ASIAMONEY Brokers Poll 2020 (India)

Best Local Brokerage

Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	50,256	0.9	21.7
Nifty-50	14,790	1.0	21.4
Nifty-M 100	22,435	1.4	30.9
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,830	0.1	17.6
Nasdaq	13,611	0.0	49.7
FTSE 100	6,508	-0.1	-14.4
DAX	13,934	0.7	4.1
Hang Seng	11,652	0.4	2.9
Nikkei 225	28,647	1.0	21.1
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	58	1.7	-11.8
Gold ($/OZ)	1,834	-0.2	20.9
Cu (US$/MT)	7,852	0.8	27.4
Almn (US$/MT)	1,973	0.1	11.2
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.0	0.0	2.5
USD/EUR	1.2	-0.1	7.3
USD/JPY	105.0	0.0	-3.4
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	6.1	-0.04	-0.4
10 Yrs AAA Corp	6.8	-0.04	-0.8
Flows (USD b)	**3-Feb**	**MTD**	**CY21**
FIIs	0.35	1.53	3.16
DIIs	-0.05	-0.35	-1.93
Volumes (INRb)	**3-Feb**	**MTD***	**YTD***
Cash	978	994	805
F&O	42,118	40,781	36,586

Note: *Average

Today's top research theme

India Strategy: 3QFY21 interim earnings review

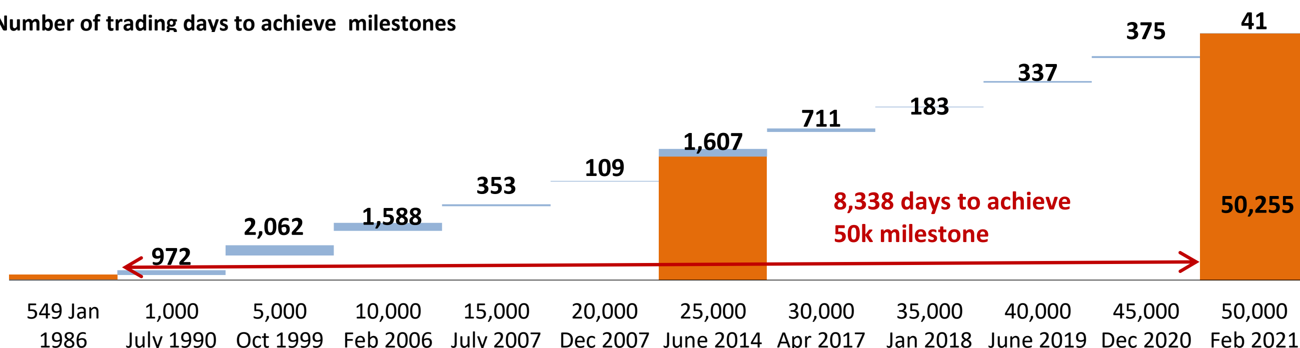
- 111 MOFSL Universe and 30 Nifty companies have announced their results as of 2nd Feb'21. Companies that have reported earnings thus far comprise: (a) 70% of est. PAT for the MOFSL Universe, (b) 70% of est. PAT for the Nifty, (c) 62% of India's market capitalization, and (d) 81% of the Nifty 50 index weight.
- The 3QFY21 earnings season has maintained the momentum of the 2QFY21 results season. Nifty profits for the 30 companies that have posted their results have grown 23% YoY (v/s exp. of 4% growth). On the other hand, for the 111 companies in the MOFSL Universe, profit growth stood at 32% YoY (v/s exp. of 13% growth). 40 companies from our Coverage Universe have seen upgrades of more than 5%, while just 12 companies have seen cuts of more than 5%.
- What is driving the beat? [1] Sharp demand recovery is seen with the opening up of the economy and the number of COVID-19 cases being contained, coupled with continued cost-saving initiatives; [2] the festive season has boosted consumption demand across the Staples/Durables/Discretionary sectors; [3] sharp rebound is observed in the cyclical sectors - Metals and Cement reported better-than-expected performances on elevated expectations; [4] IT companies reported another quarter of solid beats and upbeat commentaries, with bulging deal pipelines; and [5] the BFSI sector saw robust operational delivery, especially in the large-cap banks, with 70%+ PCR and minimal restructuring in the loan books.

Research covered

Cos/Sector	Key Highlights
India Strategy	Sensex closes at 50K mark; 1st time in its history
	3QFY21 interim earnings review
Bharti Airtel	Healthy ARPU improvement led by subscriber mix
Hindalco	Novelis continues to surprise on margins
P & G Hygiene	Stellar performance continues; upgrade to Buy
Jubilant FoodWorks	In line result, outlook improving
PI Indus	Strong earnings growth momentum continues
The Ramco Cement	Weaker regional mix leads to miss on margins
Other Notes	Indian Hotels | Castrol | Thermax | Security & Intel | EcoScope

Chart of the Day: India Strategy (Sensex closes at 50K mark; 1st time in its history)

Sensex's journey from 500 to 50,000!



Source: NSE, MOFSL

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

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

In the news today

Kindly click on textbox for the detailed news link

1

Railways set to complete 56 key infra projects in 26 months

Indian Railways plans to complete 56 key existing projects over the next 26 months, starting February, to boost rail infrastructure, Railway Board chairman and chief executive officer Suneet Sharma said on Wednesday. The national transporter will focus…

2

Passenger traffic at airports in tier 2, 3 cities higher than pre-COVID levels: IATA

Passenger traffic at airports in tier 2 and 3 cities of the country is higher than pre-COVID levels, a senior official of global airlines body IATA said on Wednesday. "In domestic, we have seen a strong expansion in new destinations and the deployment of new flights. Unused and under utilised airports in India are starting to see additional passenger activity," Amitabh Khosla, country director of International Air Transport Association (IATA) said during a seminar at Aero India 2021…

3

DoT accepts telcos' plea to accept bank guarantees valid for 1 year

The Department of Telecommunications (DoT) has accepted a petition from mobile phone companies seeking a truncated tenure for bank guarantees with a validity of one year instead of the mandated three as lenders are reluctant to provide fresh backing for a longer period…

4

Indian steel mills hike prices despite customs duty cut

Indian steel mills increased the price of the benchmark hot rolled coil by Rs 1,000-1,500 per tonne on Wednesday, despite a reduction in the customs duty on a list of steel products announced in the union budget as a move to bring down high domestic prices. State-run Steel Authority of India hiked the price by around Rs 1,000 per tonne…

5

Govt places second purchase order with SII for 1 crore doses of Covishield

The Centre on Wednesday placed a second purchase order with the Serum Institute of India for the supply of one crore doses of Oxford-AstraZeneca COVID-19 vaccine 'Covishield', each costing Rs 210, including GST, sources said. The HLL Lifecare, a public sector undertaking, on behalf of the Union health ministry issued the supply order in the name of Prakash Kumar Singh, Director, Government and Regulatory Affairs at Serum Institute of India (SII), Pune…

6

Bharti Airtel to raise up to ₹7,500 crore

Bharti Airtel Ltd will raise up to ₹7,500 crore through debt instruments such as debentures and bonds in one or more tranches, the company said in a statement on Wednesday. The fundraising has been announced as the telecom sector prepares for the upcoming spectrum auction in March…

