Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	37,688	2.0	-8.6
Nifty-50	11,095	1.9	-8.8
Nifty-M 100	15,640	1.1	-8.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,307	0.4	2.3
Nasdaq	10,941	0.4	21.9
FTSE 100	6,036	0.1	-20.0
DAX	12,601	-0.4	-4.9
Hang Seng	10,204	1.7	-8.6
Nikkei 225	22,574	1.7	-4.6
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	44	1.0	-34.4
Gold ($/OZ)	2,019	2.1	33.1
Cu (US$/MT)	6,453	-0.6	4.9
Almn (US$/MT)	1,732	1.1	-2.8
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.0	0.0	5.1
USD/EUR	1.2	0.3	5.3
USD/JPY	105.7	-0.2	-2.7
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.8	-0.06	-0.8
10 Yrs AAA Corp	6.6	0.09	-1.1
Flows (USD b)	**4-Aug**	**MTD**	**CYTD**
FIIs	0.09	1.10	-0.28
DIIs	-0.09	-0.20	10.41
Volumes (INRb)	**4-Aug**	**MTD***	**CYTD***
Cash	622	681	530
F&O	14,466	12,639	15,324

Note: *Average

Today's top research theme

India Strategy: 1QFY21 interim earnings review; Healthcare and Technology beat earnings estimates

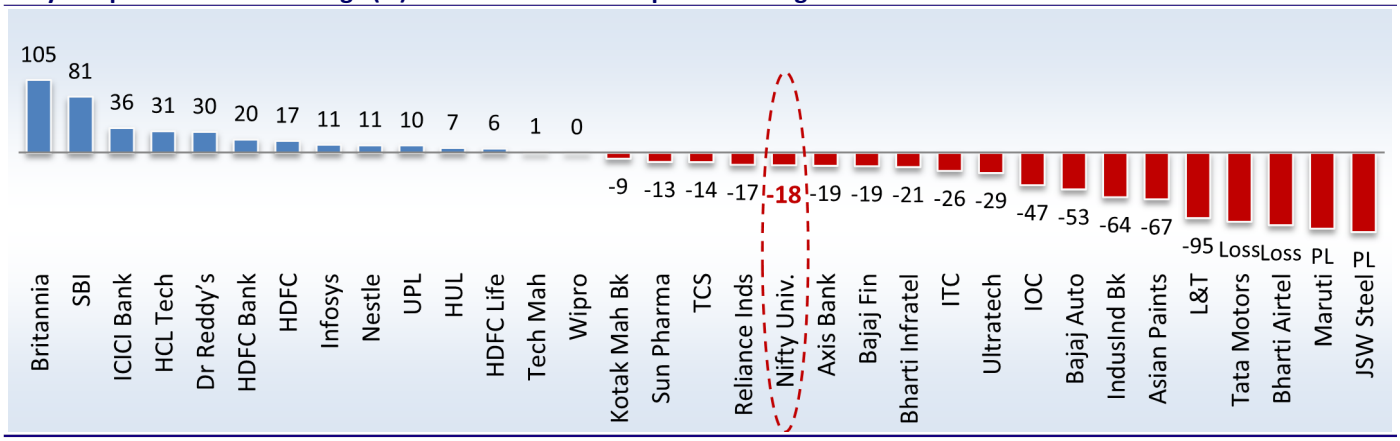
- **1QFY21 earnings of 91 MOFSL Universe and 33 Nifty companies that had announced their results as of 1st Aug'20 came in above expectations. Companies that have reported earnings thus far comprise:** (a) 90% of est. PAT for the MOFSL Universe, (b) 89% of est. PAT for the Nifty, (c) 69% of India's market capitalization, and (d) 89% of the Nifty-50 index weight.
- **We noted some key insights.** (A) Nifty / MOFSL Universe sales are in-line while EBITDA/PBT/PAT is ahead of expectations. (B) Automobiles, Healthcare, Cement, Consumer, and Metals have exceeded PAT expectations; Private Banks, Technology, and Oil and Gas have come in line with expectations; and Capital Goods and Retail have reported a miss. (C) The breadth of earnings upgrades has been good so far as 58% of companies have beaten estimates, while 23% have come in below expectations. (D) The FY21 earnings revision is significantly tilted in favor of upgrades as 64% of companies have seen earnings upgrades. (E) Management commentaries thus far suggest companies are implementing cost rationalization measures across key sectors to protect EBITDA margins and the bottom line given the uncertainty.

Research covered

Cos/Sector	Key Highlights
India Strategy	1QFY21 interim earnings review; Healthcare and Technology beat earnings estimates
Bulls & Bears	Markets – Nifty continues strong momentum in Jul'20; IT leads benchmark
HDFC Bank	RBI approves appointment of new MD & CEO
NMDC	Recovery in volumes and price a positive
Godrej Consumer	In-line results; Earnings recovery trajectory remains unclear
Other Notes	Tata Consumer | PI Industries | Gujarat Gas | MRPL

Chart of the Day: India Strategy (1QFY21 interim earnings review)

Nifty companies' PAT YoY change (%) – 13 stocks have seen positive change



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

July exports near last year's level: Piyush Goyal

Showing signs of significant improvement, the country's exports in July reached almost the level of the corresponding month last year, Commerce and Industry Minister Piyush Goyal said on Tuesday. He said several indicators were reflecting that economic activities were reviving in the country…

2

Diageo takes 772 mn pound write down for Indian market amid COVID-19

World's leading spirits maker Diageo has taken a write down of 1.3 billion pound, including an impairment of 772 million pound for the Indian market, reflecting the impact of COVID-19 and challenging trading conditions. Diageo said in its earnings statement said that it has made impairment for its businesses in India, Nigeria, Ethiopia and the Windsor whisky brand in South Korea. "Exceptional operating items included non-cash impairment charges of 1.3 billion pound. These were in India, Nigeria, Ethiopia and on the Windsor brand in Korea, reflecting the impact of COVID-19 and challenging trading conditions," it said…

3

Steel Authority of India clocks best-ever sales performance in July

Steel Authority of India Limited (SAIL) achieved sales of 15.83 lakh tonne in July'20, marking its best-ever July performance. The company's steel sales grew by about 50% a significant jump over July'19 sales of 10.59 lakh tonne, an official statement said. SAIL sold 12.73 lakh tonne in the domestic market while it exported 3.10 lakh tonne of steel…

4

Banks sanction Rs 1.38 trn loans to MSMEs under credit guarantee scheme

The Finance Ministry on Tuesday said banks have sanctioned loans of about Rs 1,37,586 crore under the Rs 3-trillion Emergency Credit Line Guarantee Scheme (ECLGS) for MSME sector, hit hard by the economic slowdown due to Covid-19 pandemic. However, disbursements against this stood at Rs 92,090.24 cr…

5

Record Decline In Securitisation Volumes Due To Covid-19: ICRA

The securitisation volumes declined substantially in Q1 FY21 to Rs 7,500 crore from Rs 50,300 crore in Q1 FY20 primarily due to disruptions caused by the Covid-19 pandemic, investment information firm ICRA said on Tuesday. The nationwide lockdown severely impacted the income generation capability of large number of borrowers. This made the investors vary of investing in fresh securitisation transactions given the possible deterioration in the loan repaying capability of retail borrowers…

6

TCS, 2 others shortlisted for implementation of RBI's market surveillance system

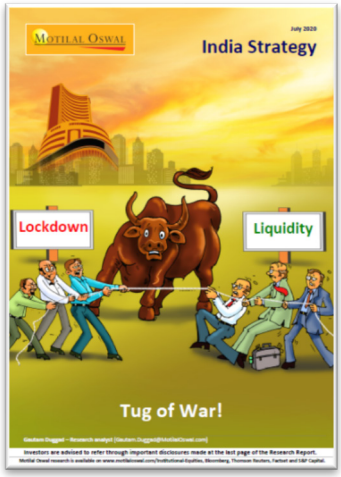
Tata Consultancy Services and two other vendors have been shortlisted for implementation of Integrated Market Surveillance System, according to an RBI document. The Reserve Bank of India had received responses from several vendors for implementation…

7

Vodafone Idea pays up April-June license fees, SUC dues after initial delay

Vodafone Idea has paid the telecom department most of its Rs 1,200 crore dues towards licence fee and spectrum usage charge (SUC) for the April-June period, after missing the deadline of July 15, people familiar with the matter said. Government officials said a further delay…

Refer to our Jun'20 Quarter Preview



1QFY21 interim earnings review

Healthcare and Technology beat earnings estimates; forward estimates stabilize

- **1QFY21 earnings of 91 MOFSL Universe and 33 Nifty companies that had announced their results as of 1st Aug'20 came in above expectations.**
- **Companies that have reported earnings thus far comprise: (a) 90% of est. PAT for the MOFSL Universe, (b) 89% of est. PAT for the Nifty, (c) 69% of India's market capitalization, and (d) 89% of the Nifty-50 index weight.**
- **We noted some key insights. (A) Nifty / MOFSL Universe sales are in-line while EBITDA/PBT/PAT is ahead of expectations. (B) Automobiles, Healthcare, Cement, Consumer, and Metals have exceeded PAT expectations; Private Banks, Technology, and Oil and Gas have come in line with expectations; and Capital Goods and Retail have reported a miss. (C) The breadth of earnings upgrades has been good so far as 58% of companies have beaten estimates, while 23% have come in below expectations. (D) The FY21 earnings revision is significantly tilted in favor of upgrades as 64% of companies have seen earnings upgrades. (E) Management commentaries thus far suggest companies are implementing cost rationalization measures across key sectors to protect EBITDA margins and the bottom line given the uncertainty.**

