

Market snapshot



Equities - India	Close	Chg. %	CYTD.%
Sensex	40,707	0.4	-1.3
Nifty-50	11,938	0.3	-1.9
Nifty-M 100	17,065	0.2	-0.2
Equities-Global	Close	Chg. %	CYTD.%
S&P 500	3,436	-0.2	6.3
Nasdaq	11,485	-0.3	28.0
FTSE 100	5,777	-1.9	-23.4
DAX	12,558	-1.4	-5.2
Hang Seng	10,078	0.9	-9.8
Nikkei 225	23,639	0.3	-0.1
Commodities	Close	Chg. %	CYTD.%
Brent (US\$/Bbl)	41	-2.4	-38.3
Gold (\$/OZ)	1,924	0.9	26.8
Cu (US\$/MT)	6,978	1.4	13.5
Almn (US\$/MT)	1,833	0.8	2.9
Currency	Close	Chg. %	CYTD.%
USD/INR	73.6	0.2	3.1
USD/EUR	1.2	0.3	5.8
USD/JPY	104.6	-0.9	-3.7
YIELD (%)	Close	1MChg	CYTDchg
10 Yrs G-Sec	5.9	-0.02	-0.6
10 Yrs AAA Corp	6.6	-0.02	-1.0
Flows (USD b)	21-Oct	MTD	CYTD
FII's	0.29	0.54	4.29
DII's	-0.22	-0.19	9.09
Volumes (INRb)	21-Oct	MTD*	CYTD*
Cash	644	550	549
F&O	33,021	25,186	17,065

Note: *Average

Today's top research idea



UltraTech Cement: Continues to deliver and de-lever

- ❖ UltraTech's (UTCEM) 2QFY21 result highlights the execution of its planned cost rationalization and de-leveraging roadmap. While volume growth was above industry at 7% YoY, per ton cost fell 7% YoY to INR3,818/t driving per ton EBITDA to INR1,344 (+31% YoY) – highest ever for seasonally weak 2Q.
- ❖ Net debt declined further by INR25.2b QoQ to INR121b (1.2x TTM EBITDA).
- ❖ We estimate 13%/ 27% CAGR in consolidated EBITDA/ PAT over FY20-22E driven by 5% CAGR in volumes, lower operating costs and interest costs.
- ❖ The valuation is reasonable at 11.7x FY22E EV/EBITDA and USD177/t of capacity, a ~25% discount to its past five-year average and 30% cheaper than peer Shree Cement v/s the historical average of 10%. We value UTCEM at 14x FY22E EV/EBITDA to arrive at TP of INR5,600. Reiterate Buy and top pick status in the cement sector.

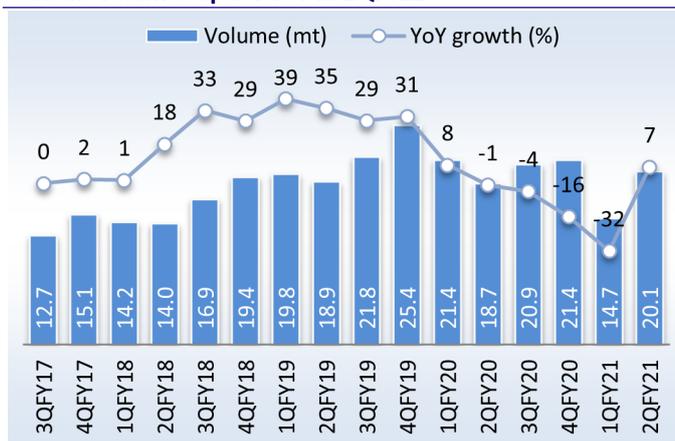


Research covered

Cos/Sector	Key Highlights
UltraTech Cement	Continues to deliver and de-lever
Bajaj Finance	In-line; Upfronting provisions; Guidance encouraging
Colgate	Record high operating margin leads to beat on estimates
L&T Infotech	Strong margin outperformance; optimistic outlook
Info-Edge	Commanding a leader's premium!
IEX	Electricity volumes drive growth in operational profit
Mahindra CIE	Below est.; Weak op. performance in both India and EU

Chart of the Day: UltraTech Cement (Continues to deliver and de-lever)

Cement volumes up 7% YoY in 2QFY21



Source: Company, MOFSL

Cement realizations flat YoY in 2QFY21



Source: Company, MOFSL

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.



Kindly click on textbox for the detailed news link

1

Govt plans to extend PLI scheme to 7-8 more sectors to promote manufacturing: DEA Secretary

Enthusied by initial response of industry with regard to the production-linked incentive (PLI) scheme, Economic Affairs Secretary Tarun Bajaj on Wednesday said the government is considering an extension of the scheme to 7-8 more...

2

Borrowers set to get compound interest waiver, Cabinet approval likely

The Union Cabinet is understood to have given its go-ahead to the compound interest waiver for borrowers for the six-month moratorium period announced by the Reserve Bank, government sources said. The government had filed an affidavit in the Supreme Court in a case concerning the moratorium, stating that it would waive interest on interest on loans up to Rs 2 crore for a select category of borrowers...

3

Videocon insolvency: Dhoot family offers to pay ₹30,000 crore to lenders

To settle the outstanding loans and pull out 13 Videocon group firms from the insolvency proceedings, the Dhoot family has offered to pay ₹30,000 crore to lenders. Now, a proposal for paying the amount has been forwarded to the Committee of Creditors (CoC) of the Videocon Industries, Venugopal Dhoot, who was the Chairman...

4

Modi to meet 15 global funds as India seeks investment to lift economy

Prime Minister Narendra Modi will soon lead the government initiative in bringing more foreign investment into the country. In this regard, Modi is scheduled to meet 15 leading global fund houses to get their view on the class of assets and the issues which need to be addressed. "Fund houses from all over...

5

Currency with public rises 22.5% YoY to Rs 26.09 trillion as on Oct 9

Currency with the public rose 22.5 per cent year-on-year as on October 9, as people kept cash with them during the pandemic period, despite a rise in digital payments. The YoY rise in currency with the public a year ago was 13.5 per cent, which has generally been the trend for a few years, except for election period. The total currency with the public as on October 9 was Rs 26.09 trillion, against Rs 23.5 trillion at the end of March 31, indicating the general public withdrew an additional Rs 2.6 trillion since the nationwide lockdown began at the end of March...

6

Office rentals in Delhi-NCR slip by more than 5% as companies relocate to cheaper locations

Office rentals in clusters of high-profile companies in Delhi-NCR have reduced by more than 5%, highest among top cities, following a move by companies to relocate to a cheaper location within the region, according to leading real estate consultants...

7

Banks, NBFCs must raise capital, do stress tests

Banks and non-banking financial companies (NBFCs) must get busy raising capital and do stress test as soon as the Covid-19 pandemic is over to build resilience and to be able to provide capital to the economy to ensure growth, RBI Governor Shaktikanta Das on Wednesday said...



UltraTech Cement

Estimate change	↑
TP change	↑
Rating change	↔

CMP: INR4,629 TP: INR5,600 (+21%) Buy

Continues to deliver and de-lever

Raise EPS estimates by 4–6%

- UltraTech (UTCEM)'s 2QFY21 result highlights the execution of its planned cost rationalization and de-leveraging roadmap. While volume growth was above industry at 7% YoY, per ton cost fell 7% YoY to INR3,818/t, driving per ton EBITDA to INR1,344 (+31% YoY) – the highest ever for the seasonally weak 2Q.
- Net debt declined further by INR25.2b QoQ to INR121b (1.2x TTM EBITDA).
- We raise our above consensus consolidated PAT estimate by 4–6% for FY21–22 on lower operating costs, and TP to INR5600. Reiterate **Buy** and the top pick status in the Cement sector.