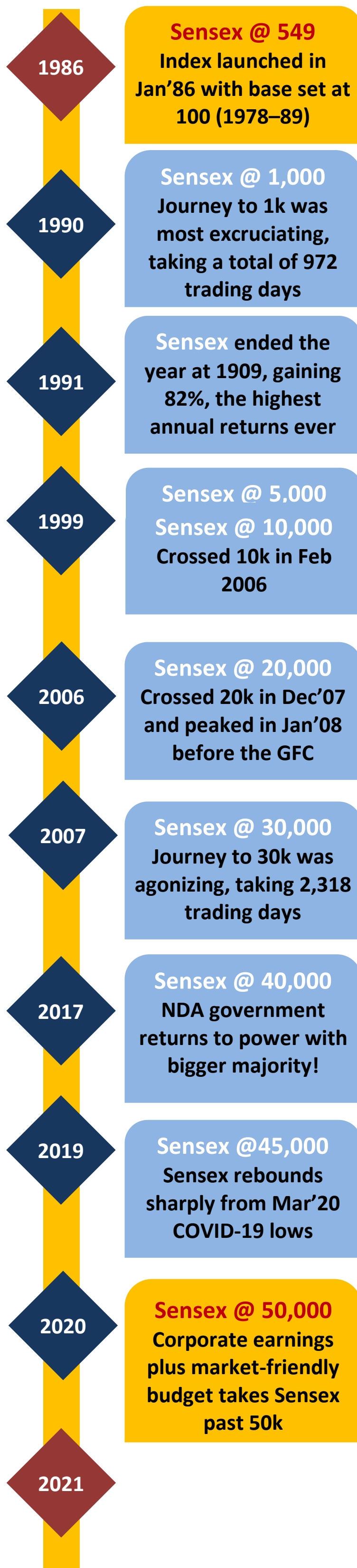
7

Few mid, emerging corporates opt for RBI's one-time restructuring: Report

Very few corporates from the mid and emerging segments opted for the Reserve Bank of India's (RBI) one-time debt restructuring following respite from various government schemes such as the Emergency Credit Line Guarantee Scheme (ECLGS) and a faster recovery…

India Strategy

BSE Sensex: 50,256 **S&P CNX: 14,790**



Sensex closes at 50K mark; 1st time in its history

In flashback – 1986 to 2021

- For the first time in history, the Sensex has closed above the psychological mark of 50k on 3rd Feb 2021. While the first 25k took ~28 years, the second 25k milestone has come in the last ~7 years. The index has, indeed, come a long way from its humble beginnings in 1986, when it traded at 549, while setting the base year of 1978–79 as 100. On this spectacular journey, the Sensex has mirrored the economic growth of the country from the pre-liberalization phase to now emerge as one of the top economies of the world while overcoming the challenges of Asian financial crisis, dot com bubble, Global financial crisis, taper tantrum to covid pandemic and coming out triumphant.
- The recent sprint to 50k now in Feb'21, from pandemic lows of 26k in Mar'20 – amid lockdowns and other health challenges – has been led by a benign global liquidity backdrop, better containment of COVID-19 cases, sharp recovery in corporate earnings, and a market-friendly budget.
- In this note, through select interesting exhibits, we traverse the Sensex's journey from 549 in 1986 to 50k today.

Sensex up 91x in ~35 years – a non-linear journey

- While traversing its journey from 549 to 50k, the Sensex, up 91x, has delivered 13.6% CAGR returns in the last 35 years. While the returns have been impressive, this has been a non-linear journey (as shown in Exhibit 3).
- CY'1991 – the year in which India ushered in a new era by breaking the barriers of the 'License-control Raj' – was the best year of annual returns, with the Sensex delivering 82% gains. On the other hand, CY2008, the year of the Global Financial Crisis (GFC), was the worst year, with the Sensex ending the year with a 52% decline.
- In the last 35 years, the Sensex has given calendar annual returns of >20% over 14 years, while it fell more > 10% over 7 calendar years.
- The Sensex's journey from 549 to 5k was the most excruciating, as it took a total of 3,034 trading days (almost 14 years). The move from 20k to 25k was also prolonged (1,607 trading days or 6.5 years) as the markets took time to recover from the long phase of correction in the aftermath of the GFC in 2008. On the other hand, the move from 45k to 50k has been the quickest as it has been covered over just 41 days. Of course, as the levels move higher, every 1k point journey implies lower percentage returns.

Sunrise and Sunset: Some sectors gained prominence, others have faded

- Over the years, the sectoral representation of the Sensex has undergone a world of change. In fact, the representation of sectors remains in consonance with the changes in the underlying economy. The Sensex in Mar'90 had zero representation from private sector banks and was dominated by industrial sectors such as Metals, Cement, and Capital Goods. With a) the change in the economy from Manufacturing to Services over the past three decades and b) the rise of the private sector post liberalization, the sectoral representation in 2021 is vastly different from that of 1990.

- The Top 2 sectors in 2021 – Private Banks (28.5%) and Technology (17.7%) – had zero representation in the Sensex in 1990. Similarly, NBFCs, with 12.4% weight in the Sensex, had zero weight in 1990.
- Cement and Capital Goods have also seen massive decline in weights to 1.3%/3.4% now in 2021 from 12.5%/10% in 1990. With Tata Steel being replaced in the Sensex with Dr Reddy's Labs in Dec'20, the Sensex now has zero representation from Metals – a sector which had 26.3% weight in 1990. Similarly, Fertilizers (5.8%), Textiles (4.3%), Shipping (2.5%), Paper (1.6%), and Hotels (1.0%) are no longer a part of the Sensex.
- Consumer and Auto weights have dropped to 10.2%/4.3% in 2021 from 14.7%/12% in 1990. On the other hand, sectors that have gained weight include Oil & Gas (from 7.3% to 12%), largely on account of Reliance. Healthcare and Utilities have seen minor increase in weights.

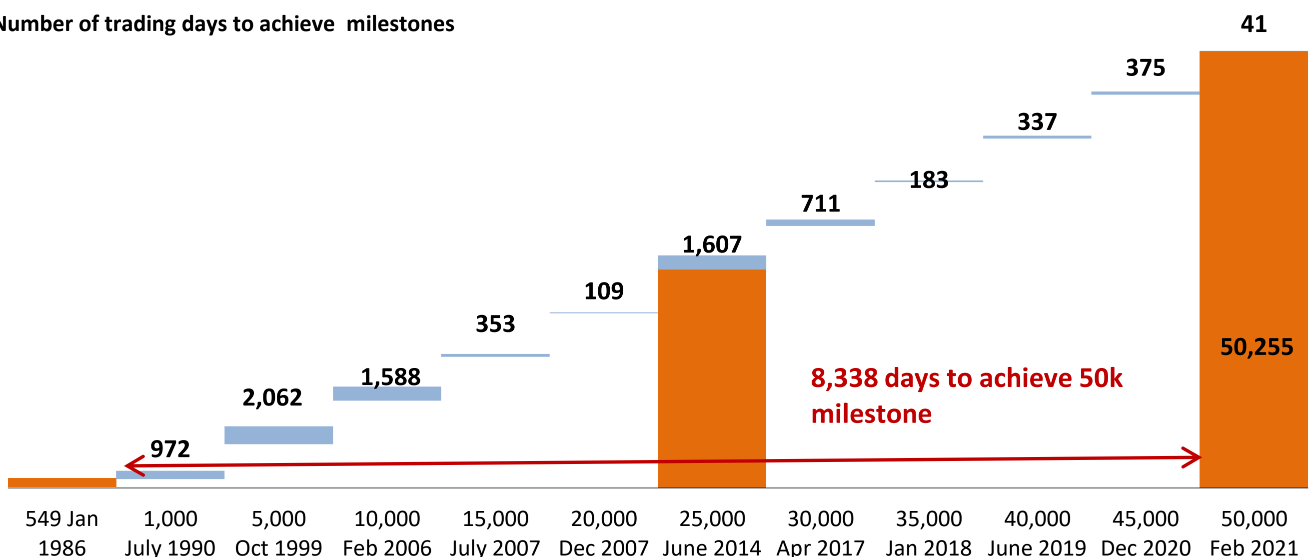
Only four companies have traversed the entire journey!