Key 1QFY21 result highlights:

- **For the 33 Nifty companies, sales/EBITDA/PBT/PAT declined 27.7%/1.1%/22.2%/18% (v/s est. decline of 27.3%/5.9%/31.0%/26.1% YoY). Of the 33 Nifty companies that declared their results, on the PAT front, 17 have surpassed, 8 have missed, and 8 have met our expectations.**
- **For the MOFSL Universe, sales/EBITDA/PBT/PAT declined 27.5%/6.1%/27.2%/24.5% YoY (v/s est. decline of 27.1%/12%/35.5%/31.6% YoY).**
- **The earnings upgrade/downgrade ratio for FY21 so far is skewed in favor of upgrades. 46 MOFSL Universe companies have reported upgrades of more than 3% (of which 36 companies have seen upgrades of more than 10%), while 22 have posted downgrades of more than 3%.**
- **Among the Nifty constituents, UltraTech Cement, Britannia, Asian Paints, HUL, SBI, Bajaj Finance, Dr Reddy's Labs, Sun Pharma, HCL Tech, Infosys, Tech Mahindra, and Wipro have exceeded our profit estimates. On the flip side, L&T, ITC, IndusInd Bank, Kotak Mahindra Bank, Reliance, TCS, and UPL have missed expectations.**
- **There has been a minor tweak in FY21/FY22E Nifty EPS estimates to INR471/INR660 (from INR467/INR647). We are building in Nifty EPS growth of 1.2% for FY21E.**
- **Within the MOFSL Universe, at the sectoral level, Auto, Cement, Healthcare, Metals, Technology, and Telecom have seen earnings upgrades of more than 5%. On the contrary, Private Banks, Capital Goods, Oil & Gas, and Retail have seen earnings downgrades.**
- **KEY SECTORAL INSIGHTS: [1] IT: Headline numbers were strong and have seen upgrades. Commentary remains stable, while deal wins and the deal pipeline are encouraging for most of the IT companies. The majority of them were also able to control costs to deliver higher margins. 10 of the 13 companies reported a beat on a PAT basis, while 11 of the 13 saw upward earnings revision for FY21 and FY22. [2] Healthcare: Our Pharma universe has seen a significant beat and earnings upgrades. A common thread across most Pharma companies has been the reduction in opex. [3]**

Banks: Our BFSI Universe's performance improved as all banks reported decline in the moratorium book; however, there was a wide divergence on the same. Higher liquidity on the balance sheet is impacting margins. [4] Consumer: Demand came in better than expected for low-ticket staple items, resulting in a beat by Britannia and Colgate. Significant cost control ensured margins were ahead of expectations. [5] Automobiles: While five of the seven companies that reported their earnings posted loss, results were better than estimated. Tractor continues to be a positive story for auto companies as the demand outlook remains strong.

- **View: Strong cost control has been the defining theme for 1QFY21 earnings so far. In these challenging times when demand is weak and uncertain, corporate India has employed the lever of cost reduction to alleviate the stress on the bottom line. More importantly, the corporate commentary does indicate MoM improvement from the complete lockdown in April (to May and June). The recent spurt in COVID-19 cases and various localized lockdowns do muddy the waters a bit. Healthcare and Technology earnings stood out both in absolute and relative terms. Both sectors saw meaningful earnings upgrades. Markets, meanwhile, have seen significant recovery from Mar'20 lows. In fact, Nifty ex-BFSI has crossed pre-COVID-19 levels. Nevertheless, we find the risk-reward unattractive with valuations at 21x one-year forward Nifty EPS. Thus, we have recently raised the weight of Defensives (IT, Consumer, Telecom) in our Model portfolio revisions (here and here).**

Key sectoral trends from 1QFY21 earnings

- **BFSI:** Our BFSI Universe's performance showed improvement as all banks reported decline in the moratorium book; however, there was a wide divergence on the same. Moratorium books for the banks were as follows: HDFC Bank (9%), Axis (9.7%), Kotak (9.65%), ICICI (17.5%), IndusInd (16%), AU Small (11%), and SBI (9.5%). Banks have focused on building up their deposit franchise to improve cost of funds, while they remain cautious in lending in the current uncertain environment. However, additional liquidity on the balance sheet has started hurting margins. Most banks have also announced fund-raising, as they look to raise additional capital to protect their balance sheets against further stress from COVID-19-related challenges once the moratorium period is over. Beat by AU, Federal, RBL, and SBI, while HDFC, ICICI, and Axis were in-line, Kotak was a marginal miss. Bandhan and IndusInd missed expectations. Insurance companies' results were above expectations although the ULIP segment was weak, while the Individual Protection segment showed strong traction.
- **NBFCs:** Despite only a few NBFCs having reported results thus far, earnings have been above expectations, with PBT/PAT down 16.1%/5.1% YoY v/s the expectation of 25.4%/14.5% YoY decline. HDFC Ltd. reported healthy operating performance as core operating profits grew 5% YoY (beat of 5%). Conversely, NIM declined by 20bp due to the impact of INR1.8b negative carry on excess liquidity of INR308b. During the quarter, HDFC consciously focused on lending to select AAA corporates. Bajaj Finance (-19.5% YoY) beat expectations, led by cost rationalization and a lower moratorium book. Similarly, higher retail volumes resulted in the Equity Brokerage business for ICICI Securities (70% YoY growth in PAT) beating expectations. L&T Finance Holdings and M&M Financial missed estimates.
- **Technology:** IT, as usual, is in-line, with 2.7% PBT growth and 1.2% PAT growth. TCS reported a marginal miss on PAT, which brought the aggregate numbers in-line; else, numbers across the board were a beat. 10 of the 13 companies

reported a beat on a PAT basis, while 11 of the 13 saw upward earnings revision for FY21 and FY22. Commentary remains stable, while deal wins and the deal pipeline are encouraging for most IT companies. Most companies were also able to control costs to deliver higher margins. The companies expect demand improvement from Sep'20 and are confident of defending their margins. The Energy, Manufacturing, Aerospace, and Automotive verticals should take somewhat longer to recover, while BFSI, Telecom, and CPG are expected to stabilize earlier. Cyient, HCL Tech, Hexaware, Infosys, L&T Infotech, Mindtree, Persistent, Tech Mahindra, Wipro, and Zensar all reported a beat on PAT.

- **Healthcare:** For the Pharma sector companies that have declared their results, performance has been above expectations. Dr Reddy's, Sun Pharma, Torrent Pharma, Ajanta Pharma, Alembic Pharma, Granules, and Laurus have reported results above expectations, while Biocon and GSK have reported a miss. A common thread across most Pharma companies has been the reduction in opex, and consequently higher operating leverage, which helped deliver higher profitability. Various company-specific factors have supported healthy results: (a) a favorable demand-supply scenario in the Pharmaceutical Services and Active Ingredients (PSAI) segment for Dr Reddy's, (b) new launches in Formulations (FD) and better market penetration of intermediates (PFIs) for Granules, and (c) Torrent Pharma's strong presence in the Chronic segment.
- **Consumer:** PBT was down 24% (exp. of 28% decline), and PAT was down 16.2% (exp. of 22.5% decline). Demand remains weak, but is off the lows. Good monsoons and rural buoyancy have aided the margin. Britannia, Marico, HUL, and Asian Paints beat expectations, driven by their focus on cost rationalization by reducing ad spends and benign input costs. The in-home food consumption companies drove volumes. Britannia reported 21% volume growth. ITC results were a miss on lower Cigarette volumes. PAT for Nestle, Colgate, and Dabur was in-line. United Spirits reported EBITDA loss.
- **Automobiles:** The sector's performance has been influenced by lockdown and FX (positive for BJAUT) and cost management strategies employed by companies. Tractor continues to be a positive story for auto companies as the demand outlook remains strong. While five of the seven companies that reported their earnings posted loss, results were better than expected. Only Bajaj Auto and Escorts have reported profits thus far. EBITDA margins for the companies were reportedly better at 0.6% v/s estimates of -10.2%.

