ASIAMONEY Brokers Poll 2020 (India)

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	48,387	1.1	1.3
Nifty-50	14,485	1.0	3.6
Nifty-M 100	23,675	0.8	13.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,188	0.2	11.5
Nasdaq	14,139	0.9	9.7
FTSE 100	6,963	0.4	7.8
DAX	15,296	0.1	11.5
Hang Seng	10,981	-0.8	2.3
Nikkei 225	29,126	0.4	6.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	65	-0.4	27.3
Gold ($/OZ)	1,781	0.2	-6.2
Cu (US$/MT)	9,771	2.0	26.1
Almn (US$/MT)	2,398	1.6	21.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.7	-0.4	2.3
USD/EUR	1.2	-0.1	-1.1
USD/JPY	108.1	0.2	4.7
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.0	0.00	0.2
10 Yrs AAA Corp	6.7	-0.01	0.2
Flows (USD b)	**26-Apr**	**MTD**	**CY21**
FIIs	-0.15	-1.24	7.33
DIIs	0.14	1.30	-3.17
Volumes (INRb)	**26-Apr**	**MTD***	**YTD***
Cash	683	734	781
F&O	25,963	46,208	42,165

Note: *Average

Today's top research idea

SBI Cards and Payment Services: Business growth tepid; elevated provisioning dents earnings

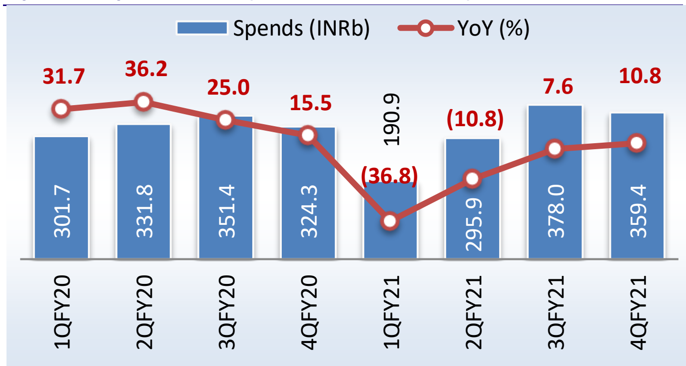
- SBICARD reported a weak quarter, with sequential decline in receivables/spending. On the other hand, margins declined ~130bp, affected by interest income. Fee income stood stable QoQ (+16% YoY) as spends declined 5% QoQ (+11% YoY). However, decline in opex led to stable PPoP. Retail spends remained higher v/s pre-COVID levels (~113%), while corporate spends reached pre-COVID levels.
- The GNPA ratio increased on higher NPAs from the RBI RE book, comprising ~50% of the total slippages. However, it has provided ~80% on the delinquent RBI RE book; this, along with a strong PCR of ~78% and additional management overlay provisions of INR2.97b, should keep credit costs in check.
- Gradual decline in the RBI RE book and an increase in the revolver mix, coupled with controlled funding cost, would support margins over the medium term. We estimate a loan book / earnings CAGR of 24%/60% over FY21–23E and RoA/RoE to improve to 6.8%/28% in FY23E. **Maintain Buy, with TP of INR1,200 (45x FY23E EPS).**

Research covered

Cos/Sector	Key Highlights
SBI Cards and Payment Services	Business growth tepid; elevated provisioning dents earnings
HDFC Life Insurance	APE growth strong; persistency trends improving
Tech Mahindra	Communications to remain a drag on FY22E performance
Financials	RBI limits tenure of MD & CEO / Whole-time Director
Mphasis	Blackstone's continuance removes a key growth risk
Castrol India	Beat across all fronts
Automobiles	PVs: Strong recovery in a difficult year led by UVs
Utilities	Demand remains firm
EcoScope	India's household savings increase in CY20…

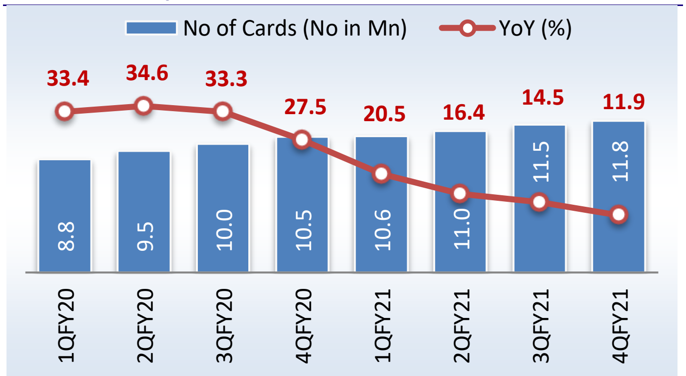
Chart of the Day: SBI Cards and Payment Services | Business growth tepid

Spends up 11% YoY (-6.5% YoY in FY21)



Source: MOFSL, Company

No of cards up 12% YoY to 11.8m



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Regulator caps terms for MDs, CEOs at private banks

The Reserve Bank of India (RBI) has capped the tenure of managing directors (MDs) and chief executive officers (CEOs) and whole-time directors (WTDs) of private banks at 15 years from the date of appointment. For CEOs who are part of the promoter group or large shareholder, the tenure is capped at 12 years. …

2

BS Yediyurappa announces 14-day lockdown in Karnataka from April 27 as Covid cases surge

Karnataka will go for a stringent lockdown for two weeks from Tuesday night in view of the unprecedented surge in Covid cases. Chief minister BS Yediyurappa announced new restrictions after the Cabinet meeting on Monday and said barring essential services, manufacturing and construction sector, everything will be shut till May 11.

3

US will share AstraZeneca vaccines with world

The U.S. will begin sharing its entire pipeline of vaccines from AstraZeneca once the vaccine clear federal safety reviews, the White House said, with as many as 60 million doses expected to be available for export in the coming months. The move greatly expands on the Biden administration's action last month to share about 4 million doses of the vaccine with Mexico and…

4

Govt asks Serum, Bharat Biotech to lower price of Covid vaccines: Report

The central government on Monday asked the Serum Institute and Bharat Biotech to lower price of their COVID-19 vaccines amid criticism from various states who accused the companies of profiteering during such a major crisis. The issue of vaccine pricing was discussed at a meeting chaired by Cabinet Secretary Rajiv Gauba.…

5

Molnupiravir approval sought to target early stage COVID-19 cases: Natco vice chairman

After an outcry for remdesivir, there is now yet another experimental anti-viral drug – Molnupiravir to deal with COVID patients. Hyderabad-headquartered Natco Pharma on Monday, April 26th, disclosed to the bourses that it has applied to the Central Drugs Standard Control Organization (CDSCO) in India for approval of Phase-III clinical trial of Molnupiravir …

6

Soft Drinks, Sanitary Napkins, Chocolates have the most underperforming packs; companies need to rationalise stocks: Nielsen

Carbonated soft drinks, sanitary napkins and chocolates are the top three categories with the most underperforming packs among the fast moving consumer goods universe, a new report by Nielsen IQ said. …

7

Bank credit grows 5.33%; deposits rise 10.94%

Bank credit grew by 5.33 per cent to Rs 108.89 lakh crore, and deposits rose 10.94 per cent to Rs 152.15 lakh crore in the fortnight ended April 9, 2021. In the fortnight ended April 10, 2020, bank advances stood at Rs 103.38 lakh crore and deposits were Rs 137.15 lakh crore. In 2020-21 fiscal, bank credit …

SBI Cards and Payment Services

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	SBICARD IN
Equity Shares (m)	941
M.Cap.(INRb)/(USDb)	864.4 / 11.6
52-Week Range (INR)	1149 / 495
1, 6, 12 Rel. Per (%)	-2/-5/10
12M Avg Val (INR M)	2018

Financials & Valuations (INR b)

Y/E MARCH	FY21	FY22E	FY23E
NII	38.8	45.5	55.8
OP	40.2	47.0	56.2
NP	9.8	17.5	25.3
NIM (%)	15.8	16.4	16.2
EPS (INR)	10.5	18.6	26.9
EPS Gr. (%)	(25.3)	77.9	44.2
BV/Sh. (INR)	67.0	83.8	108.3
ABV/Sh. (INR)	64.9	81.5	105.5
Ratios			
RoE (%)	16.9	24.7	28.0
RoA (%)	3.8	5.8	6.8
Valuations			
P/E(X)	87.7	49.3	34.2
P/BV (X)	13.7	11.0	8.5
P/ABV (X)	14.2	11.3	8.7

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	69.4	69.4	69.6
DII	6.0	3.9	3.8
FII	8.6	5.8	4.1
Others	16.0	20.9	22.6