- Out of the 30 stocks in the Sensex, only four companies – RIL, HUL, ITC, and L&T – have been a part of the index's journey since inception.
- The combined market-cap of these four companies has grown at a CAGR of 23% between Jan'1988 and Feb'2021. This can be broken down into two phases – one wherein the market cap expanded at a CAGR of 32% between Jan'1988 and Dec'2007 and another wherein an 8% CAGR was reported between Dec'2007 and Jan'2021.

Valuation multiples changed in line with underlying change in constituents

- In line with the change in the underlying composition of the Sensex, the valuation multiples of the Sensex have also moved up.
- The average P/E multiple of the Sensex between April'1993 and Feb'2021 stands at 16.6x; however, the average for the last 10 years is 19.5x.

Exhibit 1: Sensex's journey from 500 to 50,000!



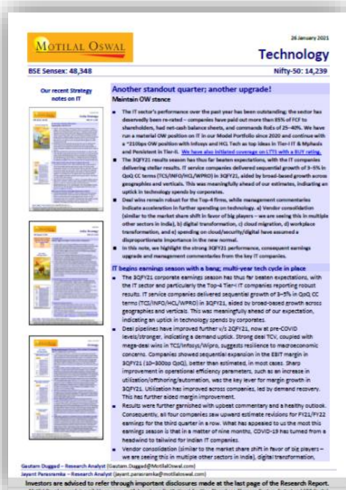
Source: NSE, MOFSL

India Strategy

BSE Sensex: 50,255 | **S&P CNX: 14,790**

Refer to our Dec'20 Quarter Preview

Our recent Strategy notes


Technology

Another standout quarter; another upgrade!

Maintain OW stance

3QFY21 interim earnings review

Big beat and upgrades; upbeat commentary; Nifty EPS revised up by 2–4% for FY21/FY22

- **111 MOFSL Universe and 30 Nifty companies have announced their results as of 2nd Feb'21. Companies that have reported earnings thus far comprise: (a) 70% of est. PAT for the MOFSL Universe, (b) 70% of est. PAT for the Nifty, (c) 62% of India's market capitalization, and (d) 81% of the Nifty 50 index weight.**
- **The 3QFY21 earnings season has maintained the momentum of the 2QFY21 results season – continued big beats and upgrades, and upbeat corporate commentaries have been reported across sectors and companies. Nifty profits for the 30 companies that have posted their results have grown 23% YoY (v/s exp. of 4% growth). On the other hand, for the 111 companies in the MOFSL Universe, profit growth stood at 32% YoY (v/s exp. of 13% growth). The beat in earnings in 3QFY21 came despite an unfavorable base v/s 2QFY21. 40 companies from our Coverage Universe have seen upgrades of more than 5%, while just 12 companies have seen cuts of more than 5%.**
- **What is driving the beat? [1] Sharp demand recovery is seen with the opening up of the economy and the number of COVID-19 cases being contained, coupled with continued cost-saving initiatives; [2] the festive season has boosted consumption demand across the Staples/Durables/Discretionary sectors; [3] sharp rebound is observed in the cyclical sectors – Metals and Cement reported better-than-expected performances on elevated expectations; [4] IT companies reported another quarter of solid beats and upbeat commentaries, with bulging deal pipelines; and [5] the BFSI sector saw robust operational delivery, especially in the large-cap banks, with 70%+ PCR and minimal restructuring in the loan books. The earnings season is further supplemented by a pro-growth budget, with the focus being on a) capital expenditure and infrastructure investments, b) multi-year fiscal expansion, c) several structural initiatives, and d) a stable taxation regime.**
- **KEY SECTORAL INSIGHTS: [1] IT: Headline numbers are strong; 7 out of 12 companies have reported beats on a PAT basis, while 11 out of 12 have seen upward earnings revision for FY22. Companies' deal pipelines have improved further v/s 2QFY21, now at pre-COVID levels / stronger, indicating a demand uptick. [2] Consumption: Most companies have reported strong volume growth as demand recovery has led to strong beats on the topline and profitability. [3] Metals: All five companies that have reported thus far have beaten expectations, led by higher underlying commodity prices and volumes. [4] Banks: Large private banks have reported strong results, with asset quality remaining robust as well. The restructured portfolio remains at 0.25–0.5% of the total loan book – much lower than earlier envisaged. [5] Cement: Healthy realization and cost savings have resulted in 100% profit growth for the Cement Universe thus far – even as inflationary pressures in some cost items are now evident.**

Key 3QFY21 result highlights

- **The 30 Nifty companies have reported sales/EBITDA/PBT/PAT at -3%/19%/25%/23% YoY (v/s est. -3%/12%/9%/4% YoY). 18 of these Nifty companies have beaten our PAT expectations, while 5 have missed. On the EBITDA front, 16 have surpassed, 8 have missed, and 6 have met our expectations.**

- **For the MOFSL Universe, sales/EBITDA/PBT/PAT growth stands at -1%/24%/36%/32% YoY (v/s est. -2%/16%/19%/13% YoY).**
- **The earnings upgrade/downgrade ratio for 3QFY21 is skewed in favor of upgrades. 40 MOFSL Universe companies have reported upgrades of more than 5% (of which 20 companies have seen upgrades of more than 10%), while 12 have posted downgrades of more than 5%.**
- **Among the Nifty constituents, Bajaj Auto, Tata Motors, L&T, UltraTech Cement, Asian Paints, HDFC Bank, ICICI Bank, IndusInd Bank, HDFC, Cipla, Sun Pharma, JSW Steel, IOC, HCL Tech, Tech Mahindra, and Wipro have exceeded our profit estimates. On the flip side, Dr Reddy's, HDFC Life, SBI Life, and Bajaj Finance have missed expectations.**
- **There has been a 3.9%/2.0% upgrade in FY21/FY22E Nifty EPS estimates to INR536/INR713 (from INR516/INR699). We are now building in Nifty EPS growth of 15% for FY21E.**
- **Within the MOFSL Universe, at the sector level, Auto, Banks, Consumer Durables, and Technology have seen earnings upgrades of more than 5%. On the contrary, Life Insurance and Oil & Gas have sustained earnings downgrades.**
- **View: Continued demand improvement, coupled with cost rationalization, has been the key highlight of the 3QFY21 earnings season. Earnings growth and upgrades have been broad-based, with almost all of the mainstream sectors beating our expectations. As discussed in our 3QFY21 Strategy preview, the cyclical sectors are driving incremental earnings. Government focus on fiscal expansion and capex spending augurs well to revive the long-anticipated private investment cycle. We expect the earnings momentum to sustain with further revival in the economy, the number of COVID-19 cases being contained, and the benefit of a low base ahead. The Nifty at 20.7x FY22 EPS is not inexpensive anymore and demands consistent earnings delivery ahead. In an otherwise buoyant macro and micro context, rising bond yield may cap equity valuations. Therefore, the earnings delivery assume greater importance to sustain these valuations.**