Operating performance beats expectations; Healthcare, Cement, Consumer surprise

- **Aggregate performance of MOFSL Universe:** Sales/EBITDA/PBT/PAT decline of 27.5%/6.1%/27.2%/24.5% YoY (v/s est. decline of 27.1%/12%/35.5%/31.6% YoY)
- **Top companies that beat estimates:** Asian Paints, UltraTech Cement, SBI, HDFC Life Insurance, Tech Mahindra, and IOC
- **Top companies that missed estimates**: Larsen & Toubro, IndusInd, Reliance, and TCS
- **Top FY21E upgrades:** Asian Paints (41%), IOC (32.4%), UltraTech Cement (21.5%), and Tech Mahindra (17.3%)
- **Top FY21E downgrades:** Kotak Bank (-9.7%), Reliance Industries (-8.2%), UPL (-8.1%), and ICICI Bank (-7.4%)

Strategy: Markets – Nifty continues strong momentum in Jul'20; IT leads benchmark

- **Markets up 7.5% in Jul'20:** The Nifty ended 7.5% MoM higher at 11,073 in Jul'20. The index has maintained its upward momentum and closed higher for the second consecutive month. Corporate commentaries on gradual demand recovery coupled with benign global backdrop aided the Nifty's north-bound journey. However, the Nifty is still down 9% in YTD'CY20. After the sharp up-move during Apr-Jul'20, the Nifty (excl. BFSI, which is still down 28%) has moved past its pre-COVID levels. Jul'20 saw DII outflows of USD1.3b - the highest in the last 16 months. FII inflows remained healthy at USD1.2b.The Nifty Mid-Cap100 P/E now trades on par with the Nifty at 20.8x (v/s 11.5x in Mar'20).
- **1QFY21 earnings - beats muted expectations so far; driven by cost-cuts:** So far, 1QFY21 earnings have been ahead of expectations, led by sharp cost cuts across sectors. For the 33 Nifty companies that declared results, sales/EBITDA/PBT/PAT declined 27.7%/1.1%/22.2%/18% (v/s est. decline of 27.3%/5.9%/31.0%/26.1% YoY). On the PAT front, of the 33 Nifty companies, 17 have surpassed, 8 have missed and 8 have met our expectations. For the MOFSL Universe, sales/EBITDA/PBT/PAT declined 27.5%/6.1%/27.2%/24.5% YoY (v/s est. decline of 27.1%/12%/35.5%/31.6% YoY). The earnings upgrade/downgrade ratio for FY21 so far is skewed in favor of upgrades. 46 MOFSL Universe companies have seen upgrades > 3% (of this, 36 companies have seen upgrades >10%), while 22 have seen downgrades >3%.
- **Global markets close higher in Jul'20:** Barring the UK (-4%) and Japan (-3%), Jul'20 saw all key global markets like China (+11%), Taiwan (+9%), MSCI EM (+8%), Brazil (+8%), India (+7%), Korea (+7%), the US (+6%), Indonesia (+5%) and Russia (+3%) close higher in local currency. Over the last 12 months, MSCI India and MSCI EM are up 4%. Notably, over the last 10 years, MSCI India has outperformed MSCI EM by 72%. P/E of MSCI India is at an 82% premium to that of MSCI EM, above its historical average premium of 53%. India's share in the world market cap is at 2.3% - below its historical average of 2.5%, given the muted performance of the last 5 years.
- **Breadth positive in Jul'20:** In Jul'20, Technology (+23%), Healthcare (+12%), Metals (+9%), Autos (+8%) and Cement (+6%) were the top performers. Utilities (-2%), Private Banks (-1%) and Capital Goods (-1%) were the key laggards. Infosys (+31%), Wipro (+28%), HCL Tech (+27%), Tech Mahindra (+25%) and Reliance Inds (+21%) were the top performers MoM. Zee Ent (-19%), Bharti Infratel (-13%), NTPC (-9%) and Shree Cement (-6%) were the key laggards. In this edition, we take a deep-dive into the valuation metrics of the Technology sector.
- **Risk-reward relatively less attractive; raised weights in Defensives:** Although 1QFY21 earnings are better than expectations, it should be viewed in the context of the extremely muted outlook. While commentaries suggest gradual demand recovery, the frequent localized lockdowns and rising COVID cases can dent the revival. Meanwhile, markets have rallied sharply in line with global trends. The Nifty (excl. BFSI) is above its pre-COVID levels. IT and Healthcare are the best performing indices YTD CY20 with relative earnings resilience and healthy earnings upgrades. After the rally from Mar'20 lows, the Nifty at 21x P/E is now trading at a premium to its long-period average; however, it is not looking as attractive as it did in Mar'20. Polarization remains the persistent theme - the top-15 stocks within the Nifty-50 are reflecting Nifty levels of ~15k while the next-35 stocks are languishing near the 8,400 levels. In an era where growth is scary, we believe such polarization and divergence may persist till earnings see broad-based recovery. Thus, we continue to believe that any further upside from here would now rest on the inter-play of the Health crisis and speed of demand recovery. In line with our cautious view, we have recently raised the weight of Defensives (IT, Consumer and Telecom) in our latest Model portfolio revisions.
- **Top Ideas: Large-caps:** HUL, Infosys, Bharti Airtel, ICICI Bank, Titan, M&M, Wipro, Dabur.
  Mid-caps: AU Finance, TCPL, Alkem, LT Infotech, Gujarat Gas, Teamlease, Motherson Sumi, ICICI Securities.

HDFC Bank

BSE SENSEX	S&P CNX
37,688	11,095

Bloomberg	HDFCB IN
Equity Shares (m)	5,490
M.Cap.(INRb)/(USDb)	5726.9 / 73.3
52-Week Range (INR)	1304 / 739
1, 6, 12 Rel. Per (%)	-8/-8/-8
12M Avg Val (INR M)	13571
Free float (%)	78.8

Financials & Valuation (INR b)

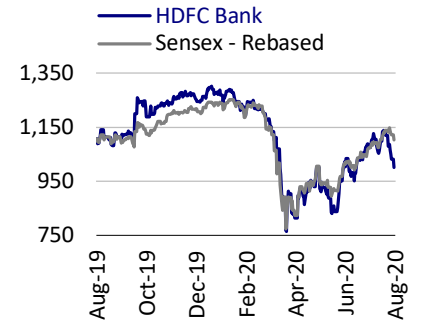
Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	646.2	733.9
OP	487.5	563.3	656.8
NP	262.6	301.5	357.3
NIM (%)	4.2	4.1	4.1
EPS (INR)	48.0	55.0	65.2
EPS Gr. (%)	21.2	14.4	18.5
BV/Sh. (INR)	311.8	357.2	412.1
ABV/Sh. (INR)	300.3	341.9	396.6
Ratios			
RoE (%)	16.4	16.4	16.9
RoA (%)	1.9	1.8	1.9
Payout (%)	24.8	17.5	15.7
Valuations			
P/E(X)	21.6	18.9	16.0
P/BV (X)	3.3	2.9	2.5
P/ABV (X)	3.5	3.0	2.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	21.2	21.2	21.3
DII	18.0	17.9	13.9
FII	48.8	48.6	50.2
Others	12.0	12.4	14.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,041 TP: INR1,280 (+23%) Buy

RBI approves appointment of new MD & CEO

Addresses key overhang; investors to re-focus on business performance

- **The RBI has approved the appointment of Mr Sashidhar Jagdishan as MD & CEO of the bank for a period of three years, effective from 27th Oct'20, after Mr Puri's term ends on 26th Oct'20.**
- **HDFC Bank (HDFCB)'s stock price has been under pressure due to concerns around the succession and the recent attrition in the top management. The RBI's approval thus addresses a major overhang on the stock's performance as Mr Jagdishan has been with the bank for the past 24 years.**
- **He has held various positions in the bank in key functions such as Finance, HR, Legal, and Administration; thus, succession by an internal candidate augurs well to boost investor confidence and continue the impeccable performance the bank has witnessed under the leadership of Mr Puri.**
- **Although some concerns remain around top-level attrition, we believe this appointment addresses a key overhang. With the system challenged by the impact of the COVID-19 outbreak, we believe large banks are relatively better placed to tide over this crisis. Thus, we remain positive on HDFCB, and maintain Buy, with TP of INR1,280 (3.0x FY22E ABV).**

RBI approval addresses key overhang

The RBI has approved the appointment of Mr Sashidhar Jagdishan as MD & CEO of the bank for a period of three years, effective from 27th Oct'20, after Mr Puri's term ends on 26th Oct'20. This addresses a key overhang on the stock's performance. Mr Jagdishan has been associated with the bank since 1996 and has played a critical role in supporting the bank's growth trajectory. He was appointed as Business Head – Finance in 1999 and later as Chief Financial Officer in 2008. He has diversified experience across various functions and is currently the Group Head of Finance, Human Resources, Legal & Secretarial, Administration, Infrastructure, Corporate Communications, Corporate Social Responsibility & the Strategic Change Agent of the Bank. Sashi has overall experience of 30 years. Prior to joining the bank, he was a Senior Officer in the Country Financial Control Division of Deutsche Bank, AG, Mumbai.

Stellar business performance under Mr Aditya Puri's leadership

Over the past 26 years, under the leadership of Mr Aditya Puri, HDFCB has grown to become the largest private bank in India, with systemic market share of ~9.8% in advances and 8.3% in deposits, and market capitalization at INR5.7t. The bank has achieved this through a robust 29% earnings CAGR over the past two decades, placing it among the best in the industry. Among segments, HDFCB has also emerged as the market leader in Credit Cards Outstanding (25% as of FY20), Vehicle Loans (~21%), and so forth. Furthermore, it has garnered major market share across multiple digital channels, with 17% market share in POS terminals, ~8%/~29% share in debit/credit card spends, etc.