FII Includes depository receipts

CMP: INR919 TP: INR1,200 (+31%) Buy

Business growth tepid; elevated provisioning dents earnings

Coverage ratio improves; retail spends up 13% YoY

- SBI Cards and Payment Services (SBICARD) reported a weak quarter, with sequential decline in receivables/spending. On the other hand, margins declined ~130bp, affected by interest income. Fee income stood stable QoQ (+16% YoY) as spends declined 5% QoQ (+11% YoY). However, decline in opex led to stable PPoP. Retail spends remained higher v/s pre-COVID levels (~113%), while corporate spends reached pre-COVID levels.
- The GNPA ratio increased on higher NPAs from the RBI RE book, comprising ~50% of the total slippages. However, it has provided ~80% on the delinquent RBI RE book; this, along with a strong PCR of ~78% and additional management overlay provisions of INR2.97b, should keep credit costs in check. **Maintain Buy.**

Weak revenue profile due to slow spending growth, margin decline

- SBICARD reported PAT growth of ~110% YoY to ~INR1.75b, below estimates (MOFSLe: INR2.6b). It was affected by 21% YoY / 8% QoQ decline in interest income and modest fee income. Although, lower opex supported PPoP. **For FY21, NII/PPOP was up 9.7%/9.6% YoY, while PAT declined ~21% YoY.**
- NII declined 18.3% YoY, with margins down 130bp QoQ to 13.2%. Income from fees and services was stable QoQ at INR11.1b (+16% YoY) as overall spends declined ~5% QoQ. Thus, total income grew 2% YoY to INR22.2b, while opex declined 4.6% QoQ, resulting in stable PPoP (9% miss).
- Cards in force grew 12% YoY to 11.8m. New account sourcing for 4QFY21 stood at 93% of 4QFY20 levels. SBI contributed ~54% to new cards sourced, which accounts for ~44% of the overall card base.
- Overall spends rose 11% YoY (5% QoQ decline), within which retail spends were up 13% YoY (-4% QoQ), while corporate spends declined 10% QoQ (flat YoY). Retail spends remained higher than pre-COVID levels (~113%), while corporate spends reached pre-COVID levels – on the back of new use cases making up for the loss in travel spends. Online retail spends form ~52% of the total retail spends.
- Total receivables grew 4% YoY (2.5% QoQ decline) to INR251.1b. The receivables mix indicated a marginal increase in the number of transactors and decline in revolvers – resulting in moderation in yields and an impact on the margins. Receivables per card continued to decline, reaching ~21k in 4Q.
- The GNPA ratio increased to 4.96% (v/s proforma 4.51% in Dec'20), while the NNPA ratio declined to 1.15% (v/s 1.58% in 3QFY21). Thus, PCR increased to ~78%. ~50% of the slippages were from the RBI RE book, on which the company has made provisions of ~80%. The RBI RE book declined to INR19.1b (8% of loans). The company holds additional management overlay provisions of INR2.97b.

Highlights from management commentary

- Spends across categories, barring Travel and Entertainment, have reached pre-COVID levels. Corporate spends have also reached pre-COVID levels, while corporate travel remains impacted. New use cases across corporates have been making up for the loss in travel spends.
- **RBI RE book:** a) ~50% of the book comprises 'less than 30-days' delinquencies, b) ~13% consists of delinquencies 'between 30–90 days' – provided at NPA levels, and c) ~36% comprises delinquencies of 'greater than 90 days' – on which SBICARD carries provisions of 80%.
- We expect the RBI RE book to decrease by INR3–3.5b in the coming quarter.

Valuation and view

SBICARD reported a weak quarter as slower growth in receivables/spending and elevated provisioning impacted earnings. However, we expect spends to pick up as retail spends have exceeded pre-COVID levels and corporate spends are also back at pre-COVID levels. Gradual decline in the RBI RE book and an increase in the revolver mix, coupled with controlled funding cost, would support margins over the medium term. We estimate a loan book / earnings CAGR of 24%/60% over FY21–23E – as a strong PCR of ~78%, coupled with additional management overlay provisions of INR2.97b, should keep credit costs in check. We estimate RoA/RoE to improve to 6.8%/28% in FY23E. **Maintain Buy, with unchanged TP of INR1,200 (45x FY23E EPS).**

Quarterly performance **(INR m)**

	FY20				FY21				FY20	FY21	FY21	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Interest Income	**7,473**	**8,430**	**9,363**	**10,138**	**11,375**	**10,112**	**9,071**	**8,284**	**35,404**	**38,843**	**10,723**	**-22.7**
% Change (Y-o-Y)	NA	NA	NA	NA	52.2	20.0	-3.1	-18.3	38.0	9.7	5.8	
Other Income	12,535	12,139	12,817	11,622	7,808	12,373	13,717	13,961	49,110	47,859	15,276	-8.6
Total Income	**20,008**	**20,569**	**22,180**	**21,760**	**19,183**	**22,486**	**22,788**	**22,245**	**84,514**	**86,702**	**25,998**	**-14.4**
Operating Expenses	10,716	12,259	12,585	12,257	9,047	11,086	13,477	12,854	47,815	46,465	15,650	-17.9
Operating Profit	**9,292**	**8,310**	**9,595**	**9,503**	**10,136**	**11,399**	**9,311**	**9,391**	**36,699**	**40,237**	**10,349**	**-9.3**
% Change (Y-o-Y)	NA	NA	NA	NA	9.1	37.2	-3.0	-1.2	47.8	9.6	8.9	
Provisions	3,966	3,292	3,763	8,382	4,853	8,617	6,483	7,047	19,402	27,000	6,915	1.9
Profit before Tax	**5,325**	**5,018**	**5,832**	**1,121**	**5,283**	**2,782**	**2,829**	**2,344**	**17,296**	**13,237**	**3,433**	**-31.7**
Tax	1,869	1,208	1,485	285	1,350	720	732	590	4,848	3,392	808	-27.0
Net Profit	**3,456**	**3,810**	**4,347**	**835**	**3,933**	**2,061**	**2,097**	**1,754**	**12,448**	**9,845**	**2,625**	**-33.2**
% Change (Y-o-Y)	NA	NA	NA	NA	13.8	-45.9	-51.8	110.0	43.9	-20.9	214.3	
Operating Parameters												
Spends Growth (%)	NA	NA	NA	15.5	-36.8	-10.8	7.6	10.8	26.9	-6.9	20.5	-9.6
Loan Growth (%)	NA	42.2	38.8	27.4	7.2	-1.6	-1.0	2.8	27.4	2.8	12.0	-9.2
Spends (INRb)	301.7	331.8	351.4	324.3	190.9	295.9	378.0	359.4	1,314.5	1,224.2	391	-8.0
Loan (INRb)	204.6	222.8	239.3	228.1	219.2	219.3	237.0	234.6	228.1	234.6	255	-8.2
Asset Quality												
Gross NPA (%)	2.7	2.3	2.5	2.0	1.4	4.3	1.6	5.0	2.0	5.0	5.1	-0.1
Net NPA (%)	0.8	0.8	0.8	0.7	0.4	1.5	0.6	1.2	0.7	1.2	1.7	-0.5
PCR (%)	72.0	67.0	67.0	67.2	68.3	65.6	65.6	77.9	67.2	77.9	68.4	9.5

HDFC Life Insurance

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	HDFCLIFE IN
Equity Shares (m)	2,018
M.Cap.(INRb)/(USDb)	1424.3 / 19.1
52-Week Range (INR)	746 / 458
1, 6, 12 Rel. Per (%)	6/1/1
12M Avg Val (INR M)	2809

Financials & Valuations (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Net Premiums	381.2	457.5	545.4
Surplus / Deficit	11.0	12.1	14.5
Sh. PAT	13.6	15.7	18.4
NBP gr- unwtd (%)	16.6	22.0	19.0
NBP gr - APE (%)	13.0	22.1	19.8
Premium gr (%)	18.3	19.9	19.2
VNB margin (%)	26.1	26.3	26.4
RoE (%)	17.6	16.9	17.3
RoEV (%)	28.9	17.5	17.7
Total AUMs (INR t)	1.7	2.1	2.5
VNB (INRb)	21.9	26.9	32.4
EV per share	131.9	155.0	182.5
Valuations			
P/EV (x)	5.3	4.5	3.9
P/EVOP (x)	37.2	30.2	24.8

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	58.9	58.9	63.7
DII	6.3	7.1	6.1
FII	25.7	24.9	21.1
Others	9.2	9.2	9.1

FII Includes depository receipts

CMP: INR705 TP: INR730 (+4%) Neutral

APE growth strong; persistency trends improving

VNB margins improve sequentially

- HDFC Life (HDFCLIFE) reported improvement in new business APE (led by the Non-PAR and PAR businesses), while the trend in Retail Protection remained muted. VNB margins improved to 27%, aided by a rise in Non-PAR as well as cost control. Thus, absolute VNB grew 52% YoY in 4QFY21. On the persistency front, better trends were witnessed in the PAR/Protection business. As a result, 13th/25th month individual premium persistency improved ~200bp/500bp YoY.
- Overall, we expect HDFCLIFE to reflect 22% VNB growth over FY21–23E. We estimate margins to remain steady at ~26.4%, and operating RoEV would sustain at a healthy ~18%. However, we remain watchful of the lockdown impact on various key states due to resurgence in COVID-19 cases. **Maintain Neutral.**

