MORNING INDIA

ASIAMONEY Brokers Poll 2020 (India)

Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	48,601	5.0	17.7
Nifty-50	14,281	4.7	17.2
Nifty-M 100	21,601	3.3	26.0
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,774	1.6	15.8
Nasdaq	13,403	2.5	47.4
FTSE 100	6,466	0.9	-15.0
DAX	13,622	1.4	1.8
Hang Seng	11,454	2.2	1.2
Nikkei 225	28,091	1.5	18.7
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	56	2.3	-15.4
Gold ($/OZ)	1,861	0.7	22.6
Cu (US$/MT)	7,806	-0.7	26.6
Almn (US$/MT)	1,971	-0.6	11.0
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.0	0.1	2.5
USD/EUR	1.2	-0.6	7.6
USD/JPY	104.9	0.2	-3.5
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	6.1	0.15	-0.4
10 Yrs AAA Corp	6.8	0.16	-0.8
Flows (USD b)	**1-Feb**	**MTD**	**CY21**
FIIs	0.20	2.18	1.98
DIIs	-0.01	-1.65	-1.63
Volumes (INRb)	**1-Feb**	**MTD***	**YTD***
Cash	930	930	784
F&O	38,537	38,537	36,079

Note: *Average

Today's top research idea

Union Budget 2021-22: Better transparency leads to higher fiscal deficit

No tax hikes and higher capital spending to support growth

- Budget 2021-22 was presented on 1 Feb'21 amid a challenging macro environment. With the first decline in nominal/real GDP in four decades, the Government of India (GoI) had to walk the tightrope, which they seem to have done.
- While the government has refrained from any kind of direct fiscal stimulus, there was nothing surprising in today's Budget data. Higher fiscal deficit number looks astonishing, but it is due to better accounting procedure, which is a much-needed welcome move. No change on the tax front is also highly appreciated.
- The much awaited rural spending allocation, which slows a considerable contraction in FY22, is largely on account of a very high base in FY21.
- We do not think there is much to worry about on this front too. However, the higher-than-expected market borrowing number may send jitters through the bond market.

Research covered

Cos/Sector	Key Highlights
Union Budget 2021-22	Better transparency leads to higher fiscal deficit
Automobiles wholesales	Jan'21: Recovery sustains
Cholamandalam Inv. & Finance	Healthy operating performance
Coromandel Inter	Broadly in-line numbers
MRPL	Margin continue to disappoint; expect a revival going forward
Engineering India	Order inflows key to further outlook

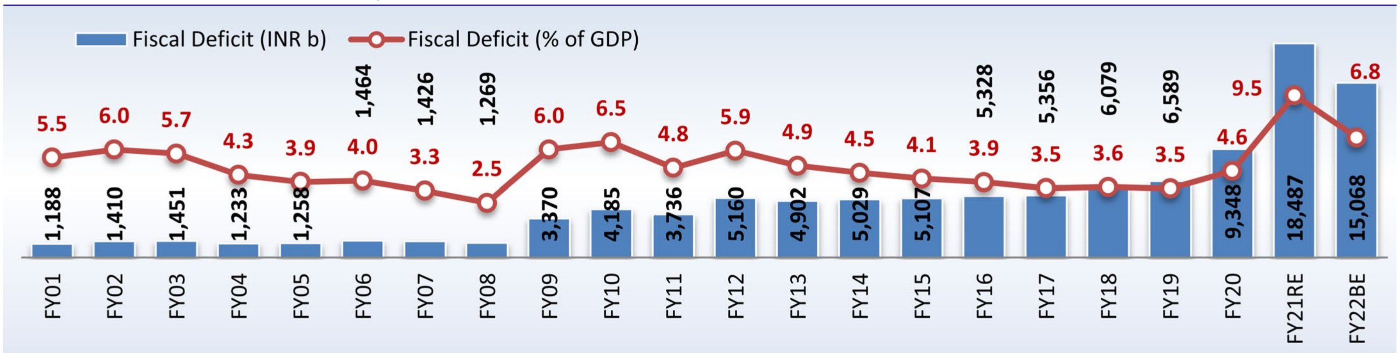
Piping hot news

Bank credit grows by 6.36%, deposits by 11.41%

Bank credit grew 6.36 per cent to Rs 106.41 lakh crore, while deposits increased by 11.41 per cent to Rs 146.25 lakh crore in the fortnight ended January 15...

Chart of the Day | Union Budget 2021-22: Better transparency leads to higher fiscal deficit

Trends in fiscal deficit over the past two decades



Source: Government, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Bank credit grows by 6.36%, deposits by 11.41%

Bank credit grew 6.36 per cent to Rs 106.41 lakh crore, while deposits increased by 11.41 per cent to Rs 146.25 lakh crore in the fortnight ended January 15, RBI data showed. In the fortnight ended January 17, 2020, bank credit was at Rs 100.04 lakh crore and deposits stood at Rs 131.27 lakh crore...

2

Barring PowerGrid, total investments by power PSUs to rise 19% to Rs 60,000 cr in FY22

The government has increased total investments by eight state-owned power companies, including REC Ltd, by over 19 per cent to Rs 59,990.52 crore for 2021-22. This compares to revised estimate of Rs 50,311.03 crore for the current financial year. REC Ltd witnessed highest increase of over 69 per cent in investment to Rs 9,300 crore crore, against Rs 5,500 crore budget estimates for 2020-21. This investment figure was not revised, according to the Budget document presented in Parliament on Monday...

3

Prices of refrigerator and AC likely to go up due to customs duty increase on compressor

Prices of refrigerator and air-conditioner are likely to go up marginally by around 1% due to a small increase in basic customs duty on their key component – compressor – by 2.5% and electric motors from 10% to 15%. At present, the domestic production capacity of these components is only 40% of the total requirements for refrigerators...