RBI's approval of bank's first choice assuages concerns of potential deterioration in asset quality

HDFCB has maintained a stable asset quality track record over the past two decades through rigorous risk management practices and following high-quality governance standards. The average 10 years GNPA stood at ~1.1%, while NNPA was at 0.3%. Furthermore, the bank continues to prudently build contingent provisions to further strengthen the balance sheet. In the COVID-19 crisis, despite having higher Unsecured and Vehicle portfolios, the moratorium book stands at 9% of total loans (one of the lowest among peers). Despite having a high mix of Unsecured business (16.6%), strong growth in Wholesale (38%) and lending toward SME/Business Banking, the RBI approving the bank's first choice (internal candidate) reduces concerns of potential deterioration in asset quality.

High attrition in top management; continuity remains critical

HDFCB has witnessed several top-level exits over the past few years. We note that among the top paid employees, ~10% exited the organization in FY20, following an average of ~14 years of service with the bank. Among 19 such employees, three held positions of Group/Business Head. Although the appointment of a new MD & CEO removes a key overhang, continuity in the top management team remains critical for sustained business performance.

Valuation and view

HDFCB's stock price has been under pressure owing to concerns around the succession and the recent attrition in the top management. Thus, the RBI approving the appointment of Mr Sashidhar Jagdishan as new MD & CEO addresses a key overhang. Moreover, succession by an internal candidate augurs well to boost investor confidence and continue the immaculate performance experienced by the bank under the leadership of Mr Puri. We expect HDFCB's strong liability franchise and the fixed-rate nature of the book to support margins even as the bank maintains higher liquidity to navigate through the crisis. On the asset quality front, slippages are likely to pick up in 2HFY21 due to the COVID-19-led disruption, which could keep credit costs elevated. However, higher provisioning buffers should limit the overall impact on earnings. We estimate RoA/RoE of 1.9%/16.9% in FY22, and maintain **Buy**, with TP of INR1,280 (3.0x FY22E ABV).

Mr Sashidhar Jagdishan joined the bank in 1996 as Manager in the Finance function. He was appointed as Business Head – Finance in 1999 and later as Chief Financial Officer in 2008. Sashi has played a critical role in supporting the bank's growth trajectory. He has led the Finance function and played a pivotal role in aligning the organization to achieve its strategic objectives over the years. He currently serves as Group Head of Finance, Human Resources, Legal & Secretarial, Administration, Infrastructure, Corporate Communications, Corporate Social Responsibility & the Strategic Change Agent of the Bank. Sashi has overall experience of 30 years. Prior to joining the bank, he held the position of Senior Officer in the Country Financial Control Division of Deutsche Bank, AG, Mumbai. He has completed his graduation in Science, with a specialization in Physics, and is also a Chartered Accountant. He holds a Master's degree in Economics of Money, Banking & Finance from the University of Sheffield, UK.

NMDC

BSE SENSEX	S&P CNX
31,643	9,252

एन एम डी सी
NMDC

Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	3,062
M.Cap.(INRb)/(USDb)	260 / 3.4
52-Week Range (INR)	140 / 62
1, 6, 12 Rel. Per (%)	-2/-14/-21
12M Avg Val (INR M)	744
Free float (%)	30.4

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Sales	117.0	93.8	100.5
EBITDA	62.2	44.2	49.4
Adj. PAT	46.9	33.4	37.2
Adj. EPS (INR)	15.3	10.9	12.2
EPS Gr(%)	-1.9	-28.8	11.6
BV/Sh. (INR)	89.9	95.3	102.0
RoE (%)	17.5	11.8	12.3
RoCE (%)	15.5	11.3	11.9
Payout (%)	54.1	50.4	45.2
Valuations			
P/E (x)	5.5	7.8	6.9
P/BV	0.9	0.9	0.8
EV/EBITDA (x)	3.9	5.3	4.7
Div. Yield (%)	6.3	6.5	6.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	69.7	69.7	72.3
DII	20.4	20.1	18.1
FII	5.4	6.0	4.8
Others	4.6	4.3	4.8

FII Includes depository receipts

CMP: INR85 TP: INR120(+41%) Buy

Recovery in volumes and price a positive

Maintain Buy on attractive valuation

NMDC has cumulatively raised iron ore prices by INR400/t over Jul–Aug on improving volumes (up 7% YoY in Jul'20), ahead of our expectations. Rising capacity utilization by steel players and higher steel prices bode well for NMDC and should support higher volumes and prices; we raise our EPS estimate by 12%/5% for FY21/FY22. We also find the valuation attractive as CMP of INR85/sh implies nil value for the 3mtpa Nagarnar steel plant (INR55/sh book value) and a 6.5% dividend yield. Reiterate Buy.

Improving iron ore demand leads to consecutive price hikes: In Jul'20, NMDC's volumes increased 7% YoY to 2.57mt on improving demand from steel plants as domestic demand improves. This, coupled with higher international iron ore prices, has enabled NMDC to raise prices this month by INR200/t (~9%) to INR2,360/2,650 per ton for fines/lumps. This price increase follows NMDC's price hike of INR200/t in Jul'20.

Expect prices to sustain in 2HFY21: We believe NMDC's iron ore prices should sustain in 2HFY21 due to rising steel prices (up ~INR2,000/t MoM), higher pellet prices (up 20% MoM to INR7,200/t), and reduced iron ore supply from Odisha mines. Therefore, we have raised our expectation of prices by 2% each in FY21 and FY22. We further note that our FY22 domestic price assumption is still 11% lower than FY20 average prices.

FY21 volumes to decline 5% YoY to 30mt: Volume growth of 7% YoY reported by NMDC (to 2.57mt) in July'20 has surprised and is three months ahead of our expectation of positive volume print in 2HFY21. While iron ore production from several auctioned mines in Odisha has commenced in the current quarter, we believe production from these mines would be lower by >30% YoY in FY21, supporting NMDC's volumes in the near term. Thus, we have raised our FY21 volume estimate by 5.0% to 30mt (Chhattisgarh – 23.7mt, down ~3% YoY; Karnataka – 6.3mt, down ~11% YoY). Our FY21 volume expectation of 30mt (-5% YoY) implies 3% YoY growth for the rest of FY21, against 19% YoY decline (to 9.0mt) over Apr–Jul'20. We expect volumes to rise 5% YoY to 31.5mt in FY22E.

Valuation and view: We expect NMDC's EBITDA to decline at a 13% CAGR to INR47.2b over FY20–22E, weighed by likely flat volumes and 14% lower blended iron ore realization during this period. The company, however, has a few optionalities that are not being priced-in currently: (1) any favorable decision on the Donimalai mine in Karnataka would increase volumes by ~20% and (2) the planned divestment of the 3mtpa Nagarnar steel plant would unlock value (~INR55/sh book value). Also, the stock provides dividend yield of ~6.5% at current prices. We value the stock at INR120/share on an SOTP basis – 5x FY22E EV/EBITDA for its core iron ore mining business and 50% of the book value for the Nagarnar plant. **Reiterate Buy.**

Godrej Consumer

Estimate changes	↑
TP change	↑
Rating change	↔

Bloomberg	GCPL IN
Equity Shares (m)	1,022
M.Cap.(INRb)/(USDb)	707.8 / 9.5
52-Week Range (INR)	772 / 425
1, 6, 12 Rel. Per (%)	-8/13/12
12M Avg Val (INR M)	969

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	99.1	104.4	114.0
Sales Gr. (%)	-3.9	5.3	9.2
EBITDA	21.4	23.0	25.1
EBITDA mrg. (%)	21.6	22.0	22.0
Adj. PAT	14.5	15.6	17.2
Adj. EPS (INR)	14.2	15.3	16.9
EPS Gr. (%)	-2.8	7.9	10.3
BV/Sh.(INR)	77.3	73.0	71.6
Ratios			
RoE (%)	19.1	20.4	23.3
RoCE (%)	16.0	17.1	19.0
Payout (%)	70.6	87.2	89.9
Valuations			
P/E (x)	48.2	44.7	40.5
P/BV (x)	8.8	9.4	9.5
EV/EBITDA (x)	33.5	31.2	28.7
Div. Yield (%)	1.5	2.0	2.2

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	63.2	63.2	63.3
DII	3.2	3.1	2.2
FII	26.8	26.3	28.0
Others	6.8	7.3	6.6

FII Includes depository receipts

CMP: INR684 TP: INR665(-3%) Neutral

In-line results; Earnings recovery trajectory remains unclear

- Godrej Consumer's (GCPL) 1QFY21 earnings were in line. Household Insecticides (HI) sales were better than expectations. However, Soaps disappointed with 2% YoY sales decline, despite a favorable environment. Gross margins were below expectations due to an adverse mix. A sharp 46% YoY cut in ad-spends meant that EBITDA was slightly ahead of expectations.
- We do not see any visibility for the single-digit EPS trajectory of the past 5 years to change materially any time soon. RoCE at less than 20% is also much lower than peers and is unlikely to improve materially over the next few years. Thus, valuation of 40.5x FY22E seems fair. Maintain **Neutral**.