Trends in traditional biz stay robust; VNB margin improves further

- In 4QFY21, HDFCLIFE posted net premium growth of 23% YoY, led by new business premium growth of 29% YoY. Moreover, renewal premiums grew at 15% YoY. Persistency trends in the 13th/25th month for individual premiums improved ~200bp/500bp YoY, led by an improvement in the PAR and Protection segments. Overall, shareholders' PAT growth was muted at 2% YoY to ~INR3.2b (below estimates) in 4QFY21.
- Individual/Group APE grew ~40%/~17% YoY in 4Q, leading to total new business APE growth of 36% YoY. Total APE growth was largely led by the PAR (39% YoY) and Non-PAR segments (78% YoY). Also, ULIP growth recovered to 19% YoY (v/s 10% YoY decline in 9MFY21). On the other hand, Protection growth remained muted (v/s 16% decline over FY21). Thus, the share of Protection in the total APE fell to ~13% in FY21 (v/s 17% in FY20).
- VNB margins improved to 27% in 4QFY21 (v/s 24.3% in 4QFY20 and 26.4% in 3QFY21) on the back of improvement in Non-PAR/Annuity and cost efficiency. Absolute VNB grew 52% YoY in 4QFY21and 14% YoY over FY21.
- The share of the banca channel in individual APE increased to 61% (~600bp YoY), while that of the agency/direct channel declined 100bp/300bp to 13%/19% in FY21.
- Total operating expenses (incl. commissions) grew 25% YoY and the total expense ratio improved to 16.3% (190bp QoQ improvement).

Highlights from management commentary

- Robust upward trends are seen in Individual Protection queries in Apr'21 on account of the second COVID wave. Also, it is seeing encouraging trends in the Credit Life business.
- Post the recent lockdown announcements in various states, slowdown is seen in new business premiums in April'21.
- HDFCLIFE settled COVID claims with gross payouts of INR2.3b.
- Strong growth was seen in the banca channel over FY21, with HDFC Bank performing very well. Growth in IDFC First / Bandhan was also strong.

Valuation and view

HDFCLIFE remains focused on maintaining a balanced product mix across the business, with an emphasis on product innovation and superior customer service. However, in the near term, the Non-PAR and PAR segments are likely to see healthy growth, while ULIP also continues to recover. However, we remain watchful of the impact of lockdown announced in various key states due to resurgence in COVID-19 cases. Overall, we estimate VNB margins to reflect stable trends and estimate operating RoEV to remain healthy at 18% over FY23E. The stock currently trades at rich valuations of 3.9x FY23EV (25x FY23 EVOP). **We value the stock at INR730, corresponding to 4x FY23E EV. Maintain Neutral.**

Quarterly performance **(INR m)**

Policy holder's A/c (INR m)	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net premium income	64,512	74,537	78,543	104,645	57,218	100,454	94,870	128,680	322,236	381,223
Growth (%)	29.2%	10.0%	13.9%	2.1%	-11.3%	34.8%	20.8%	23.0%	11.4%	18.3%
Renewal premium	26,098	35,668	37,656	55,262	32,391	43,104	45,770	63,504	154,684	184,769
Growth (%)	9.7%	10.4%	13.8%	4.4%	24.1%	20.8%	21.5%	14.9%	8.8%	19.4%
PAT	**4,246**	**3,087**	**2,502**	**3,117**	**4,511**	**3,261**	**2,650**	**3,179**	**12,953**	**13,601**
Growth (%)	11.7%	7.6%	1.9%	-14.4%	6.2%	5.6%	5.9%	2.0%	1.4%	5.0%
Key metrics (INR b)										
New business APE	17.1	17.6	18.2	21.1	12.0	21.4	21.6	28.8	71.6	83.7
Growth (%)	66.0	19.1	18.4	-4.5	-29.9	21.2	18.3	36.5	18.4	16.9
VNB	5.1	4.5	4.5	5.1	2.9	5.5	5.7	7.8	19.2	21.9
Growth (%)	103.6	24.4	24.7	-10.0	-42.8	22.1	26.7	51.8	24.6	13.9
AUM (INR b)	1,296	1,310	1,365	1,272	1,400	1,506	1,656	1,738	1,272	1,738
Growth (%)	18.2	15.7	15.9	1.3	8.0	15.0	21.4	36.6	1.3	36.6
Key Ratios (%)										
VNB Margins (%)	29.8	25.4	24.7	24.3	24.3	25.6	26.4	27.0	25.9	26.1
Solvency ratio (%)	193.0	192.0	195.0	184.0	190.0	203.0	202.0	201.0	184.1	200.7

E:MOFSL Estimates

27 April 2021

4QFY21 Result Update | Sector: Technology

Tech Mahindra

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	TECHM IN
Equity Shares (m)	919
M.Cap.(INRb)/(USDb)	932.7 / 12.5
52-Week Range (INR)	1081 / 481
1, 6, 12 Rel. Per (%)	-2/-3/37
12M Avg Val (INR M)	4139

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	379	421	479
EBIT Margin (%)	14.2	15.2	14.7
PAT	44	52	58
EPS (INR)	50.8	59.1	66.0
EPS Gr. (%)	5.1	16.3	11.7
BV/Sh. (INR)	284.4	314.2	347.0
Ratios			
RoE (%)	19.2	19.9	20.1
RoCE (%)	19.3	20.7	20.8
Payout (%)	88.6	50.0	50.0
Valuations			
P/E (x)	18.9	16.3	14.6
P/BV (x)	3.4	3.1	2.8
EV/EBITDA (x)	12.2	10.5	9.4
Div Yield (%)	4.6	3.0	3.4

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	35.8	35.8	35.9
DII	13.7	14.4	13.1
FII	39.1	38.0	39.8
Others	11.5	11.8	11.3

FII Includes depository receipts

CMP: INR963 TP:INR 1050 (+9%) Neutral

Communications to remain a drag on FY22E performance

Further re-rating to require a pickup in growth

- TECHM's 4QFY21 USD revenue growth of 0.7% QoQ CC was below our already modest expectations. Communications was flat during 4QFY21, while the Enterprise business posted modest growth (1.1% QoQ CC). New deal wins of USD1.04b was the highest in five quarters and split equally between Communications (driven by the Telefonica deal win) and enterprise. EBIT margin increased by 60bp to a multi-year high of 16.5%, unlike our expectation of a 20bp QoQ dip. Increase in margin was led by further rationalizing of headcount (847 employee reduction), while maintaining peak utilization levels (87%). **For FY21, sales (USD)/EBIT/PAT moved by -1.4%/26%/5%.**
- The management guided at low double-digit growth in FY22, with double-digit growth in enterprise and high single-digit growth in Communications. It indicated strong deal momentum in 1QFY22, led by a strong deal pipeline. It also reiterated its view of delivering at least 15% EBIT margin in FY22.
- TECHM's FY22E revenue growth and EBIT margin guidance were on expected lines, with the gap between enterprise and Communications growth continuing for another year. Despite a healthy order book and good demand commentary, single-digit growth in Communications would remain a key overhang on the stock's performance. With TECHM's FY22E revenue growth lagging behind its peers (FY22E organic USD growth of 10% being the weakest in our coverage), valuation should stay rangebound, despite being at a significant discount (below 15x FY23E P/E) to its peers.
- While TECHM's margin performance has been excellent, we see elevated risk on account of its stretched supply-side position. It should face a higher impact from expected tightening in talent supply in CY21-22 due to less aggressive talent interventions v/s peers, who have proactively offered variable pay and a full wage hike.
- As operations are running at elevated levels (higher utilization, lower employee expenses, etc.), we expect some normalization in EBIT margin from current levels. This should lead to the lowest PAT growth among its peer group. We largely keep our estimates unchanged post its 4QFY21 result. Our TP implies 16x FY23E EPS. **Remain Neutral.**

Weak topline, beat on margin

- TECHM's 4QFY21 revenue grew 1.6% QoQ to USD1,330m, which is below our estimate of USD1,343m.
- This implies CC revenue growth of 0.7% QoQ.
- Both Communications and enterprise saw a muted performance, growing by 0.2% QoQ CC and 1.1% QoQ CC, respectively.
- Among verticals, growth was majorly led by BFS at 4.9% QoQ. Other verticals posted sub-2% QoQ growth. Retail, Transport, and Logistics fell 3.2% QoQ.