4

Centre allocates ₹73K cr to MGNREGA for next fiscal

The Centre has allocated ₹73,000 crore to the rural employment guarantee programme MGNREGA for the next fiscal 2021-22, substantially lower than the actual expenditure of ₹1.11 lakh crore in the current fiscal which included an additional ₹40,000 crore for the scheme given by the government in the wake of the pandemic's impact...

5

Premium and luxury car prices set to go up as FM spikes custom duty on a dozen auto parts

In a bid to further boost 'Make in India', Finance Minister Nirmala Sitharaman has increased import duty on over a dozen automotive parts by 5-7.5% ranging from safety glass to engine and gear components, electrical and wiring parts to brakes and pedal parts amongst others, a move that may spike the premium and luxury car prices by 1-2.5% or Rs 35000 to Rs 1.5 lakh depending on the vehicle and parts imported...

6

Government departments to add over 1.4 lakh jobs between 2019 and March 1, 2021

Over 1.4 lakh jobs are estimated to be created between March 2019 and March 2021 in various central government departments, according to the Union Budget presented on Monday. The strength of government establishments was 32,71,113 as on March 1, 2019,...

7

Gujarat to re-tender 700 MW solar projects to seek lower tariff

In the light of solar power tariffs reaching a record low of `1.99/unit, Gujarat will conduct another auction for 700 mega-watt (MW) of solar power plants to be built in Dholera, even as these projects were earlier auctioned. In the earlier auction completed in August, 2020,...

Better transparency leads to higher fiscal deficit

No tax hikes and higher capital spending to support growth

Budget 2021-22 was presented on 1 Feb'21 amid a challenging macro environment. With the first decline in nominal/real GDP in four decades, the Government of India (GoI) had to walk the tightrope, which they seem to have done. Though there is no large fiscal stimulus, the absence of any tax hikes and better fiscal math by this renewed and bold GoI provides extreme comfort.

- **<u>A large part of the higher fiscal deficit is due to better accounting:</u> The GoI has pegged fiscal deficit at 9.5% of GDP in FY21RE (Revised Estimate), much higher than consensus estimates of 7% of GDP. While the headline number looks scary, almost four-fifth (or 2pp of GDP) of this surprise was due to food/fertilizer subsidy, which the GoI has decided to take up on its books rather than keeping it off-Budget (through the Food Corporation of India, FCI). This transparency in fiscal math is highly appreciated and commendable (as we had <u>demanded</u> in CY19).**
- **<u>Higher market borrowings disliked by the debt market:</u> The GoI announced additional borrowings of INR800b in Feb-Mar'21. In fact, the budgeted fiscal deficit of 6.8% of GDP for FY22 is also higher than consensus (of 5.5% of GDP), due to which net market borrowings are pegged at INR9.2t, higher than our expectations of INR8-8.2t.**
- **<u>After many years, tax receipt estimates look realistic:</u> Apart from better accounting, it was refreshing to see that the GoI has budgeted achievable growth (16.6% YoY) in FY22, implying a tax buoyancy of 1.2x. While it is not ambitious, it is also not conservative. The government has budgeted ~22% growth in direct taxes, customs, and Goods & Services Tax (GST), along with a 7% YoY decline of in excise duties. Non-tax revenue receipts (expected to grow by 15.4% YoY) and the disinvestment target of INR1.75t are on the optimistic side. After many years, the receipt estimates are not as ambitious and more on the realistic side. The absence of any tax hikes were extremely comforting.**
- **<u>Focus on capital spending is also commendable</u>: With achievable receipt estimates, GoI has budgeted for 1% growth in total spending in FY22. It is important to note that this is on the back of 28.4% growth in FY21RE, which was due to very high subsidies. Excluding subsidies, spending is expected to grow 16% YoY in FY21RE, like in FY20. The same is budgeted to increase 11% YoY in FY22. The GoI has budgeted to grow capital spending substantially next year, so that it accounts for 16% of total spending, much higher than the 12.5% in the past few years.**
- **While the government has refrained from any kind of direct fiscal stimulus, there was nothing surprising in today's Budget data. While the higher fiscal deficit number looks astonishing, it is due to better accounting procedure, which is a much-needed welcome move. No change on the tax front is also highly appreciated. The much awaited rural spending allocation, which slows a considerable contraction in FY22, is largely on account of a very high base in FY21. We do not think there is much to worry about on this front too. However, the higher-than-expected market borrowing number may send jitters through the bond market.**

Market strategy

The FY22 Union Budget, the first since the COVID-19 pandemic outbreak, has been announced amid a challenging backdrop. While the economy and markets have rebounded sharply from the lows triggered by COVID, the economy still has massive ground to catch up. Ahead of the budget, a) fears/concerns of a potential increase in taxation for the super-rich / the imposition of a COVID 'cess' and b) hikes in capital gains taxes had kept the market nervous for the past couple of weeks.

However, these fears fortunately did not materialize, which cheered the markets. They rose ~5%, marking the best rally since 1997 on a budget day.

Growth revival is the central theme for this budget, and the finance ministry (FM) has chosen to use capex / infra investments as a vehicle to drive growth. The FM has significantly increased allocation to Healthcare given the backdrop of the COVID-19 pandemic. Allocations to several infrastructure schemes have also been enhanced (Roads and Water – Jal Jeevan Mission). Numerous important structural measures – such as a) the setting up of a development finance institution (DFI), b) establishment of asset reconstruction co. (ARC) / asset management co. (AMC) for the disposal of stressed assets, c) a comprehensive asset monetization plan, d) a scrappage scheme for the Automobile sector, e) an FDI hike in insurance to 74%, and f) potential divestments of two PSU banks and a GIC – stood as the key highlights.

No material push was seen in terms of consumption in the budget. However, we note from 3QFY21 corporate earnings that consumption demand revival is progressing quite well, with high-double-digit volume growth footprints from many staples and discretionary companies.