Sales and PAT in line; India business volumes grow 3%

- **Consolidated net sales declined 0.9% YoY to INR23.3b** (v/s est. INR23.3b). EBITDA grew 3% YoY to INR4.7b (v/s est. INR4.5b), PBT grew 5.9% to INR4b (v/s est. INR3.8b), while Adj. PAT grew 3.3% YoY to INR3b (v/s est. INR3b). Gross margin contracted 290bp YoY to 54.3%. EBITDA margin expanded 80bp YoY to 20.3% (v/s est. 19.5%).
- **India branded business volumes grew 3% YoY.** All the key categories in domestic business have been very erratic in performance since last seven quarters. HI sales were up 27% YoY while sale of Soaps and Hair color were down 2%/18% YoY.
- **International business –** Indonesia CC sales were up 5% YoY. Africa, the USA and the Middle East (GAUM) together were down 23% YoY while others (LATAM and SAARC) were up 23% YoY.

Highlights from management commentary

- Primary/secondary sales for 1QFY21 were roughly the same. Inventory at distributor level (end-Jun'20) was at a lower level than the past 18-24 months' average.
- There has been an impact on illegal incense sticks (HI) because of supply chain issues. Import duty on bamboo sticks from China and Vietnam has increased from 10% to 25%, which has also affected the illegal trade.
- Hair color is the highest gross margin category for GCPL. Sharp decline in Hair color sales coupled with higher input costs for Soaps has led to lower-than-expected overall gross margin.

Valuation and view

- The structural top line growth outlook appears hazy for both the domestic and international businesses. Hence, there is no indication of any material improvement in the pace of earnings growth at 9.1% CAGR over FY20-22E (similar to the single-digit EPS growth for the preceding 5 years).
- For the first half of the decade, the company reported 21.7% EPS CAGR, which halved over the last 5 years ending-FY20 – GCPL delivered meager 9.8% earnings CAGR on an even more modest 3.7% sales CAGR. Neither the results nor management commentary indicates sharp revival in structural earnings momentum. In addition to the sustained weak earnings growth, GCPL's RoCE of less than 20% is also far lower than peers.
- Consequently, we maintain our **Neutral rating** with **TP of INR665** (38x Jun'22E EPS).

Quarterly Performance (Consolidated) **(INR Million)**

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales (including OOI)	**23,488**	**26,302**	**27,781**	**21,538**	**23,273**	**27,223**	**28,669**	**25,229**	**99,108**	**1,04,395**	**23,253**	0.1%
YoY change (%)	-5.2	-1.1	2.0	-12.2	-0.9	3.5	3.2	17.1	-3.9	5.3	-1.0	
Gross Profit	**13,417**	**14,884**	**15,757**	**12,433**	**12,629**	**15,241**	**16,348**	**14,641**	**56,491**	**58,859**	**13,353**	
Margin (%)	57.1	56.6	56.7	57.7	54.3	56.0	57.0	58.0	57.0	56.4	57.4	
EBITDA	**4,589**	**5,765**	**6,313**	**4,765**	**4,727**	**5,967**	**6,544**	**5,714**	**21,430**	**22,952**	**4,543**	4.0%
Margins (%)	19.5	21.9	22.7	22.1	20.3	21.9	22.8	22.6	21.6	22.0	19.5	
YoY growth (%)	2.2	7.1	2.4	-17.8	3.0	3.5	3.7	19.9	-1.2	7.1	-1.0	
Depreciation	473	477	490	532	493	483	495	525	1,973	1,997	483	
Interest	551	531	477	615	483	531	501	500	2,174	2,016	523	
Other Income	214	266	235	492	218	297	306	328	1,123	1,149	299	
PBT	**3,746**	**4,976**	**5,574**	**4,110**	**3,968**	**5,250**	**5,853**	**5,016**	**18,406**	**20,087**	**3,837**	3.4%
Tax	843	805	1,084	1,258	963	1,139	1,270	1,087	3,932	4,459	848	
Rate (%)	22.5	16.2	19.5	30.6	24.3	21.7	21.7	21.7	21.4	22.2	22.1	
Adj PAT	**2,904**	**4,174**	**4,496**	**2,850**	**3,001**	**4,111**	**4,583**	**3,933**	**14,482**	**15,628**	**2,989**	0.4%
YoY change (%)	-8.6	16.2	7.7	-28.0	3.3	-1.5	1.9	38.0	-2.8	7.9	0.9	

E: MOFSL Estimate

Key Performance Indicators

Y/E March	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
2Y average growth %								
Sales	4.3	2.5	2.8	-7.6	-3.0	1.2	2.6	2.5
EBITDA	15.3	3.1	2.7	-11.0	2.6	5.3	3.1	1.1
PAT	14.0	7.1	2.1	-17.3	-2.6	7.3	4.8	5.0
% sales								
COGS	42.9	43.4	43.3	42.3	45.7	44.0	43.0	42.0
Other expenditure	37.6	34.7	34.0	35.6	34.0	34.1	34.2	35.4
Depreciation	2.0	1.8	1.8	2.5	2.1	1.8	1.7	2.1
YoY change %								
COGS	-8.0	-5.2	1.0	-10.1	5.7	4.9	2.5	16.3
Other expenditure	-5.4	-0.7	3.0	-10.8	-10.5	1.7	3.8	16.4
Other income	-30.9	1.0	3.7	68.7	1.8	12.0	30.0	-33.4
EBIT	1.1	6.7	1.5	-21.2	2.9	3.7	3.9	22.6

E: MOFSL Estimate

Tata Consumer Products

BSE SENSEX	S&P CNX
37,688	11,095

Conference Call Details

Date: 5th Aug 2020
Time: 2:00 pm IST
Dial-in details:
022 6280 1141

CMP: INR450 — Buy

Strong show across businesses; Performance above estimates

TCP Consolidated

- Tata Consumer Products' (TCP) 1QFY21 revenue increased 13% YoY to INR27.1b (v/s est. INR25.3b). Note that base quarter performance includes Tata Chemicals' consumer business numbers. EBITDA margin expanded 310bp YoY to 17.8% (v/s est. 14.9%) on the back of 180bp YoY gross margin expansion and operating leverage. EBITDA grew 38% YoY to INR4.8b (v/s est. INR3.8b).
- India branded beverages/foods' revenue grew 11%/19% YoY to INR10b/INR5.9b with segment EBIT increasing 56%/54% YoY to INR2.2b/INR1.1b. International branded beverages witnessed revenue growth of 15% to INR8.7b with EBIT growth of 58% YoY to INR1.3b.
- Adj. PAT was up 45% YoY to INR2.6b (v/s est. INR1.4b) due to lower tax rate of 22.1% (v/s 34.1% last year) and higher profit from associates (up 5.9x YoY to INR435m).

TCP Standalone

- Standalone revenue grew 10% YoY to INR16.1b. EBITDA was up 40% YoY to INR3.3b.
- Adj. PAT was up 56% YoY to INR2.5b. The higher growth in Adj. PAT was due to the lower tax rate.

TCP overseas Tea business

- Revenue/EBITDA grew 13%/19% YoY to INR5.2b/INR464m.

Tata Coffee Consol.

- Revenue grew 26% YoY to INR5.9b with EBITDA growth of 40% YoY to INR1.1b.

Consolidated - Quarterly Earning Model (INR M)

Y/E March	FY20				FY21				FY20	FY21	FY21	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	**23,924**	**18,341**	**24,930**	**24,050**	**27,139**	**25,249**	**28,004**	**27,296**	**96,374**	**1,07,687**	**25,279**	**7**
YoY Change (%)	32.7	4.2	30.3	35.5	13.4	37.7	12.3	13.5	32.9	11.7	33.2	
Total Expenditure	20,415	15,994	21,748	20,967	22,313	21,707	24,140	23,337	83,453	91,497	21,512	
EBITDA	**3,509**	**2,347**	**3,181**	**3,084**	**4,827**	**3,542**	**3,863**	**3,958**	**12,922**	**16,190**	**3,767**	**28**
Margins (%)	14.7	12.8	12.8	12.8	17.8	14.0	13.8	14.5	13.4	15.0	14.9	
Depreciation	576	468	614	640	619	660	670	675	2,417	2,624	650	
Interest	186	201	201	187	173	195	200	190	779	758	190	
Other Income	331	253	285	219	327	250	285	220	1,116	1,082	300	
PBT before EO expense	**3,078**	**1,931**	**2,651**	**2,476**	**4,362**	**2,937**	**3,278**	**3,313**	**10,842**	**13,890**	**3,227**	
Extra-Ord expense	-81	-15	-8	-2,644	633	0	0	0	-2,748	633	0	
PBT	**2,997**	**1,916**	**2,643**	**-168**	**4,995**	**2,937**	**3,278**	**3,313**	**8,094**	**14,523**	**3,227**	
Tax	1,022	483	750	334	1,104	822	918	928	2,742	3,772	904	
Rate (%)	34.1	25.2	28.4	-198.2	22.1	28.0	28.0	28.0	33.9	26.0	28.0	
Minority Interest	164	147	153	-460	180	164	168	-420	4	91	181.5	
Profit/Loss of Asso. Cos.	-74	92	-46	-723	-435	-500	-200	-450	-751	-1,585	-750	
Reported PAT	**1,737**	**1,377**	**1,694**	**-765**	**3,276**	**1,451**	**1,993**	**2,356**	**4,598**	**9,075**	**1,392**	
Adj PAT	**1,818**	**1,392**	**1,702**	**1,879**	**2,643**	**1,451**	**1,993**	**2,356**	**7,346**	**8,442**	**1,392**	**90**
YoY Change (%)	35.2	-21.1	71.4	499.0	45.4	4.2	17.1	25.4	66.4	14.9	4.4	
Margins (%)	7.6	7.6	6.8	7.8	9.7	5.7	7.1	8.6	7.6	7.8	5.5	

FY20 numbers have been restated and thus, quarterly numbers won't add up to annual nos.