- EBIT margin at 16.5%, up 60bp QoQ and 80bp above our estimate were helped by a very strong BPO margin (28% EBITDA).
- Employee count fell for the second straight quarter (-847 QoQ) despite higher utilization (87%).
- PAT of INR10.8b (-17.4% QoQ) was 15% below our estimate due to impairment of goodwill, forex losses, and higher tax rate (INR793m pertaining to an earlier period). Excluding the tax impact and impairment, PAT stood at INR12.1b, an increase of 19% YoY.
- Total TCV stood at USD1,043m (a five quarter high), of which USD525m/USD518m was in enterprise/Communications. Deal wins in Communications were boosted by a large deal with Germany's Telefonica.
- FCF in 4QFY21 stood at USD187m (a 7% YoY gain), implying a FCF/PAT of 127%. For FY21, FCF stood at USD965m (an increase of 85% YoY), implying a FCF/PAT of 162%
- DSO at 92 days was the lowest in four years.
- LTM attrition increased 100bp sequentially to 13%.
- The company announced a final/special dividend of INR15/share each. For FY21, total dividend/payout stood at INR45 per share/89%.
- During 4QFY21, TECHM has announced three acquisitions: 1) 70% stake in Perigord Asset Holdings (USD25), 2) DigitalonUS (total consideration of USD120m), and 3) EventUs Solutions (total consideration of USD44m).

Key highlights from the management commentary

- TECHM reported net new deal wins of USD1.04b in 4QFY21, with deals being divided equally between Communication and Enterprise. The uptick in deal wins is very encouraging. The management expects a similar momentum in deal signings going into 1QFY22 as well. It expects double-digit growth in Enterprise and high single-digit growth in Communications.
- EBIT margin in 4QFY21 stood at 16.5%, the highest reported margin in the last six years. The expansion was driven by operational efficiencies, delivery transformation comprising of offshoring, and increased automation. Lower depreciation, due to conservative capex spend, during FY21 also aided margin. However, these were partly offset by an increase in SG&A costs, mainly in recruitment costs.
- The company has started rolling out wage hikes effective 1st Apr'21 and alluded that it would impact its 1QFY22 margin. It also rolled out a special additional variable payout to some employees. However, the management stated that they would mitigate this impact by improving operational levers. Despite the return of costs, it is confident of reporting an EBIT margin of over 15% in FY22.

Valuation and view – A further re-rating would require a pick-up in revenue

- TECHM's higher exposure to the Communications vertical remains a potential opportunity as a broader 5G rollout can lead to a new spending cycle in this space. However, significant traction from the same isn't visible yet.
- While EBITDA margin has seen a very strong improvement, the management has maintained their 15% guidance band (with an upward bias). For normalization of EBITDA margin, it would need to invest back in the business (utilization, employee wage hikes, etc.) after keeping a tight leash on the same during FY21.
- We expect TECHM to deliver double-digit growth in FY22E. However, the extent of the same is likely to be lower than its peers. We expect some normalization in margin, which would lead to a lower P/E multiple. We value the stock at 16x FY23E EPS, a 40% discount to our target P/E for TCS. Remain Neutral.

Quarterly performance

(INR b)

Y/E March	FY20				FY21				FY20	FY21	4Q FY21E	Variance (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue (USD m)	**1,247**	**1,287**	**1,353**	**1,295**	**1,208**	**1,265**	**1,309**	**1,330**	**5,182**	**5,111**	**1,343**	**-1.0**
QoQ (%)	-1.6	3.2	5.1	-4.3	-6.7	4.8	3.4	1.6	4.3	-1.4	2.6	-102bp
Revenue (INR b)	**87**	**91**	**97**	**95**	**91**	**94**	**96**	**97**	**369**	**379**	**98**	**-0.6**
YoY (%)	4.6	5.1	7.9	6.7	5.2	3.3	-0.1	2.5	6.1	2.7	3.2	-63bp
GPM (%)	**28.8**	**29.6**	**30.3**	**29.5**	**28.5**	**31.4**	**32.9**	**33.7**	**29.5**	**31.7**	**32.4**	**134bp**
SGA (%)	**13.6**	**13.0**	**14.1**	**15.3**	**14.2**	**13.3**	**13.3**	**13.7**	14.0	13.6	**13.0**	69bp
EBITDA	**13**	**15**	**16**	**13**	**13**	**17**	**19**	**19**	**57**	**68**	**19**	**2.7**
EBITDA Margin (%)	**15.2**	**16.5**	**16.2**	**14.2**	**14.3**	**18.2**	**19.6**	**20.0**	**15.5**	**18.1**	**19.4**	**64bp**
EBIT	**10**	**12**	**12**	**9**	**9**	**13**	**15**	**16**	**43**	**54**	**15**	**4.5**
EBIT Margin (%)	**11.5**	**12.8**	**12.2**	**10.0**	**10.1**	**14.2**	**15.9**	**16.5**	**11.6**	**14.2**	**15.7**	**80bp**
Other income	3	2	3	2	4	1	2	0	10	6	1	-106.1
ETR (%)	25.9	16.9	24.6	20.2	25.5	24.6	24.8	31.3	22.0	26.6	24.5	684bp
PAT	**10**	**11**	**11**	**10**	**10**	**11**	**13**	**11**	**43**	**45**	**13**	**-12.2**
QoQ (%)	-15.3	17.2	2.0	-10.9	-4.8	9.5	23.0	-13.6			-1.6	-1201bp
YoY (%)	6.8	5.6	-4.7	-9.8	1.3	-5.3	14.3	10.8	-1.1	5.4	26.2	-1540bp
EPS (INR)	**10.9**	**12.8**	**13.0**	**11.6**	**11.1**	**12.1**	**14.9**	**12.3**	**48.3**	**50.8**	**14.6**	-16.2

Key performance indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	-1.0	4.1	4.3	-3.3	-6.3	2.9	2.8	0.7		
Margins (%)										
Gross Margin	28.8	29.6	30.3	29.5	28.5	31.4	32.9	33.7	29.5	31.7
EBITDA margin	15.2	16.5	16.2	14.2	14.3	18.2	19.6	20.0	15.5	18.1
EBIT Margin	11.5	12.8	12.2	10.0	10.1	14.2	15.9	16.5	11.6	14.2
Net Margin	11.1	12.4	11.9	10.8	10.7	11.4	13.6	11.6	11.5	11.8
Operating Metrics										
Headcount (k)	126	132	131	125	123	124	122	121	125	121
Util. excl. trainees (%)	82.0	83.0	85.0	84.0	82.0	85.0	87.0	87.0	83.5	85.3
Attrition (%)	21.0	21.0	20.0	19.0	17.0	14.0	12.0	13.0	19.0	13.0
Offshore rev. (%)	34.7	34.6	34.7	34.8	36.0	37.0	37.0	37.0	34.7	36.8
Deal TCV (USD m)	475	1490	1230	505	290	421	455	1043	3,700	2,209
Key Verticals (QoQ %)										
Communications	-3.2	1.0	8.9	-8.4	-8.6	3.0	4.5	1.3	5.3	-6.1
Enterprise	-0.4	5.0	2.3	-1.3	-5.5	6.0	2.7	1.8	3.6	2.0
Key Geographies (QoQ %)										
North America	0.9	5.2	4.9	-5.7	-3.6	2.9	0.0	-1.2	6.0	-2.6
Europe	-5.0	-0.2	6.3	-6.1	-9.2	2.4	8.3	2.0	-4.0	-4.9

Financials

RBI limits tenure of MD & CEO / Whole-time Director

Negative development for KMB; remain watchful of RBK, FB, and DCB

- The Reserve Bank of India (RBI) in its circular today capped the tenure of the MD & CEO and Whole-time Director (WTD) positions at a) private lenders, b) SFBs, and c) wholly-owned subsidiaries of foreign banks **for a maximum of 15 years. Additionally, for the Promoter MD & CEO position, it capped the maximum tenure at 12 years.** However, for Promoter CEO – under extraordinary circumstances, at the sole discretion of the RBI – the term may be extended up to 15 years.
- **The extension of the Promoter CEO's term for an additional three years** would depend on the level of progress and adherence to milestones for the dilution of promoter shareholding in the bank over the prior period.
- **Transition period as per circular:** These guidelines would be effective from Oct'21. However, current CEOs (both promoter/non-promoter) would be allowed to complete their terms, which were already approved by the RBI.
- **Reappointment of existing MD/CEO or Whole-time Director after completion of 15-year tenure:** This is permissible after a minimum cooling period of three years. During this cooling period, the MD & CEO shall not be associated with the bank or its group entities in any capacity, either directly or indirectly.
- **No change in age limit:** The upper limit for the MD & CEO / WTD of private sector banks is 70 years. Furthermore, the upper age limit for Non-Executive Director (including Chairperson of the Board) remains 75 years.
- **Guidelines to help banks better plan successions:** The key purpose of these guidelines is to further strengthen the governance standards within private sector banks. Also, we believe these guidelines would help the boards of directors better plan the successions at the banks, in line with RBI guidelines.
- **Negative development for KMB; remain watchful of FB, DCB, RBK:** The limit on the MD & CEO tenure has come as a negative development for Kotak Bank – Mr Uday Kotak would be ineligible for a further re-appointment after the expiration of his current term in Dec'23. Also, we remain watchful of the continuity of some other mid-sized private bank CEOs (such as RBL, FB, and DCB) – their current MDs/CEOs have already completed 10–12 year tenures and are thus eligible for an extension – although, the RBI only recently granted a year-long extension to the CEO of DCB Bank. In the case of BANDHAN/AUBANK, further clarity is needed on whether the RBI would consider the timeline after its conversion into a bank / SFB or before this period. On the other hand, Mr Kamakodi, MD & CEO of CUBK, can continue up to May'26 and is therefore eligible for a re-appointment in Apr'23.