EBITDA grows 41% YoY on lower costs and higher volumes

- Consol revenue / EBITDA / adj. PAT was up 8%/41%/113% YoY to INR103.5b/INR27.0b/INR12.3b and was +4%/+6%/+4% v/s our estimate.
- Volumes rose 7% YoY to 20.1mt (our est.: 19.4mt) on the back of market share gains through increased rural penetration.
- EBITDA/t rose 31% YoY to INR1,344 (-5% QoQ), which is also the highest ever for the seasonally weak Sep quarter (our est.: INR1,314/t).
- Per ton cost fell 7% YoY to INR3,818/t (+1% QoQ), driven by: i) lower power and fuel cost (lower petcoke cost and higher WHRS usage), ii) 14% YoY decline in fixed costs (lower maintenance, ad spends, travel, etc.), and iii) operating leverage benefits (higher volumes).
- Blended realization was down just 1% QoQ to INR5,162/t (flat YoY; est.: INR5,129/t) on seasonal (monsoon) decline in cement prices.
- Finance cost fell sharply by 30% YoY to INR3.6b (9% QoQ), supported by lower debt and interest rate.
- Consol net debt fell further by INR25b QoQ (INR47.3b in 1HFY21) to INR121.3b, implying 1.22x TTM EBITDA (from the peak of INR221b, 3x EBITDA, in Mar'19). This was driven by strong FCF and the divestment of the non-core China plant, acquired as a part of the Binani deal.
- OCF/FCF stood at INR51.1b/INR45.9b, +43%/67% YoY in 1HFY21, due to working capital release of INR8.0b (v/s an increase of INR10.3b in 1HFY20) and a lower cash capex spend of INR5.2b (v/s 8.2b in 1HFY20).
- Despite ~13% volume (35mt) decline in 1HFY21 (due to lockdown in April), EBITDA declined just 2% YoY to INR47.7b due to improved margins (26.5% v/s 23.1% in 1HFY20). Adj. PAT grew by 15% YoY to INR21.4b in 1HFY21 on lower finance cost (down 25% YoY). Our implied 2HFY21 rev/EBITDA/PAT estimate stands at 14%/26%/28% YoY higher at INR240b/INR57b/INR27b on the back of higher margins and higher volumes on a lower base.

Highlights from management commentary

- The company is currently operating at capacity utilization of ~80% in Oct'20 v/s avg. utilization of 66% in 2QFY21 (74% in Sep).

Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	1336.2 / 17.8
52-Week Range (INR)	4753 / 2913
1, 6, 12 Rel. Per (%)	12/3/4
12M Avg Val (INR M)	2422

Financial Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	421	420	477
EBITDA	94	105	121
Adj. PAT	38	49	62
EBITDA Margin (%)	22	25	25
Adj. EPS (INR)	133	170	214
EPS Gr. (%)	47	28	26
BV/Sh. (INR)	1,425	1,587	1,796

Ratios

Net D:E	0.4	0.3	0.1
RoE (%)	10.5	11.9	13.3
RoCE (%)	9.6	9.6	11.2
Payout (%)	8.6	8.3	6.7

Valuations

P/E (x)	34.9	27.3	21.7
P/BV (x)	3.3	2.9	2.6
EV/EBITDA(x)	16.0	13.8	11.7
EV/ton (USD)	194	188	177
Div. Yield (%)	0.2	0.3	0.3
FCF Yield (%)	5.4	4.5	5.1

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	59.9	60.0	61.7
DII	15.5	14.7	12.0
FII	15.4	16.2	17.9
Others	9.3	9.1	8.4

FII Includes depository receipts

- In 2QFY21, UTCEM witnessed pan-India YoY growth in volumes, barring in West. It expects industry volumes to grow in 2HFY21, supported by revival in non-trade demand and government road and infra projects.
- UTCEM achieved cost reduction of INR4.5b in 1HFY21 in response to COVID-19, but a part of this, including ad spends, would normalize in 2HFY21.
- Capex guidance has been reduced to ~INR12b (from INR15b) on account of COVID-19 challenges on labor mobilization, etc. (spent INR4.5b in 1HFY21).
- The focus remains on efficiency improvement and investing in low-cost green energy opportunities (WHRS, solar).
- The company would continue to invest its cash flows for growth opportunities. Dividends, thus, will not be raised substantially, even as target net debt falls to 1.0x of FY21 EBITDA by Mar'21.

Valuation and view

- UTCEM has a strong pan-India distribution network and preferred supplier status for key infrastructure projects. This places it in a good position to tap into expected growth in both retail and institutional (non-trade) cement demand in India.
- The company is ramping up its under-utilized acquired capacities (Binani, Century). On the other hand, it also has a strong pipeline of projects and brownfield expansion potential, which offers visibility on long-term growth.
- We estimate 13%/27% CAGR in consolidated EBITDA/PAT over FY20–22E, driven by a 5% CAGR in volumes and lower operating/interest costs.
- The valuation is reasonable at 11.7x FY22E EV/EBITDA and USD177/t capacity, a ~25% discount to its past five-year average and ~15% discount to its past 10-year average. The stock is also trading 30% cheaper v/s peer Shree Cement against the historical average of 10%. We value UTCEM at 14x FY22E EV/EBITDA to arrive at TP of INR5,600. Reiterate **Buy**.

Quarterly performance (CONSOL)

	FY20				FY21				FY20	FY21E	FY21 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	1,14,197	96,204	1,03,538	1,07,456	76,338	1,03,542	1,12,530	1,27,615	4,21,248	4,20,025	99,562	4
YoY Change (%)	19.6	4.0	-0.9	-13.1	-33.2	7.6	8.7	18.8	1.2	-0.3	3.5	
Total Expenditure	84,704	77,024	82,476	83,056	55,592	76,581	86,426	96,369	3,27,106	3,14,583	74,056	3
EBITDA	29,493	19,180	21,062	24,401	20,746	26,961	26,105	31,246	94,142	1,05,442	25,507	6
Margins (%)	25.8	19.9	20.3	22.7	27.2	26.0	23.2	24.5	22.3	25.1	25.6	
Depreciation	6,884	6,684	6,730	6,724	6,462	6,737	6,837	6,835	27,022	26,871	6,600	2
Interest	5,029	5,071	4,708	5,048	3,930	3,568	3,468	3,525	19,857	14,491	4,000	-11
Other Income	1,347	1,475	1,682	1,979	2,788	1,349	1,400	1,530	6,478	7,067	2,200	-39
PBT before EO expense	18,928	8,900	11,306	14,608	13,142	18,005	17,199	22,416	53,742	71,147	17,107	5
Extra-Ord expense	0	0	1,332	-21,120	1,574	3,357	0	0	-19,788			
PBT after EO Expense	18,928	8,900	9,973	35,728	11,568	14,647	17,199	22,416	73,530	71,147	17,107	-14
Tax	6,118	3,113	2,862	3,320	3,603	5,662	5,332	6,971	15,413	21,567	5,303	7
Rate (%)	32.3	35.0	28.7	9.3	31.1	38.7	31.0	31.1	21.0	30.3	31.0	
Reported PAT	12,810	5,787	7,112	32,408	7,965	8,986	11,868	15,446	58,117	49,580	11,804	-24
Minority Interest	1	3	8	14	11	-6	-10	-14	32	-20	10	-157
Adj PAT	12,811	5,790	8,069	13,265	9,060	12,337	11,858	15,432	39,935	48,687	11,814	4
YoY Change (%)	92.3	62.2	103.7	24.2	-29.3	113.1	46.9	16.3	60.9	21.9	104.0	

E: MOFSL Estimates

Key Operating Parameters

Per ton analysis (INR/ton)	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY20	FY21E	1QE	Var (%)
Volume (m ton)	21.42	18.69	20.90	21.44	14.65	20.06	22.28	25.04	82.33	81.92	19.41	3
YoY Change (%)	8.3	-1.0	-4.0	-15.7	-31.6	7.3	6.6	16.8	-3.9	-0.5	3.9	
Realization (incl RMC)	5,331	5,147	4,954	5,012	5,211	5,162	5,051	5,097	5,117	5,127	5,129	1
YoY Change (%)	10.5	5.1	3.2	3.0	-2.3	0.3	2.0	1.7	5.3	0.2	-0.4	
RM Cost	733	804	856	678	810	827	780	785	767	798	750	10
Power & Fuel	1,094	1,052	976	988	936	916	1,031	1,041	1,029	989	950	-4
Staff Cost	278	342	297	305	383	281	269	249	305	287	299	-6
Freight & Forwarding	1,211	1,143	1,121	1,249	1,096	1,146	1,161	1,178	1,181	1,151	1,160	-1
Other Expenditure	639	781	697	653	570	648	638	596	692	615	656	-1
Total Expenditure	3,954	4,121	3,946	3,874	3,795	3,818	3,879	3,849	3,973	3,840	3,815	0
EBITDA	1,377	1,026	1,008	1,138	1,416	1,344	1,172	1,248	1,143	1,287	1,314	2