PI Industries

BSE SENSEX	S&P CNX
37,688	11,095

Conference Call Details

Date: 6th Aug 2020
Time: 12:00 pm IST
Dial-in details:
022 6280 1141

CMP: INR1,832 — Buy

Performance above estimates

- 1QFY21 reported revenue stood at INR10.6b (v/s est. INR9.2b), up 41% YoY.
- EBITDA stood at INR2.3b (v/s est. INR1.86b), up 50% YoY.
- EBITDA margins expanded 140bp YoY to 21.6% (v/s est. 20.2%). Gross margin were down 280bp YoY to 42%. Employee expense stood at 9.3% (-80bp) and other expenses at 11.1% (-330bp).
- Adj. PAT grew 43% YoY to INR1,455m (v/s est. INR1,133m). PAT growth was restricted on account of increase in depreciation (up 45% YoY to INR427m), increase in interest cost (up 4.2x YoY to INR96m) and lower other income (down 32% YoY to INR82m).

Quarterly Earning Model (INR M)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**7,541**	**9,074**	**8,498**	**8,552**	**10,601**	**11,981**	**11,150**	**11,543**	**33,665**	**45,275**	**9,228**	**15**
YoY Change (%)	24.5	25.5	20.1	6.3	40.6	32.0	31.2	35.0	18.5	34.5	22.4	
Total Expenditure	6,016	7,149	6,633	6,689	8,309	9,347	8,558	8,872	26,487	35,086	7,360	
EBITDA	**1,525**	**1,925**	**1,865**	**1,863**	**2,292**	**2,634**	**2,592**	**2,671**	**7,178**	**10,189**	**1,868**	**23**
Margins (%)	20.2	21.2	21.9	21.8	21.6	22.0	23.2	23.1	21.3	22.5	20.2	
Depreciation	295	317	319	436	427	445	450	460	1,367	1,782	440	
Interest	23	25	38	84	96	90	90	87	170	363	88	
Other Income	121	109	191	68	82	150	200	115	489	547	150	
PBT before EO expense	**1,328**	**1,692**	**1,699**	**1,411**	**1,851**	**2,249**	**2,252**	**2,239**	**6,130**	**8,591**	**1,490**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**1,328**	**1,692**	**1,699**	**1,411**	**1,851**	**2,249**	**2,252**	**2,239**	**6,130**	**8,591**	**1,490**	
Tax	312	461	487	312	444	540	541	537	1,572	2,062	358	
Rate (%)	23.5	27.2	28.7	22.1	24.0	24.0	24.0	24.0	25.6	24.0	24.0	
Minority Interest & Profit/Loss of Asso. Cos.	0	-1	1	-8	-48	0	0	0	-8	-48	0	
Reported PAT	**1,016**	**1,232**	**1,211**	**1,107**	**1,455**	**1,710**	**1,712**	**1,701**	**4,566**	**6,578**	**1,133**	
Adj PAT	**1,016**	**1,232**	**1,211**	**1,107**	**1,455**	**1,710**	**1,712**	**1,701**	**4,566**	**6,578**	**1,133**	**28**
YoY Change (%)	24.4	30.2	12.4	-11.9	43.2	38.8	41.4	53.7	11.3	44.1	12.4	
Margins (%)	13.5	13.6	14.3	12.9	13.7	14.3	15.4	14.7	13.6	14.5	12.3	

Gujarat Gas

Estimate changes	⇔
TP change	⇔
Rating change	⇔

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	213.2 / 2.8
52-Week Range (INR)	330 / 162
1, 6, 12 Rel. Per (%)	-8/14/74
12M Avg Val (INR M)	249

Financials & Valuations (INR b)

Y/E March	2020E	2021E	2022E
Sales	103.0	94.6	132.3
EBITDA	16.3	14.8	19.3
PAT	11.9	7.8	11.3
EPS (INR)	17.3	11.4	16.4
EPS Gr. (%)	177.8	-34.5	44.0
BV/Sh.(INR)	47.8	56.8	69.6
Ratios			
Net D:E	0.6	0.4	0.3
RoE (%)	43.6	21.7	25.9
RoCE (%)	29.8	23.3	29.4
Payout (%)	8.7	21.2	21.2
Valuations			
P/E (x)	17.7	27.0	18.8
P/BV (x)	6.4	5.4	4.4
EV/EBITDA (x)	13.6	14.8	10.8
Div. Yield (%)	0.4	0.7	0.9
FCF Yield (%)	6.1	3.1	6.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	60.9	60.9	60.9
DII	7.4	7.0	5.4
FII	9.2	9.8	11.9
Others	22.5	22.2	21.7

FII Includes depository receipts

CMP: INR310 TP: INR360 (+16%) Buy

Quarter led by better margin; Brisk recovery in volumes

- **GUJGA reported better-than-expected margin of INR4.9/scm (higher QoQ as well), while volumes were in line with est. (at 4.1mmscmd), leading to EBITDA of INR1.85b.**
- **The company mentioned that current sales volume stands at 9.5mmscmd (v/s 9.4mmscmd of average sales in FY20), aided by strong recovery post lockdown. As per our interaction with the company, Morbi volumes are back at ~5.5mmscmd (v/s exit rate of ~6.5–6.8mmscmd in FY20).**
- **Despite lockdown, GUJGA was able to add 13 new CNG stations during the quarter and plans to add ~60 new CNG stations this year (of the total 100 planned outlets – which should further grow the reach of CNG in Gujarat and encourage conversions).**
- **COVID-19-led lockdown has led to some delay in the implementation of various directives announced by the National Green Tribunal (NGT) last year. However, a bench of the NGT recently sought an Action Taken Report (ATR) within four months to ensure a ban on the usage of pet coke and furnace oil by all states and UTs. The date for a further hearing is set as 15th Jan'21** (article).
- **According to the NGT's list of critically/severely (air) polluted industrial clusters, Gujarat has five clusters wherein the volume boost (as for Morbi) could come up.**
- **Also, GUJGA expects non-Morbi industrial volumes to reach ~2.9mmscmd by the end of FY21 from ~2.5mmscmd in FY20. Tarapur is a large industrial cluster with huge potential for industrial volumes (along with Thane, expect ~0.5mmscmd).**
- **The newly awarded 16–17 cities could see volumes of 2.5–3mmscmd over the next four to five years. Thus, GUJGA could see a major boost in volumes at CAGR of ~10% over the medium term on the highest volume base among peers.**
- **We reiterate GUJGA as our top buy (at INR360, valuing it at 22x FY22E EPS), with the best RoE profile of 22–25% and expected FCF generation of ~INR20.4b over FY21-FY22.**

Better margins, in-line volumes

- EBITDA/scm was better than est. at INR4.9/scm (v/s est. INR4.1) and higher QoQ as well (INR4.7 in 4QFY20). Reported EBITDA was at INR1.85b (-60% YoY; -56% QoQ), with PBT at INR0.8b. PAT came in at INR0.6b (-75% YoY and QoQ).

Total volumes were in-line, est. at 4.1mmscmd (-55% YoY; -58% QoQ).

- CNG volumes stood at 0.7mmscmd (-54% YoY and QoQ).
- PNG I/C stood at 2.9mmscmd (-60% YoY; -63% QoQ).
- PNG Domestic was at 0.6mmscmd (+16% YoY; -13% QoQ).

Valuation and view

- PNGRB is expected to introduce competition in areas where marketing exclusivity has already expired. This would impact all CGDs. However, due to the increasing focus on industrial pollution, we expect it would be easier for GUJGA to coup up lost volumes (from the five clusters and newer GAs mentioned above).
- On a conservative basis, we assume total volumes of 8.4mmscmd for FY21 (against 9.4mmscmd in FY20) and 11.1mmscmd for FY22, with EBITDA/scm of INR4.8 for FY21/22E (unchanged). However, **continued outperformance in volumes and margins could lead to upward revision in estimates, along with the re-rating of the stock.**
- **GUJGA is trading at 18.8x FY22 EPS of INR16.4 and 10.8x FY21 EV/EBITDA. We value the company at 22x FY22E EPS to arrive at target price of INR360.**