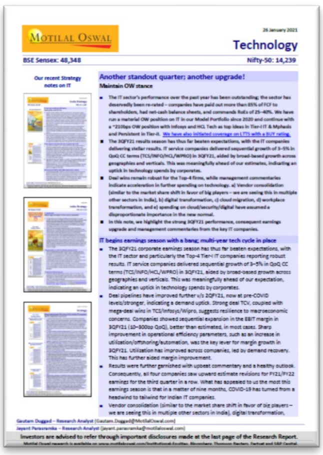
We would have also liked to see more incentives/push for the Real Estate sector, which is showing early signs of recovery after a prolonged period of stagnation.

Overall, from an equity market perspective, we believe the budget, on balance, has turned out well, with no negatives on the taxation front and several long-term structural initiatives that augur well for medium-term growth. The push for capex and investments could trigger the revival of an investment cycle, in our view, which could then spread to multiple sectors – Cement, Auto, BFSI, Metals, and Capital Goods. This is further corroborated by the commentary on capacity utilization from corporates that have reported 3QFY21 earnings thus far.

We believe once the fine-print is absorbed, the market focus would return to the fundamentals, viz. corporate earnings growth, which is showing tangible momentum – MOFSL Universe earnings growth is at 32% for 102 companies (v/s the expectation of 13% growth) and Nifty earnings growth is at 24% for 29 companies (v/s the expectation of 4% growth) that have posted earnings thus far. Earnings upgrades are seen for the second consecutive quarter. Incrementally, earnings drivers are shifting to cyclical, with Corporate Banks, Cement, and Metals driving growth. In our recent [model portfolio revision](), we have doubled our weights in Cement and added several cyclical plays from Auto/Metals, while maintaining our preference for Corporate Banks.

Top ideas: Large-caps: ICICI Bank, SBI, Axis Bank, UltraTech, M&M, L&T, Hindalco, Infosys, HCL Tech, Titan, Sun Pharma, HUL

Mid-caps: Ashok Leyland, SAIL, Shriram Transport, JK Cement, AU Finance, ICICI Securities, IEX, Crompton Consumer, Varun Beverages, L&T Technology



Automobiles

"Looking at growth in agriculture segment, I would have to think that the agri demand or the tractor demand that has been unbelievable up to now will continue to remain good for at least the rest of this rabi season and for the kharif season of next year. Then we will have to wait to see what happens in the rabi season of 2021."
Dr Pawan Goenka, MD & CEO, M&M

Jan'21: Recovery sustains…

…PV and Tractor demand strong; CV back on the growth path

Tractor wholesales were above estimates; PV and 2W wholesales were in-line; and CV and 3W were below estimates. PV OEMs are seeing strong demand and long waiting periods. Among 2W, HMCL was in-line, whereas TVS grew robustly. PV volumes grew ~5% YoY (in line with est.) and 2W (ex-BJAUT) volumes grew 8% YoY (in-line). CV grew 2.2% YoY (below est.), as LCV volumes rose 2.6% YoY (below est.) and M&HCV was up 1.7% (below estimate). 3W (ex-BJAUT) volumes declined 32% YoY (below estimate).

- **2W (ex-BJAUT) – in-line; 8.1% YoY growth:** Volumes grew 8.1% YoY. Inventory was at normal levels of 30–45 days. TVS grew 33.6%, while HMCL declined 3.1%. RE volumes grew 8.4% YoY (flat MoM).
- **PV – in line with est.; 5.2% YoY growth:** Sustained demand resulted in volume growth of 5% YoY, restricted by supply chain constraints. MSIL volumes grew 4% YoY (flat MoM) and MM (UV, incl. Pick-ups) volumes declined 17.6% YoY (+12.5% MoM). TTMT PV volumes continued on a strong growth path with 93% YoY growth.
- **CV – below est.; just 2% YoY growth:** Volumes for both the M&HCV and LCV segments were below estimates. With slower recovery in the Haulage segment and continued pressure in Buses, M&HCV volumes reflected slower-than-expected recovery – growth of ~2% (+9% MoM). LCV volumes grew 2.6% YoY (-9.2% MoM). AL volumes were up 10.8% YoY (+2.9% MoM), while TTMT CV volumes declined (-2.8% YoY). VECV also reported an increase (+2.3% YoY).
- **Tractor – above est.; 50% YoY growth:** Tractor volumes grew ~50% YoY as supply-side issues are slowly addressed. Increasing rabi acreage, with low inventory on ground, could support good wholesales numbers in the coming months. MM Tractor volumes grew 50.4% YoY and ESC grew 48.8% YoY.

Positive surprise (Var %)	In-line (Var %)	Negative surprise (Var %)
M&M (+8.2%)	EIM – RE (-0.5%)	AL (-11.8%)
Escorts (+10.2%)	MSIL (-3.6%)	TTMT – CVs (-10%)
TVS (+12.6%)	EIM –VECV (+3.2%)	
TTMT –PV (+10%)	Hero MotoCorp (-3.2%)	

Valuation and view: Jan'21 saw sustained demand across segments. With pent-up demand largely met, it would be critical for demand to sustain in 4QFY21 and beyond – considering the expected price hikes as well as opening up of public transport in many parts of the country. Current valuations suggest recovery is likely to sustain (our base case), leaving limited margin for safety from any negative surprises. 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. MM and MSIL are our top OEM picks. Among the auto component stocks, we prefer ENDU and MSS.