Bajaj Finance

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	1948.3 / 26.7
52-Week Range (INR)	4923 / 1783
1, 6, 12 Rel. Per (%)	-10/21/-25
12M Avg Val (INR M)	18060

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Net Income	169.1	173.9	206.8
PPP	112.5	122.5	144.9
PAT	52.6	43.3	79.2
EPS (INR)	87.7	72.1	132.0
EPS Gr. (%)	26.7	-17.8	83.1
BV/Sh. (INR)	540	605	724

Ratios

NIM (%)	10.5	9.7	10.2
C/I ratio (%)	33.5	29.6	29.9
RoA (%)	3.6	2.6	4.2
RoE (%)	20.2	12.6	19.9
Payout (%)	13.8	10.0	10.0

Valuations

P/E (x)	36.8	44.8	24.5
P/BV (x)	6.0	5.3	4.5
Div. Yield (%)	0.3	0.2	0.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	56.2	56.2	58.3
DII	10.1	10.9	8.3
FII	21.5	21.5	21.7
Others	12.2	11.5	11.8

FII Includes depository receipts

CMP: INR3,233 TP: INR3,350 (+4%) Neutral

In-line; Upfronting provisions; Guidance encouraging

- Bajaj Finance (BAF)'s 2QFY21 PAT declined ~36% YoY to INR9.6b (2% miss). NII beat of 2%, coupled with opex beat of 3%, led to 4% PPop beat. With INR17b credit costs, BAF continued to build on its provision buffer – **its standard asset provisions of 3.7% are now among the highest in our NBFC coverage universe.** For 1HFY21, PPop grew 20% YoY; however, PBT declined 32% YoY due to COVID-related provisioning.
- GNPA declined ~37bp QoQ to 1.03%, aided by high write-offs of INR4.7b and net recoveries. Adjusted for the impact of the Supreme Court order, GNPA/NNPA would have been higher by 31bp/19bp. The company declared a Stage 2 loan ratio of 8% (effective stress pool, in our view). **BAF reiterated loan loss provision guidance of INR60–63b for FY21 (MOFSLe of INR64b).**
- We expect BAF to deliver 6% YoY AUM growth in FY21, followed by 20% YoY growth thereafter. Our operating profit estimates are largely unchanged. With the economic scenario improving, we cut our FY22 credit cost estimate by 100bp+ to 2.25% v/s management guidance of normalized levels of 1.7–1.8%. This has led to an upgrade in PAT estimates by 6%/15% for FY21/FY22. Maintain Neutral, with target price of INR3,350 (4.2x Sep' FY22 BV).

Disbursements improving month-on-month

- New customer additions were higher QoQ to 1.2m; however, they were still lower than the quarterly run-rate of 2–2.5m. The company disbursed 3.6m loans in the quarter, down 44% YoY. It remains cautious on Retail EMI (7% of loans) and Wallet Loans (2.3% of loans), which impacted disbursement volumes by 0.6m.
- BAF is witnessing improving month-on-month disbursement traction across product segments. It has restarted origination across businesses, except Retail EMI / Wallet Loans, which would be resumed in Jan/Mar'21. While it took a cautious stance on disbursements (as credit bureaus were not updated), it believes disbursements would pick up over the next 1–2 months as bureaus get updated with post-moratorium data.
- Reported AUM was largely flat QoQ and YoY at INR1.37t. Management guided to 6–7% AUM growth for the year (v/s earlier guidance of 10–12%).
- **The consumer B2B book continues to see a sharp run-down, especially in sales finance (i.e., consumer durables finance). The share of the sales finance book is down ~300bp from pre-COVID levels and ~500bp from YoY levels to multi-year lows of 6%.**

Spreads improve; comfortable on liquidity

- **Spreads (calc.) improved ~70bp to 9.8%, driven by equal improvement in yield as well as cost of funds (down to multi-year lows of 7.7%).** In the past year, the share of deposits/ECBs increased to 17%/4% from 15%/nil, while the share of money market borrowings declined to 42% from 47%. The share of retail deposits in total deposits increased to 75% YoY from 56%, making the book more granular.
- BAF is sitting on ~INR248b liquidity on the balance sheet and has ~INR26b worth of SLR investments (as of 20th October), translating to ~22% of total borrowings. However, this is likely to come off in the ensuing quarters. The impact of negative carry stood at INR2.2b for the quarter (INR470m YoY).

INR17.5b flexi loan conversions in the quarter

- Cross-selling to existing customers accounted for ~66% of the 3.6m new loans booked in 2QFY21. The share is down 400bp YoY/QoQ.
- **During the quarter, BAF converted INR17.5b worth of term loans to flexi loans (v/s INR86b in 1QFY21), taking the total outstanding book to INR430b.** As per the management's guess, less than 25% of flexi loans would be on principal moratorium.

Highlights from management commentary

- It is working on a business transformation project that would be completed by Jul'21. This should meaningfully reduce opex – C/I ratio could decline to sub-30% post the implementation.
- Expect to reach pre-COVID volume levels by Mar/Apr'21.
- Stage 2 loans of 8% are equivalent to the Morat 2.0 number of 16%.

Other highlights

- During the quarter, BAF reversed capitalized interest amounting to INR1.42b on loans under moratorium. Overall interest income reversed in 1HFY21 stood at INR3.61b.
- The company has 32% provisions against Stage 2 assets.
- **Opex was flat QoQ and down 16% YoY to INR11.6b. According to management, approx. half of the YoY decline is structural.**
- BAF has provided a resolution plan on assets worth INR2.52b (INR2.14b in Mortgages and the balance in Consumer) as of the end of 2QFY21.

Valuation and view

BAF reported an in-line quarter on all fronts. A cautious stance on disbursements led to flattish AUM on a sequential basis. While this stance would continue for certain products going forward, we expect disbursements to see healthy improvement MoM from 3QFY21 with the onset of the festive season. We factor in 20%/25% YoY AUM growth in FY22/FY23. Performance on spreads is encouraging and expected to improve in FY22 as COF would decline and the impact of negative carry on excess liquidity would start abating. Performance on fee income surprised in 1HFY21, and with an expected uptick in disbursements, we expect continued performance. On the asset quality front, management is very clear that the company would take all the possible asset quality impacts in FY21 itself. Hence, it should revert to run-rate credit costs of 1.7–1.8% in FY22. We reduce our FY22 credit cost estimate to 2.2% (from 3.3%), resulting in an upgrade in FY21/FY22E EPS estimates by 6%/15%. Maintain Neutral, with target price of INR3,350 (4.2x Sep' FY22 BV).

