-9.4
ETR (%)	21.8	18.3	20.0	20.9	22.1	22.7	22.5	22.5	20.2	22.4	22.1	57bp
PAT	**24**	**26**	**25**	**23**	**24**	**25**	**26**	**27**	**97**	**101**	**25**	**0.4**
QoQ (%)	-9.4	6.6	-3.8	-4.8	2.8	2.3	4.8	3.3			1.8	44bp
YoY (%)	14.4	36.0	-3.2	-6.0	0.4	-3.7	4.9	13.9	5.3	3.4	-4.1	42bp
EPS (INR)	4.0	4.3	4.3	4.1	4.2	4.3	4.5	4.6	16.6	17.6	4.3	0.5

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	-0.7	1.1	1.8	0.4	-7.5	2.0			3.9	
Margins										
Gross Margin	29.6	28.9	29.4	27.8	31.0	30.3	30.0	30.0	28.9	30.3
EBIT Margin	16.7	17.6	17.5	16.7	17.9	18.6	18.4	18.6	17.1	18.4
Net Margin	16.1	16.8	15.8	14.7	15.9	16.2	16.1	16.3	15.8	16.1
Operating metrics										
Headcount	1,74,850	1,81,453	1,87,318	1,82,886	1,81,804	1,85,243			1,82,886	
Attrition (%)	17.6	17.0	15.7	14.7	13.0	11.0			14.7	
Utilization	85.0	82.1	79.6	82.6	84.5	86.9			80.9	
Key Verticals (YoY CC %)										
BFSI	11.2	5.9	1	-1.3	-6.9	-3.3			4	
Retail	7.7	6.1	12.1	6.4	-2.5	-2.1			8.1	
Key Geographies (YoY CC%)										
North America	11.2	9.4	7.2	3.1	-4.4	-4.0			7.6	
Europe	0.0	-2.7	-4.3	1.9	-7.7	-5.7			-1.3	

FUND FOLIO: Equities see slowdown in outflows; Gross inflows in equities at 6-month high

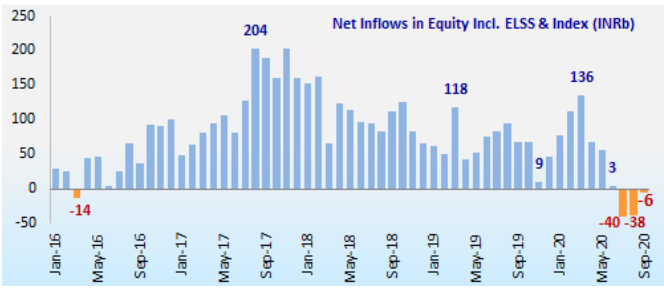
Key observations

- **After scoring a hat-trick in Aug'20, the Indian benchmark indices consolidated in Sep'20 (Nifty-50 down 1.2%) amid extreme volatility. 1HFY21 (Apr-Sep'20) has turned out to be the best first half for the Nifty over the last decade, of course aided by the low base, post correction in Mar'20. The broad-basing of markets after almost three years of polarization augurs well even as recovery in the underlying economy takes shape. Mid and Small-Cap indices have once again outperformed the Nifty in Sep'20.**
- **After rising 17.9% over the last three months, Equity AUM (incl. ELSS and Index funds) of domestic MFs declined a marginal 0.6% MoM to INR8.1t in Sep'20, led by the fall in market indices (Nifty -1.2% MoM). Notably, the month saw an increase in sales of Equity schemes (up 17.5% MoM to INR179b). Further redemptions also cooled off marginally and stood at INR185b (down 2.7% MoM), leading to slowdown in net outflows to INR6b in Sep'20 (v/s outflows of INR38b recorded in Aug'20).**
- **MF industry's AUM decreased 2.3% MoM (INR0.6t) to INR26.9t in Sep'20, primarily led by Liquid funds (INR-697b), Balanced funds (INR-78b) and Equity funds (INR-52b).**
- **The proportion of outflows in Multi-cap schemes remained high compared to other categories (Refer page 3). This could be attributed to the market regulator SEBI's circular in Sep'20, which directed Multi-cap funds to keep at least 25% of their assets each in large-cap, mid-cap and small-cap stocks.**