Key banks' MD & CEO tenure dates

Bank	Current MD & CEO	Date of becoming CEO	Appointment due till
Axis Bank	Amitabh Chaudhry	1st Jan'19	31st Dec'21
ICICI Bank	Sandeep Bakshi	15th Oct'18	14th Oct'21
IndusInd Bank	Sumant Kathpalia	24rd Mar'20	23rd Mar'23
HDFC Bank	Sashidhar Jagdishan	27th Oct'20	26th Oct'23
Kotak Bank	Uday Kotak	2004	31st Dec'23
RBL Bank	Vishwavir Ahuja	30th June 2010	29th Jun'21
Federal Bank	Shyam Srinivasan	23rd Sept 2010	22nd Sept'21
DCB Bank	Murali M. Natrajan	29th Apr 2009	28th Apr'22
AU Small Finance Bank	Sanjay Agarwal	19th April'17	18th Apr'23
Bandhan Bank	Chandra Shekhar Ghosh	10th July'15	9th July'21
City Union Bank	N. Kamakodi	May'11	30th April'23

Source: MOFSL, Company

26 April 2021

Company Update | Sector: Technology

Mphasis

BSE SENSEX	S&P CNX
48,387	14,485

Mphasis The Next Applied

Stock Info

Bloomberg	MPHL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	322.7 / 4.3
52-Week Range (INR)	1836 / 677
1, 6, 12 Rel. Per (%)	7/7/102
12M Avg Val (INR M)	611
Free float (%)	44.0

Financials Snapshot (INR b)

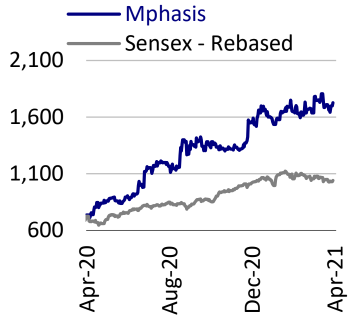
Y/E Mar	2021E	2022E	2023E
Net Sales	96.8	107.0	122.4
EBIT	16.1	16.8	17.8
PAT	12.2	14.3	17.3
EPS (INR)	64.4	75.7	91.4
Gr. (%)	2.0	17.5	20.8
BV/Sh (INR)	344.9	383.2	429.5
Ratios			
RoE (%)	19.8	21.0	22.8
RoCE (%)	16.9	17.9	19.6
Payout (%)	50.6	50.6	50.6
Valuations			
P/E (x)	27.3	23.2	19.2
P/BV (x)	5.1	4.6	4.1
EV/EBITDA (x)	17.1	14.6	11.8
Div Yield (%)	1.9	2.2	2.6

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	56.0	56.1	56.2
DII	17.2	16.0	14.2
FII	21.8	22.8	23.9
Others	5.0	5.1	5.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR 1,725 — Buy

Blackstone's continuance removes a key growth risk

- **Blackstone on 26th Apr'21 announced sale of its stake in MPHL from its existing entity (Marble II Pte) to a new entity (BCP Topco IX Pte). This deal will result in a transfer of 55.3% stake at a price band of INR1,452-1,497 per share (12-14% discount to MPHL's 23rd Apr'21 closing price). The new entity includes investment from ADIA, UC Investments, and other long-term investors.**
- **Since the stake sale is for over 50% equity, an open offer has been triggered for the 26% stake held by public shareholders at INR1,677 per share (INR82.6b). In case the open offer gets fully tendered, Marble II will retain 7.3% of MPHL as a public shareholder, so that its overall ownership in the new entity does not exceed 75%.**

Open offer unlikely to be subscribed

- The open offer is unlikely to be fully subscribed given the price discount (5% below the CMP). This open offer is to meet the regulatory requirement as the acquirer and seller are not the same legal entity.
- Previous open offers have commanded a premium over existing prices. We see this open offer creating a near-term floor to the share price and absorbing any price volatility.

Blackstone's continuity is positive for growth; macro view bullish on tech spends

- We view this transaction as a positive for MPHL as this should take away any growth impact concerns from a potential Blackstone exit, especially given the faster than company growth and ~5% revenue contribution from this channel. With Blackstone reaffirming its commitment to MPHL (holding period of up to 10 years in the new fund), this growth channel remains intact.
- The new owner also brings in large ultra-long term shareholders as owners of MPHL, which should add to its addressable customer base.
- In its investor interaction, Blackstone highlighted technology spends as a high growth area, especially on the Cloud migration side. Given its visibility on operational spends at large organizations (due to its ownership), this indicates continued fast growth from this channel for MPHL.

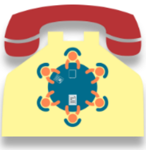
Valuation and view – Reiterate our positive stance

- Impressive deal wins over the last few quarters and a healthy deal pipeline should drive near-term growth in MPHL's Direct International business. While the overhang persists in the DXC business (~13% of revenue), strong traction in DI should continue to drive overall performance.
- Ability to win large Digital transformation deals indicates strength in MPHL's sales and delivery capabilities. Also, higher exposure to largely stable verticals (BFSI – ~63% of revenue) should help mitigate risk in the DXC business to some extent.
- The stock is currently trading ~19x FY23E EPS. We value the stock ~22x FY23E EPS. Maintain Buy.

Castrol India

BSE SENSEX	S&P CNX
48,387	14,485

Conference Call Details



Date: 27th Apr 2021
Time: 12:15pm IST
Dial-in details:
+91-22-6280 1164
+91-22-7115-8065

CMP: INR127 — Buy

Beat across all fronts

- The company delivered a beat across all fronts, with revenue at INR11.4b (+30% v/s our estimate, +66% YoY) in 1QCY21. EBITDA came in at INR3.4b (+96% YoY), with an EBITDA margin at 29.9% (v/s our expectation of 23.5%). PAT stood at INR2.4b (+95% YoY), with the tax rate at 26.7%.
- The company generated net cash of INR2.7b during 1QCY21, resulting in a cash generation of 112.5% of PAT, due to robust working capital management, along with cost management initiatives.

Strategic developments:

- CSTRL entered into a strategic collaboration with ki Mobility Solutions to supply lubricant products to its workshops in India and will also be available on goBumpr, their digital platform.

Second wave of COVID-19 – An update

- The management highlighted that the second wave of COVID-19 is resulting in a market slowdown in various parts of India.
- Also, supply disruptions on account of base oil and raw material availability, logistics challenges, and USD:INR depreciation is likely to adversely impact demand and supply.
- Further details on volumes and operational parameters are awaited.