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	2QFY21E	Act V/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Interest Income	51,010	54,635	61,037	63,023	57,932	57,631	60,971	64,458	2,29,704	2,40,992	58,444	-1
Interest expenses	21,134	23,234	24,890	25,474	24,976	23,581	24,679	25,478	94,732	98,715	25,141	-6
Net Interest Income	29,876	31,400	36,147	37,549	32,956	34,050	36,292	38,980	1,34,972	1,42,278	33,303	2
YoY Growth (%)	38.9	40.8	38.9	36.9	10.3	8.4	0.4	3.8	38.8	5.4	6.1	
Other Operating Income	7,068	8,596	9,201	9,286	8,565	7,602	7,611	7,840	34,152	31,619	7,527	1
Net Income	36,944	39,997	45,347	46,834	41,521	41,652	43,904	46,820	1,69,124	1,73,897	40,830	2
YoY Growth (%)	43.3	47.7	41.4	38.4	12.4	4.1	-3.2	0.0	42.4	2.8	2.1	
Operating Expenses	12,922	13,830	15,339	14,515	11,567	11,593	13,127	15,112	56,608	51,399	11,982	-3
Operating Profit	24,022	26,167	30,008	32,320	29,954	30,059	30,777	31,708	1,12,516	1,22,498	28,848	4
YoY Growth (%)	47.9	49.6	43.8	45.5	24.7	14.9	2.6	-1.9	46.5	8.9	10.2	
Provisions and Cont.	5,507	5,942	8,308	19,538	16,857	17,004	15,000	14,987	39,295	63,848	15,500	10
Profit before Tax	18,514	20,224	21,701	12,782	13,097	13,055	15,777	16,721	73,221	58,650	13,348	-2
Tax Provisions	6,562	5,161	5,560	3,301	3,474	3,406	4,134	4,382	20,584	15,396	3,491	-2
Net Profit	11,953	15,063	16,141	9,481	9,623	9,649	11,643	12,339	52,638	43,254	9,858	-2
YoY Growth (%)	43.0	63.1	52.3	-19.4	-19.5	-35.9	-27.9	30.1	31.8	-17.8	-34.6	
Key Operating Parameters (%)												
Fees to Net Income Ratio	19.1	21.5	20.3	19.8	20.6	18.3	17.3	16.7	20.2			
Credit Cost	1.85	1.86	2.46	5.56	4.93	5.15	4.39	4.09	3.06			
Cost to Income Ratio	35.0	34.6	33.8	31.0	27.9	27.8	29.9	32.3	33.5			
Tax Rate	35.4	25.5	25.6	25.8	26.5	26.1	26.2	26.2	28.1			
Balance Sheet Parameters												
AUM (INR B)	1,289	1,355	1,451	1,472	1,381	1,371	1,453	1,560	1,472			
Change YoY (%)	41.2	38.3	35.0	27.0	7.1	1.1	0.2	6.0	27.0			
Borrowings (INR B)	1,122	1,195	1,221	1,298	1,211	1,249	1,288	1,317	1,298			
Change YoY (%)	66.4	46.1	31.4	27.8	8.0	4.5	5.5	1.5	27.8			
Loans/Borrowings (%)	111.5	109.4	114.3	108.9	109.3	105.5	110.0	114.9	108.9			
Asset Quality Parameters (%)												
GS 3 (INR B)	21.0	22.2	23.6	23.6	19.4	14.4			23.6			
Gross Stage 3 (% on Assets)	1.60	1.61	1.61	1.61	1.40	1.03			1.61			
NS 3 (INR B)	8.2	8.9	10.2	9.4	6.8	5.2			9.4			
Net Stage 3 (% on Assets)	0.64	0.65	0.70	0.66	0.50	0.37			0.66			
PCR (%)	60.7	59.9	56.7	60.3	64.9	64.3			60.3			
Return Ratios (%)												
ROAA (Rep)	4.0	4.8	4.8	2.8	2.8	2.8			3.6			
ROAE (Rep)	23.5	28.0	23.6	11.6	11.6	11.6			20.2			

Source: MOFSL, Company



Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USD\$)	387.7 / 5.4
52-Week Range (INR)	1641 / 1065
1, 6, 12 Rel. Per (%)	-3/-31/-11
12M Avg Val (INR M)	1185

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	45.3	47.7	52.6
Sales Gr. (%)	1.4	5.4	10.3
EBITDA	12.0	14.2	15.3
EBITDA Mrg. (%)	26.6	29.8	29.0
Adj. PAT	8.2	9.3	10.2
Adj. EPS (INR)	30.0	34.3	37.5
EPS Gr. (%)	8.1	14.3	9.3
BV/Sh.(INR)	58.6	53.1	44.1

Ratios

RoE (%)	53.7	61.4	77.1
RoCE (%)	52.2	61.7	77.4
Payout (%)	93.2	93.5	100.0

Valuation

P/E (x)	47.5	41.5	38.0
P/BV (x)	24.3	26.8	32.3
EV/EBITDA (x)	31.9	26.8	25.0
Div. Yield (%)	2.0	2.3	2.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	51.0
DII	11.5	10.2	10.5
FII	15.3	16.2	15.1
Others	22.2	22.7	23.4
FII Includes depository receipts			

CMP: INR1,425 TP: INR1,720 (+21%) Buy

Record high operating margin leads to beat on estimates

- Colgate (CLGT) reported a beat on all fronts relative to expectations, led by all-time high EBITDA margins.
- HUVR (the second largest oral care player) disclosed in its 2QFY21 results that it had achieved double-digit sales growth in oral care in the quarter. In view of this, CLGT's 5% top line growth and likely 4% volume growth in 2QFY21 seems disappointing, even as we await numbers from Dabur, the third largest player in the category.
- There was a hint of some incipient revival in market share in 4QFY20. Therefore, further loss of share to peers, if true, would be disappointing.
- We **retain Buy** on CLGT as (a) management's efforts over the last 2-3 years on direct distribution expansion, increased ad spends and new launches give hope for revival, (b) rural outlook is getting better and the company could be among the key beneficiaries with 40% rural sales contribution, and (c) its valuations are relatively inexpensive (38x FY22, ~15% discount to peer average) despite superior RoCE.

Sales better than expected, significant beat on profitability

- Net sales grew 5.2% YoY to INR12.9b** (v/s est. INR12.3b) in 2QFY21 with domestic net sales growth of 7.1% YoY. EBITDA grew 26.7% YoY to INR4.1b (v/s est. INR3.4b). PBT increased 32.3% YoY to INR3.7b (v/s est. INR3b). Adj. PAT grew 12.3% YoY to INR2.7b (v/s est. INR2.3b).
- We believe domestic toothpaste volumes grew 4% YoY (v/s est. 3%).
- Gross margin expanded 340bp YoY to 68.1%**. Higher staff costs as % of sales (up 80bp YoY) was offset by lower other expenses (down 120bp YoY) and lower ad-spends (down 160bp YoY). Thus, **EBITDA margins expanded by 540bp YoY to highest-ever margins of 31.8%** (v/s est. 27.5%). Absolute ad spends were down 6.5% YoY during the quarter.
- 1HFY21 sales/EBITDA/PAT grew 0.8%/15.2%/14.3% YoY.
- Inventory and payables as of Sep'20 were up 55.6% YoY and 25.6% YoY, respectively, while receivables were down 39.3% YoY.
- CLGT has declared its first interim dividend of INR18/share (1HFY20: INR12).

Highlights from management commentary

- All categories saw positive growth in 2QFY21 with toothpaste continuing its accelerated performance, driven by strong brand fundamentals and household penetration.
- The company's efforts to fulfill demand and ensure uninterrupted access led to agile and innovative approaches, especially in its supply chain and distribution efforts.
- CLGT's resilience and disciplined approach in managing all revenue and cost drivers, despite all the uncertainties and challenges around it, drove improvements in key financial metrics.

- Innovations and new launches during the quarter include: (a) *Colgate Visible White Instant*, (b) re-launch of *Colgate Zig Zag* toothbrushes, and (c) *Colgate Vedshakti Mouth spray*.

Valuation and view

We **maintain Buy** on CLGT given that (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has best-of-breed balance sheet, (c) valuations are moderate at 38x FY22E EPS, close to its 10-year average, and (d) there is a spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,720 (target multiple of 40x Sep'22E EPS, close to 5-year average).

Quarterly Performance

Y/E March	(INR m)											
	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Toothpaste Volume Gr %	4.0	4.0	2.3	-8.0	0.0	4.0	4.5	15.0	0.6	5.9	3.0	
Net Sales (inclgd. OOI)	10,849	12,218	11,472	10,713	10,406	12,855	12,103	12,325	45,251	47,689	12,340	4.2%
YoY change (%)	4.2	4.6	4.3	-7.1	-4.1	5.2	5.5	15.1	1.4	5.4	1.0	
Gross Profit	7,145	7,910	7,541	6,926	6,883	8,759	8,113	8,129	29,522	31,883	8,138	7.6%
Gross margin (%)	65.9	64.7	65.7	64.7	66.1	68.1	67.0	66.0	65.2	66.9	65.9	
EBITDA	2,998	3,230	3,161	2,629	3,080	4,093	3,576	3,452	12,017	14,201	3,398	20.5%
Margins (%)	27.6	26.4	27.6	24.5	29.6	31.8	29.6	28.0	26.6	29.8	27.5	
YoY growth (%)	6.5	-2.0	0.5	-15.3	2.7	26.7	13.2	31.3	-2.8	18.2	5.2	
Depreciation	499	504	515	462	454	461	520	584	1,979	2,019	489	
Interest	23	24	29	20	20	18	29	29	96	96	24	
Financial other Income	152	86	58	196	63	76	87	170	492	395	86	
PBT	2,628	2,788	2,674	2,344	2,669	3,689	3,114	3,009	10,434	12,481	2,971	24.2%
Tax	937	347	683	302	687	947	747	762	2,269	3,144	645	
Rate (%)	35.7	12.4	25.6	12.9	25.7	25.7	24.0	25.3	21.7	25.2	21.7	
Adj PAT	1,691	2,441	1,991	2,042	1,982	2,742	2,366	2,247	8,165	9,337	2,326	17.9%
YoY change (%)	1.3	24.3	3.6	2.1	17.2	12.3	18.9	10.0	8.1	14.4	-4.7	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21	
	1Q	2Q	3Q	4Q	1Q	2Q
Realization Gr %	0.2	0.6	2.0	0.9	-4.1	1.2
2Y average growth %						
Volumes	4.0	5.5	4.7	-1.5	2.0	4.0
Sales	5.3	6.1	5.4	-0.7	0.1	4.9
EBITDA	16.6	3.8	5.8	-7.2	4.6	12.4
PAT	11.9	17.4	8.1	1.9	9.2	18.3
% sales						
COGS	34.1	35.3	34.3	35.3	33.9	31.9
Others	38.2	38.3	38.2	40.1	36.5	36.3
Depriciation	4.6	4.1	4.5	4.3	4.4	3.6
YoY change %						
COGS	4.3	4.7	2.6	-7.4	-4.9	-4.9
Others	2.5	9.6	9.1	-1.1	-8.3	-0.3
Other income	65.6	-0.1	-26.7	64.4	-58.6	-12.3
EBIT	3.2	-5.9	-3.4	-20.1	5.1	33.3

