Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	38,615	0.2	-6.4
Nifty-50	11,408	0.2	-6.2
Nifty-M 100	16,764	0.6	-2.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,375	-0.4	4.5
Nasdaq	11,146	-0.6	24.2
FTSE 100	6,112	0.6	-19.0
DAX	12,977	0.7	-2.1
Hang Seng	10,313	-1.1	-7.7
Nikkei 225	23,111	0.3	-2.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	44	0.1	-33.3
Gold ($/OZ)	1,929	-3.7	27.1
Cu (US$/MT)	6,699	1.8	8.9
Almn (US$/MT)	1,758	1.3	-1.3
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.8	0.1	4.8
USD/EUR	1.2	-0.8	5.6
USD/JPY	106.1	0.7	-2.3
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	6.0	0.01	-0.6
10 Yrs AAA Corp	6.7	0.01	-0.9
Flows (USD b)	**19-Aug**	**MTD**	**CYTD**
FIIs	0.06	3.65	2.30
DIIs	-0.01	-0.89	9.64
Volumes (INRb)	**19-Aug**	**MTD***	**CYTD***
Cash	601	626	536
F&O	15,899	17,581	15,542

Note: *Average

Today's top research idea

IndiaMART: Play on digitizing MSMEs

- IndiaMART is India's largest B2B Online Classifieds marketplace, with >70% market share. Growth in the underlying industry is based on higher digitization in SMEs.
- In the past this has held up, as platform was able to do revenue CAGR of 26% on account of 15% CAGR in paid suppliers and 10% CAGR in ARPU. A strong network effect, resilience to supplier ROI, diversified exposure, and robust SEO (Search Engine Optimization) strength are the platform's key differentiation factors.
- We foresee a 7% reduction in the paid supplier base in FY21, resulting in 7.5% decline in revenues. However, we forecast a sharp turnaround in FY22 operations on account of: a) pent-up demand, b) a stable base of total suppliers, c) the need for out-of-the circle buyers, and d) higher Internet penetration.
- We expect Revenue/EBIT/PAT CAGR of 10%/22%/26%. Our TP of 3550, implying an upside of 19%.

Research covered

Cos/Sector	Key Highlights
IndiaMART (Initiating Coverage)	Play on digitizing MSMEs
Expert Speak (Telecom)	BHARTI AGM Takeaways
Muthoot Finance	Business muted; Liquidity on balance sheet increasing
Tata Power	Planning for an asset-light and consumer-facing model
KNR Construction	Surprises with revenue growth against all odds

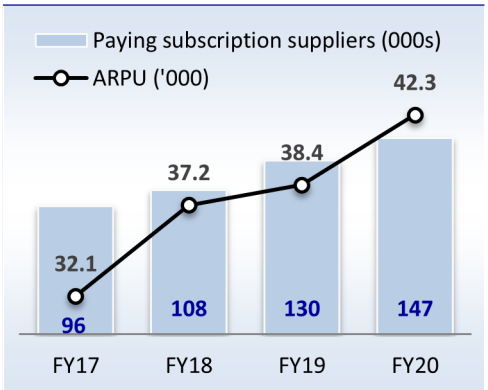
Piping hot news

Delhi government allows hotels to reopen after five months

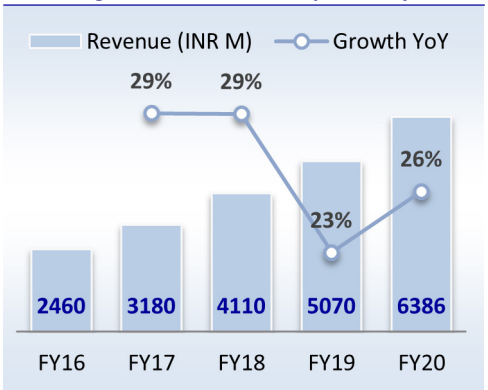
In a major breakthrough for the hospitality industry, the Delhi government has allowed hotels to reopen. The decision was taken in a Delhi Disaster Management Authority (DDMA) meeting on Wednesday.

Chart of the Day: IndiaMART (Play on digitizing MSMEs)

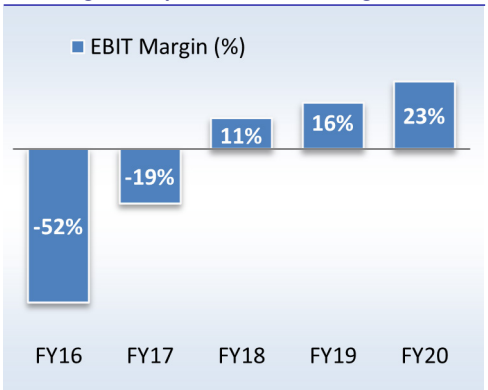
Led by higher buyer engagement and network effect, IndiaMART is able to consistently inch up volumes and realization



Revenue grows at 27% CAGR in past five years



Resulting in sharp turnaround in margins



Research Team (Gautam.Duggad@MotilalOswal.com)

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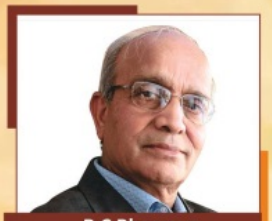


R C Bhargava
Maruti Suzuki India

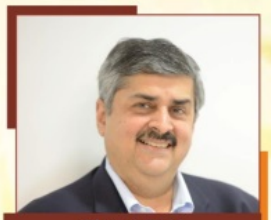
Rajnish Kumar
State Bank of India

C Vijayakumar
HCL Technologies

Vibha Padalkar
HDFC Life Insurance Company

Gurdeep Singh
NTPC

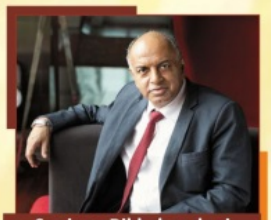
Anish Shah
Mahindra Group



Bharat Puri
Pidilite Industries

George Alexander Muthoot
Muthoot Finance

Saugata Gupta
Marico



Sanjeev Bikhchandani
Info Edge (India)