Quarterly performance (INR m)

Y/E December	CY20				CY21				
	1Q	2Q	3Q	4Q	1QE	1Q Actual	Variance (%)	YoY (%)	QoQ (%)
Net sales	**6,880**	**4,906**	**8,831**	**9,352**	**8,761**	**11,387**	**30%**	**66%**	**22%**
YoY change (%)	-29.5	-52.8	4.0	-7.6	27.3	65.5			
EBITDA	**1,730**	**953**	**2,882**	**2,576**	**2,061**	**3,401**	**65%**	**97%**	**32%**
YoY change (%)	-38.9	-66.5	17.9	-24.5	19.2	96.6			
Margin (%)	25.1	19.4	32.6	27.5	23.5	29.9			
Depreciation	222	206	215	223	249	215	-14%	-3%	-4%
Interest	11	14	9	8	6	6	9%	-45%	-25%
Other income	198	152	117	153	190	143	-25%	-28%	-7%
PBT	**1,695**	**885**	**2,775**	**2,498**	**1,997**	**3,323**	**66%**	**96%**	**33%**
Rate (%)	26.1	26	26	24.9	25.2	26.7			
Adj. PAT	**1,252**	**654**	**2,046**	**1,877**	**1,494**	**2,436**	**63%**	**95%**	**30%**
YoY change (%)	-32.3	-64.2	8.6	-30.8	19.3	94.6			

E: MOFSL estimates

PVs: Strong recovery in a difficult year led by UVs

Resurgence of TTMT and emergence of Kia hurt MSIL's market share

- **We analyzed the brand-wise data for the domestic PV industry to understand segmental trends and market share changes.**
- **Despite the COVID-19 pandemic, domestic PV wholesales declined by just 2.2% in FY21 (v/s a fall of ~18% in FY20), led by preferences for personal mobility and pent-up demand.**
- **Several launches from competition and lack of new launches from MSIL led to a ~340bp decline in its domestic PV market share to 47.7%. While Hyundai maintained its market share at 17.4%, MM lost 90bp (to 5.8%), whereas TTMT (+330bp to 8.3%) and Kia (+260bp to 5.7%) gained market share.**
- **MSIL's exit from the Diesel space and new competition resulted in a market share loss of 570bp/670bp/400bp/260bp in UV1/Midsize Sedan/Compact Sedan/Compact Hatchback.**
- **The SUV trend continued and gained further momentum (~500bp) to 39% of domestic PV volumes in FY21.**

"We will be able to assess trends and define numbers only by the end of Apr'21, depending on the severity and [extent] of restrictions. As of date, we have had a number of pending orders that had to be carried forward from Feb-Mar'21 to Apr'21. We are striving to meet customer demand despite local restrictions and lockdowns."
– **Shashank Srivastava, Executive Director, Maruti Suzuki**

FY21 ends on a strong note led by robust growth in SUVs

- Despite the COVID-19 pandemic, domestic PV wholesales declined by just 2.2% in FY21 (v/s a fall of ~18% in FY20), driven by preference for personal mobility and pent-up demand. After the initial impact of lockdowns in 1Q, demand for PVs recovered sharply from 2QFY21 onwards.
- Several launches from competition and lack of new launches from MSIL led to a ~340bp decline in its domestic PV market share to 47.7%. While Hyundai maintained its market share at 17.4%, MM lost 90bp (to 5.8%), whereas TTMT (+330bp to 8.3%) and Kia (+260bp to 5.7%) gained market share.
- The SUV trend continued and gained further momentum (up ~500bp) to 39% of domestic PV volumes in FY21. UV1 segment was the key driver of this growth, led by several new launches, resulting in a 580bp increase in its share to 32.8%. On the other hand, the Sedan segment (Compact and Midsize)/Mini Hatchbacks/Compact Hatchbacks/UV2 lost 300bp/160bp/60bp/90bp market share (to ~10.9%/16.9%/29%/5.2%).

Segment-wise growth trends: Compact UV leads the market

- **Mini segment** volumes declined by 10.7% YoY. MSIL further strengthened its market share in this segment with a 550bp gain (to 85%). Hyundai (-500bp to 5.1%) and Renault (-20bp to 8.9%) ceded market share to MSIL.
- **Compact segmen**t volumes were flat YoY. MSIL lost 260bp market share (to 54.8%) after discontinuation of its diesel variants. TTMT's market share leaped by 800bp (to 15.4%) on the successful launch of Altroz. Hyundai's market share declined by 350bp (to 22.9%).
- The **Sedan segment** declined by 24% YoY. The Compact/Midsize Sedan category fell 23.4%/25.8%. MSIL lost 400bp market share (to 57.9%) in the Compact Sedan segment due to its exit from the Diesel space. In the Midsize segment, the

upgraded City enabled Honda to regain its top position with a market share of 34.5% (+13.1pp YoY). MSIL's market share declined to 19.1% (-6.7pp YoY).

- **UV1 segment** grew ~19% YoY (v/s an industry decline of 2.2%). This growth is largely attributed to the successful launch of Kia Sonet (Sep'20) and second-generation Hyundai Creta (Mar'20). Sub-four meter UV share grew to 60.7% (v/s 57.9% in FY20). MSIL (-570bp to 25.7%) and MM's (-280bp to 12.7%) market share declined, whereas Kia (+630bp to 17.2%), TTMT (+140bp to 7.2%), and Hyundai (+50bp to 23.9%) gained.
- **UV2 segment** fell 16.1% YoY. MG Motors (+950bp to to 22.4%) and TTMT (+650bp to 16.1%) gained market share, whereas MM (-780bp to 29.9%) and Toyota (-500bp to 26.9%) lost market share.

Resurgence of Tata Motors led by product tailwinds

- TTMT gained market share across segments, leading to overall market share of 8.3% (+330bp YoY), on the back of a strong product portfolio.
- Its Compact segment grew 108.5% YoY (v/s flat for industry), leading to a market share of 15.4% (+800bp YoY) due to a good response to Altroz (launched in Jan'20).
- TTMT's market share in Compact UV (UV1) stood at 7.2% (+140bp). Volumes of its only compact UV – Nexon (upgrade launched in Jan'20) – grew by 47.4% YoY (v/s segmental growth of 18.8%).
- Market share gains in UV2 segment to 16.1% (+650bp YoY) were driven by strong momentum in Harrier and the recent relaunch of Safari (Feb'21).

Emergence of Kia with a focus on SUVs – already at third place in SUVs

- Kia's domestic PV market share grew to 5.7% (+260bp YoY), driven by a very good response to the Sonet (launched in Sep'20), offsetting the decline in the average monthly wholesales of Seltos (7.4k units in FY21 v/s 10.2k units in FY20).
- It has emerged a strong player in the UV1 segment and gained 630bp YoY, leading to 17% market share within 18 months of its first launch.
- Kia is already in the third place in SUVs, with 14.7% market share (marginally ahead of MM), and in the fifth position in domestic PVs, with 5.7% market share (marginally behind MM).

New launches: Hits and misses of FY21

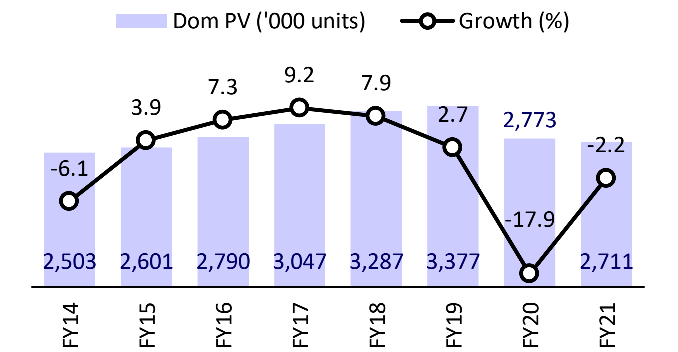
- **Compact:** Tata Altroz (launched in Jan'20) was well received by customers (monthly run-rate of over 6k units), leading to TTMT's market share of 15.4% (+800bp YoY).
- **Compact Sedan**: Hyundai Aura (launched in Jan'20) maintained its momentum, with average volumes of ~4k units in the last six months.
- **Compact UV (UV1):** Kia Sonet (Sep'20) and MM Thar (Oct'20) did exceedingly well. Thar has surpassed the company's expectations. Primarily conceived as an Off-roader, it has been accepted as mainstream vehicle, leading to an order book of 35-40 weeks. Kia Sonet also started off well, with an average run-rate of 9k units. Toyota Urban Cruiser (rebadged MSIL Brezza, launched in Oct'20) is clocking a monthly run-rate of 2.7-3k units. Nissan Magnite (Dec'20) has seen a good initial response, with average volumes of 3k units. The launch of Renault Kiger (Feb'21) builds on the success of the Triber (launched in Aug'19) and is sustaining a monthly run-rate of over 4k units.

- **UV2**: Tata Safari (Feb'21) was the only launch in this category. It shares the same platform with the Tata Harrier.

Valuation and view

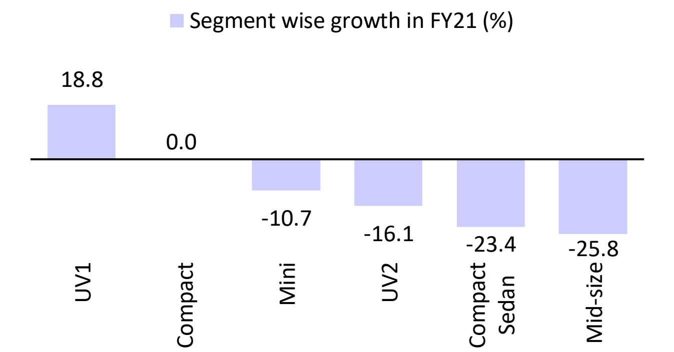
- We prefer 4Ws over 2Ws as PVs are the least impacted segment currently and offers a stable competitive environment. We expect the CV cycle recovery to sustain and gain momentum.
- We estimate 7% PV industry volume CAGR over FY20-25E (on a low base of ~7.7% CAGR decline over FY18-20). This, coupled with the continuous trend of premiumization, would drive 9-10% revenue CAGR.
- We estimate MSIL to gain market share, driven by an expected shift toward petrol vehicles, resulting in ~9% volume CAGR over FY20-23E. This, coupled with an improved mix and reduced discounts, would drive ~10% revenue CAGR over FY20-23E.
- We prefer companies with: a) higher visibility in terms of demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. Our top picks in Autos are MSIL and MM among largecaps, and ENDU in midcaps. TTMT is our preferred bet on the global PVs.