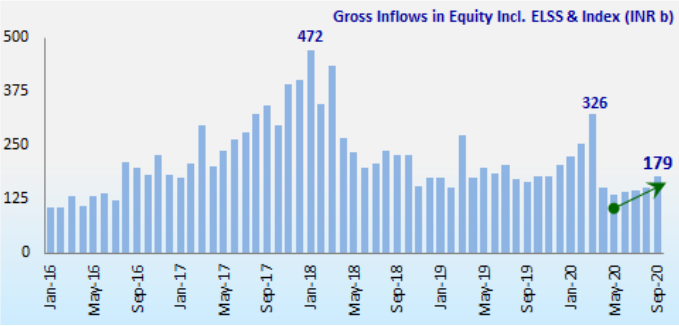
Some interesting facts

- **Sep'20 saw notable change in sector and stock allocation of funds. On MoM basis, the weights of Technology, Healthcare, Auto, Oil & Gas, Chemicals and Cement increased, while that of Banks (Private and PSU), Utilities, Telecom, NBFCs, Capital Goods, Consumer and Metals moderated.**
- **Technology's weight increased 140bp MoM to 11.6% to climb a new high.**
- **Healthcare's weight hit 55-month high to 8.7% (+70bp MoM, +340bp YoY).**
- **Private Bank's weight hit 29-month low to 15.8% (-150bp MoM, -500bp YoY).**
- **In terms of MoM value increase, 5 of the top-10 stocks were from Technology: Infosys (+INR40.3b), TCS (+INR32.9b), HCL Tech (+INR23.2b), Tech Mahindra (+INR10.8b) and Wipro (+INR9b).**
- **Stocks exhibiting maximum decrease in value MoM were ICICI Bank (-INR70.8b), Axis Bank (-INR46.7b), SBI (-INR41.7b), Bharti Airtel (-INR38.9b) and Kotak Mahindra Bank (-INR34.3b).**

MFs saw slowdown of outflows in Sep'20

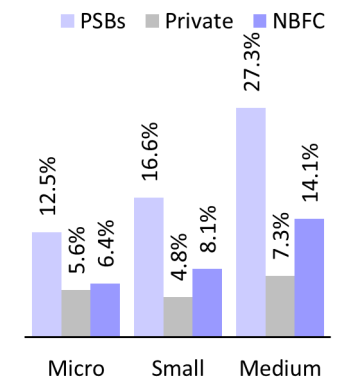


MFs' gross inflows in equities stand at 6-month high

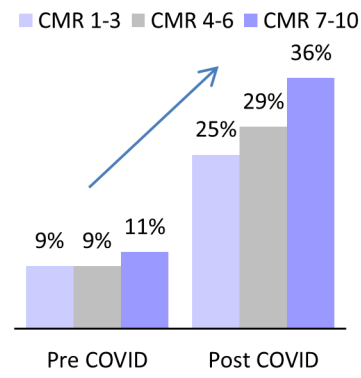


Financials

Higher NPAs in large ticket size bucket



Proportion of missed payments for loans across CMR; 20% aggregate increase in missed payments



Asset quality remains under watch; MSME credit declines 6% YoY

Credit guarantee scheme aiding faster revival; PSBs gaining market share

- **As per the latest *TransUnion CIBIL Ltd on MSME Pulse* report, asset quality continued to deteriorate in the MSME segment, with the NPA ratio increasing by 140bp YoY to 12.8% as of 1QFY21. However, NBFCs have witnessed the most significant increase in NPAs in the segment by ~390bp YoY to 9.7%.**
- **Currently, ~80%/86% of the PSB/Private Bank MSME disbursements in June'20 were toward the Super Prime and Prime category MSME borrowers. However, incrementally higher inquiries were seen from high-risk category borrowers.**
- **Total MSME credit declined 6% YoY (3.4% QoQ) in 1QFY21. However, the emergency credit line guarantee scheme (ECLGS) provided a much-needed boost. The impact was clearly visible in PSBs, which disbursed 2.6x the loan amount in Jun'20 over Feb'20. Also, private banks rebounded to earlier disbursal levels of Feb'20.**
- **As per the latest press release from the finance ministry, the total loans sanctioned under ECLGS stand at ~INR1.9t, of which INR1.4t has already been disbursed. Among the lenders, PSBs disbursed INR688b, private banks INR597b, and NBFCs just INR22b.**
- **MSME credit witnessed the sharpest decline in the metro/urban locations v/s the rural and semi-urban regions. Furthermore, among the states, Maharashtra reported the sharpest decline, followed by Gujarat, while Chhattisgarh and Bihar witnessed moderately improving trends.**