Key sectoral trends from 3QFY21 earnings

- **Technology:** 3QFY21 marks the second sequential quarter of mid-single-digit QoQ revenue growth (+4.9% QoQ USD cumulatively) for our large-cap IT Services Coverage Universe – despite adverse seasonality (furloughs and fewer working days) and a high base (6.1% QoQ USD growth in 2Q). This has been the strongest 3Q performance in terms of growth for large-cap IT players in five years and stands significantly ahead of our estimates. Most companies have reported strong deal wins, with improved visibility on growth going forward. Management commentaries have also highlighted a strong tech spending environment, with a high focus on cloud migration. Moreover, the cumulative EBIT margin for the Top 5 IT services companies has increased 90bps QoQ – despite wage hikes and employee additions weighing on the margin – aided by all-time high utilization rates and the shift to offshore deliveries. Total headcount additions for 3Q stood at 39k, against net decline of 3k employees in the past nine months. This provides further assurance on sustained growth momentum in our IT Services Universe. We still believe this is the early phase of the technology spend cycle and remain confident that the sector would report growth in the mid-teens in FY22.
- **Banks:** The business momentum has improved across business segments, with disbursements in many business segments – such as Tractor, 2W, Housing, and

Gold Loans – exceeding pre-COVID levels. Also, demand for LCV and Corporate Loans is showing signs of revival, while SME lending is supported by the ECLGS scheme. Growth in deposits remains strong, with the CASA mix showing a positive bias. Asset quality has been much better than earlier expected, led by improved collection efficiency, controlled slippages (proforma), and low restructuring (v/s earlier indicated). Large banks are better placed with high proforma provision coverage and lower restructuring, while mid-sized banks – such as RBL, DCB, and Bandhan – appear to be marginally more stressed and expect higher provisions in the near term. Overall, we expect a strong earnings rebound in large banks, led by moderation in credit cost and improved operating performances (as business trends gradually revive). We increase our earnings estimate for AXSB by 21%/10% for FY22/FY23. IIB earnings have also been upgraded by 35%/14% for FY22/FY23E; the earnings estimate for ICICIBC has been increased by 20%/3% for FY21/FY22.

- **NBFCs:** Recovery in Auto demand in 3QFY21 is not only encouraging but also meaningfully ahead of our expectations. Business volumes are near pre-COVID levels for most of the vehicle financiers. While MSME lending is yet to return to normal levels, the bulk of the momentum has been supported by ECGLS lending. Housing financiers have witnessed a strong quarter on all fronts – they are seeing MoM improvement and have surpassed YoY levels. NBFCs have diversified into newer borrowing sources such as retail NCDs and ECBs. Across financiers, liquidity on the books is gradually reducing. This, coupled with declining cost of funds, is likely to have a positive impact on margins in the ensuing quarters. Asset quality has shown resilience across companies, driven by robust collection efficiency and minor restructuring. We believe the provisioning cover across our Coverage Universe is adequate and a spike in credit costs is unlikely. For the coming year, we build in a strong earnings revival, driven by better operating performances and controlled credit costs.
- **Consumer:** Results of companies in both the Staples and Discretionary categories have thus far been highly impressive. In Staples, Dabur is once again the standout (similar to 2QY21) with 18% volume growth in 3QFY21. MRCO and HMN have also reported early to mid-teen volume growth, while HUVR's performance has been in line with expectations. In Discretionary, strong demand revival, good festive demand, and pent-up demand have resulted in robust outperformance by APNT and PIDI on all fronts – with the demand momentum expected to be strong going forward as well. UBBL's results have also been better than our expectations. While UNSP has reported continued healthy sequential improvement, it has been the only company thus far in our Coverage Universe to perform below expectations – in what has been a stellar quarter for consumer companies thus far. Strong rural growth continues to lead overall volume growth. However, urban demand, which had declined YoY in the preceding three quarters, has also started contributing positively to both volumes and the mix. An increase in ad spends YoY – after spends remained muted in 1HFY21 – also suggests a growing confidence among companies on incremental growth prospects. Sustained cost-saving efforts – even after growth revival and significant rationalization of channel inventory (v/s the pre-COVID period) – have also been a point of encouragement. A combination of higher material costs and urban recovery would result in improved price factor and a

better mix, further aiding topline growth prospects – even as the volume growth outlook remains buoyant.

- **Auto:** 3QFY21 results have been a mixed bag, influenced by the timing difference in RM cost inflation reflecting in the P&L. While MSIL and ESC have seen a commodity cost impact of 2–3pp QoQ, BJAUT & TVSL have not reported any major impact in 3Q; expect a similar impact of ~3pp in 4Q. TTMT has been the standout thus far, with an all-round beat and strong performance across business verticals. Overall, volume recovery has led to operating leverage and sustained low other costs have supported profitability. The demand outlook remains positive for PV and Tractor. 2W demand is expected to remain subdued in the domestic market in the near term, although exports would sustain the momentum. Cost inflation is likely to sustain due to commodity cost inflation, an increase in variable marketing costs in some segments (such as 2W and CV), and the return of some other costs.
- **Pharma:** Nine companies have reported their earnings to date. The aggregate performance has been very strong, with 12%/34%/70% YoY growth reported in sales/EBITDA/PAT. a) A superior product mix, b) favorable currency benefits, and c) extended operational cost savings have led to better operating margins. This has been further supported by a lower tax rate for the quarter. Segment-wise, Domestic Formulation sales are starting to pick up, with 14% YoY growth (12% adj. for the Wockhardt portfolio addition in the case of DRRD) seen in the quarter on an aggregate basis. Operational costs are increasing, albeit at a slower pace than sales growth, owing to which superior profitability is maintained. US sales have grown 4.4% YoY on an aggregate basis, marking the second consecutive quarter of growth. This is largely attributable to niche launches and minimal price erosion in the base business. Management commentaries have been encouraging over the medium term, driven by better execution in focus geographies.
- **Cement:** 3QFY21 results have been impressive thus far, with companies that have reported their results showing robust growth of 40% YoY in EBITDA. This has been driven by a) 12% YoY volume growth, b) ~2% YoY realization growth, and c) ~3% YoY decline in total cost per ton (supported by reduced fixed overheads and operating leverage benefit) – resulting in 28% YoY growth in EBITDA/t. UltraTech (UTCEM)'s result was particularly impressive, with net debt falling 22% QoQ to INR94.4b (the lowest in three years), coupled with 47% YoY growth in EBITDA. Working capital has remained in check, led by both lower inventory and receivables. Management commentary on demand has also been positive as demand in Infrastructure and Urban Real Estate has seen an uptick. However, variable cost is expected to rise in the near term due to higher prices of petcoke and imported coal, which would fully reflect in the P&L in 1QFY22.
- **Metals :** 3 out of 4 steel companies (JSP, JSTL, and SAIL) have reported their results thus far, posting the highest ever quarterly EBITDA in 3QFY21. Aggregate EBITDA for these companies has risen 211% YoY to INR156b. PAT stands at INR76.4b (v/s loss of INR6.3b in 3QFY20). Robust performances in the steel companies have been led by the highest ever margins, backed by strong pricing and lower coking coal costs. This also helped companies reduce their debt significantly. SAIL and JSP have each reduced their debt by 12% QoQ to INR443b

and INR256b, respectively. JSTL, however, has reported a marginal 2% QoQ debt reduction to INR518b on account of higher capex and the acquisition of Asian Color Coated for INR15.5b. JSTL's volumes have declined 4% YoY to 3.9mt, whereas JSP/SAIL has posted volume growth of 11%/1% YoY to 1.8mt/4.1mt (on higher capacity utilization). With spot pricing higher by ~INR9,000/t over 3QFY21, the average earnings outlook for 4QFY21 is much stronger, which should result in accelerated deleveraging.