Decline in domestic PVs restricted to just 2.2%



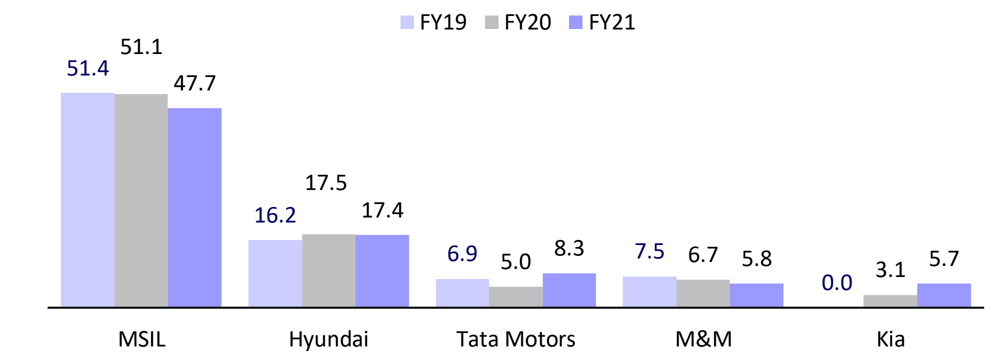
Source: SIAM, MOFSL

Uptrading drives growth in the UV1 segment



Source: SIAM, MOFSL

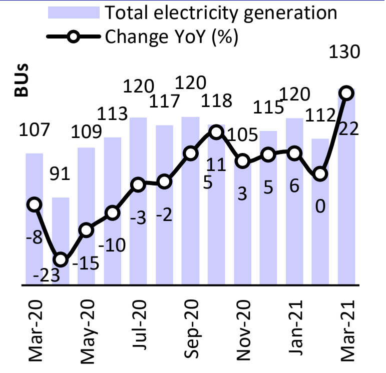
Gains for TTMT and Kia came at the expense of MSIL and MM



Source: SIAM, MOFSL

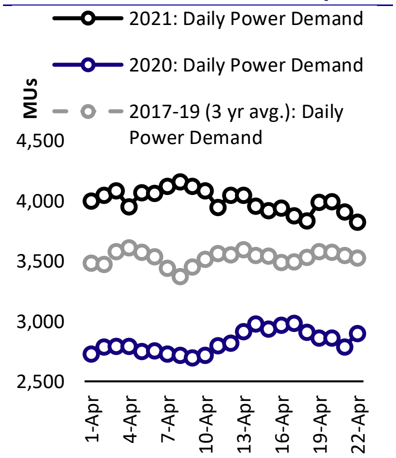
Utilities

India's Electricity generation



Source: Ministry of Power, MOFSL

India's Power demand in Apr'21



Source: POSOCO, MOFSL

Demand remains firm

Funds from the liquidity package keeping a check on receivables

- **An increase in COVID-19 cases has led to the announcement of stricter restrictions and curfews in various Indian states. The same has led to uncertainties over growth in India's Power demand.**
- **While the full implications on demand is yet to have panned out, the underlying data for Power demand has so far not showed any signs of waning. It continues to trend a healthy 40%/9% v/s Apr'20/Apr'19 levels.**
- **Funds from the REC-PFC led Atmanirbhar scheme has picked up pace, and along with the improved Power demand, has aided the receivables situation of generators.**

We provide updates on these aspects below:

Demand continues to remain firm

- Over the past six months, India's Power demand had witnessed continued recovery (2HFY21: +8% YoY), leading to a drop of just 0.7% YoY in FY21. With states announcing stricter restrictions and curfews, amid the rise in COVID-19 cases, there are uncertainties over demand.
- The underlying data on Power demand has so far not showed any signs of weakening. **For Apr'21, India's Power demand is trending up 42% YoY and 9% v/s Apr'19 levels.** Over the past one week as well, despite restrictions/curfews across states, demand has held firm. In particular, Power demand for states such as Gujarat and Maharashtra, which are key industrial regions, are up 48% and 36% YoY, respectively.

Money from the PFC-REC liquidity package coming through

- Power generators have been struggling with mounting receivables from DISCOMs. However, this too has remained under check in the previous few months, given: a) the rise in Power demand, and b) disbursal of money through the PFC-REC liquidity package.
- Media articles (link) have indicated an INR150b (~15% of total overdue) decline in DISCOM overdue in Mar'21. While we await official data, this largely seems to be on the back of increased money from the PFC-REC scheme. Total disbursals under the scheme now stand ~INR760b. A total of INR1.36t has been sanctioned under this scheme. Disbursal of the remaining amount would be a key positive.

IEX's volumes on a strong footing

- Volume momentum on IEX remains strong in Apr'21, led by robust purchases from the southern region (such as Andhra Pradesh and Telangana) and Gujarat. RTM continues to perform well, with volumes crossing 1.1BU in Apr'21. At an aggregate level, **Electricity volumes on IEX are up 98% YoY in Apr'21 MTD** (*22 days*).
- With the uptick in Power demand, prices have also started to inch up. This could potentially dent some of the price arbitrage opportunities on Power exchanges. GUVNL, one of the largest buyers on IEX, has recently floated a tender (link) to

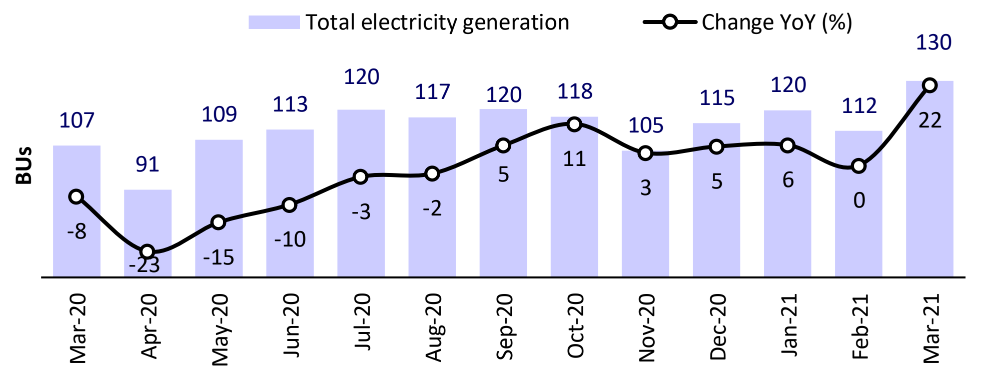
purchase 1,000MW of Power on a medium-term contract, thereby indicating its inclination to tie up Power given the surge in demand along with the potential lack of Power supply from Essar (link).

Receivables to be keenly watched; regulated players well insulated

- The impact on Power demand may have not set in yet, as stricter restrictions may get imposed along with a subsequent cut back in industrial activity. This in turn could lead to an impact on DISCOM revenues and further stretch payments to generators.
- We continue to keep a keen eye on the same. However, the underlying data for demand so far remains firm. Regulated players such as NTPC are well-insulated to external demand conditions, along with compensation for stretched receivables in the form of a late payment surcharge. Risk of a sharp ballooning of its receivables would be a cause for concern and remains keenly watched. In this context, money flowing through from the PFC-REC led scheme is a positive and further liquidity could aid in some normalization of receivables. Stocks such as **NTPC, JSW Energy, and COAL could be key beneficiaries of this normalization.**

India's Power demand has recovered over the past few months

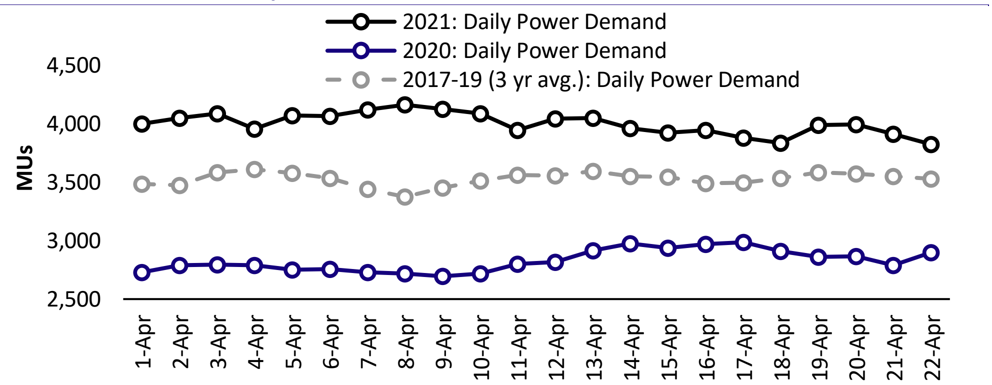
India's Electricity generation



Source: Ministry of Power, MOFSL

Apr'21 is witnessing a continuation in demand growth (up 40% YoY and well above pre-COVID demand average)