Nilesh Gupta
Lupin

Sunil D'souza
Tata Consumer Products

Sharvil Patel
Cadila Healthcare

Soumitra Bhattacharya
Bosch

Ajay Piramal
Piramal Group

Rishi Pardal
United Breweries

Sanjay Agarwal
AU Small Finance Bank

Shantanu Khosla
Crompton Greaves Consumer Electrical

Ronnie Screwvala
upGrad

Raches Ella
Bharat Biotech International

In the news today

Kindly click on textbox for the detailed news link

1

Chinese SUV giant, Great Wall Motors waiting for green light to enter India

Great Wall Motors, China's largest maker of SUVs, is waiting for India to approve its foreign direct investment (FDI) proposal, the fate of which will be closely watched by other Chinese companies looking to set up local ventures. Great Wall acquired General Motors' Talegaon…

2

Government to reduce IRCTC shareholding via offer for sale

The government will reduce its shareholding in Indian Railway Catering and Tourism Corporation (IRCTC) through an offer for sale. The department of investment and public asset management (Dipam) has invited bids from merchant bankers and brokers to divest part of the government's shareholding of 87.4% in the central public sector enterprise, which was listed on the bourses last year…

3

GST Council to meet on August 27 to discuss compensation payout to states

The Goods and Services Tax (GST) Council will hold its next meeting on August 27, where it is likely to discuss critical issues of compensation to states and market borrowing for meeting the gap in compensation, following a legal opinion. The Council is also likely to take up the attorney general's view that the Council…

4

CCEA relaxes norms for discoms in need of loans

The Cabinet Committee on Economic Affairs on Wednesday approved a one-time relaxation to Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) for extending loans to state-run electricity distribution companies (discoms), above their working capital limits under the Ujwal DISCOM Assurance Yojana…

5

L&T Finance weighs $450 million rights issue

L&T Finance Holdings Ltd. is exploring a plan to raise around $450 million through a rights issue, people familiar with the matter said. The financial services arm of Larsen & Toubro Ltd. has started discussing the fundraising with potential advisers, said the people, who asked not to be identified as the matter is private. L&T Finance's parent, India's largest engineering and construction company, has agreed it would buy any unsold shares in the offering, the people said…

6

Around 40% of restaurants may shut down permanently: Zomato report

Even though the food delivery industry has recovered to some extent and would take two-three months to reach the pre-Covid levels, the dining out category, which has been impacted the most, has forced many restaurants to shut down. According to a report…

7

Banks may restructure Rs 8.4 tn loans as economy sputters: India Ratings

Indian banks may restructure loans worth Rs 8.4 trillion--about 7.7 per cent of total credit in March 2020--to manage financial stress caused by the coronavirus pandemic…

IndiaMART

BSE Sensex	S&P CNX
38,615	11,408

CMP: INR2,990 TP: INR3,550 (+19%) Buy

indiamart

Stock Info

Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	86.4 / 1.1
52-Week Range (INR)	3147 / 952
1, 6, 12 Rel. Per (%)	41/25/151
12M Avg Val (INR M)	260
Free float (%)	47.7

Financials & Valuations (INR b)

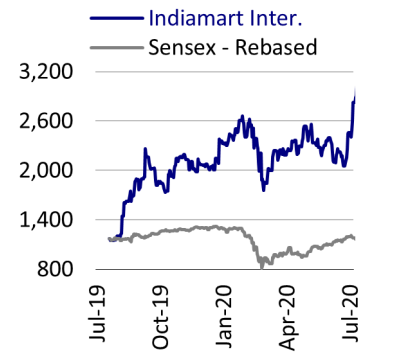
Y/E Mar	2020	2021E	2022E
Sales	6.4	5.9	6.9
EBITDA	1.7	2.2	2.3
PAT	1.6	2.3	2.5
EBITDA (%)	26.3	37.3	32.7
EPS (INR)	51.3	79.3	87.3
EPS Gr. (%)	566.2	54.6	10.0
BV/Sh. (INR)	150.4	257.4	371.2
Ratios			
RoE (%)	72.2	61.4	43.7
RoCE (%)	71.9	61.7	43.7
Payout (%)	22.7	15.1	17.2
Valuations			
P/E (x)	58.3	37.7	34.3
EV/EBITDA (x)	50.9	38.7	36.7
Div Yield (%)	0.3	0.4	0.5

Shareholding pattern (%)

As On	Jun-20	Mar-20
Promoter	52.3	52.3
DII	3.8	3.1
FII	15.3	12.4
Others	28.6	32.2

Note: FII includes depository receipts

Stock Performance (1-year)



IndiaMART: Play on digitizing MSMEs

Network effect playing out for largest B2B Classifieds player

- **IndiaMART is India's largest B2B Online Classifieds marketplace, with >70% market share. The platform has more than 6m supplier listings for 68m products across 100k+ categories from 1000+ cities. A strong network effect, resilience to supplier ROI, diversified exposure, and robust SEO (Search Engine Optimization) strength are th e platform's key differentiation factors.**
- **Monetization happens through priority listings and subscription packages. Buyers' leads are made visible to suppliers. The channelization of these leads is based on the package the supplier has opted for.**
- **IndiaMART operates in a sweet spot, wherein high-growth SMEs fuel the top line and a subscription-based model limits the risk of default. Margins mirror the positive operating leverage from revenue growth in the business.**
- **In the past three years, the scalability of paid suppliers and RFQ relevancy have led to a 26% revenue CAGR. Negligible spends on advertising over FY18–20 have led to turnaround in margins to 23% in FY20 from -19% in FY17. IndiaMART has shown tremendous resilience on the margin front. Despite a 50% drop in collections for 1QFY21, the company has been able to increase margins on significant rationalization in operating cost.**
- **As a result of COVID-19-led lockdown, the number of paid suppliers fell by 10% in 1QFY21; however, going ahead, new additions should compensate for the churn in the existing base for the rest of the year. We foresee a 7% reduction in the paid supplier base in FY21, resulting in 7.5% decline in revenues for FY21.**
- **However, we forecast a sharp turnaround in FY22 operations on account of: a) pent-up demand, b) a stable base of total suppliers, c) the need for out-of-the-circle buyers, and d) higher Internet penetration.**
- **We value IndiaMART on DCF basis at INR3,550 per share (+19% upside) on an assumption of 11% WACC and 5% terminal growth rate, implying a one-year forward multiple of 45x. Initiate with Buy. Risk factors include higher mortality in supplier base and potential entry of a cash rich global player.**