Estimate change	↑
TP change	↑
Rating change	↔

CMP: INR3,095 **TP: INR3,480 (+12%)** **Buy**

Strong margin outperformance; optimistic outlook

Continue to expect industry-leading growth

Bloomberg	LTI IN
Equity Shares (m)	172
M.Cap.(INRb)/(USD\$b)	540.2 / 7
52-Week Range (INR)	3515 / 1208
1, 6, 12 Rel. Per (%)	10/81/88
12M Avg Val (INR M)	445

- L&T Infotech (LTI)'s 2QFY21 revenue growth of 2.3% QoQ CC was better than expected. It was led by sharper recovery in some verticals (BFS and Manufacturing) and geographies (Europe).
- More impressively, LTI expanded its EBIT margin (+250bp QoQ) for the fourth quarter in a row, aided by better operational efficiencies. Management reinstated guidance of 14–15% PAT margin for FY21, broadly in line with our expectation.
- Large deal wins in 1HFY21 have been lower than the typical run-rate. However, LTI has a strong deal pipeline (+22% YoY) and expects certain large deal closures in 3Q, which should aid FY22 revenue growth. FY22 should also benefit from the strong exit of FY21.
- We upgrade our FY21/FY22 EPS estimates by 7%/11% as we adjust to the margin surprise in the quarter. As digital becomes mainstream, we expect LTI to benefit from continued investments in digital capabilities, strong client additions, and mining abilities. Our TP implies 25x Sep'22 EPS (10% discount to TCS valuation). Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	108.8	122.9	143.3
EBIT Margin (%)	16.1	18.5	19.5
PAT	15.2	18.1	22.6
EPS (INR)	86.7	102.8	128.4
EPS Gr. (%)	0.4	18.5	24.9
BV/Sh. (INR)	308.1	369.2	451.3

Ratios

RoE (%)	31.1	30.6	31.5
RoCE (%)	26.9	28.5	29.0
Payout (%)	32.3	34.1	31.2

Valuations

P/E (x)	35.8	30.2	24.2
P/BV (x)	10.1	8.4	6.9
EV/EBITDA (x)	25.8	19.6	15.7
Div Yield (%)	0.9	1.1	1.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	74.4	74.5	74.6
DII	6.4	7.3	8.2
FII	11.2	9.8	7.7
Others	8.0	8.5	9.5

FII Includes depository receipts

Good growth; outstanding margin performance

- LTI reported revenue (USD) / EBIT / PAT growth of 11%/49%/27% YoY (v/s est. 10%/30%/18%). For 1HFY21, the company reported revenue (USD) / EBIT / PAT growth of 10%/39%/22% YoY.
- Sequentially, revenues grew 2.3% (CC) and were ahead of our estimates (1.1% QoQ CC).
- Growth was driven by BFS (+9.5% QoQ CC) and Manufacturing (+5.4% QoQ CC) despite the drag in Insurance (-4.1% QoQ CC), CPG, Retail & Pharma (-2.8% QoQ CC), and Hi-Tech, Media & Entertainment (-5.3% QoQ CC). The Others segment grew sequentially (6.7% QoQ CC), while Energy & Utilities was largely flat (0.6% QoQ CC).
- IMS (8% QoQ CC), Enterprise Solutions (6% QoQ CC), and ADM (3% QoQ CC) expanded, while Analytics (-13% QoQ CC) declined.
- Europe saw a sharper recovery, with growth of 9% QoQ CC, whereas America was largely flattish. RoW (5.9% QoQ CC) and India (2% QoQ CC) also reported growth.
- Higher billable days and improved utilization / offshore mix drove robust improvement of 250bp QoQ / 440bp YoY in the EBIT margin to 19.9% (the highest ever). This was ahead of our flattish estimate of 17.5%.
- Attrition declined by 270bp QoQ to 13.5%.
- LTI reported one large deal win in Q2, with a net new TCV of USD40m. While this was an improvement over Q1 (impacted by lockdown), large deal TCV continue to be tepid compared to FY20 (average quarterly TCV of USD83mn).
- PAT was up 27% YoY to INR4.6b, led by strong margin improvement.
- Overall DSO (including unbilled) reduced by 5 days QoQ to 94 days.
- The board has declared the first interim dividend of INR15/share for FY21.

Key highlights from management commentary

- Management stated that it is seeing acceleration in the digitalization of every operation – more so in the Cloud and Data Products business, which is going to be the key investment area for the company going forward.
- The overall pipeline is 22% higher than last year. The large deal pipeline has also increased proportionately and is stronger than the last quarter. But, it is seeing delayed decision-making at the client end.
- In terms of verticals, Insurance is still struggling due to the pandemic, and ENU recovery is tepid, with prices now having stabilized, but still lower than pre-COVID levels. Hi-Tech declined due to the reprioritization of spends, but management is seeing growth returning in the coming quarters. Manufacturing is also seeing decent recovery.
- Europe growth had been high due to a small base, and America is expected to grow faster in the coming quarters.
- The management is positive about surpassing 4QFY20 revenues in 3QFY21 on account of a healthy deal pipeline and sustained client mining.
- Management intends to roll out wage hikes to all its employees effective from 1st January 2021.
- Furthermore, PAT margin guidance was reinstated at 14–15% for FY21. Management is confident that it could sustain margin expansion from operational efficiencies and sustainable increase in the offshore mix.

Valuation and view – industry-leading growth to defend rich multiples

- LTI has deep domain capabilities; low exposure to segments that faced headwinds (legacy IMS, BPO) should be favorable in the current context.
- LTI's 26 new client additions and additions across client buckets (two in USD10–20m and two in USD5–10m) were a positive in 2QFY21. Furthermore, successful mining of these accounts should also provide incremental growth.
- The reinstatement of PAT margin guidance, ability to sustain operational efficiencies (offshore) despite wage hikes (effective 4Q), strong deal pipeline, and better H2 seasonality indicate an optimistic outlook.
- Industry-leading growth, RoCE, and prudent capital allocation should defend its rich multiples. We value the stock at 25x Sep'22E EPS (10% discount to our TCS valuation). Maintain **Buy**.