Standalone – Quarterly Earnings Model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	Var (%)
Net Sales	**26,146**	**25,129**	**25,062**	**26,666**	**10,829**	**27,197**	**27,865**	**28,726**	**1,03,003**	**94,617**	**12,601**	**-14.1**
YoY Change (%)	48.1	27.9	18.4	39.8	-58.6	8.2	11.2	7.7	32.8	-8.1	-51.8	
EBITDA	**4,665**	**3,706**	**3,705**	**4,267**	**1,857**	**4,215**	**4,389**	**4,345**	**16,343**	**14,806**	**1,550**	**19.8**
Margins (%)	17.8	14.7	14.8	16.0	17.2	15.5	15.7	15.1	15.9	15.6	12.3	
Depreciation	779	802	795	805	823	845	845	845	3,180	3,357	839	-2.0
Interest	510	528	465	420	401	463	463	463	1,922	1,853	463	-13.4
Other Income	225	237	186	189	149	236	236	236	837	857	210	-29.2
PBT	**3,602**	**2,614**	**2,632**	**3,230**	**783**	**3,143**	**3,317**	**3,273**	**12,078**	**10,453**	**458**	**70.8**
Rate (%)	35.1	-97.9	25.3	23.9	25.1	25.2	25.2	24.7	1.2	25.2	25.2	
Reported PAT	**2,337**	**5,173**	**1,965**	**2,458**	**587**	**2,351**	**2,481**	**2,466**	**11,933**	**7,822**	**343**	**71.1**
Adj PAT	**2,337**	**5,173**	**1,965**	**2,458**	**587**	**2,351**	**2,481**	**2,466**	**11,933**	**7,822**	**343**	**71.1**
YoY Change (%)	92.5	1,159.4	30.6	111.0	-74.9	-54.5	26.2	0.3	177.8	-34.5	-85.3	
Total volume (mmscmd)	**9.2**	**9.3**	**9.3**	**9.9**	**4.1**	**9.6**	**9.9**	**10.1**	**9.4**	**8.4**	**4.2**	**-0.4**
CNG	1.5	1.5	1.5	1.5	0.7	1.2	1.4	1.5	1.5	1.2	0.3	NM
PNG - Industrials/commercial	7.2	7.3	7.2	7.8	2.9	7.8	7.9	8.0	7.4	6.7	3.2	-10.4
PNG - Households	0.5	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.7	-15.5
EBITDA (INR/scm)	**5.6**	**4.3**	**4.3**	**4.7**	**4.9**	**4.8**	**4.8**	**4.8**	**4.7**	**4.8**	**4.1**	**20.2**

E: MOFSL Estimates

Volume growth prospects (expect CAGR of 10–12% beyond FY22)

- **We believe industrial volumes (further supported by NGT reforms in India) would be the clear winner for long-term growth.** Rajkot, Ankleshwar, Batala, Bhavnagar, Tarapur, and Vapi have been categorized as critically/severely polluted areas. The replacement of dirty industrial fuel could support further volume growth for the company.
- **GUJGA is expected to establish ~100 CNG stations over the next two to three years. With a growing number of CNG stations and the focus on reducing vehicular pollution, penetration in the CNG segment is expected to increase.** Gujarat is home to ~78k buses, 90k taxis, and 850k autos (link). However, GUJGA sells only 1.5mmscmd of CNG v/s 4.9mmscmd by IGL. With an improving ecosystem, CNG holds a bright future for GUJGA.
- **The newly awarded 16–17 cities could see volumes of 2.5–3mmscmd in the next four to five years.** The list of newer (6) GAs won by GUJGA across India in the 10th round: (a) Sirsa, Fatehabad, and Mansa, (b) Ujjain, Dewas, and Indore, (c) Jhabua, Banswara, Ratlam, and Dungarpur, (d) Ferozepur, Faridkot, and Sri Muktsar Sahib, (e) Hoshiarpur and Gurdaspur, and (f) Jalore and Sirohi.
- **The company target's an EBITDA/scm margin of INR4.5–5/scm in a normalized scenario.** GUJGA has a total LT contract of ~3.2mmscmd, of which British Gas accounts for ~2.2mmscmd (the contract is set to expire in 2024). The company believes British Gas volumes could be reduced to ~2mmscmd, but not any lower. That said, the CGD business needs LT volumes in terms of operating stability. The company has the lowest margins among peers; thus, it is not lucrative for third-party competitors. GUJGA has been passing on the benefits in sourcing cost to its customers. The current discount at Morbi is INR3.8/scm, on selling price of ~INR30/scm for non-Morbi players.

MRPL

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	MRPL IN
Equity Shares (m)	1,753
M.Cap.(INRb)/(USDb)	64 / 0.8
52-Week Range (INR)	57 / 21
1, 6, 12 Rel. Per (%)	-5/-6/-36
12M Avg Val (INR M)	40

Financials & Valuations (INR b)

Y/E March	2020	2021E	2021E
Sales	510.0	326.9	481.7
EBITDA	(18.5)	15.3	37.5
Adj. PAT	(27.1)	0.4	14.5
Adj. EPS (INR)	(15.4)	0.3	8.3
EPS Gr. (%)	(895.4)	(101.7)	3,122.9
BV/Sh.(INR)	44.5	44.7	51.0
Ratios			
Net D:E	1.1	1.1	0.9
RoE (%)	(29.2)	0.6	17.3
RoCE (%)	(9.3)	3.9	10.7
Payout (%)	-	23.4	23.4
Valuation			
P/E (x)	(2.4)	145.3	4.5
P/BV (x)	0.8	0.8	0.7
EV/EBITDA (x)	(9.1)	11.0	4.2
Div. Yield (%)	-	0.1	4.4
FCF Yield (%)	(29.8)	(7.1)	21.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	88.6	88.6	88.6
DII	4.0	4.3	3.3
FII	0.6	0.7	1.6
Others	6.8	6.4	6.5

FII Includes depository receipts

CMP: INR37 TP: INR40 (+10%) Neutral

Refining performance continues to worsen

- Lower-than-expected core GRM and refining throughput, along with higher opex, led to a huge miss on EBITDA during the quarter.
- MRPL's GRMs are struggling from the last couple of quarters and have not been good on a sustainable basis, at times impacted by water woes and at times by technical issues.
- Various refineries saw a drop in utilization from July as demand for petroleum products fell on the back of extended/further imposition of lockdown. Factoring the same, along with a huge miss in 1QFY21, we build-in refinery throughput at 12.8mmt/16.0mmt (earlier 15.1mmt/16.5mmt) for FY21/FY22. Thus, our revised EPS stands at INR0.3/INR8.3 (from INR4.1/INR8 earlier) for FY21/FY22.
- Dependence on the Netravathi River until the desalination plant comes on stream in 2021 would also adversely impact performance; reiterate **Neutral**.

Lower throughput; higher opex

- MRPL reported EBITDA loss of INR4.8b in 1QFY21 (v/s est. gains of INR0.3b and loss of INR4.7b in 1QFY20), with higher opex (at USD7.9/bbl).
- Reported GRM stood at loss of USD1.49/bbl (v/s est. gains of USD3/bbl and loss of USD0.42/bbl in 1QFY20). Forex loss during the quarter was INR0.1b, resulting in PBT loss of INR8.0b. The company recognized deferred tax assets of INR2.7b for the quarter (v/s a total of INR12.5b in FY20).
- At the PAT level, the company reported loss of INR5.2b (v/s est. loss of INR2.4b and loss of INR5b in 1QFY20).

Throughput dips due to COVID-19-led lockdown

- **Crude throughput** was down 28% YoY / 52% QoQ to 1.85mmt (8% below est.), implying 49% utilization for the quarter.
- **Core GRM** stood at USD0.23/bbl for 1QFY21 (v/s est. gains of USD2/bbl and loss of USD0.1/bbl in 1QFY20). Inventory loss for the quarter was USD1.72/bbl (v/s est. gains of USD1/bbl and loss of USD0.3/bbl in 1QFY20).

Valuation and view

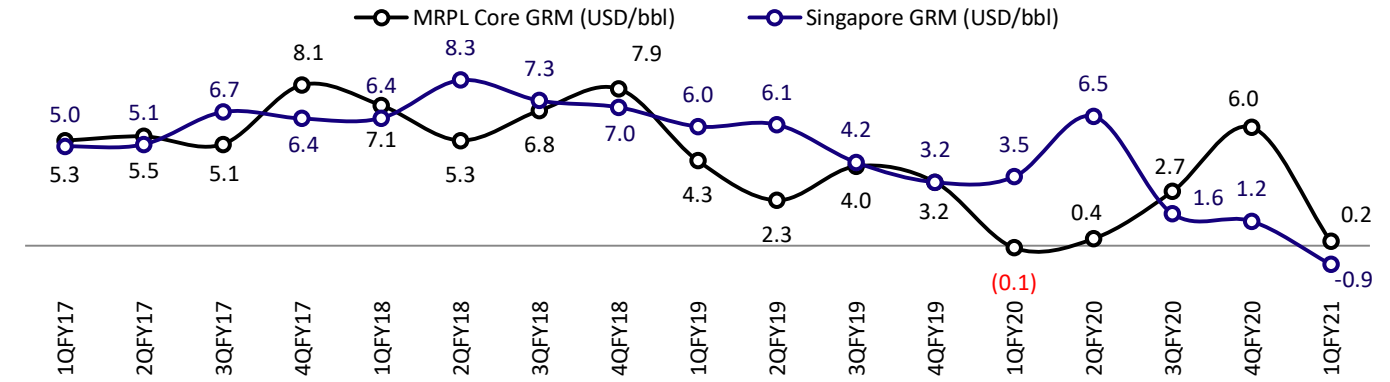
- In FY20, the company's refinery complex faced major challenges in terms of freshwater shortage from the Netravathi River in 1QFY20. As a result, MRPL was forced to close its refining units for ~75 days (similar issue faced in 2012 and 2016 as well). Although, the company is setting up a seawater desalination plant, likely to be completed by 3QFY21 (with capex of ~INR6b).
- Originally, the INR150b Phase-III expansion was expected to generate better GRMs. However, the current environment for GRMs remains highly tepid, weighed by global demand destruction.
- The stock trades at 4.5x FY22 EPS of INR8.3 and 4.2x FY22 EV/EBITDA.
- We value the stock at EV of 5x FY22E EBITDA to arrive at a fair value of INR48/share for the standalone refinery, and deduct INR8/share for OMPL. Our target price stands at INR40. Maintain Neutral.