Undoubted leader in B2B Classifieds space…

- IndiaMART is a dominant market leader in the online B2B Classifieds industry. The company banks on increased digital adoption among SMEs, which constitute the majority of the sellers on the platform. The underlying market is expected to grow at a 25% CAGR over the next five years.
- Offerings beyond simple listings and the maintenance of RFQ quality have positioned the company well among the digitally penetrated SMEs (~7m). A comprehensive value structure has led to 100% non-advertisement-based growth in the past three years.

…with positive operating leverage

- The scale of a long-term subscription plan enables sustainability in revenue as well as margin expansion. Deferred revenue (1.1 times the revenue) offers a cushion for short-term revenue volatility.
- Driven by market growth and decent execution, the company has been able to grow the number of paid sellers at a CAGR of 15% over FY17–20. Also, led by lower price sensitivity, ARPU CAGR during this period has been at 10%, adding to the revenue CAGR of 26%.

- Cost increase in the past three years has been pegged at 13–18% given zero advertisement expenses, while revenue growth has always exceeded 20%, providing long-term operating leverage to the company.

Strong moats shield from disruption

- A strong network effect has created circular value addition for the company. A higher number of buyers has translated into further inquiries, in turn leading to more suppliers and, hence, higher monetization.
- IndiaMART also has a high resilience to supplier ROI. The company has the ability to offer ~60 leads to every paid supplier, providing enough leeway to add suppliers even on the current RFQ scale. The lowest cost of marketing (~0.2%) in any digital marketplace further creates confidence for the platform among suppliers.
- The company's reliance on specific search requirements and a large portfolio of products isolate the platform from threats from large horizontals, such as Google. Better SEO management promises a high ratio of search to landing.
- Diversification is high among geographies; two-thirds of the buyer base is from tier-2, tier-3, and tier-4 towns. 35% of buyers are from tier-1 cities, while 60% of suppliers come from the top eight metros (where the paying supplier percentage is higher than 2%).

High FCF yield; strong balance sheet

- IndiaMART operates in a negative working capital cycle, led by upfront collections from sellers on the platform.
- The company also has a capex-light model (<1% of sales), indicating negligible investments required to pump up the business.
- This results in positive FCF and high cash generation; net cash of INR9.5b was reported at the end of 1QFY21, which is expected to expand to INR14b by FY22.

First to recover; initiate with Buy

- We forecast a 9% CAGR in paid suppliers, coupled with a 2% CAGR in ARPU over FY20–23, implying a revenue CAGR of 10% over FY20–23.
- The recent drop in collections is primarily attributable to: (1) higher churn in monthly subscribers, (2) churn in annual subscribers whose payments are due in the near term, and (3) the extension of payment terms. 1QFY21 saw a 50% drop in collections.
- We expect customers with multi-year subscription packages to continue on the platform at lower annual fees. Further growth in new suppliers in certain categories would partially offset decline in its stressed counterparts. We forecast 25% decline in collections for FY21, weighed by ~50% decline in 1QFY21 collections. In turn, we expect 7% decline in FY21 revenues, coupled with V-shaped recovery in FY22.
- We forecast 8pp margin expansion over FY20–23 on account of the better management of cost structure and operative leverage in the business. This implies an EBIT CAGR of 22% and PAT CAGR of 26% over FY20–23.

- Our forecast of near-term impact on the company is weighed by closures across the country. However, we are confident of strong fundamental growth in operations hereon, driven by: a) high growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) >70% market share in the underlying industry, e) the ability to increase ARPU on account of low price sensitivity, and f) high operating leverage.
- We further allude to the fact that the company has shown high cash conversion, with OCF/EBITDA at 155% and FCF/sales at 40%. Low capital requirements have led to ROE of 72% in FY20. \
- Our DCF-based target price of INR3,550 is arrived with an assumption of 11% WACC and 5% terminal growth rate. TP implies upside of 19%. Initiate with **Buy**. Risk factors include higher mortality in supplier base and potential entry of a cash rich global player.

Expert Speak

BHARTI AGM Takeaways

We attended the Annual General Meeting (AGM) of BHARTI on 18th Aug'20, wherein the management reiterated its stance on various issues. A) The company is on a strong footing. B) The industry needs an ARPU increase to drive sustainable profitability. C) Bharti Airtel's strategy is to win quality customers with value-accretive offerings.

- **Over the last couple of months, BHARTI's stock has languished, raising questions on the long-term visibility and upside potential of the stock. Notably, while the incremental trigger point would be the possibility of ARPU growth, we think it is in an enviable position in the market and has huge sector tailwinds.**
- **The company has the best hedged position against the AGR verdict. It stands to gain either from a potential tariff hike or market share gains, which should improve its FCF yield to over 6–7% and drive massive deleveraging. The stock is trading at 8x EV/EBITDA on FY22E. Assuming an incremental upside on pricing / market share gains, there could be an incremental EBITDA upside potential of ~INR190b/INR130b, offering TP of INR810/share at 8x EV/EBITDA (including the AGR liability). We continue to maintain our bullish stance on BHARTI.**