Quarterly Performance

Y/E March	(INR m)											
	FY20				FY21E				FY20	FY21E	Est. 2QFY21	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	357	364	394	410	390	405	413	428	1,525	1,635	398	1.5
QoQ (%)	0.8	2.0	8.4	3.9	-4.8	3.6	2.1	3.6	13.0	7.3	2.1	154
Revenue (INR m)	24,849	25,707	28,111	30,119	29,492	29,984	31,174	32,289	1,08,786	1,22,938	29,728	0.9
YoY (%)	15.3	10.3	13.7	21.2	18.7	16.6	10.9	7.2	15.2	13.0	15.6	100
GPM (%)	33.1	31.8	31.7	32.8	32.5	34.8	34.8	32.8	32.4	33.7	32.5	234
SGA (%)	14.7	13.7	13.0	13.6	12.4	12.0	12.4	12.4	13.7	12.3	12.4	(42)
EBITDA	4,580	4,658	5,274	5,781	5,920	6,856	6,983	6,578	20,293	26,337	5,975	14.7
EBITDA Margin (%)	18.4	18.1	18.8	19.2	20.1	22.9	22.4	20.4	18.7	21.4	20.1	277
EBIT	3,970	3,994	4,565	5,034	5,139	5,957	6,048	5,610	17,563	22,754	5,202	14.5
EBIT Margin (%)	16.0	15.5	16.2	16.7	17.4	19.9	19.4	17.4	16.1	18.5	17.5	237
Other income	812	739	433	479	450	174	312	484	2,463	1,420	443	(61)
ETR (%)	25.6	23.9	24.6	22.5	25.5	25.5	25.0	25.0	24.1	25.2	25.0	
Adj PAT	3,557	3,603	3,767	4,274	4,164	4,568	4,770	4,570	15,201	18,072	4,234	7.9
QoQ (%)	-6.1	1.3	4.6	13.5	-2.6	9.7	4.4	-4.2			1.7	
YoY (%)	-1.5	-10.0	0.3	12.9	17.1	26.8	26.6	6.9	0.3	18.9	17.5	
EPS (INR)	20.3	20.5	21.6	24.3	23.7	26.0	27.1	26.0	86.7	102.8	24.1	7.5



BSE SENSEX 40,707 S&P CNX 11,938

CMP: INR3,482 TP: INR3,620 (+4%) Neutral



Stock Info

Bloomberg	INFOE IN
Equity Shares (m)	104
M.Cap.(INRb)/(USDb)	447.7 / 6.1
52-Week Range (INR)	3784 / 1580
1, 6, 12 Rel. Per (%)	-5/13/48
12M Avg Val (INR M)	1293
Free float (%)	61.5

Financials Snapshot (INR b)

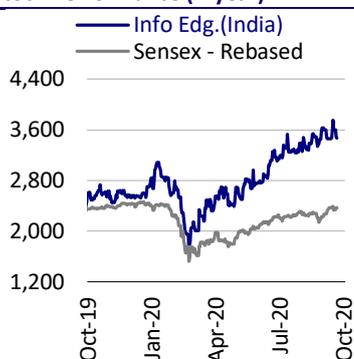
Y/E MARCH	FY20	FY21E	FY22E
Net Sales	12.7	11.6	13.9
EBITDA	4.0	3.8	4.5
NP	2.1	3.2	3.8
EPS	16.7	24.9	29.5
EPS Gr (%)	-27.1	49.1	18.4
BV/Sh (INR)	199.5	295.9	311.1
P/E (x)	207.2	139.0	117.4
P/BV (x)	17.4	11.7	11.1
RoE (%)	13.8	10.2	9.7
RoCE (%)	13.9	10.1	9.7

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	38.5	40.4	40.6
DII	12.8	12.6	14.1
FII	39.3	37.2	34.8
Others	9.4	9.9	10.6

FII Includes depository receipts

Stock Performance (1-year)



Commanding a leader's premium!

Valuation premium factoring in multi-year growth cycle

- Info Edge (INFOE) has seen a surge in traffic after the trough witnessed in Apr-May'20 for three of its four operating entities. While traffic for Naukri plunged ~50% in Apr'20, it has now risen by 35%. Similarly, traffic for 99acres plummeted by 60% in Apr'20, but thereafter increased by 90%.
- Further, billings for the two entities too are showing similar trends – for Naukri/99acres, billings declined 54%/85% in Apr'20. However, overall decline in billings has been curtailed to ~44%/70% in 1QFY21, which suggests early signs of recovery.
- Strong hiring outlook from IT services companies, rebound in the jobspeak index and strong traffic recovery for 99acres suggests billing would rebound over next few quarters.
- Increase in cost – for the better part of four years – was largely led by 32% CAGR in advertisement expenses, on increased spends by competition in the real estate/matrimony segments. Employee cost registered 13% CAGR, lower than the 17% CAGR witnessed in revenues. Higher operating leverage in the business led to 560bp increase in margins over FY17-20.
- In the coming days, we expect operating leverage to continue with cost structure being more inclined toward technology spends (to open up new revenue streams in the core businesses). Advertisement spends should reduce (from 16% of revenue in FY20 to 13% in FY22E) on account of consolidation (as highlighted by Mr. Sanjeev Bikhchandani in our [CEO track](#)) and funding crunch in respective industries.
- Due to higher digital penetration, we foresee market share shifting from traditional offline players to their online counterparts. This should immensely benefit some of INFOE's investee companies, thereby reducing consolidated losses.
- We expect INFOE's operating businesses to display long-term sustainability in their growth trends. We have assumed 11% WACC and 5% terminal growth for INFOE's core businesses and 15-year revenue CAGR of 16%/18%/18% for Naukri /99acres /Jeevansathi. We expect margins to continuously increase due to operating leverage. Our SOTP-based TP is INR3,620/share, implying an upside of 4%. Maintain Neutral.

Traffic gradually inching up, collections to follow

- With the COVID-19 outbreak, three of INFOE's four standalone entities saw a sharp drop in traffic. The combined plunge for Naukri and 99acres in Apr'20 was 54% from pre-COVID levels. This translated into 54%/86% drop in collections for Naukri/99acres in Apr'20.
- However, we have started seeing early signs of traffic revival for the two entities. Currently, traffic for Naukri/99acres has risen 35%/90% from the lows in Apr'20. We expect collections and billings to also follow the same trajectory.

Strong momentum after the blip

- IT services and Technology start-ups contributed 43% of Naukri's revenues. While IT services companies had restricted themselves to only obligatory hires in 1QFY21, strong hiring outlook has been presented by Tier 1 IT companies in 2QFY21. Further, larger deals should start returning next year, requiring a higher bench in the case of Request for Proposal (RFPs) biddings. This should prove positive for Naukri.

- We believe 99acres will benefit from the structural shift toward the online and organized engagement from the traditional 'Mom and Pop' shop broker plays. Nevertheless, we still remain cautious on 99acres given the pain in the underlying industry. Our conservative estimates indicate CAGR of 5%/9% revenue/EBIT over FY20-22E.

Structural diversification to open up new revenue streams

- Naukri sources 58% of its revenue from its proprietary resume database platform 'Resdex'. Consistent increase in volumes/ARPU on basis of higher value-added services has led Naukri to deliver 16% CAGR during FY15-20.
- Similar to its global peers, Naukri is now increasing its focus on adjacent revenue streams. We believe its near-to-medium term focus would be on strategic investments in areas pertaining to building/scaling new complementary platforms.
- We believe INFOE will use the recent fund raise of INR18.6b for large ticket M&A activity within its standalone entities (operating businesses). This will either open up additional revenue streams for the recruitment business or consolidate the market in the matrimony segment. In both cases, INFOE should see sustainable increase in operational performance.

Higher digitization to benefit investee companies

- INFOE's investment business has shown great resilience in the past with XIRR exceeding 35% on prudent investment pedigree ([Link](#)). While most AIF entities have been impacted by the current lockdowns, we believe that increased screen time and pull factor toward digitization of the offline businesses should provide long-term benefits to the investee companies.
- Moreover, there is a crunch in venture capital (VC) funding, led by an increase in the risk profile of start-ups and pre-screening of Chinese investments. This has forced start-ups to work toward a more profitable model, which in turn should decrease the consolidated losses for the company.

Valuation premium factoring in multi-year growth cycle

- We foresee a halt in near-term momentum, led by expectation of billing decline in the recruitment/real estate segments for 1HFY21. However, given the market positioning of its entities, multi-dimensional growth can be expected for INFOE in the medium-to-long term, backed by recruitment, real estate, Zomato (its biggest investee company) and PolicyBazaar.
- For FY21, we expect 9% decline in revenue, largely driven by ~50% drop in collection for 1QFY21. With expectations of more jobs coming in (on pent-up demand) and pressure on real estate developers to sell off inventory, we expect 20% revenue growth for FY22E. Margin should expand 100bp over FY20-22E on lower advertisement expenses, partially offset by higher employee cost.
- With the company prudently investing so far (XIRR >35%), we believe that some of its current investments would scale up in the medium-to-long term, further contributing to the group's valuations.
- Valuations are elevated with 1-year forward multiples exceeding 100x. However, we believe that INFOE provides a good entry point for the start-up ecosystem with higher risk being moderated from its relatively stable standalone operating business.
- We have individually valued INFOE's group entities using DCF-based valuation. Our SOTP-price target stands at INR3,620/share. **Maintain Neutral.**



Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR194 TP: INR245 (+26%) Buy

Electricity volumes drive growth in operational profit

New product launches to aid market share gains; Maintain Buy

Bloomberg	IEX IN
Equity Shares (m)	298
M.Cap.(INRb)/(USDb)	58.2 / 0.8
52-Week Range (INR)	219 / 111
1, 6, 12 Rel. Per (%)	-7/-8/29
12M Avg Val (INR M)	184

- IEX's result highlights the benefit of higher electricity volumes, which led to an 8% YoY rise in S/A EBITDA (in-line) in 2QFY21. However, S/A PAT was down 4% YoY on account of higher depreciation, lower other income, and a higher tax rate.