Sharp surge in NPA levels; higher missed payments rate in high-risk MSME segment

- The NPA ratio in the MSME segment increased by 140bp YoY to 12.8% in 1QFY21. Furthermore, private banks' NPAs in the segment increased by 120bp YoY to 5.8%, and PSBs' NPAs increased by ~110b YoY to 18.6%. **However, NBFCs witnessed the most significant increase in NPAs by ~390bp YoY to 9.7%.**
- Within the MSME sub-segments, higher NPAs were reported in higher ticket size category loans.
- Over the last few months (from Mar'20 to June'20), **the missed payments rate (at least on term loans) increased from 9% (pre-COVID levels) to 25% in the Super Prime category. On the other hand, a sharp increase was seen in sub-prime category borrowers from 11% (pre-COVID) to ~36%.**

Credit inquiries spike among high-risk category borrowers

Currently, ~80% of PSB disbursements to MSME in Jun'20 were toward Super Prime (CMR 1–3) and Prime (CMR 4–6) category borrowers. Also, for private banks, ~86% of the total disbursements were toward higher rated MSME borrowers. **However, the latest credit inquiry trends in Aug'20 indicate higher inquiries from high-risk category borrowers.** PSBs reported a sharp drop in Super Prime inquiries to 32% in Aug'20 from 38% in Feb'20. Conversely, sub-prime inquiries for NBFCs increased to 24% in Aug'20 from 15% in Feb'20.

MSME credit declines 6% YoY, but faster revival led by credit guarantee scheme

- Total MSME credit declined 6% YoY (3.4% QoQ) in 1QFY21, impacted by lockdown and weak economic trends. Also, commercial credit growth (including MSMEs and large corporates) declined 3.6% QoQ (~4% YoY decline). Among the MSME sub-segments, Medium and Small Enterprises posted sharper decline v/s the Very Small and Micro category.
- The ECLGS announcement has been a positive step. The impact was clearly visible in Jun'20, with PSBs disbursing 2.6x the loan amount over Feb'20 levels. Also, private banks rebounded to earlier disbursal levels of Feb'20.

~INR1.4t of loans disbursed to MSME under credit guarantee scheme

As per the latest press release from the finance ministry, the total loans sanctioned under ECLGS stand at ~INR1.9t, of which INR1.4t has already been disbursed. Thus, a total of 2.7m MSME businesses have availed loans under this scheme. Among the lenders, PSBs have sanctioned loans of INR816b, of which INR688b has already been disbursed. Private banks have sanctioned loans of INR866b, of which INR597b has thus far been disbursed. On the other hand, NBFCs have reported significantly lower disbursements of INR22b (of the total ~INR30b worth of loans sanctioned).

PSBs' market share increases to ~52% in 1QFY21 v/s ~49% in FY20

PSBs – which had been losing market share over the last few years to private banks and NBFCs until FY20 – saw sharp improvement. PSBs' market share improved to ~52% in June'20 from ~49% in FY20. This was primarily led by market share decline in NBFCs to ~10%.

Better trends in rural/semi-urban v/s metro locations; Maharashtra sees sharpest decline

Credit growth in the MSME segment declined the most at 6% YoY each in the metro/urban locations v/s 3%/4% YoY decline in rural/semi-urban. Among the states, Maharashtra posted the sharpest decline in MSME credit, followed by Gujarat, while Chhattisgarh and Bihar saw moderate growth in the MSME portfolio. Furthermore, the number of MSME loans disbursed in June'20 was over 3x in the semi-urban/urban regions (v/s ~1.9x in metros) over Feb'20 levels (indexed to 1).

Metals

Bouncing back strongly, stay positive

China's steel consumption remains strong

Steel trade data released by China suggests demand remains strong, with net steel exports declining to 10-yr lows in Sep'20. Moreover, high passenger car sales in Sep'20 confirm strong end user demand for steel in China. China's domestic steel prices are also on the rise again post the National Holidays that ended last week. We believe strong steel demand and prices in China, if it sustains, would be beneficial for steel prices in the region as well as India.