Notes from the commentary of Sunil Bharti Mittal, Chairman, at the AGM

- **Last year's performance and current position:** This has been an exceptional year due to the pandemic – most countries are facing the wrath. Telecom has become the oxygen for customers and the Digital space. Bharti could play a vital role in this regard; its revenue market share trajectory has seen continued growth over the last year.
- **Market construct:** The industry has contracted to four operators from nine. The country needs at least three private telcos to service its 1b+ subscribers. Hence, the company has made certain representations to the government in a bid to garner support for the sector. Bharti is uniquely placed to leverage the benefits.
- **AGR an added burden:** Continue to believe the industry would require relief in the form of extended timelines and other measures.
- **Need for INR300 ARPU:** ARPU is at INR160 presently, the highest in the industry. However, INR300 ARPU is needed. Over the next few months, Bharti should go past INR200–250 and then INR300. This is vital for investments as despite the fall in capex last year, it remains high enough to sustain at current levels of ARPU.
- **Price increase a major condition:** Although price increase has to be in line with the market, the time has come for every player to increase ARPU. Conditions are conducive for the industry to now inch up ARPU. Airtel is doing whatever possible; it started the min. recharge vouchers to ensure: a) focus on quality customers – it pared inactive/low ARPU subscribers using second SIM cards, and b) the sustainability and viability of the business is with revenue growth even if it loses customers.
- **Moving ahead with the partnership model:** Foresee very strong tailwinds for growth. Expect strong recovery from the COVID-19 disruption. The company would continue the philosophy of collaboration with Google, FB, Amazon, and other partners to provide a wide array of services. As a result, Airtel is emerging as an important destination, and is well-placed to take advantage of the digital movement (e-commerce, digital payments, etc.), which has accelerated in the last four to five months due to the crisis.
- **Strategy for 5G:** Airtel has been at the forefront of technological advancement and always in step with the world. It would ensure investing at the right time. It is currently tracking 5G closely and carrying out testing in internal labs. Its partner telco Singtel leads the Singapore market, and Airtel's engineers are closely connected with Singtel. GSMA Chairman, Gopal Vittal is benefiting from what is happening on the ground and has close ties with various global telcos, such as AT&T and Verizon.

Notes from the presentation of Gopal Vittal, CEO, at the AGM

- **Strategy:** The company strategy revolves around six pillars: a) quality customers, b) brilliant experiences, c) services at scale, d) micro-marketing, e) simplification of products, and f) war on waste.
- **Quality customers:**
  - **Mobile customers:** The company offers differentiated propositions, such as: a) the Bank Wala SIM, which offers Airtel Payments Bank services, b) Airtel Platinum, which offers premium/priority services to high-ARPU subscribers, c) the Airtel Thanks offering of bundled voice, data, and digital services, including entertainment, financial, and other services.
  - **Homes:** Broadband continues to grow despite the COVID-19 disruption. The company is undertaking initiatives to tie up with local cable operators in 13 cities, reducing the cost of home passes by 30% to accelerate quality subscriber adds. For DTH, TRAI's recent new tariff order (NTO) has changed the operating structure. The company has launched Airtel Xstream Digital TV – a hybrid set-top box offering both linear and non-linear content. It has also launched the One Airtel plan, offering postpaid, DTH, fiber, and landline products in a single package.
  - **Airtel B2B:** It plans to attract quality customers through verticalization in the Manufacturing, ITES, and BFSI spaces by offering deep connectivity and Nxtra data center services, along with IOT-related products. It further plans to expand in rapidly adjacent spaces such as Conferencing – recent tie-ups have been with BlueJeans, AWS and G Suite (for cloud services), and other 'work-from-home' products.
- **Network experience:** It endeavors to offer the best network service, with accelerated 86k+ broadband base station adds in FY20, and indoor coverage, with an increase in the VOLTE network to 65% from 33%. It was the first operator to launch VoWifi (voice-over-WiFi services). It communicates transparently with customers on faults and errors and potential changes in the open network.
- **Leveraging scale:** Its deep network with 95% network coverage, 280m users, and huge traffic allows it to leverage scale. Airtel's digital service capabilities built around Airtel Thanks, Payments Bank, and other digital content allows it to collect money directly from its 150m digital customers. It provides partners (across digital entertainment, financial products, payments banks, travel services, etc.) access to its large customer base.
- **Micro-marketing to bring efficiency, growth:** It is optimizing coverage and the quality of the network at the micro-market level, accelerating rural connectivity, and growing the penetration of its payments bank through a very rigorous go-to-market strategy.
- **Simplification of products, processes to bring agility:** The company has reduced its plan offerings to just 12 currently v/s 1000 a few years back. It is now digitizing processes and simplifying its reporting and organization structures to improve its agility in terms of responding to market behavior.
- **War on waste:** The hyper-competitive market environment has resulted in: (a) new business models, (b) innovations to bring down cost (such as low-cost, lean structure sites in the rural markets with low-energy solutions), (c) the consolidation of better partners to reduce cost, (d) the adoption of 'the most favored partner' model, and (e) an increase in compliance and controls.
- **Sustainability:** It is working toward sustainable community development, reducing carbon emissions, and empowering people through high employment generation.

Muthoot Finance

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USDb)	503.8 / 6.6
52-Week Range (INR)	1405 / 478
1, 6, 12 Rel. Per (%)	0/50/96
12M Avg Val (INR M)	2077

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	57.7	63.4	73.7
PPP	41.5	47.3	55.4
PAT	30.2	34.1	40.0
EPS (INR)	75.3	85.1	99.8
EPS Gr. (%)	52.9	13.1	17.2
BV/Sh.(INR)	289	356	435
Ratios			
NIM (%)	14.9	14.0	14.3
C/I ratio (%)	30.0	27.8	27.5
RoA (%)	6.8	6.5	6.9
RoE (%)	29.0	26.4	25.2
Payout (%)	19.9	17.0	17.0
Valuations			
P/E (x)	16.7	14.8	12.6
P/BV (x)	4.4	3.5	2.9
Div. Yld. (%)	1.2	1.2	1.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	73.4	73.4	73.5
DII	7.3	7.1	8.4
FII	14.6	14.4	13.9
Others	4.7	5.1	4.3

FII Includes depository receipts

CMP: INR1,256 TP: INR1,300 (+4%) Neutral

Business muted; Liquidity on balance sheet increasing

- Muthoot Finance's (MUTH) 1QFY21 PAT increased ~60% YoY to INR8.4b (2% miss). While total income missed our expectations by 8%, it was offset by lower opex and credit costs. However, according to management, the cost reduction is one-off and unlikely to sustain.
- As the company opened branches in May'20, it witnessed more collections than disbursements. Hence, its loan book declined marginally QoQ.