India's Power demand in Apr'21



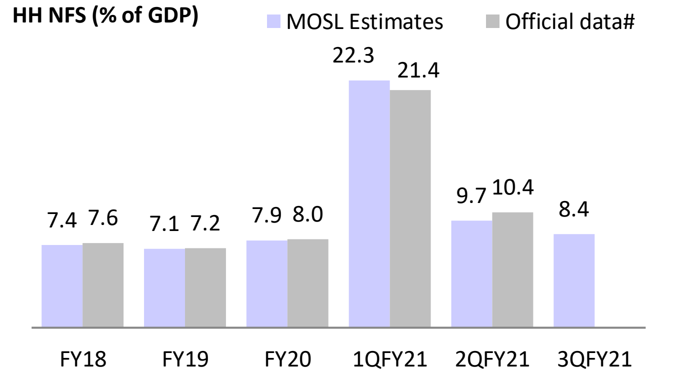
Source: POSOCO, MOFSL

India's household savings increase in CY20…

…but rise the slowest vis-à-vis other nations

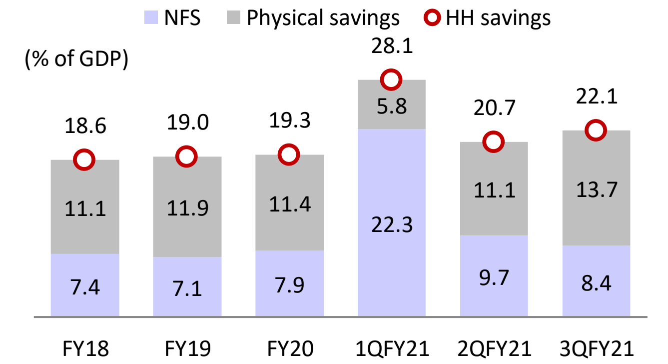
- **A serious economic repercussion of COVID has been forced consumer savings due to physical lockdowns. According to the Reserve Bank of India (RBI), household net financial savings (NFS) stood at 21.4% of GDP in 1QFY21 and 10.4% of GDP in 2QFY21, compared with 7–8% of GDP in the pre-COVID period. When we replicated the RBI's methodology (as far as possible with information publicly available), we found household NFS had fallen to 8.4% of GDP in 3QFY21.**
- **Nevertheless, financial savings account for just 35–40% of household (HH) savings in India. Therefore, we estimate physical savings (= household investments) using stamp and registration charges (S&RCs) collected by the state governments. Our calculations suggest physical savings fell to 5.8% of GDP in 1QFY21, almost half that of pre-COVID levels. However, physical savings recovered strongly to reach a multi-year high of 13.7% of GDP in 3QFY21.**
- **Accordingly, as per our estimates, HH (gross) savings in India eased to 22.1% of GDP in 3QFY21 from the peak of 28.1% of GDP in 1QFY21. In other words, HH savings rose to 22.5% of GDP in CY20 from 19.8% of GDP in CY19.**
- **A comparison with other large nations reveals HH savings (as % of GDP) have increased across countries. However, the rise in HH savings in India in CY20 (=1.1x of CY19 levels) was the slowest vis-à-vis other nations (savings were as high as 5.4x in Japan). Interestingly, the slower growth in HH savings in India appears to be linked with weaker income growth – as decline of 6% YoY in India's private consumption was similar to or lower than that of other nations (except the US).**
- **Also, while HH savings have increased across countries, gross domestic savings (GDS) have declined, including in India. This is primarily attributable to government savings having decreased so sharply that they have almost entirely offset higher private (household + corporate) savings across nations.**
- **What does this mean for economic growth? A slower rise in HH savings, coupled with similar or slower decline in consumption, confirms with weak income growth in India. If so, then the contribution of pent-up demand in growth recovery would also be limited in India (compared with other nations).**

Household NFS is estimated to have fallen to 8.4% of GDP in 4QCY20…



Reported by CSO/RBI

…but multi-year high physical savings have kept household total savings high



Source: RBI, SEBI, CSO, CAG, CEIC, MOFSL

[1] Our estimates of Household financial savings differ slightly from the official estimates on quarterly/annual basis. There are two key reasons for differences: 1) information on household deposits is not readily available; and 2) Non-SCBs lending is defined differently (RBI seems to have taken personal loans of NBFCs as "Household liabilities", while we have included agricultural and trade loans also).
[2] To our mind, this is the first-ever attempt on this. In order to arrive at physical savings, we estimate household investments using 'stamp duties & registration charges' collected by states (available on monthly basis). Construction (real estate) sector accounted for 65-70% of household investments in the past four years and 'stamp duty & registration charges' were ~8% of construction investments during the period. Using these ratios, we have arrived at household investments, which are equal to physical savings (by definition).
[3] Government savings (= government income – final consumption expenditure) are different from fiscal deficit (= total spending - receipts). In other words, the former doesn't include fiscal transfers and investments.

HCL Tech: Expanding hiring of freshers based on demand; Krishna Bodanapu, MD & CEO

- Have provided a floor price on revenue growth for next year
- Fee a floor growth rate is a better measure to provide
- Lot of the deals that we have signed need to get executed
- Setting up offices for geographical expansion will be one-time exercise
- Have built in some level of return of travel expenses
- See a big opportunity in Digital Engineering in our ER&D segment
- Doubling down on our investments to build capabilities in Digital Engineering
- Expanding our hiring of freshers based on demand

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UPL: To convert 4 nitrogen plants for oxygen production; will supply to Delhi, Gujarat and MP; Jaidev Shroff, Global CEO

- Company used nitrogen as key products to produce medical oxygen. Will relocate oxygen to hospitals via existing piping system
- Consolidating our facilities and sending it to Gujarat and MP. Will be supplying oxygen to Delhi as well
- These plants are used as utility plants and not our main business. Oxygen production will not impact existing production
- Will be able to produce 4-5 tonnes of oxygen every day. Oxygen transportation to hospitals will be free of charge
- Most pharma and chemical companies would have a nitrogen plant
- Demand is looking good; globally, commodity prices are strong
- It’s going to be a good year from farmers’ view point
- Debottlenecking our plant to ensure supply of raw material for Remdesivir. Remdesivir is not a big revenue contributor for us
- FMC & company has partnered together to manufacture 50% of India’s production of Rynaxypyr
- Expect 3-4x increase in Rynaxpyr demand once it goes off patent

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Godrej Consumer: Refilling of stores difficult due to localised lockdowns; Sunil Kataria, CEO-INDIA & SAARC

- Localised lockdowns have impacted frontline market servicing
- Production hasn’t been impacted by the current lockdown
- Re-filling of stores has been difficult due to localised lockdowns
- Demand for essentials continues. Don’t think rural demand has slowed down yet
- Online and home delivery seeing continued benefit
- Will be important to see how modern trade adapts to home delivery
- Vaccination trend and managing COVID cases are the key monitorables

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Power Grid: Consistent cash flow of assets is the biggest incentive for investors; K Sreekant, CMD

- Shareholders to benefit from value unlocking and capex availability after InvIT
- To deploy part of InvIT IPO proceeds to re-deploy in future projects of company
- First InvIT from Maharatna PSU with 5 fully operational projects
- Consistent operations w/threshold of 98% with stable cash flow to benefit InvIT
- Consistent cash flow of assets is the biggest incentive for InvIT investors
- Power Grid as sponsor sees InvIT as preferred destination for monetisation of assets
- Potential of Rs. 22500 crore assets in Power Grid of which Rs. 5000 crore is operational
- No need of giving right of first refusal to InvIT on company's assets
- Stable, consistent cash flow of assets is the biggest incentive for InvIT investors

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UFLEX: Rajesh Bhatia, CFO

- Packaging films business grew 23% in FY21
- Saw double-digit growth in Q4 across all segments for the company
- Company sitting on a good margin currently. Have seen margin improvement in BoPET segment
- Seeing margin pressure in BoPP segment. Seeing some pent-up demand in healthcare segment
- Growth is highest in packaging and labelling segment

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GNA Axles: Outlook for exports look good for next few quarters; Ranbir Singh, President & CEO

- Company was able to cover for Q1FY21's losses in Q3 and Q4
- Expect similar kind of growth to continue for the next two quarters
- Outlook for exports look good for next few quarters
- Export order book stands strong
- Will able to utilise over 50% of capacities under LCV

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