China's Sept consumption data – strong on all counts

- China's steel exports fell 28% YoY to 3.83mt in Sep'20 – the fifth consecutive month of decline. However, they increased by 4% MoM as steel traders sought to liquidate inventories ahead of the National Holidays in the first week of Oct. Exports also declined 26% YoY in 3QCY20 to 11.7mt.
- On the other hand, China's steel imports surged by 160% YoY to 2.88mt in Sep'20 – a new all-time high.
- As a result, China's net steel exports declined to 0.94mt – a new 10-year low. Declining net steel exports despite rising steel production (up 4.7% YoY over Jan–Sep'20) indicate strong steel consumption in China.
- China's passenger car sales grew 8% YoY to 2.09m units in Sep'20 (and by 7.8% YoY in 3QCY20), indicating strong end-use demand for flat steel.
- China's iron ore imports also surged 9% YoY to 108mt (8% MoM) in Sep'20, and inventories at ports rose 3% MoM to 104.8mt.

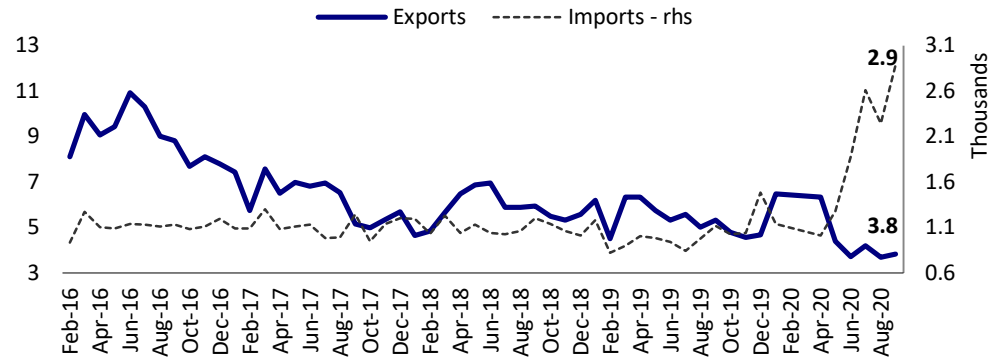
China steel prices rise post National Holidays; inventories remain stable

- China's domestic steel prices have recovered post the National Holidays (ended last week). This comes after a ~4% decline from the peak of Sep'20. We believe inventory restocking post the holidays has driven up steel prices in the country by ~70RMB/t or ~2% to USD581/t / USD554/t for HRC/rebar.
- China's steel inventory (with traders in major cities) remained stable MoM at 4.03mt, but remains 23% YoY higher, largely due to massive long steel inventory. Flat steel inventory remains flattish on a YoY basis.
- Stable flat steel inventory despite lower exports is indicative of strong demand for flat steel in China. This is also evident from 8% YoY growth in passenger vehicle sales in China in Sep'20.

Prefer longs over flats; JSPL is top pick

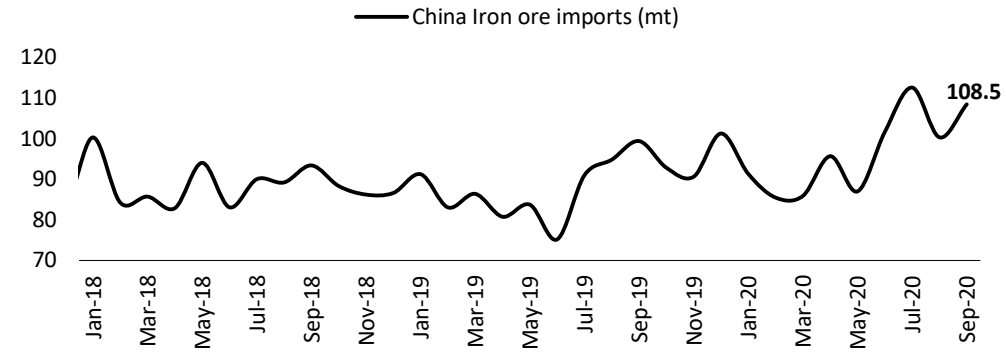
- With strong steel demand supporting prices in China, we expect regional export prices to also remain strong, which should be beneficial for Indian steel prices.
- We prefer longs over flats in India's Steel sector as we expect rebar prices to be strong, led by the seasonal (post-monsoon) uptick in construction activity.
- Thus, with ~70% share of long products in its portfolio and TP of INR234, JSP is our preferred pick in the sector. Over FY20–22E, we also estimate strong 10%/16% CAGR in standalone volumes/EBITDA. Coupled with the Oman divestment, this should drive a 37% fall in consolidated net debt to INR239b. Thus, net debt/EBITDA should decline to 2.7x, the lowest in India's Steel sector.
- We also assign JSTL a Buy rating (TP of INR317), but rate Tata Steel Neutral (TP of INR381) on concerns related to its European business. We rate SAIL with Neutral (TP of INR35) as leverage remains a key concern.