AUM largely steady; Yields decline off a high base; Enhanced liquidity

- Standalone AUM moderated 1% QoQ to INR413b, driven by stronger collections. However, disbursements picked up toward end-1QFY21 and have sustained in 2QFY21 too. A key factor was the online disbursements (wherein the company is offering cash-backs), which have jumped 4x since the start of the lockdown. **~40% of customers are now transacting online.**
- **The number of loan accounts and gold tonnage declined ~5% QoQ/YoY, given the sharp increase in gold prices.**
- In 2HFY20, MUTH's yields improved to 24-25% (earlier 21-22%), driven by higher penal charges. **However, in 1QFY21, yields reverted to 23%. MUTH has also offered cash-backs for customers transacting digitally.**
- Over the past year, the company has enhanced liquidity on its Balance Sheet – from INR9b in 1QFY20 to INR85 in 1QFY21. The higher liquidity weighed down on margins as borrowings have grown 38% YoY (v/s 15% YoY growth in the loan book). Management has guided to keep liquidity on the balance sheet at 10%.

Highlights from management commentary

- Guidance of 15% AUM growth for FY21, irrespective of gold prices.
- Collection efficiency in Jul'20 – MFI (76%), HL (87%), VF (75%).

Subsidiary performance

- MUTH took INR320m COVID-19 provisions for non-gold portfolio in 1QFY21.
- **Muthoot Homefin:** AUM stood at INR19.8b (flat QoQ/YoY) while PAT for the quarter was only INR4m.
- **Belstar Investment and Finance:** Loan book was sequentially flat at INR26b while PAT declined ~36% QoQ/YoY to INR145m. GNPL ratio deteriorated 20bp QoQ to 1.1%.

Valuation and view

While AUM growth took a backseat in 1QFY21, we believe this is a one-off given the muted disbursements in Apr-May'20. Demand for gold loans picked up in Jul-Aug'20, and we expect it to sustain given the tough economic environment. Over the past year, MUTH has increased liquidity on the balance sheet from 3% of loans to 20% of loans, which is comforting. However, this is likely to be a drag on margins going ahead. While MUTH's subsidiaries have witnessed improving collection efficiency, we remain cautious on the asset quality outlook. Maintain **Neutral** with TP of INR1,300 (3x FY22E BVPS).

Quarterly Performance (INR M)

Y/E March	FY20				FY21				FY20	FY21E	1QFY21E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Income from operations	18,274	21,057	22,806	23,506	23,160	24,086	25,411	26,930	85,644	99,587	24,211	-4
Other operating income	294	312	399	497	691	470	470	473	1,502	2,103	425	63
Total Operating income	**18,568**	**21,369**	**23,206**	**24,004**	**23,851**	**24,556**	**25,881**	**27,402**	**87,146**	**1,01,691**	**24,636**	**-3**
YoY Growth (%)	13.8	29.5	35.2	27.7	28.4	14.9	11.5	14.2	26.7	16.7	32.7	-13
Total Income	**18,587**	**21,405**	**23,209**	**24,026**	**23,854**	**24,576**	**25,906**	**27,429**	**87,228**	**1,01,766**	**24,666**	**-3**
YoY Growth (%)	13.8	29.7	35.2	27.8	28.3	14.8	11.6	14.2	26.8	16.7	32.7	-13
Interest Expenses	6,416	6,699	7,094	7,700	8,715	8,889	9,156	9,467	27,909	36,227	8,162	7
Net Income	**12,171**	**14,707**	**16,115**	**16,326**	**15,139**	**15,687**	**16,750**	**17,962**	**59,319**	**65,538**	**16,504**	**-8**
Operating Expenses	3,972	3,969	4,542	5,304	3,738	4,167	4,769	5,565	17,787	18,240	4,567	-18
Operating Profit	**8,199**	**10,738**	**11,573**	**11,021**	**11,400**	**11,520**	**11,981**	**12,397**	**41,531**	**47,298**	**11,937**	**-4**
YoY Growth (%)	8.2	43.6	47.6	35.3	39.0	7.3	3.5	12.5	33.8	13.9	45.6	-14
Provisions	33	265	612	48	146	400	500	538	957	1,584	400	-64
Profit before Tax	**8,166**	**10,473**	**10,961**	**10,974**	**11,255**	**11,120**	**11,481**	**11,858**	**40,574**	**45,714**	**11,537**	**-2**
Tax Provisions	2,866	1,894	2,809	2,822	2,847	2,813	2,905	3,001	10,391	11,566	2,953	-4
Net Profit	**5,300**	**8,579**	**8,152**	**8,151**	**8,408**	**8,307**	**8,576**	**8,858**	**30,183**	**34,148**	**8,583**	**-2**
YoY Growth (%)	7.8	77.3	68.0	59.4	58.6	-3.2	5.2	8.7	53.0	13.1	61.9	-5
Key Operating Parameters (%)												
Yield on loans (Cal)	21.2	23.9	25.0	24.0	23.0				22.1	22.0		
Cost of funds (Cal)	9.3	9.5	9.3	8.8	9.2				8.7	9.6		
Spreads (Cal)	11.9	14.4	15.7	15.1	13.9				13.4	12.4		
NIMs (Cal)	13.9	16.4	17.4	16.3	14.6				14.9	14.0		
Credit Cost	0.0	0.3	0.7	0.0	0.1				0.2	0.4		
Cost to Income Ratio	32.6	27.0	28.2	32.5	24.7				30.0	27.8		
Tax Rate	35.1	18.1	25.6	25.7	25.3				25.6	25.3		
Balance Sheet Parameters												
AUM (INR b)	358	357	385	416	413	434	455	479	426	479		
Change YoY (%)	15.5	10.6	18.6	21.5	15.3	21.4	18.3	15.2	22.0	12.5		
Gold loans (INR b)	352	349	377	408	405							
Change YoY (%)	15.1	9.1	18.7	21.4	15.1							
Gold Stock Holding (In tonnes)	176	171	173	176	165							
Avg gold loans per branch (INR m)	78	77	83	89	89							
Borrowings (INR b)	281	285	326	372	389				371	383		
Change YoY (%)	21.1	17.0	29.2	38.3	38.2				38.4	3.3		
Borrowings Mix (%)												
Listed secured NCDs	28.1	30.4	31.9	26.0	23.2							
Term loans	49.0	47.0	39.6	39.2	40.3							
Commercial Paper	17.1	17.2	14.1	9.7	12.7							
Others	5.8	5.5	4.5	4.8	4.4							
Debt/Equity (x)	2.9	2.6	2.7	2.9	2.6							
Asset Quality Parameters (%)												
GS 3 (INR m)	11,474	12,267	9,769	8,992	10,553				8,992	9,844		
Gross Stage 3 (% on Assets)	3.2	3.4	2.5	2.2	2.6				2.11	2.05		
Total Provisions (INR m)	8,095	8,213	8,377	8,381	8,492							
Return Ratios (%)												
RoAUM (Rep)	6.1	9.6	8.8	8.1	8.1				6.8	6.5		
RoE (Rep)	21.7	33.7	29.6	28.4	28.2				29.0	26.4		