- The launch of Real-Time Market (RTM) has kicked off well, with the product adding 2.3BUs in 2Q. With IEX's expected entry into Longer Duration Contracts (LDCs) and its competitive positioning, we expect market share gains to continue for the company within the Short-Term (ST) Market. This would lead to a 20% EPS CAGR over FY21–23. **Maintain Buy**, with **TP of INR245/sh** based on 30x Sep'22 EPS.

Financials & Valuations (INR m)

Y/E MARCH	2020	2021E	2022E
Sales	2,570	2,753	3,429
EBITDA	2,045	2,141	2,774
Adj. PAT	1,779	1,757	2,256
EBITDA Margin (%)	79.6	77.8	80.9
Adj. EPS (INR)	6.0	5.9	7.6
EPS Gr. (%)	7.8	-1.2	28.4
BV/Sh. (INR)	13.1	14.8	17.1

Ratios

RoE (%)	46.8	42.2	47.3
RoCE (%)	44.3	40.1	45.0
Payout (%)	41.9	70.0	70.0

Valuations

P/E (x)	32.6	33.0	25.7
P/BV (x)	14.8	13.1	11.3
EV/EBITDA(x)	26.7	25.3	19.3
Div. Yield (%)	1.3	2.1	2.7
FCF Yield (%)	2.1	2.3	3.1

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	0.0	0.0	0.0
DII	33.8	31.3	33.7
FII	31.6	32.4	20.0
Others	34.6	36.3	46.3

FII Includes depository receipts

Higher volumes drive growth in operational profit

- IEX's 2QFY21 S/A EBITDA grew 8% YoY to INR575m (broadly in-line with our est. of INR598m) on the back of higher volumes.

- Electricity volumes (DAM + TAM + RTM) rose 13% YoY to 16.5BU in 2Q, but the lack of any Renewable Energy Certificate (REC) volumes impacted revenue. S/A revenue was up 5% YoY to INR708m (4% below our estimate).

- S/A PBT grew just 2% YoY to INR616m on account of higher depreciation and lower other income. S/A PAT was down 4% YoY to INR467m (5% below our est.) on account of higher tax rate.

- At the consolidated level (incl. gas exchange), EBITDA was up 4% YoY, while PAT was down 9% YoY to INR443m.

Management commentary – new products faring well

- RTM did 2.3BUs for the co. in its first full quarter. IEX is also working with states to help them optimize their purchases and shift from DSM to RTM. Additionally, the launch of Green Term-Ahead Market (G-TAM) added 75MUs during the quarter and currently averages at 8–10MUs/day.

- In terms of LDCs, the co. has filed a petition with CERC. However, CERC would take this up only once the Supreme Court (SC) jurisdiction is settled. The SC hearing is scheduled in Dec'20.

Market share gains to drive volume/PAT CAGR of 20% over FY21–23; Buy

- The launch of RTM contributed 2.3BUs in 2Q. G-TAM has also kicked off well. Furthermore, October electricity volumes on IEX are currently up ~60% YoY, which bodes well for 3Q. Trading for RECs remains suspended, but the co expects the APTEL order to come in and thereby resume trading by Oct-end.

- The long-term potential for IEX remains huge, with just ~4% market share held by exchanges in India's power generation. With new product launches, a continued oversupplied market, and IEX's competitive positioning, we expect volumes/PAT for IEX to increase at a 20% CAGR over FY21–23. Given the strong growth and high return profile (RoE of ~45%), the stock trades attractively at 23x FY23E EPS. **Maintain Buy**, with target price of INR245/sh at 30x Sep'22 EPS.

Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 2QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	606	675	597	693	663	708	701	681	2,570	2,753	734	-4
YoY Change (%)	-9.6	0.9	-6.5	22.8	9.5	4.9	17.4	-1.8	1.2	7.1		
Total Expenditure	112	142	120	152	174	132	145	161	526	612	136	-3
EBITDA	494	533	477	542	489	575	556	520	2,045	2,141	598	-4
Margins (%)	81.6	79.0	79.9	78.1	73.8	81.3	79.3	76.4	79.6	77.8	81.5	
Depreciation	33	33	41	45	44	41	41	41	152	167	42	-3
Interest	5	5	0	5	5	5	0	0	16	11	0	
Other Income	91	113	97	100	142	86	77	73	401	379	101	-15
PBT before EO expense	547	607	533	591	582	616	592	553	2,278	2,342	658	-6
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	547	607	533	591	582	616	592	553	2,278	2,342	658	-6
Tax	151	118	110	119	153	149	148	136	499	586	164	
Rate (%)	27.6	19.5	20.6	20.2	26.3	24.1	25.0	24.5	21.9	25.0	25.0	
Reported PAT	396	488	423	472	429	467	444	417	1,779	1,757	493	-5
Adj PAT	396	488	423	472	429	467	444	417	1,779	1,757	493	-5
YoY Change (%)	-5.5	14.4	-0.7	24.7	8.3	-4.4	4.9	-11.6	7.8	-1.3	1.0	

Source: MOFSL, Company



Mahindra CIE

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR137

TP: INR165 (+20%)

Buy

Below est.; Weak op. performance in both India and EU

Focus on new orders and restructuring to drive strong recovery

- Mahindra CIE (MACA)'s adverse operating performance in 3QCY20 was attributable to weaker revenue in India and restructuring cost in EU. While it is focusing on new orders / exports in India, it is also cutting cost to reduce breakeven points for the EU business.
- We marginally cut our CY21E EPS to factor in lower revenue growth. Maintain **Buy**, with TP of ~INR165 (13x Sep'22 consol EPS).

Operating deleverage and restructuring cost in EU impact performance

- 3QCY20 consol. revenue/EBITDA declined 9%/28% YoY, but PAT grew 4%. For 9M CY20, revenue/EBITDA declined 34%/69% and posted net loss.
- Consol EBITDA stood at ~INR1.5b (v/s est. INR2b), impacted by lower revenues in India and restructuring cost in the EU business (INR270m).
- Higher other income in the EU business on the sale of real estate in Jeco boosted PAT to INR607m (+4% YoY).
- India business performance was below estimates, with revenue declining by ~6% YoY to ~INR8.6b (v/s est. ~INR9.3b). The India EBITDA margin stood at 12.6% (v/s est. 12.7%).
- EU revenues declined ~9% YoY to ~INR8.7b (v/s est. ~INR8.1b), with 22% decline in EUR terms. EBITDA margins stood at 5.2% (v/s est. 10%), impacted by INR270m restructuring cost in the German CV business.

Highlights from management commentary

- For India, demand momentum is expected to continue in 4QCY20; however, management is cautiously optimistic on demand post the festive season. Average capacity utilization is at 90%.
- The India business would grow faster than the market on the back of: 1) exports growing from 12–13% of sales to 20% (to see benefit from 2HCY21) and 2) increasing contribution from new orders to 25% of sales from 15%.
- Post the restructuring, the EU business breakeven revenue stands at INR5.5b/qtr. This would further reduce to INR5.3b/qtr after the completion of the restructuring by 4QCY20.
- Capacity utilization is at 90% in India, 80% in the EU (PV forging), and 65–70% in the EU (CV forging). Metalcastello is at the bottom of the utilization cycle.
- Capex: India CY20 capex would be at ~INR2.5b (INR2b capex for 9M CY20) toward growth in capacity expansion. CY21 could be higher if the company wins additional business.
- CIE increased its stake by purchasing from the market. Stake now stands at 60.18% (v/s 58.02% in 2QCY20 and 56.29% in 3QCY19).
- Net consol debt stands at INR16.1b.

Valuation and view

- MACA's growth story is on track, driven by its organic initiatives (new products/customers) and M&A focus.
- The stock trades at attractive valuations of 12.7x/10.3x CY21E/CY22E consol. EPS. Maintain **Buy**, with TP of ~INR165 (13x Jun'22 consol EPS).