Snapshot of volumes for Jan'20 (incl. exports) *

	YoY			MoM						
Company Sales	**Jan'21**	**Jan'20**	**YoY (%) chg**	**Dec'20**	**MoM (%) chg**	**FY21 YTD**	**FY20 YTD**	**(%) chg**	**FY21E**	**Gr (%)**
2W	**8,49,372**	**7,85,581**	**8.1**	**7,74,569**	**9.7**	**75,21,864**	**88,92,997**	**-15.4**	**93,66,248**	**-7.6**
Cars	1,37,965	1,32,708	4.0	1,32,077	4.5	9,49,671	10,71,839	-11.4	12,28,316	-2.5
UV + MPV	81,992	76,404	7.3	77,761	5.4	5,85,083	7,22,213	-19.0	7,63,639	-6.5
PV	**2,19,957**	**2,09,112**	**5.2**	**2,09,838**	**4.8**	**15,34,754**	**17,94,052**	**-14.5**	**19,91,955**	**-4.1**
3W	15,394	22,618	-31.9	16,710	-7.9	1,08,891	2,03,713	-46.5	1,62,867	-25.5
M&HCV	25,803	25,366	1.7	23,682	9.0	1,19,937	2,21,510	-45.9	1,91,231	-24.0
LCV	30,058	29,310	2.6	33,108	-9.2	1,93,239	2,69,062	-28.2	2,73,896	-7.5
CV	**55,861**	**54,676**	**2.2**	**56,790**	**-1.6**	**3,13,176**	**4,90,572**	**-36.2**	**4,65,126**	**-15.1**
Tractor	43,799	29,179	50.1	30,150	45.3	3,78,556	3,37,714	12.1	4,41,970	13.9

** **2W**: HMCL, TVSL,EIM; **PVs**: MSIL, MM & TTMT; **3Ws**: TVSL & MM; **CVs**: TTMT, AL, MM, EIM; **Tractors**: MM, ESC;* Source: MOFSL

1 February 2021

3QFY21 Results Update | Sector: Financials

Cholamandalam Inv. & Finance

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USDb)	363.5 / 4.5
52-Week Range (INR)	465 / 117
1, 6, 12 Rel. Per (%)	6/90/17
12M Avg Val (INR M)	1984

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Total Income	40.6	49.9	57.8
PPP	24.8	35.1	40.2
PAT	10.5	18.1	23.6
EPS (INR)	12.8	22.1	28.7
EPS Gr. (%)	-15.4	71.8	30.3
BV (INR)	100	120	146
Ratios			
NIM (%)	6.0	7.2	7.5
C/I ratio (%)	38.9	29.7	30.5
RoAA (%)	1.7	2.7	3.2
RoE (%)	14.7	20.1	21.7
Payout (%)	15.8	8.2	7.0
Valuations			
P/E (x)	34.4	20.0	15.4
P/BV (x)	4.4	3.7	3.0
Div. Yield (%)	0.4	0.4	0.5

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.6	51.6	52.9
DII	27.4	29.1	21.5
FII	13.2	11.3	16.6
Others	7.8	7.9	9.0

FII Includes depository receipts

CMP: INR444 **TP: INR530 (+20%)** **Buy**

Healthy operating performance

- Cholamandalam Investment and Finance Company (CIFC) reported 5% YoY growth in PAT to INR4.1b (in-line). Operating profit grew 51% YoY, 11% above our expectation. However, higher-than-expected provisions (INR4.45b v/s INR3.5b) drove PAT in-line.
- We revise our topline and credit cost estimates for FY21/FY22E; as a result, our EPS is upgraded by 9%/18% for FY21/FY23E. Maintain a Buy rating.

Disbursements improve across products; higher focus on Used Vehicles

- From 13% YoY decline in 2Q, disbursements grew 6% in 3QFY21, led by ~40% growth in LAP and MSME disbursements. **ECLGS disbursements were INR15b in the quarter (VF – INR11.62b, LAP – INR3.84b).**
- Vehicle Finance (VF) disbursements were marginally above YoY levels at INR61b. Over the past 2–3 quarters, the company has almost stopped HCV disbursements – its share in VF disbursements now stands at 2–3%, from 15–18% a couple of years ago. The share of Used CV and Refinance disbursements has risen to 40% from 28–30% over this time period.
- **AUM grew 2% QoQ / 13% YoY to INR687b.** The overall product mix remained largely unchanged, with the share of VF/LAP at 73%/21%.

Spreads improve 40bp QoQ – a multi-quarter high

- Yield on loans compressed 20bp QoQ to 15.5%. Do note that this is on a high base. The company benefited significantly from lower cost of incremental funds, with CoF declining 60bp QoQ to 7.4%. Spreads, at 8.6%, were the highest in the past several quarters.
- The borrowing mix remained largely unchanged, with the share of bank loans at 60% and that of NCDs at 13%.
- Opex remains well-managed despite disbursements normalizing and the focus on collections. Opex fell 13% YoY to INR3.7b.

100bp increase in proforma GNPL ratio; building provision buffer

- **The proforma GNPL ratio increased 100bp QoQ to 3.8%. Stage 2 loans stood at 5.2% v/s 2.9% QoQ. Stage 1 loans include 1.6% restructured loans as well.**
- **CIFC shored up its Stage 1 and 2 provisions by ~50bp to 2% and Stage 3 provisions by ~200bp to 45%.**

Key management call highlights

- Collection efficiency (CE) against billing demand: Sep – 87%, Oct – 103%, Nov – 105%, Dec – 108%
- Proforma GS3 ratio: VF – 2.78%, LAP – 7.3%, HL – 3.8%

Valuation and view

Recovery in disbursements in 3QFY21 is encouraging. The company has been gaining market share across product segments. We expect CIFC to deliver AUM growth in the low-to-mid teens in the medium term. The margin should expand given lower cost of funds and reduced liquidity on the BS. The 100bp QoQ increase in the proforma GNPL ratio is commendable in the current environment. We upgrade our FY22E EPS estimate by 18%. **Maintain Buy, with TP of INR530 (3.0x FY23E BVPS).**