E: MOSL estimates

Tata Power

BSE SENSEX	S&P CNX
38,615	11,408

Stock Info

Bloomberg	TPWR IN
Equity Shares (m)	2,705
M.Cap.(INRb)/(USDb)	153.5 / 2
52-Week Range (INR)	69 / 27
1, 6, 12 Rel. Per (%)	11/17/-4
12M Avg Val (INR M)	892
Free float (%)	62.8

Financials Snapshot (INR b)

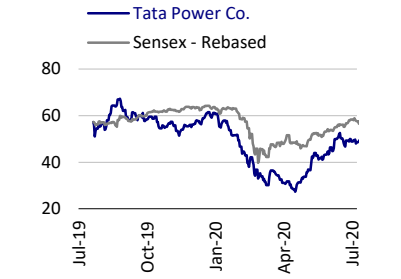
Y/E Mar	2020	2021E	2022E
Net Sales	291.4	310.2	339.8
EBITDA	79.4	76.5	78.1
PAT	10.2	10.6	14.7
EPS (INR)	3.76	3.33	4.61
Gr. (%)	78.2	-11.6	38.6
BV/Sh (INR)	66.8	67.8	70.6
RoE (%)	5.9	5.4	6.7
RoCE (%)	7.1	7.0	7.0
P/E (x)	15.1	17.1	12.3
P/BV (x)	0.8	0.8	0.8

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	37.2	37.2	33.0
DII	31.4	27.8	24.9
FII	12.9	18.6	26.0
Others	18.5	16.3	16.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR57 TP: INR66 (+16%) Buy

Planning for an asset-light and consumer-facing model

Analyst meet takeaways

We attended the analyst meet hosted by Tata Power (TPWR) today, 19th Aug'20. Here are the key takeaways:

Deleveraging at the forefront

- Tata Power (TPWR) highlighted its focus on addressing legacy issues with regard to: 1) deleveraging and 2) the self-sustenance of Mundra.
- Over the past few months, the co.'s deleveraging process has been accelerated with the: 1) sale of Cennergi, 2) sale of shipping cos, and 3) preferential issue to Tata Sons.
- The co. plans to continue with its asset monetization plans by exiting non-core assets and InvIT for renewables. The co. expects the InvIT transaction to be completed this year. TPWR plans to reduce net debt to INR250b by the end of FY21 and sustain it at these levels.
- The co. plans to simplify its holding structure and generate synergies from the merger of CGPL, Tata Power Solar, and Aftaab with TPWR. The process for the same requires the NCLT's approval (which could take 4–12 months).
- With regard to CGPL, the co. plans to reduce its debt by INR40b using preference and divestment-related proceeds, in turn generating interest cost savings of INR3.8b. In terms of the PPA amendment for CGPL, the benefit of compensatory tariff at current prices stands at INR2.5b.

Increasing presence in consumer-facing business

- TPWR aims to more than double its revenues in FY25, aided by a strong presence in Rooftop Solar and Solar Pumps, new businesses (such as EV Charging and Home Automation) and T&D.
- TPWR targets revenue from the T&D business to increase to INR270b in FY25 (v/s INR120b currently) through new opportunities in distribution (INR120b) and CESU. The co expects DISCOM privatization opportunities to emerge in Uttar Pradesh, Rajasthan, and Jharkhand. The co. would be keen to take over projects through the license model instead of the franchise model.
- In addition, the co. plans to expand in new energy businesses, such as Home Automation and EV Charging, with targeted revenue of INR35b in FY25. Capital expenditure for the new energy businesses would be small at ~INR20b across five years.
- The co. expects revenues from Rooftop Solar and Solar Pumps to rise with increased capacity and market share; it targets INR100b revenues from the segment by FY25.

Focus on Renewables; no new addition in Coal

- TPWR targets wins of ~2GW in renewable projects every year, and plans to increase capacity to ~15GW (incl. under-construction) by FY25. The co.'s renewable arm would continue to work on the asset-light model by transferring operational projects to InvIT and thereby releasing cash for future growth opportunities.
- On the Solar EPC front, the co aims to execute 4GW of utility-scale projects by FY25, implying market share of ~20%. It targets an 8x increase in revenues to INR120b by FY25.
- TPWR would not add new coal-based capacities going forward. It plans to focus on deploying digitization and asset management technologies to improve efficiencies at its old thermal plants, and would slowly phase them out upon completion of useful life.