Operating performance beats expectations; recovery on track

- **Aggregate performance for MOFSL Universe:** Sales/EBITDA/PBT/PAT growth at -1%/24%/36%/32% (v/s est. -2%/16%/19%/13% YoY)
- **Top companies that beat estimates:** Bajaj Auto, Tata Motors, L&T, UltraTech Cement, Asian Paints, HDFC Bank, ICICI Bank, IndusInd Bank, HDFC, Cipla, Sun Pharma, JSW Steel, IOC, Reliance, HCL Tech, Tech Mahindra, and Wipro
- **Top companies that missed estimates**: Axis Bank, HDFC Life Insurance, SBI Life Insurance, Bajaj Finance, and Dr Reddy's Labs
- **Top FY22E upgrades:** Tata Motors (36.5%), IndusInd (35.5%), Axis Bank (21.4%), Wipro (14.9%), Asian Paints (8.1%), Cipla (8.1%), Sun Pharma (7.4%), Tech Mahindra (6.9%), and Bajaj Auto (5.1%)
- **Top FY22E downgrades**: HDFC Life Insurance (-6%), SBI Life (-5.7%), and Dr Reddy's Labs (-5.3%)

Bharti Airtel

BSE SENSEX	S&P CNX
50,256	14,790

INR Billion	FY20	FY21E	FY22E
Net Sales	869.4	1,017.7	1,115.9
EBITDA	360.2	464.2	568.5
Adj. PAT	-40.7	6.2	29.3
EBITDA Margin (%)	41.4	45.6	50.9
Adj. EPS (INR)	-7.5	1.1	5.4
EPS Gr. (%)	-14.6	-115.3	371.6
BV/Sh. (INR)	141.4	116.2	121.6
Ratios			
Net D:E	1.5	2.1	1.9
RoE (%)	-5.5	0.9	4.5
RoCE (%)	3.7	13.9	7.2
Div. Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	13.0	10.1	8.2
P/E (x)	-81.5	534.2	113.3
P/BV (x)	4.3	5.2	5.0
Div. Yield (%)	0.0	0.0	0.0

CMP: INR609 — Buy

Healthy ARPU improvement led by subscriber mix

India Wireless EBITDA improved despite no tariff hike

- Bharti Airtel (BHARTI)'s consol. revenue was up 6% QoQ to INR265.2b (in-line on LTL).
- Consol. EBITDA was up 9% QoQ to INR120.5b (5% above est.) on healthy operating leverage in the Wireless and Africa businesses.
- The consolidated EBITDA margin was up 190bp QoQ to 45.5% (180bp above estimate).
- Subsequently, reported net profit stood at INR13.5b. Excluding INR45.6b of exceptional cost and INR99b profit from the Indus Tower de-merger adjustment, adjusted net loss after minority stood at INR2.98b v/s –INR7.4b QoQ (est. net profit of INR5.3b).

India Wireless EBITDA up 13% QoQ (10% above est.) despite no tariff hike

- Revenue was up 6.8% QoQ to INR147.8b (2% above est.), led by 2%/5% growth in ARPU/subs.
- EBITDA was up 12% QoQ to INR65.8b. (5% beat), with incremental EBITDA margins at a healthy 73%. Network opex was up just 2% despite continued investments, whereas SG&A expenses were increased by 7%, possibly to gain subscriber market share.
- ARPU continued to see a steady uptick – it came in 2% QoQ higher at INR166 (v/s est. INR164). This was led by a mix benefit from healthy 4G subs adds and revenue recovery from the COVID-19 impact. ARPU has improved 8% since 4QFY20, without any tariff hike!
- Subscribers jumped strongly for the second quarter in a row by 14.2m (RJio added 1.7m), highlighting that it has continued to gain the lion's share of VIL's subscriber loss.
- 4G subs adds were at 12.9m – the second straight quarter of high adds for the company – accounting for nearly 90% of industry adds. For the past six months, BHARTI's pace of subscriber additions has grown robustly and consistently.
- Data traffic grew 11% QoQ to 8.5b GB (16.8 GB/user). BHARTI's data traffic and data subscribers are ~50% of RJio's levels, with the capacity gap much lower. This highlights a healthy network capacity and room for improvement.
- MOU remained stable at 1,027min (up 2%).

Rebound in Africa nos surpasses 1QFY21 loss; EBITDA up 14% QoQ

- Africa revenue/EBITDA jumped by a strong 8%/12% CC. In reported currency, it increased 7%/10% to INR76.4b/INR35.9b.
- Subs/ARPU was up 2%/4% as both Voice and Airtel Money saw good offtake.

Other segments present tailwinds

- Home revenue/EBITDA declined 4%/8% QoQ to INR5.7b/INR3.3b with the recent price cuts taken to match RJio. However, subscriber growth has shown good elasticity - 8% growth v/s 1-3% growth earlier - which should offset the impact in the coming quarters. Also, the no. of cities covered has consistently increased to 219 from 103 over the last four quarters.
- Enterprise revenue was flat (up 1% QoQ) at INR36.2b while EBITDA grew 5% QoQ to INR13.5b.
- Passive revenue fell 47% due to the deconsolidation of Indus Towers post the Bharti Infratel-Indus Towers merger.
- Digital revenue grew 5% to INR7.9b while EBITDA was flat at INR5.6b.

Rise in capex slows FCF; net debt rises due to AGR

- Capex remained high at INR68.6b (INR173b in 9MFY21). Operating FCF was strong at INR53.1b.
- 4G base stations/towers continue to see strong 31k/8k adds to 568k/207k, in addition to a healthy 4000km ramp-up in fiber.
- Net debt increased by INR45b to INR1,145b due to Bharti Infratel's deconsolidation, which has a net cash position. Including lease liability of INR324b, net debt stood at INR1,474b, raising net debt to EBITDA to over 3x on an FY21 basis as well as interest cost by 5%.