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	3QFY21E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	19,110	20,439	21,204	20,465	20,710	23,580	24,263	24,543	81,242	93,095	24,722	-2
Interest Expenses	10,870	11,769	11,924	11,359	11,307	11,852	11,404	11,626	45,922	46,188	11,970	-5
Net Interest Income	**8,240**	**8,670**	**9,280**	**9,107**	**9,403**	**11,728**	**12,859**	**12,917**	**35,319**	**46,906**	**12,752**	**1**
YoY Growth (%)	*19.3*	*17.2*	*21.6*	*15.9*	*14.1*	*35.3*	*38.6*	*41.8*	*3.8*	*32.8*	*17.8*	
Other Income	1,185	1,531	1,545	1,049	427	818	786	946	5,287	2,977	1	
Total Income	**9,425**	**10,201**	**10,825**	**10,156**	**9,830**	**12,546**	**13,644**	**13,863**	**40,607**	**49,883**	**12,753**	**7**
YoY Growth (%)	*16.2*	*24.6*	*23.7*	*13.0*	*4.3*	*23.0*	*26.0*	*36.5*	*19.3*	*22.8*	*17.8*	
Operating Expenses	3,500	4,016	4,244	4,016	3,458	3,551	3,688	4,124	15,776	14,821	3,803	-3
Operating Profit	**5,925**	**6,185**	**6,581**	**6,140**	**6,372**	**8,996**	**9,956**	**9,739**	**24,831**	**35,062**	**8,950**	**11**
YoY Growth (%)	*11.9*	*17.0*	*17.6*	*18.8*	*7.5*	*45.5*	*51.3*	*58.6*	*16.3*	*41.2*	*36.0*	
Provisions & Loan Losses	1,095	952	1,360	5,567	562	3,176	4,446	2,507	8,973	10,690	3,500	27
Profit before Tax	**4,830**	**5,233**	**5,221**	**573**	**5,810**	**5,820**	**5,511**	**7,232**	**15,857**	**24,372**	**5,450**	**1**
Tax Provisions	1,688	2,163	1,336	147	1,501	1,501	1,422	1,865	5,334	6,288	1,335	7
Net Profit	**3,142**	**3,070**	**3,885**	**427**	**4,309**	**4,319**	**4,089**	**5,367**	**10,524**	**18,084**	**4,115**	**-1**
YoY Growth (%)	*10.2*	*0.8*	*27.6*	*-85.4*	*37.1*	*40.7*	*5.2*	*1,158.1*	*-11.3*	*71.8*	*5.9*	
Key Parameters (Calc., %)												
Yield on loans	14.2	14.7	15.0	14.6	14.6	15.7	15.4	15.2	14.5	14.9		
Cost of funds	8.2	8.5	8.6	8.3	8.0	8.0	7.4	7.5	8.7	7.9		
Spread	6.0	6.2	6.4	6.4	6.7	7.8	8.0	7.8	5.8	7.1		
NIM	6.1	6.2	6.6	6.5	6.6	7.8	8.2	0.0	6.0	7.2		
C/I ratio	37.1	39.4	39.2	39.5	35.2	28.3	27.0	29.7	38.9	29.7		
Credit cost	0.8	0.7	0.9	3.7	0.4	1.9	2.6	1.4	1.6	1.6		
Tax rate	34.9	41.3	25.6	25.6	25.8	25.8	25.8	25.8	33.6	25.8		
Balance Sheet Parameters												
Disbursements (INR b)	**86**	**74**	**75**	**69**	**36**	**65**	**79**		**291**	**263**		
Growth (%)	22.2	7.0	-0.7	-22.4	-58.1	-12.5	6.0		-4.5	-9.5		
AUM (INR b)	**575**	**593**	**608**	**605**	**635**	**672**	**687**		**606**	**704**		
Growth (%)	26.8	24.2	20.6	11.6	10.4	13.3	13.1		11.6	16.2		
AUM mix (%)												
Vehicle finance	74.8	74.0	73.4	73.0	73.7	73.3	72.6		72.8	71.8		
Home Equity	21.1	21.3	21.4	21.4	20.6	20.6	21.0		21.6	21.2		
Home loans & Others	4.2	4.7	5.2	5.6	5.6	6.0	6.3		5.6	6.9		
Borrowings (INR b)	**551**	**559**	**549**	**550**	**585**	**606**	**620**		**550**	**627**		
Growth (%)	46.3	18.8	16.3	8.8	6.2	8.4	12.9		8.8	13.9		
Asset Quality Parameters												
GS 3 (INR B)	16.7	18.0	20.2	21.6	20.0	17.6	17.0		21.6	28.3		
GS 3 (%)	3.0	3.2	3.5	3.8	3.3	2.8	2.6		3.9	4.4		
NS 3 (INR B)	10.7	11.8	13.6	12.7	11.7	10.1	9.4		12.7	19.8		
NS 3 (%)	1.9	2.1	2.4	2.3	2.0	1.6	1.5		2.2	3.1		
PCR (%)	36.1	34.4	33.0	41.5	41.6	42.7	44.9		45.2	30.0		
Total ECL (%)	1.7	1.8	1.9	2.7	2.4	2.6	3.1		2.7			
Vehicle finance AUM mix (%)												
LCV	21.6	21.3	21.1	21.3	21.2	20.9	20.4					
Cars & MUV	16.3	16.5	17.0	17.2	17.1	17.0	17.0					
3W & SCV	5.8	6.1	6.3	6.4	6.2	6.2	5.9					
Used CV	25.0	25.5	26.0	26.0	25.7	25.9	26.9					
Tractor	7.4	7.4	7.6	7.7	8.7	9.2	9.6					
HCV	16.4	15.3	13.6	12.7	11.9	11.1	10.1					
CE	4.9	4.9	4.9	5.0	5.3	5.5	5.8					
Two wheeler	2.6	3.1	3.5	3.7	3.9	4.2	4.3					

Source: Company, MOFSL

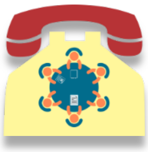
Coromandel International

BSE SENSEX	S&P CNX
48,601	14,281

CMP: INR830 Buy

Broadly in-line numbers

Conference Call Details



Date: 2nd Feb 2021
Time: 2:30pm IST
Dial-in details:
+91-22-6280 1149

- Coromandel International (CRIN)'s overall revenue was up 8% YoY to INR35.3b (est. INR37.7b) in 3QFY21. The Crop Protection segment grew 11% YoY to INR5.1b and Nutrient & Other Allied Businesses segment grew 7% YoY to INR30.5b.
- EBITDA margins expanded 1000bp to 14.1% (est. 13.4%) – RM cost as a percentage of sales: 67.3% in 3QFY21 v/s 68.5% in 3QFY20, employee cost: 4.1% v/s 3.7%, freight cost: 6.4% v/s 7.2%, and other expenses: 8.1% v/s 7.4%.
- EBITDA was up 16% YoY to INR4.99b (est. INR5.04b).
- The EBIT margin expanded 60bp to 13.4% for Nutrient & Other Allied Businesses and 210bp to 17.5% for the Crop Protection business.
- Adj. PAT was up 26% YoY to INR3.3b (est. INR3.4b), led by EBITDA growth and lower interest cost (down 55% YoY to INR205m).