Bloomberg	MACA IN
Equity Shares (m)	379
M.Cap.(INRb)/(USD\$b)	52 / 0.7
52-Week Range (INR)	179 / 59
1, 6, 12 Rel. Per (%)	6/39/-11
12M Avg Val (INR M)	42

Financials & Valuations (INR b)

Y/E December	CY19	CY20E	CY21E
Sales	79.1	60.8	75.2
EBITDA (%)	12.2	8.4	12.4
Adj. PAT	3.6	0.9	4.1
EPS (INR)	9.4	2.3	10.8
EPS Growth (%)	-33.2	-75.5	366.6
BV/Share (INR)	123	125	136

Ratio

RoE (%)	8.0	1.9	8.3
RoCE (%)	6.5	1.9	6.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	14.6	59.5	12.7
P/BV (x)	1.1	1.1	1.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	11.6	-2.1	6.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	69.5	67.7	67.7
DII	5.3	21.6	7.1
FII	14.6	0.0	10.3
Others	10.6	10.7	14.9

FII Includes depository receipts

Quarterly performance (Consol.)										(INR m)
(INR m)	CY19				CY20				CY19	CY20E
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	21,744	21,420	18,685	17,229	16,627	7,355	16,943	19,876	79,078	60,801
YoY Change (%)	8.9	3.0	-5.7	-12.8	-23.5	-65.7	-9.3	15.4	-1.5	-23.1
EBITDA	2,825	2,616	2,092	2,143	1,822	-963	1,508	2,750	8,319	5,118
Margins (%)	13.0	12.2	11.2	12.4	11.0	-13.1	8.9	13.8	10.5	8.4
Depreciation	740	844	789	788	815	518	849	966	3,161	3,148
Interest	103	115	198	106	182	167	142	146	523	638
Other Income	148	78	42	63	49	179	420	84	331	732
PBT before EO expense	2,130	1,734	1,147	1,312	873	-1,468	937	1,722	4,966	2,064
EO Exp/(Inc)	13	0	-51	84	-1	2	0	0	46	0
PBT after EO exp	2,117	1,734	1,198	1,228	874	-1,470	937	1,722	4,920	2,064
Tax Rate (%)	28.0	27.2	48.9	88.7	28.3	12.5	35.2	26.0	55.7	40.8
Adj. PAT	1,532	1,262	583	186	626	-1,286	607	1,275	3,564	1,223
YoY Change (%)	16.2	-9.1	-56.1	-86.8	-59.1	-201.9	4.2	584.1	-33.2	-65.7
Margins (%)	7.0	5.9	3.1	1.1	3.8	-17.5	3.6	6.4	4.5	2.0
Revenues										
India	8,524	9,684	9,134	8,704	7,819	2,650	8,560	10,458	35,934	29,487
Growth (%)	3.0	11.5	5	6.0	-8.3	-72.6	-6	20.1	7.2	-17.9
EU	13,324	11,735	9,561	8,512	8,807	4,704	8,381	9,413	43,132	31,305
Growth (%)	13.2	-2.4	-18	-26.8	-33.9	-59.9	-12	10.6	-7.8	-27.4
PBIT Margins										
India	11.6	8.2	7.4	6.7	6.8	-23.4	7.5	9.8	8.5	5.5
EU	9.3	9.0	7.5	8.7	6.0	-14.5	5.3	7.9	8.7	3.3

E: MOFSL Estimates; AEL merged w.e.f 2QCY19



HDFC Bank: India can revert to 9% growth if policy decisions are executed flawlessly; Aditya Puri, EX CEO

- Bank had been making continuous changes to its technology and strengthening its presence in the rural segment too. Bank is well positioned in semi-urban and rural centres
- Expects 30% of the bank's business to come from digital services and 30-35% from rural and semi-urban India
- Recovery has been swift since the unlock began with cars, motorcycle, & TVs flying off the shelves
- We are seeing a quick recovery as someone is at 75%, somebody is at 85% & 90% across large sections of the economy
- Even if we get it 60% right, we should get 7-7.5% growth. If all the policies are in the right direction we can grow at 7-9%. This will take 2-3 years of extensive execution of items that have already been identified
- Industrial houses with good ethics should be allowed to open banking operations

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CIBIL: Disbursements have reached pre COVID levels aided by govt. support; Harshala Chandorkar, COO

- ECLGS boosting credit infusion to MSMEs and helped reviving credit, micro-loans showing lowest decline in credit outstanding
- Several segments are already at pre-COVID levels, and the government's ECLGS is very beneficial to the sector
- Disbursements are picking up in semi-urban & urban areas and have reached pre COVID levels aided by govt. support
- MSME witnessed a slowdown during pre COVID, but disbursements now back to Feb'20 levels
- Credit disbursements improving for Private banks, NBFCs. Enquiries from NBFCs also picking up
- Slight increase in NPAs in MSME sector. Sharpest increase seen in NBFC sector

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Consumer Durable Retailers: Delay in clearance at customs can impact festive sales; Croma: Ritesh Ghosal, CMO

- Seeing huge shortage due to delay in customs clearances, festive sales can get impacted due to this
- Microwave sales getting impacted due to customs delays
- Dependence on Private labels is small. Air purifiers, Steam inhalers, health & Personal care business seeing 50% growth
- Growth has been 20% plus since August but margins are lower

Godrej Appliances: Kamal Nandi, Business Head & Executive VP

- Industry saw 12% YoY growth in September and Godrej grew 15%
- Expect >15% YoY growth in October & November
- Demand is not only went up, increase in home appliances demand is more structural in nature

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SUGAR INDUSTRY: IMPLEMENTATION OF EXPERTS RECOMMENDED FORMULA-BASED PRICING WOULD BE AN EQUALLY PROGRESSIVE STEP

- While, in Maharashtra and South India, the weather has played havoc, the issues that plague Uttar Pradesh's mills are quite different, and perhaps not so much an act of God! In Uttar Pradesh, for example, sugarcane prices are based on the state government's discretion. With the current state advised price (SAP) in Uttar Pradesh kissing the levels of Rs 315-325 per quintal and sugar prices remaining around Rs 3,200 per quintal, it is no surprise that the industry is staggering payments to farmers, as the realisation from sugar, power and ethanol trickle in.
- Another direct impact of high SAP is that sugarcane, which generally gives 1-2 ratoon harvests, is so lucrative for farmers that they are reluctant to grow alternative crops, further pushing up the supply of sugarcane and contributing to the growing glut. One would imagine that cane arrears would leave farmers disillusioned and see them shifting to other crops, but not so in Uttar Pradesh. The delayed cycle of payments should perhaps be viewed less as capitalistic opportunism and more through the lens of pure economics. In Uttar Pradesh, a single sugarcane crushing season is of a 5-6 month duration in the year and the produced sugar sells over 12 months. Even with the highest efficiencies that one may draw, the cost per bag of sugar in the state is anywhere between Rs 3,500 and Rs 3,600.
- It is, therefore, safe to conclude that the sugar business, by itself, is non-remunerative, and if any company has to do justice to all its stakeholders, employees, bank obligations and farmers alike, it would be impossible to carry on with the business if it were not for the additional revenue that is generated by diversification into power co-generation and ethanol production.
- This brings us to the ethanol story. In a welcome move, governments, both at the Centre and states, have given a much-needed push to the production of ethanol; this has had a two-fold effect. One, it greatly assists sugar mills' cash flows, and two, the amount of sugar drawn from the cane is lessened as B-heavy molasses is now diverted for the production of ethanol instead. In layman's terms, molasses that would have been directed to sugar extraction from it before being used for some secondary purpose is now skipping the step of sugar extraction and directly being consumed for ethanol manufacturing. As is obvious, this directly pulls back on the volume of sugar output, thereby helping decrease the sugar glut, creating a more favourable demand-supply situation and stabilising sugar prices in the long run. After the impetus doled out for increasing ethanol capacities, one will likely see this play out in a more evident manner in the near future.
- The measures taken in the last few years have been encouraging, and from time to time, governments have stepped in to help companies tide over their dues. But, the truth is that these short-term solutions of bridge-loans to pay off arrears are only delaying the addressing of the core issue. To reform the industry fundamentally, the high-impact solution is a little more complex and, perhaps, politically sticky too.

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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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