Key positives

- **EBITDA beat, despite no price hike:** Consol rev/EBITDA jumped 6%/9% QoQ (5% beat); India Mobile EBITDA grew 12% QoQ despite no price hike. Despite no tariff hikes over the last three quarters, ARPU is up 8% and India Wireless EBITDA is up 30% (from 4QFY20 levels).
- **Quality 4G subscriber adds aid ARPU:** India Mobile added a strong 12.9m 4G subscribers (~5m monthly) – the second straight quarter of the highest 4G adds (except the 3QFY20 disruption quarter). This is also reflected in a consistent ARPU increase of 2% to INR166. Gross subscriber adds were also healthy at 14.4m.
- **Other segments offer tailwinds:** Africa reported strong EBITDA growth of 12% CC. Home posted 7% decline in EBITDA, but has a strong 8% subscriber adds and increased coverage, which should prove advantageous in the coming quarters.
- **Superior network capacity:** Despite robust data traffic volumes of 8.5b GB (16.8 GB/user), data traffic / subscribers stood at ~50% of RJio's levels, thus highlighting healthy network capacity and room for improvement. It has 568k base stations (closer to RJio's levels) with 207k unique broadband towers.

Negatives

- **High capex driving down FCF:** Capex rose to INR67.9b (v/s INR39.8b in 1QFY21); thus, FCF post interest slowed to INR13.3b (v/s INR36.1b in 1QFY21). With 1HFY21 capex at INR108b v/s the full-year estimate of INR200b, there is a risk of upward capex revision.
- **Deconsolidation of Bharti Infratel raises net debt, interest cost:** Both net debt and interest cost rose due to the deconsolidation of Bharti Infratel – net debt was up by INR45b to INR1,145b and interest cost increased 5%, taking the net debt to EBITDA to >3x.

Consolidated – Quarterly Earnings Model **(INR b)**

Y/E March	FY20				FY21				FY20	FY21E	3Q	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			FY21E	Var (%)
Revenue	**207**	**211**	**213**	**237**	**239**	**251**	**265**	**263**	**869**	**1,018**	**267**	0.9*
YoY Change (%)	3.3	3.5	5.5	15.1	15.4	18.6	24.2	10.7	7.6	17.1	28.6	
Total Expenditure	125	123	126	136	135	140	145	134	509	554	146	-0.9
EBITDA	**83**	**89**	**87**	**102**	**104**	**111**	**121**	**129**	**360**	**464**	**121**	5.1*
YoY Change (%)	23.1	41.9	40.2	53.3	25.7	24.9	38.3	26.8	39.8	28.9	38.4	-13
Depreciation	68	69	68	71	72	73	75	84	276	305	78	-3.2
Net Finance cost	32	29	33	41	35	38	40	29	135	142	36	9.0
Other Income	1	4	1	10	6	-2	-2	4	16	6	5	-132.1
PBT before EO expense	**-15**	**-6**	**-13**	**0**	**4**	**-2**	**4**	**19**	**-34**	**24**	**12**	-66.1
Extra-Ord expense	15	307	11	70	117	0	46	0	402	164	0	
PBT	**-30**	**-313**	**-23**	**-70**	**-114**	**-2**	**-42**	**19**	**-437**	**-139**	**12**	-445.8
Tax	-6	-85	-12	-20	38	4	43	7	-123	93	5	
Rate (%)	20.2	27.1	49.8	29.0	-33.6	-167.6	-103.7	40.0	28.2	-66.7	40.0	
Minority Interest & P/L of Asso. Cos.	5	2	6	3	7	7	5	-10	15	10	2	
Reported PAT	**-29**	**-230**	**-10**	**-52**	**-159**	**-8**	**9**	**21**	**-322**	**-137**	**5**	59.6
Adj PAT	**-14**	**-11**	**-11**	**-5**	**-4**	**-7**	**-3**	**21**	**-41**	**6**	**5**	-155.8
YoY Change (%)	366.1	16.4	3.8	-60.4	-68.8	-33.7	-72.4	-546.2	16.6	-115.3	-138.2	

E: MOFSL Estimates

*LTL basis

India Mobile: Operating Metrics

India - Wireless KPIs	3QFY20	2QFY21	3QFY21	*YoY%*	*QoQ%*	3QFY21E	*v/s Est (%)*
Wireless traffic (b min)	759	861	925	*21.9*	*7.4*	899	*2.9*
Total subscribers (m)	283	294	308	*8.8*	*4.8*	296.7	*3.8*
Data subscribers (m)	138	162	175	*26.2*	*7.7*	174.3	*0.2*
4G subscribers	123.8	152.7	165.6	*33.8*	*8.5*		
ARPU (INR)	135	162	166	*23.0*	*2.5*	164	*1.0*
MOU (min)	898	1005	1027	*14.4*	*2.2*	1015	*1.2*
Data Traffic (b MB)	5,547	7,640	8,454	*52.4*	*10.7*	8,590	*-1.6*
Data usage/sub (MB)	13,928	16,409	16,766	*20.4*	*2.2*	17,017	*-1.5*
Monthly churn (%)	2.6	1.7	1.9	*-68bps*	*22bps*	1.7	*22bps*

Bharti Airtel – Consolidated Segment wise Summary (INR m)

	3QFY20	2QFY21	3QFY21	YoY%	QoQ%	3QFY21E	v/s Est (%)
Revenue							
Mobile India	1,11,654	1,38,319	1,47,788	32.4	6.8	1,44,556	2.2
Telemedia	5,546	5,873	5,674	2.3	-3.4	6,099	-7.0
Enterprise	33,177	35,821	36,215	9.2	1.1	36,537	-0.9
Passive Infrastructure*	6,035	7,246	3,833	-36.5	-47.1	18,000	-48.1
Digital TV	7,922	7,548	7,892	-0.4	4.6	7,833	0.8
South Asia	1,155	1,116	1,060	-8.2	-5.0	1,138	-6.9
Others	116	22	13	-88.8	-40.9	22	-42.1
Africa	62,692	71,660	76,441	21.9	6.7	74,084	3.2
Eliminations	-8,829	-9,758	-9,905	12.2	1.5	-21,649	NM
Consolidated Revenue*	**2,19,468**	**2,57,847**	**2,69,011**	**22.6**	**4.3**	**2,66,622**	**0.9**
EBITDA							
Mobile India	40,109	58,919	64,599	61.1	9.6	62,788	2.9
Telemedia	3,302	3,424	3,151	-4.6	-8.0	3,556	-11.4
Enterprise	12,125	13,377	14,018	15.6	4.8	13,645	2.7
Passive Infrastructure*	8,782	9,293	0	-100.0	-100.0	9,470	-100.0
Digital TV	5,441	5,351	5,291	-2.7	-1.1	5,553	-4.7
South Asia	105	115	38	-63.7	-66.8	-4	-1103.7
Others	0	0	0	NM	NM	0	NM
Africa	28,193	32,444	35,864	27.2	10.5	33,369	7.5
Eliminations	-10,894	-7,091	-7,721	-29.1	8.9	-7,728	-0.1
Consolidated EBITDA*	**87,164**	**1,10,697**	**1,20,530**	**38.3**	**8.9**	**1,20,648**	**5.1**
Consolidated EBITDA (Adj. for Ind-As 116)	**71,776**	**95,309**	**1,05,142**	**46.5**	**10.3**	**1,05,260**	**-0.1**
EBITDA margin (%)							
Mobile India	35.9	42.6	43.7	779bps	111bps	43.4	28bps
Telemedia	59.5	58.3	55.5	-401bps	-277bps	58.3	-277bps
Enterprise	36.5	37.3	38.7	216bps	136bps	37.3	136bps
Passive Infrastructure	145.5	128.3	0.0	-14552bps	-12825bps	52.6	-5261bps
Digital TV	68.7	70.9	67.0	-163bps	-384bps	70.9	-384bps
Mobile South Asia	9.1	10.3	3.6	-550bps	-670bps	-0.3	394bps
Africa	45.0	45.3	46.9	195bps	164bps	45.0	188bps
Consolidated EBITDA margin*	***39.7***	***42.9***	***44.8***	***509bps***	***187bps***	***45.3***	*178bps*
Depreciation and amortization	68,178	72,862	75,031	10.1	3.0	77,527	-3.2
Operating income	18,986	37,835	45,499	139.6	20.3	43,120	5.5
Other income and share of JV/Associate	1,052	-1,895	-1,714	-262.9	-9.6	5,343	-132.1
Net finance cost	32,893	37,914	39,719	20.8	4.8	36,452	9.0
Proforma Profit Before Taxes	**-12,855**	**-1,974**	**4,066**	**-131.6**	**-306.0**	**12,011**	**-66.1**
Exceptional Items	10,500	493	45,599	334.3	9149.3	0	NM
Proforma Tax	-11,637	4,135	43,067	-470.1	941.5	4,804	**796.4**
Effective Tax Rate (%)	90.5	-209.5	1059.2	96867.3	126867.1	40.0	**2548.0**
Profit from discontinued operations	7,069	6,263	98,101				
Proforma Profit After Tax	**-4,649**	**-339**	**13,501**	**-390.4**	**-4082.6**	**7,206**	**NM**
Proforma Minority Interest	5,704	7,293	4,965	-13.0	-31.9	1,859	**167.0**
Proforma Net Profit	**-10,353**	**-7,632**	**8,536**	**-182.4**	**-211.8**	**5,347**	**NM**
Proforma Adj. Net Profit	**-10,805**	**-7,444**	**-2,982**	**NM**	**NM**	**5,347**	**NM**