Quarterly Performance (INR b)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var
Consolidated	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Sales	**21.3**	**48.6**	**32.8**	**28.7**	**32.1**	**46.1**	**35.3**	**30.9**	**131.4**	**144.5**	**37.7**	**-6**
YoY Change (%)	-15.7	-3.0	7.5	8.8	50.8	-5.1	7.8	7.7	-0.7	10.0	15.1	
Total Expenditure	19.4	41.4	28.5	24.8	28.0	37.7	30.3	26.5	114.1	122.6	32.7	
EBITDA	**2.0**	**7.1**	**4.3**	**3.9**	**4.1**	**8.4**	**5.0**	**4.4**	**17.3**	**21.9**	**5.0**	**-1**
Margins (%)	9.2	14.7	13.2	13.6	12.8	18.3	14.1	14.1	13.2	15.2	13.4	
Depreciation	0.3	0.4	0.4	0.5	0.4	0.4	0.4	0.5	1.6	1.7	0.4	
Interest	0.8	0.7	0.5	0.4	0.4	0.3	0.2	0.1	2.4	1.0	0.1	
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.1	
PBT before EO expense	**1.0**	**6.1**	**3.5**	**3.1**	**3.4**	**7.8**	**4.5**	**3.9**	**13.8**	**19.6**	**4.6**	
Extra-Ord expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
PBT	**1.0**	**6.1**	**3.5**	**3.1**	**3.4**	**7.8**	**4.5**	**3.9**	**13.8**	**19.6**	**4.6**	
Tax	0.3	1.1	0.9	0.8	0.9	2.0	1.1	1.0	3.1	5.0	1.2	
Rate (%)	34.3	18.1	25.4	25.5	26.5	25.1	25.4	25.2	22.8	25.4	25.2	
Minority Interest & P/L of Asso. Cos.	0.00	0.00	0.00	0.00	-0.03	-0.02	-0.02	0.00	-0.01	-0.06	0.00	
Reported PAT	**0.6**	**5.0**	**2.6**	**2.3**	**2.5**	**5.9**	**3.3**	**2.9**	**10.7**	**14.6**	**3.4**	**-2**
Adj PAT	**0.6**	**5.0**	**2.6**	**2.3**	**2.5**	**5.9**	**3.3**	**2.9**	**10.7**	**14.6**	**3.4**	**-2**
YoY Change (%)	-30.8	30.8	71.0	105.3	301.4	16.9	26.2	24.5	43.1	37.5	29.3	
Margins (%)	2.9	10.4	8.1	8.2	7.8	12.8	9.4	9.4	8.1	10.1	9.1	

MRPL

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	MRPL IN
Equity Shares (m)	1,753
M.Cap.(INRb)/(USDb)	62.1 / 0.9
52-Week Range (INR)	46 / 21
1, 6, 12 Rel. Per (%)	-3/-32/-42
12M Avg Val (INR M)	65

Financials & Valuations (INR b)

Y/E March	2021E	2022E	2023E
Sales	277.9	454.1	469.0
EBITDA	3.2	26.8	35.5
Adj. PAT	(3.9)	6.9	12.6
Adj. EPS (INR)	(2.2)	4.0	7.2
EPS Gr. (%)	(85.5)	(275.9)	81.2
BV/Sh.(INR)	42.3	45.4	51.1
Ratios			
Net D:E	1.2	1.1	0.9
RoE (%)	(5.2)	9.0	14.8
RoCE (%)	(1.5)	6.8	9.4
Payout (%)	-	20.0	20.0
Valuation			
P/E (x)	(15.8)	9.0	5.0
P/BV (x)	0.8	0.8	0.7
EV/EBITDA (x)	53.0	6.1	4.3
Div. Yield (%)	-	2.2	4.0
FCF Yield (%)	(8.7)	24.9	32.5

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	88.6	88.6	88.6
DII	2.7	2.9	3.6
FII	0.6	0.6	1.5
Others	8.1	8.0	6.4

FII Includes depository receipts

CMP: INR36 | **TP: INR38 (+6%)** | **Neutral**

Margin continue to disappoint; expect a revival going forward

- MRPL reported a miss on EBITDA due to lower than estimate refining margin and higher opex during 3QFY21.
- Refining throughput saw a gradual improvement during 3QFY21 (came in better than our estimate), implying a utilization of ~82%.
- During the recent commissioning of the Kochi-Mangalore pipeline, MD Mr. M Venkatesh said the refinery is ready to consume ~0.5mmscmd of gas immediately from the pipeline. Modification of the gas turbine is underway (completion by FY21-end), post which consumption should reach ~1mmscmd. Usage of gas would aid profitability in the current subdued refining margin environment.
- We believe refining margins would revive from current levels as demand normalizes for petroleum products across the globe (as COVID lockdowns are phased out completely) and due to closure of refinery complexes (estimated ~3mnbopd over the next 2-3 years).
- Dependence on the Nethravathi River until the desalination plant comes on stream in CY21 would continue to impact performance. Reiterate Neutral.