China's steel exports were down 28% YoY and imports were at record highs; net exports thus declined to 0.9mt, lowest in 10-years



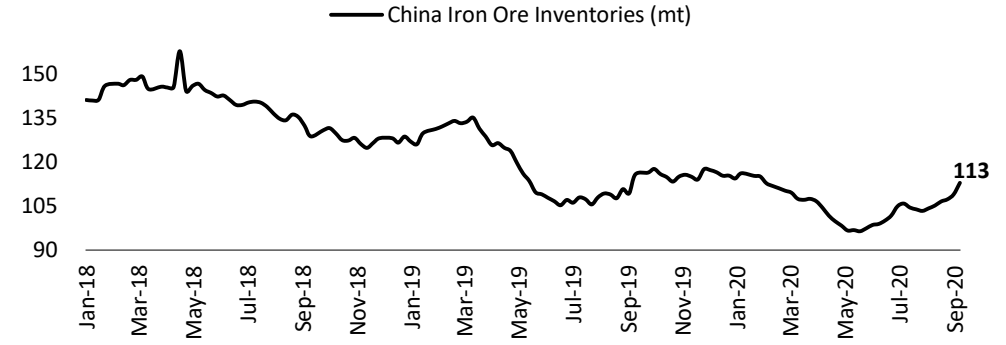
Source: Bloomberg, MOFSL

China's iron ore imports rose 8%/9% MoM/YoY to 108mt



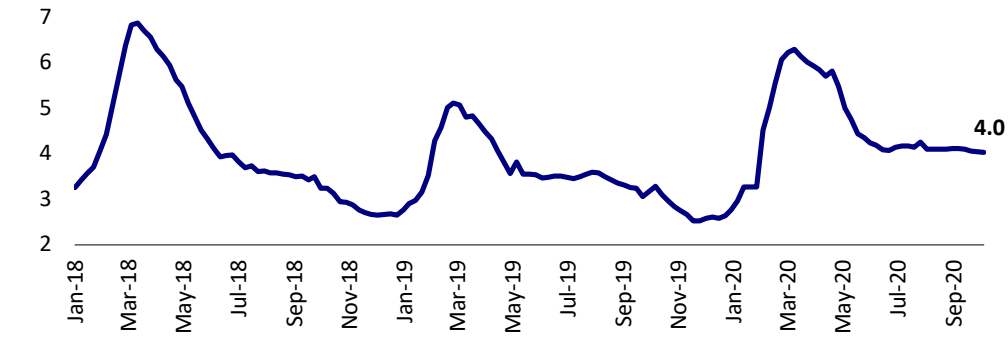
Source: Bloomberg, MOFSL

China's iron ore inventories at ports rose 3% MoM to 113mt



Source: Bloomberg, MOFSL

China's steel inventory (mt) with traders at major cities was flat MoM, but up 23% YoY



Source: Bloomberg, MOFSL

Fortis Healthcare: Occupancy back to 80-90% of pre- COVID levels; Ashutosh Raghuvanshi, MD & CEO

- Occupancy has come back to about 80-90% of pre- COVID levels. Expect biz to go back to normal in H2
- COVID testing contributes 25% to SRL Diagnostics revenues currently. Though not profitable, they are contributing to volumes. Non COVID work has reached pre COVID levels
- Elective surgeries are back to 65% from 20-25% levels. Last year we were at 75% in same quarter
- Q4 run rate should significantly compensate for the loss in Q1
- Comfortable with respect to cash position. Do not plan to raise fresh debt