***LTL comparison**

Bharti Africa – In Constant Currency **(USD m)**

	3QFY20	2QFY21	3QFY21	YoY%	QoQ%	3QFY21E	v/s Est (%)
Revenue	845	963	1,038	22.8	7.8	996	4.3
Total Expenditure	471	533	554	17.6	3.9	547	1.3
EBITDA	380	436	487	28.2	11.7	448	8.6
EBITDA margin (%)	45%	45%	46.9%	194.7	164.2	45%	188
Depreciation	148	166	176	18.9	6.0		
PBT	159	0	0	-100.0	#DIV/0!		
Tax	96	85	0	-100.0	-100.0		
PAT	98	0	0	-100.0	#DIV/0!		
ARPU (USD)	2.7	2.8	2.9	7.4	3.6	2.8	2.7
Subscriber base (000's)	1,07,140	1,16,371	1,18,903	11.0	2.2	1,18,698	0.2

MOTILAL OSWAL | MORNING INDIA

Hindalco

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	HNDL IN
Equity Shares (m)	2,229
M.Cap.(INRb)/(USDb)	577.7 / 7.9
52-Week Range (INR)	276 / 85
1, 6, 12 Rel. Per (%)	3/23/15
12M Avg Val (INR M)	2938

Financial Snapshot (INR b)

Y/E MARCH	2021E	2022E	2023E
Sales	1,266	1,455	1,487
EBITDA	165.9	196.1	204.9
Adj. PAT	51.0	71.5	79.1
EBITDA Margin (%)	13.1	13.5	13.8
Cons. Adj. EPS (INR)	22.9	32.1	35.6
EPS Gr. (%)	31.2	40.1	10.7
BV/Sh. (INR)	181	211	244
Ratios			
Net D:E	1.3	1.0	0.7
RoE (%)	13.0	16.4	15.7
RoCE (%)	8.4	9.8	10.2
Payout (%)	8.7	9.8	8.9
Valuations			
P/E (x)	8.5	6.1	5.5
P/BV (x)	1.1	0.9	0.8
EV/EBITDA(x)	5.8	4.6	3.9
Div. Yield (%)	0.9	1.4	1.4
FCF Yield (%)	15.7	21.9	27.9

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	34.7	34.7	34.7
DII	22.1	25.1	25.3
FII	23.1	19.9	21.0
Others	20.2	20.4	19.1

FII Includes depository receipts

CMP: INR257 TP: INR318 (+24%) Buy

Novelis continues to surprise on margins

Synergies leading to incremental EBITDA

- The 3QFY21 result of Hindalco (HNDL)'s subsidiary Novelis highlights the strong rebound in business performance. Adj. EBITDA grew 39% YoY to USD476m (8% above est.), driven by the highest ever margins of USD510/t (est. USD490/t).
- We raise our consolidated FY21E/FY22E/FY23E PAT estimate by 8%/6%/6%, factoring in strong margins for Novelis. We also expect faster deleveraging as net debt/EBITDA has declined sharply to 3.3x. Reiterate **Buy**.

Novelis' 3QFY21 EBITDA surprises on strong volumes and margins

- Revenue / adj. EBITDA / adj. PAT was up 19%/39%/35% YoY to USD3,241m/USD476m/USD197m and came in 2%/ 8%/ 13% above our estimate, led by higher-than-expected volumes and margins. We have excluded the one-time customer obligation income of USD25m in Europe from our analysis.
- Volumes grew 17% YoY to 933kt (+1% QoQ) on record automotive shipments in Asia and higher can sales in South America.
- Adj. EBITDA/t (net of one-off income) at USD510/t (est. USD490/t) is the highest ever reported by Novelis (up 3% QoQ / 19% YoY).
- The acquired Aleris business reported EBITDA of USD50m and volumes of 104kt, implying margins of USD481/t.
- The company achieved a synergy run-rate of USD54m from the Aleris integration in 3Q, which contributed USD14/t to margins.
- Excluding synergies and the Aleris business, Novelis' like-to-like volumes grew 4% YoY to 829kt. The EBITDA margin also rose 16% YoY to USD498/t.
- FCF post capex stood at USD75m (USD207m in 9MFY21). Capex in 3QFY21 stood at USD107m (USD333m in 9MFY21).
- Novelis' net debt declined USD250m QoQ to USD5.35b. Net debt/EBITDA has fallen to 3.3x (from 3.8x post the Aleris acquisition in Apr'20).

Key highlights – deleveraging to accelerate going forward

- The company repaid USD500m of the bridge loan due in Apr'22. The management now expects to achieve its target net debt/EBITDA of <3.0x ahead of its guided timeline of Mar'22 (3.3x in Dec'20).
- The management informed that the tightness in aluminum scrap spreads in North America is a short-term phenomenon, and it does not foresee any material impact of the tightness in scrap spreads on margins.
- The management does not foresee any impact from China allowing imports of aluminum scrap in the near term due to logistical constraints.
- It maintained its guidance of USD475–500/t on a sustainable basis despite achieving higher margins in 3QFY21 – due to near-term uncertainty and volatility on account of COVID.

- The greenfield automotive finishing plant, situated in Guthrie, Kentucky in the US, shipped its first customer coils in December. While, the new automotive finishing line in Changzhou, China is expected to commence commercial production in 4QFY21. The expansion of the recycling, casting, and rolling capacity in Brazil remains on track to be commissioned in mid-FY22.
- Beverage can demand is expected to grow 3–6% YoY in CY21. On the other hand, the Automotive market is expected to grow 25–30% YoY in CY21, with broad-based volume recovery across geographies.