EBITDA came in lower than our estimate…

- EBITDA was a miss at INR0.9b (v/s our estimate of -55%, -66% YoY), led by higher opex. Refining opex stood at USD4/bbl (v/s USD2.6 in 3QFY20).
- Forex gain was higher than our estimate at USD0.5b. Higher depreciation was offset by lower interest income.
- MRPL recognized DTA of INR0.34b during 3QFY21 (amounting to INR2.9b for 9MFY21). PAT loss stood at INR0.7b (v/s our estimated loss of INR1.2b and INR0.4b in 3QFY20).
- For 9MFY21, EBITDA/PAT loss stood at INR2.2b/INR5.5b (v/s a loss of INR4.4b/INR11.1b in 9MFY20).

…due to lower than estimated refining margin and higher opex

- Refining throughput came in 6% higher than our estimate at 3.1mmt (-25% YoY) as product demand improved gradually over 3QFY21.
- Reported GRM stood at USD3.3/bbl (v/s our estimate of USD3.5/bbl).
- The company reported inventory gain of USD2.8/bbl, resulting in core GRM of USD0.4/bbl (v/s USD2.7 in 3QFY20).
- For 9MFY21, refining throughput stands at 7.5mmt (-28% YoY), with core GRM at USD0.2/bbl (v/s USD1 in 9MFY20).

Valuation and view

- MRPL's refinery complex has been facing major challenges in terms of fresh water shortage from the Nethravathi River. The company is setting up a seawater desalination plant, which is likely to be completed by 2Q-3QFY22.
- The stock trades at 5x FY23E EPS of INR7.2 and 4.3x FY23E EV/EBITDA.
- We value the stock at an EV of 5x FY23E EBITDA to arrive at a fair value of INR44/share for the standalone refinery and deduct INR7/share for OMPL. Our target price stands at INR38 per share. Maintain Neutral.

Standalone quarterly earning model **(INR b)**

Y/E March	FY20				FY21				FY20	FY21E		Variance v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY2E	estimate
Net Sales	**92.8**	**132.0**	**143.9**	**141.3**	**44.7**	**61.8**	**79.5**	**91.8**	**510.0**	**277.9**	**73.0**	**9%**
YoY Change (%)	-31.5	-2.6	-7.1	-20.9	-51.8	-53.2	-44.7	-35.0	-17.8	-45.5	-49.3	
EBITDA	**-4.7**	**-2.4**	**2.8**	**-14.1**	**-4.8**	**1.6**	**0.9**	**5.4**	**-18.5**	**3.2**	**2.1**	**-55%**
Margin (%)	-5.1	-1.8	1.9	-10.0	-10.7	2.6	1.2	5.9	-3.6	1.1	2.9	
Depreciation	1.9	2.0	2.0	2.0	2.0	2.1	2.3	2.3	7.8	8.7	2.0	11%
Forex loss	-0.3	2.2	-0.2	5.1	0.1	-0.7	-0.5	0.0	6.9	-1.2	0.0	0%
Interest	1.4	2.3	1.8	1.9	1.3	0.0	0.6	1.1	7.4	3.0	2.2	-71%
Other Income	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	1.1	1.3	0.3	30%
PBT before EO expense	**-7.6**	**-8.7**	**-0.4**	**-22.7**	**-8.0**	**0.6**	**-1.0**	**2.4**	**-39.6**	**-6.0**	**-1.8**	**-43%**
PBT	**-7.6**	**-8.7**	**-0.4**	**-22.7**	**-8.0**	**0.6**	**-1.0**	**2.4**	**-39.6**	**-6.0**	**-1.8**	**-43%**
Tax	-2.6	-3.0	-0.1	-6.8	-2.8	0.2	-0.3	0.8	-12.5	-2.1	-0.6	4
Rate (%)	34.5	34.2	18.5	29.8	34.8	38.4	31.9	33.3	31.5	34.5	33.3	
Reported PAT	**-5.0**	**-5.7**	**-0.4**	**-16.0**	**-5.2**	**0.4**	**-0.7**	**1.6**	**-27.1**	**-3.9**	**-1.2**	**-42%**
Adjusted PAT	**-5.0**	**-5.7**	**-0.4**	**-16.0**	**-5.2**	**0.4**	**-0.7**	**1.6**	**-27.1**	**-3.9**	**-1.2**	**-129%**
Margin (%)	-5.4	-4.4	-0.3	-11.3	-11.6	0.6	-0.9	1.8	-5.3	-1.4	-1.7	
Key Assumptions												
Refining throughput (mmt)	2.6	3.7	4.1	3.8	1.9	2.5	3.1	3.6	14.2	11.0	2.9	6%
Reported GRM (USD/bbl)	-0.4	0.7	3.2	-4.5	-1.5	3.9	3.3	4.5	-0.3	2.5	3.5	-7%

E: MOFSL estimate

Engineers India

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ENGR IN
Equity Shares (m)	674
M.Cap.(INRb)/(USDb)	46 / 0.6
52-Week Range (INR)	99 / 50
1, 6, 12 Rel. Per (%)	-9/-16/-43
12M Avg Val (INR M)	190

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	32.0	28.4	27.5
EBITDA	4.4	2.9	4.2
PAT	4.3	3.6	4.7
EBITDA (%)	13.8	10.1	15.4
EPS (INR)	6.8	5.6	7.5
EPS Gr. (%)	16.3	(17.0)	32.6
BV/Sh. (INR)	34.8	35.5	36.3
Ratios			
Net D/E	(1.4)	(1.3)	(1.3)
RoE (%)	18.3	14.9	19.3
RoCE (%)	20.8	16.9	21.8
Payout (%)	87.7	87.7	87.7
Valuations			
P/E (x)	10.7	12.9	9.7
P/BV (x)	2.1	2.1	2.0
EV/EBITDA (x)	4.2	7.3	5.2
Div Yield (%)	7.1	5.9	7.8
FCF Yield (%)	7.7	5.7	9.7

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.5	51.5	51.5
DII	21.3	23.0	23.3
FII	5.6	4.4	8.6
Others	21.7	21.1	16.6