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ITC: EPS has increased by 47% in last 3 years; Sanjiv Puri, CMD

- Our Return on segment capital has gone up from 61% to 72%
- Fundamentals are strong with robust cash flows & strong debt free balance sheet
- In FMCG, Launched 41 new products in the first 3-4 months of lockdown. As we scale up, EBIT margins will scale up
- FMCG growth will be industry leading and margin expansion will sustain
- Savlon is a Rs. 1,000 cr brand from Rs. 50 cr. Nyle is 4x from where we bought it
- Cigarettes impacted by sales disruptions during lockdown. Tax stability is key for growth
- Exploring alternate structures for running Hotel business. Have put off restructuring due to COVID. Will consider Hotels biz for restructuring first
- Taking note of buyback & restructuring suggestions made by investors

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Shalby Hospitals: 21-25% Margins look sustainable; Shanay Shah, President

- 60% of revenues coming from COVID treatment which generates 30-35% margins
- 28-30% EBITDA levels not sustainable. 21-25% Margins can be maintained
- Orthopedics constituted 50% to revenues pre COVID, it's currently at 10-15% in H1
- Arthroplasty is at 30-40% pre COVID levels. Going ahead expect it to reach 60-70% in October
- 2000 beds capacity across 11 hospitals, 1200 beds are operational currently. Require ~Rs. 50 crs to operationalize the balance 800 beds
- New project Asha Parekh hospital which we will run for next 60 years, some capex will be required there
- Have cash balance of ~Rs. 50 crs and will also do some fund raise, so we will not be required to raise debt

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INCLUSIVITY IS LOST IN ONLINE LECTURES

- A 100% cut-off for admissions into undergraduate courses may sound absurd, but it has become de rigueur at Delhi University. With well-recognised colleges posting no less than a perfect score for the first cut-off, the colleges down the pecking order post near-100% cut-offs. To be sure, these cut-offs are not entirely the colleges' fault. At the root are grade inflation and the fact that colleges are mandated to take in all applicants that make their cut-off, notwithstanding how many seats they actually have. Grade inflation is a contagion—if one board does it, others have no incentive not to do it. With marks flowing free, the number of high-scorers has been increasing—the number of students who scored over 95% in CBSE Class XII exams more than doubled this year over last year. Indeed, there are over 5,500 applicants to Delhi University colleges with 100% scores in the 'best of four' subjects, The Indian Express reports. With the tribe of high-scorers swelling each year, colleges are posting absurdly high cut-offs so that they don't end up with 'over-admission'.
- With senior secondary boards treating liberal marking as competitive sports, the problem has to be addressed at the supply end. To that end, the National Education Policy (NEP) 2020 has the right idea in aiming to create nearly 3.5 crore new undergraduate, postgraduate and doctoral seats by 2035. The NEP proposes a sound regulatory framework for this—graded autonomy for colleges and universities, and 'light but tight' regulation by the new regulator, the Higher Education Commission of India. This will be a big change from the UGC regime, where colleges (even India's best) didn't have the freedom to start new courses/programmes, set fees as per requirement, etc.
- Beyond this, the NEP also proposes to have degree-granting colleges. As per the All India Survey of Higher Education 2019, there are nearly 40,000 colleges in India; imagine the higher education boost if the top-ranking ones are allowed to grant degrees. Creating the required number of degree-granting colleges will require, apart from graded autonomy, significant funding support from the government (both the Centre and states). While the NEP talks about pushing higher education spend to 6% of the GDP, a goal adopted in the 1968 National Education Policy, the fact is that the budgetary allocation of the Centre for education, as a share of the overall budget, has fallen between 2014-15 (4.14%) and 2019-20 (3.4%), as per an analysis by IndiaSpend—though the share of higher education within the overall amount budgeted for education has increased.
- Another area where the NEP vision can prove transformative is online and open & distance learning. The UGC yoke had meant that this didn't take off in the past despite policy tweaks to allow this. The NEP talks about the standard setting for online courses by an autonomous National Education Technology Forum; how effective this will be will depend on what the regulatory approach is—it took a pandemic for the government to allow the top 100 universities in the country to offer online education. As this paper has argued before, why limit this to just the 100 when the rest are allowed to the same via brick & mortar classrooms?

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

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

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