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Debt reduction is playing out; Maintain Buy

- TPWR has been keen on moving to a more consumer-facing model and leveraging its expertise and brand. In this context, the quantification of its targets provides some growth context. However, we still await visibility on whether the opportunities within T&D and new consumer businesses would pan out. Growth in its in-house Solar EPC business is compelling, but would still depend on overall ordering within Renewables by FY25 and the co.'s ability to maintain market share.
- Nevertheless, TPWR has walked the talk in recent months through asset monetization and WC management – despite the current COVID-19 environment. Net debt at the end of Jun'20 had reduced to INR444b (from INR471b in FY20).
- Divestment-related measures (part receipt from International Shipping business, Arutmin, and Tata SED) and the infusion of INR26b from promoters would continue to aid debt reduction. As we build-in the expectations of normalization in its EPC business and some WC by FY22, we see the risk-reward as favorable. 1) the approval of a tariff hike at Mundra, 2) the merger of CGPL & Tata Power Solar with TPWR, and 3) favorable InvIT valuations would provide upsides to our estimates. Maintain Buy, with TP of INR66/sh.

KNR Construction

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	KNRC IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	36.2 / 0.5
52-Week Range (INR)	311 / 172
1, 6, 12 Rel. Per (%)	19/-3/2
12M Avg Val (INR M)	51

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	22.2	24.2	30.9
EBITDA	4.7	4.7	5.9
PAT	2.0	2.1	3.0
EBITDA (%)	21.1	19.5	19.0
EPS (INR)	14.5	15.1	21.7
EPS Gr. (%)	-18.3	4.1	43.6
BV/Sh. (INR)	115.5	129.4	149.8
Ratios			
Net D/E	0.1	0.1	-0.2
RoE (%)	13.4	12.3	15.5
RoCE (%)	13.9	12.6	15.7
Payout (%)	6.8	8.0	5.5
Valuations			
P/E (x)	17.7	17.0	11.9
P/BV (x)	2.2	2.0	1.7
EV/EBITDA (x)	8.1	7.9	5.4
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	5.3	7.4	6.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	55.0	55.2	55.2
DII	34.0	32.6	30.2
FII	1.6	1.9	3.2
Others	9.3	10.4	11.5

FII Includes depository receipts

CMP: INR257 TP: INR295 (+15%) Buy

Surprises with revenue growth against all odds

Receivables from Telangana government need to be monitored

- KNR Construction (KNR) outperformed in terms of execution by reporting revenue growth v/s our expectation of 35% YoY decline. The EBITDA margin expanded YoY on account of the rising share of higher margin irrigation projects, resulting in a strong beat on earnings. Including L1 orders, the order book (OB) stood strong at INR78.5b, implying OB/rev at 3.5x and providing healthy revenue visibility.
- KNR continues to surprise with its steady performance. However, the working capital cycle has witnessed marginal deterioration. This is primarily on account of pending dues from the Telangana government, which have been stalled since Feb'20 and currently stand at INR6.8b. The management hopes to receive INR4.4b within the next few weeks.
- Factoring the strong performance in 1QFY21, we increase our FY21/FY22E EPS by 28%/7%. We maintain our **Buy** rating, with TP of INR295 (prior: INR280) based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Strong order book provides higher revenue visibility

- Revenue increased 3% to INR4.8b. The positive growth came as a surprise and was 60% ahead of our expectations. EBITDA was up 5% to INR943m (2x our expectation). Lower depreciation and interest income aided profitability, although it was marginally offset by lower other income and a higher tax rate. Thus, KNR reported adj. PAT of INR398m (-16% YoY), much better than our expectation of loss of INR82m.
- OB stood at INR72.1b, with the OB/rev ratio at 3.2x. The company has the L1 position in a Hybrid Annuity Model (HAM) project, with an EPC value of INR6.4b. In 1QFY21, KNR bagged two irrigation project orders worth INR23.1b from the Telangana government, which is on hold as negotiations are underway for debt tie-ups. Including L1 orders, OB stood at INR78.5b, with the OB/rev ratio at 3.5x, among the highest since FY17.

Key takeaways from management commentary

- Efficiency in irrigation projects is at ~90%, with labor strength at ~70%. For road projects, efficiency stood at ~60%, with labor availability at 55–60%.
- Proceeds from the Walayar project sale (INR5.3b) are expected to be received in 1HFY21, with the deal closure in the final stages.
- KNR has already submitted its bids for seven projects and is awaiting their outcome; it is in the process of submitting 10 more bids by the end of September. KNR expects incremental order inflow of ~INR20b in 9MFY21.
- The company achieved financial closure for the Oddanchatram-Madathukulam HAM project in 1QFY21. With 72% of land available currently, management expects to receive the appointed date by the end of Sep'20.
- Margins in irrigation projects are usually 18–20%, but final realizations can be 16–17% due to payment delays.

Valuation and view

We increase our FY21/FY22E EPS by 28%/7% on account of a strong performance in 1QFY21. We forecast revenue/EBITDA/PAT growth of 18%/12%/22%. In spite of a recent increase in receivables, we believe KNR's strong balance sheet gives it a key competitive advantage v/s peers: (a) in bidding for newer projects and (b) in terms of strong execution despite financing challenges in the sector as the dependency on bank financing is minimal. We maintain our **Buy** rating, with TP of INR295, based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Quarterly Performance (INR m)