Standalone – Quarterly Earnings Model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE
Net Sales	**92,805**	**1,32,027**	**1,43,864**	**1,41,323**	**44,726**	**70,619**	**1,05,072**	**1,06,497**	**5,10,019**	**3,26,914**	**37,871**
YoY Change (%)	-31.5	-2.6	-7.1	-20.9	-51.8	-46.5	-27.0	-24.6	-17.8	-35.9	-59.2
EBITDA	**-4,748**	**-2,395**	**2,801**	**-14,132**	**-4,777**	**5,503**	**7,295**	**7,287**	**-18,475**	**15,309**	**306**
Margins (%)	-5.1	-1.8	1.9	-10.0	-10.7	7.8	6.9	6.8	-3.6	4.7	0.8
Depreciation	1,906	2,009	1,958	1,960	2,001	2,035	2,035	2,035	7,832	8,107	2,035
Forex loss	-262	2,240	-196	5,089	100	0	0	0	6,872	100	37
Interest	1,441	2,287	1,835	1,864	1,345	2,078	2,078	2,078	7,426	7,578	2,078
Other Income	204	194	346	307	254	258	258	258	1,050	1,028	277
PBT before EO expense	**-7,630**	**-8,737**	**-450**	**-22,738**	**-7,969**	**1,648**	**3,440**	**3,432**	**-39,554**	**551**	**-3,567**
PBT	**-7,630**	**-8,737**	**-450**	**-22,738**	**-7,969**	**1,648**	**3,440**	**3,432**	**-39,554**	**551**	**-3,567**
Rate (%)	34.5	34.2	18.5	29.8	34.8	33.3	33.3	33.3	31.5	12.1	33.3
Reported PAT	**-5,001**	**-5,745**	**-366**	**-15,964**	**-5,199**	**1,099**	**2,295**	**2,289**	**-27,076**	**484**	**-2,379**
Adj PAT	**-5,001**	**-5,745**	**-366**	**-15,964**	**-5,199**	**1,099**	**2,295**	**2,289**	**-27,076**	**484**	**-2,379**
YoY Change (%)	-232.0	-251.6	-64.5	513.9	3.9	-119.1	-726.2	-114.3	-895.4	-101.8	-52.4
Margins (%)	-5.4	-4.4	-0.3	-11.3	-11.6	1.6	2.2	2.1	-5.3	0.1	-6.3
Key Assumptions											
Refining throughput (mmt)	2.56	3.68	4.10	3.83	1.85	2.94	4.00	4.00	14.17	12.79	2.00
Reported GRM (USD/bbl)	-0.42	0.68	3.19	-4.52	-1.49	5.00	5.00	5.00	-0.27	3.38	3.00

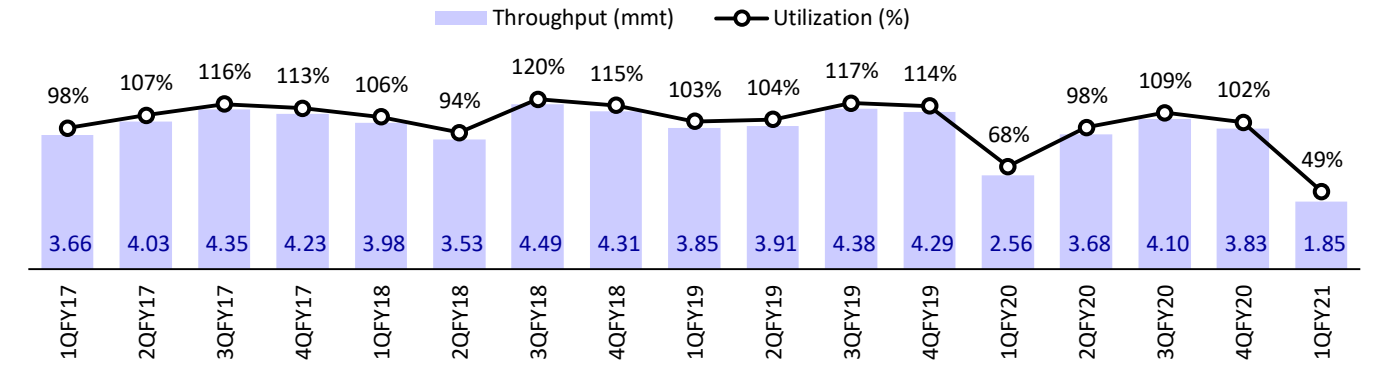
E: MOFSL Estimates

MRPL's core GRM stood at USD0.23/bbl



Source: Company, MOFSL

MRPL's throughput stood at 1.85mmt for 1QFY21, implying 49% capacity utilization



Source: Company, MOFSL

MARICO: PEOPLE WILL GO FOR TRUSTED BRANDS AND LOWER PRICED PACKS; Saugata Gupta, MD & CEO

- April was nearly a washout. In May and June we delivered 3% volume growth and in July, so far the trend shows that we are on a growth path. Having said that, this quarter, things are a little more trickier in terms of a lot of localised lockdown disruption in various parts of the country. If the situation does not deteriorate drastically, from now we will see a combination of two things. We have a lower base in Q2 and Q3 last year and in terms of agility and execution versus a lot of other smaller players, there is potential for getting market share. We should be able to deliver volume growth over the next two-three quarters.
- Saffola delivered double digit volume growth in Q3 last year. Even till March, it was delivering double digit volume growth may be the last 8% to 10% in the quarter four was pantry loading. As far as Saffola is concerned, even this quarter may be there were some pantry loading in the first 15 days of the quarter, I think people want trusted brands and there has been a significant increase in in-home cooking and in-home consumption is here to stay.
- Saffola would have delivered 20% plus this quarter. It has a high salience in modern trade and as you know, modern trade otherwise has seen a decline because of various reasons. Our overall CSD business was nearly 50% down this quarter.
- In 90% plus of our portfolio, we gained market share which we believe is because of the strength of direct distribution, especially in rural areas which are doing well. In the overall supply chain agility, we have a competitive advantage with respect to a lot of smaller players so even if the category growth is dampened, if we get our pricing.

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A DEVELOPMENT STORY WITH AN EPILOGUE YET TO BE WRITTEN

- The growing global anger against Chinese belligerence was overdue. Among other things, this anger also has implications for how India should compare its economic performance with its northern neighbour. That entails going back to some of the key insights of traditional development economics. The easiest way to compare the economic performance of two countries is to take a look at how average incomes are moving. Most economic comparisons of India and China have revolved around this simple measure. There is a good reason why average incomes matter so much. They give us a good idea of the standard of living that an average citizen can maintain. India had an average income of $2,100 in 2019. China was at a similar level in 2006, which means that India lags China by 13 years in terms of this very simple metric. Take a look at some other Asian countries. Indonesia had an average income of around $2,100 in 2007, Thailand in 2002, Malaysia in 1988, and South Korea in 1983. This provides an idea of the gap that India has to close in the years ahead. However, the great development economists of an earlier era said that the process of economic development is about the structural transformation of traditional economies. Countries develop as people move from low-productivity to high-productivity activities, from agriculture to industry, from villages to cities, from small scale to large scale production, from traditional to modern technology. This is broadly the route that many successful Asian countries, beginning with Japan, have take since the end of World War II.

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RBI SHOULD NOT DELAY EXPECTED RATE CUT TO OCTOBER

- The August monetary policy will be a close call, as far as policy rate cut is concerned. We think the Monetary Policy Committee (MPC) should deliver a 25 basis points (bps) repo and 35bps reverse repo rate cut. However, the uncertainty posed by the current higher-than-anticipated consumer price index (CPI) print may push the MPC to deliver a dovish pause, keeping hopes alive for an October rate cut. In our view, the Reserve Bank of India (RBI) should not delay the expected rate cut to October, for the following reasons. The current spike in CPI inflation, particularly core CPI, is due to statistical issues, as well as higher gold and local pump prices, without which, true core inflation is around 3.5% year-on-year. Meanwhile, risks to growth are rising by the day as covid-19 cases are surging in economically relevant states such as Maharashtra, Tamil Nadu, Gujarat and Karnataka (together contributing 40% to national gross domestic product). We expect real GDP to contract 6.2% y-o-y in FY21 under our baseline scenario, but if localized lockdowns are broad-based and extended, we see risks of growth declining by more than 8% y-o-y under our worse-case scenario. Given the expected growth-inflation trajectory, the absence of meaningful fiscal space to support growth and the lag with which monetary transmission works, it is not advisable to delay any rate cut to October, particularly as it will be very close to the US presidential election, which may coincide with greater financial market volatility.

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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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