FII Includes depository receipts

CMP: INR73 TP: INR85 (+17%) Buy

Order inflows key to further outlook

Adverse revenue mix and higher provisioning affect margin

- ENGR's 3QFY21 revenue was above our estimate, with the beat entirely owing to higher revenue in the Turnkey segment. Operating profit came in 24% lower than our estimate, owing to an adverse revenue mix (57% share of Turnkey segment revenue) and lower margin owing to higher provisioning on a YoY basis.
- The buyback proposal for acquisition of 69.9m shares (~11% of total shares) at INR84/share began on 22 Dec'20 and is expected to be completed by 5 Feb'21. The same would happen via a tender offer. The Government of India (GoI) will participate, with a stipulation of maintaining its shareholding at 51% post buyback (51.5% at present). If fully subscribed, the buyback would entail a cash outgo of INR7.2b. (Current cash on book: ~INR25b).
- Order inflows in 3Q/9MFY21 stood at INR1.9b/ INR8.6b (-48%/-41% YoY), thereby raising concerns as the management attributed the same to delay in ordering activity and shifting of some orders in FY22E.
- Order book (OB) declined 18% YoY to INR83b, with OB-to-revenue ratio at 2.9x – the lowest in the last four years. Despite superior execution and lower order inflows, a depleting order book remains a concern, though it is not alarming at this stage. We cut our FY22E/FY23E EPS estimate by 5% each and maintain our **Buy** rating with a new TP of INR85/share (from INR90/share).

Revenue above our estimate; adverse mix affects profitability

- **3QFY21 snapshot:** Revenue stood at INR8.4b, down 6% YoY and **13% above our estimate**. The beat on revenue was owing to higher revenue in the Turnkey segment **(57% of total revenue).** EBITDA stood at INR751m, down 12% YoY (24% below our estimate). EBITDA margin fell 60bp YoY to 9% **owing to adverse revenue mix**. PBT stood at INR1.2b, down 19% YoY (largely due to lower other income). Adjusted PAT stood at INR882m**,** down 19% YoY (26% below our estimate).
- **Segmental snapshot: Consultancy -** 3QFY21 revenue fell 2% YoY to INR3.5b, (11% below our estimate). EBIT margin stood at 25.4% (+70bp YoY). Order inflow stood at INR1.9b. **Turnkey -** 3QFY21 revenue stood at INR4.8b, down 9% YoY **(40% above our estimate)**. EBIT margin stood at 1.4% (-160bp YoY).

Segment-wise order inflow and order book position

- All orders bagged in 3QFY21 were in the Consultancy segment, with domestic/overseas orders of INR1.8b/INR59m.
- OB for the Consultancy segment fell 8% YoY to INR42.4b, while that for the Turnkey segment declined 27% YoY to INR40.6b. Overseas orders constituted 28% of total Consultancy segment OB (INR11.9b).

Highlights from the management commentary:

- The management guided at Turnkey/Consultancy margins of 2-3%/25-27% based on current OB.
- In the Turnkey segment, ENGR is executing the Rajasthan refinery and HPCL projects, which were won at competitive prices. Hence, there are provisions being made for these projects, which led to lower margin YoY. Any reversal of provisions in the future could lead to higher margin.
- Lower other income was due to reduced interest rate on fixed deposits.
- ENGR expects INR1b of orders from Numaligarh refinery and some orders from the Kaveri basin in 4QFY21. Its FY22 order inflow target stands between INR15b and INR20b.

Valuation and view

We cut our FY22E/FY23E EPS estimate by 5% each. We forecast a revenue/EBITDA/PAT CAGR of -1%/24%/16% over FY21-23E. We expect a reversal in revenue mix in favor of the Consultancy segment to aid profitability over FY21-23E. We maintain a Buy with a TP of INR85 per share, assigning INR49 to its core business (10x FY22E core EPS) and INR36 for cash on its books.

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	MOSLe	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Variance
Net Sales	**7,349**	**7,237**	**8,906**	**8,538**	**4,678**	**6,834**	**8,367**	**8,514**	**32,031**	**28,394**	**7,432**	**13**
YoY Change (%)	28.2	6.2	54.4	39.4	-36.3	-5.6	-6.1	-0.3	31.0	-11.4	-16.6	
Total Expenditure	5,954	6,168	8,050	7,428	4,464	6,062	7,617	7,391	27,600	25,533	6,440	
EBITDA	**1,395**	**1,069**	**856**	**1,110**	**214**	**773**	**751**	**1,124**	**4,430**	**2,861**	**992**	**-24**
Margin (%)	19.0	14.8	9.6	13.0	4.6	11.3	9.0	13.2	13.8	10.1	13.3	
Depreciation	57	58	56	67	53	60	51	71	238	234	65	
Interest	3	4	4	6	4	5	4	4	17	17	4	
Other Income	583	655	657	685	497	533	480	652	2,580	2,161	680	
PBT	**1,917**	**1,663**	**1,453**	**1,722**	**653**	**1,241**	**1,176**	**1,701**	**6,755**	**4,770**	**1,603**	**-27**
Tax	676	986	366	425	172	314	294	421	2,453	1,201	404	
Rate (%)	35.3	59.3	25.2	24.7	26.4	25.3	25.0	24.7	36.3	25.2	25.2	
Reported PAT	**1,241**	**678**	**1,087**	**1,297**	**481**	**927**	**882**	**1,280**	**4,302**	**3,570**	**1,199**	**-26**
Adjusted PAT	**1,241**	**678**	**1,087**	**1,297**	**481**	**927**	**882**	**1,280**	**4,302**	**3,570**	**1,199**	**-26**
YoY Change (%)	43.3	-30.7	19.7	36.7	-61.3	36.8	-18.8	-1.3	16.3	-17.0	10.3	
Margin (%)	16.9	9.4	12.2	15.2	10.3	13.6	10.5	15.0	13.4	12.6	16.1	

Disclosures:

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