Y/E March	FY20				FY21E				FY20	FY21E	MOSL	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	Var (%)
Net Sales	**4,646**	**5,232**	**5,579**	**6,756**	**4,794**	**5,250**	**6,000**	**8,190**	**22,212**	**24,234**	**3,000**	**60**
YoY Change (%)	-13.9	25.7	24.3	-5.6	3.2	0.3	7.6	21.2	4.8	9.1	-35.4	
Total Expenditure	3,746	4,154	4,335	5,287	3,850	4,305	4,800	6,553	17,522	19,508	2,550	
EBITDA	**900**	**1,078**	**1,244**	**1,469**	**943**	**945**	**1,200**	**1,637**	**4,691**	**4,726**	**450**	**110**
Margins (%)	19.4	20.6	22.3	21.7	19.7	18.0	20.0	20.0	21.1	19.5	15.0	
Depreciation	389	475	517	538	331	400	450	511	1,918	1,692	500	
Interest	90	98	142	145	102	120	100	117	474	439	130	
Other Income	168	36	70	73	61	65	65	51	346	242	70	
Extraordinary expense	0	280	-67	0	0	0	0	0	213	0	0	
PBT	**589**	**541**	**655**	**859**	**571**	**490**	**715**	**1,060**	**2,644**	**2,836**	**-110**	**NA**
Tax	112	120	186	187	173	123	180	237	605	714	-28	
Rate (%)	19.0	22.1	28.4	21.8	30.3	25.2	25.2	22.3	22.9	25.2	25.2	
Reported PAT	**477**	**701**	**402**	**672**	**398**	**367**	**535**	**823**	**2,252**	**2,122**	**-82**	**NA**
Adj PAT	**477**	**421**	**469**	**672**	**398**	**367**	**535**	**823**	**2,039**	**2,122**	**-82**	**NA**
YoY Change (%)	-16.6	-6.5	-10.0	-29.0	-16.6	-12.9	14.0	22.5	-18.3	4.1	-117.2	
Margins (%)	10.3	8.0	8.4	9.9	8.3	7.0	8.9	10.0	9.2	8.8	-2.7	

IIFL Finance: See a lot of traction in top up loans in MSME segment, post the recent RBI guideline; Nirmal Jain, Chairman & CEO

- Incremental CoF at 8% under PCGS (18m), 7-9% for short -long term funds.
- Collections are improving MoM, collecting 80% as against demand raised in July and August. Non-moratorium book collections efficiency at 90%.
- Moratorium update : Gold <2%, Business loans 40%, Home loans 30% (earlier 40%).
- See a lot of traction in top up loans in MSME segment, post the recent RBI guideline.
- Covered for all liabilities until Mar'21.
- Expect total systemic credit from NBFCs to be ~INR25t.
- May see further renewals under the PCGS.

SHRIRAM CITY UNION FINANCE: NEXT TWO QUARTERS WILL FOCUS ON COLLECTIONS ONLY; Y S Chakravarti, CEO & MD

- During the quarter (1Q), cost of funds has declined by 15bp. Yields have come off by 10-15bps, incremental CoF now at 9.4-9.5% (earlier 9.7%)
- ~80% collection efficiency (90% in 2W).
- Collections and liquidity is enough to honour all payments, approaching banks for sanctions to disburse in the upcoming festive season.
- 2W customers who opted for morat. 1.0 are coming to honour payments now.
- FY21- Growth to be flat (except 2W/Gold). Next two quarters will focus on collections only.
- Drew INR6.5b under PCGS 1.0, another 4-5 proposals in the pipeline.
- Believe extension of partial credit guarantee will aid 'AA' companies.
- 2W Sales -June was good, July witnessed decline, August is slow.

MARKETS' TRYST WITH DESTINY IN NEW INDIA

- While India is an ancient civilisation, it is a young nation and on a per capita basis still largely poor. But in constant 2010 US dollars terms, India's per capita GDP did increase from $330 in 1960 to $581 in 1990 to $2169 in 2019. Assuming $2000 for 2020, it has gone up six times in 60 years with most of the increase in recent decades. Yet this is only the beginning. Ignore the gloom and doom about India that you have no doubt been hearing, which has been further exacerbated because of the pandemic. Long term factors such as demographics and technological innovation, mid-term factors such as improvements in governance, and relatively short term factors such as a weaker dollar are going to be massive tailwinds for the India story. India is likely to have the largest group of people aged between 25 and 65 years around 2030. In that group, India has around 670 million compared to China at 820mn. Over the next 25 years, India's working age population is likely to increase to around 920mn and China's will decrease to 720mn. That is a relative shift of a third of a billion people! The age group of 0-24 years is 45% of our total population and the dependency ratio (the young and the old divided by the working age population) would improve from around 100%to 85% by 2040 for India while China's dependency ratio could worsen from 70% to 95%during the same period. It is not just quantity, but also quality. The literacy rate for women over the age of 25 is 58%, while the literacy rates of females in the age group of 15-24 years is 90%. This is close to the 93% literacy rate among males of the same age group. A correlation is seen between the working age population ratio and gross domestic savings as a fraction of GDP. In the last few years this has not happened because of a general slowdown.

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WARREN BUFFETT SOURS ON BANKS AND LIKES GOLD

- Dumping bank shares and investing in a gold miner? It certainly doesn't sound like a Warren Buffett move, but that's exactly what the investing guru's company did in the second quarter, according to a regulatory disclosure Friday. It's not a good sign for markets. Buffett, the fifth-richest person in the world, has loved few things more in his life than sweets, soda and compound interest — but banking stocks have come pretty close. Buffett was there to boost them during and after the last crisis, and he's remained a top shareholder in most of the big U.S. banks. That's why it's so jarring that Buffett's Berkshire Hathaway Inc. sold 62% of its stake in JPMorgan Chase & Co. and cut 26% of its Wells Fargo & Co. holdings last period amid the Covid-19 crisis. The conglomerate also pared back positions in other financial-services firms including PNC Financial Services Group Inc., M&T Bank Corp., Bank of New York Mellon Corp., Mastercard Inc. and Visa Inc. Berkshire all but exited Goldman Sachs in the first quarter — in the first of Buffett's worrying signals — and finished the deed in the second. Berkshire also did away with its leftover airline positions — a move Buffett previously disclosed — and a stake in Burger King parent Restaurant Brands International Inc. Perhaps most telling was that Berkshire's only new purchase was Barrick Gold Corp., a gold-mining giant.

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NOTES

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

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

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