Valuation and view

- HNDL is our preferred non-ferrous pick owing to (a) its robust volume growth outlook in both India and Novelis, (b) strong primary Aluminum business profitability given its low-cost integrated aluminum operations in India (in the top quartile globally) and higher LME, (c) solid FCF generation, which should reduce leverage sharply, and (d) reasonable valuations.
- The outlook for Novelis is positive due to resilience in the Beverage Can business and recovery in Auto demand (a high-margin business). Moreover, with better cost control and accruing synergies from Aleris, we expect margins for the Novelis business to remain strong at USD480+/t.
- With ~75% EBITDA contribution now coming from the non-LME business (Novelis), we also see relatively higher stability in HNDL’s earnings.
- While we expect aluminum prices to sustain on the back of demand recovery, higher inventory could limit a further upside. We factor in average LME of USD1,780/t in FY21E and USD1,850/t in FY22E. A USD100/t change in aluminum impacts HNDL’s FY22E EPS by 11% and our TP by 9%.
- The stock trades at an inexpensive 4.6x EV/EBITDA and 6.1x P/E on FY22E. We value it at INR318/share on an SOTP basis. Reiterate **Buy**.

Quarterly Performance (Novelis) – USD m

Y/E March	FY20				FY21E				FY20	FY21E		vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Sales (000 tons)	**830**	**835**	**797**	**811**	**781**	**923**	**933**	**951**	**3,273**	**3,578**	**902**	3
Change (YoY %)	4.1	3.5	-0.4	-6.8	-5.9	10.5	17.1	17.3	0.0	9.3	13.2	
Net Sales	**2,925**	**2,851**	**2,715**	**2,726**	**2,426**	**2,978**	**3,241**	**3,473**	**11,217**	**12,118**	**3,179**	2
Change (YoY %)	-5.6	-9.1	-9.8	-11.6	-17.1	4.5	19.4	27.4	-9.0	8.0	17.1	
EBITDA (adjusted)	**368**	**378**	**343**	**354**	**253**	**455**	**476**	**462**	**1,443**	**1,625**	**442**	8
Change (YoY %)	10.2	6.5	6.5	-0.8	-31.3	20.4	38.8	30.4	5.5	12.6	28.7	
EBITDA per ton (USD)	**443**	**453**	**430**	**436**	**324**	**493**	**510**	**485**	**441**	**454**	**490**	4
Interest	62	58	57	63	67	69	63	61	240	260	69	-9
Depreciation	88	88	91	94	118	141	137	144	361	540	141	-3
PBT (before EO item)	**218**	**232**	**195**	**197**	**68**	**245**	**276**	**257**	**842**	**825**	**232**	19
Extra-ordinary Income	(28)	(60)	(39)	(113)	(176)	(214)	(19)	(51)	(240)	(460)	(40)	-53
PBT (after EO item)	**190**	**172**	**156**	**84**	**-108**	**31**	**257**	**206**	**602**	**365**	**192**	34
Total Tax	63	49	49	21	-29	68	80	62	182	181	57	39
Reported PAT	**127**	**123**	**107**	**63**	**-79**	**-37**	**178**	**144**	**420**	**184**	**134**	33
Change (YoY %)	-7	6	37	-39	-162	-130	66	129	-3	-56	25	
Adjusted PAT	**155**	**183**	**146**	**176**	**97**	**177**	**197**	**195**	**660**	**644**	**174**	13

P&G Hygiene and Healthcare

Estimate changes	
TP change	
Rating change	

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	368.6 / 5
52-Week Range (INR)	11870 / 8500
1, 6, 12 Rel. Per (%)	-2/-27/-29
12M Avg Val (INR M)	92

Financials & valuations (INR b)

Y/E June	2020	2021E	2022E	2023E
Sales	30.0	36.0	41.7	49.7
Sales Gr. (%)	1.9	20.0	15.9	19.0
EBITDA	6.2	8.0	10.2	12.2
Margins (%)	20.6	22.2	24.5	24.6
Adj. PAT	4.4	5.9	7.6	9.1
Adj. EPS (INR)	136.5	180.8	232.9	280.4
EPS Gr. (%)	5.8	32.5	28.8	20.4
BV/Sh.(INR)	356.7	362.6	409.2	465.3
Ratios				
RoE (%)	42.9	50.3	60.3	64.1
RoCE (%)	44.5	51.9	62.3	66.1
Valuations				
P/E (x)	83.2	62.8	48.7	40.5
P/BV (x)	31.8	31.3	27.7	24.4
EV/EBITDA (x)	58.2	44.9	35.0	29.1
Div. Yield (%)	0.9	1.3	1.6	2.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	70.6	70.6	70.6
DII	13.5	13.5	12.2
FII	2.5	2.5	3.3
Others	13.4	13.4	13.8

FII Includes depository receipts

CMP: INR11,354 TP: INR14,000 (+23%) Upgrade to Buy

Stellar performance continues; upgrade to Buy

- For the second consecutive quarter, PGHH reported an 18.5% YoY topline growth. If one takes into account flattish sales growth in 4QFY20 (June quarter, when most peers posted a sharp sales decline), it has been three quarters of impressive topline performance. Unlike 1QFY21, when growth was led largely by the Feminine Hygiene segment, performance in 2Q was broad based with Feminine Hygiene and Healthcare posting strong double-digit growth. Margin performance was equally impressive with a 350bp adjusted EBITDA margin improvement, led primarily by strong sales growth.
- As indicated in our AR note, initiatives in the last 2.5 years on distribution expansion, higher ad spends, increased intensity of category development efforts in schools, new launches, and price cuts have led to strong topline growth, despite the fact that growth in the last two quarters of FY20 was impacted by COVID, it being a June year-end company. Led by 18.5% topline growth in 1HFY21 and reaping the benefits of the above growth measures, like-to-like EBITDA growth is even more impressive at 32% YoY in 1HFY21.
- While we have had a constructive view on the immense structural growth opportunity, modest earnings growth in the past three years, and expensive near-term valuations had led us to maintain a Neutral rating since our downgrade in Aug'17. Changes to the model, following the stellar results of the past two quarters, have meant that valuations at 48.7x/40.5x FY22E/FY23E EPS appear attractive, particularly for a business that has: a) a long runway for growth with strong moats, and b) RoEs of over 50%. Upgrade to **BUY**.

Sales in line; margin higher than our expectation

- **Sales in 2QFY21 grew 18.5% YoY to INR10.2b** (v/s our estimate of INR10b), with EBITDA (adjusted) growing 37.5% YoY to INR2.6b (v/s our expectation of INR2.1b). PBT (adjusted) increased 38.5% YoY to INR2.5b (v/s our estimate of INR2.1b), and adjusted. PAT grew 34% to INR1.8b (v/s our expectation of INR1.6b).
- Reported EBITDA/PAT rose 83.4%/84% YoY to INR3.4b/INR2.5b. Reported EBITDA margin expanded 1,190bp to 33.6%.
- While the management has not provided specifics on one-time items, they guided that adjusted PAT growth was ~34%. We have made adjustments to the reported figures of 2QFY21 based on our assumptions.
- Ad spends remained flat YoY at INR1.1b, employee expenses declined 3.6% to INR414m, whereas other expenses (adjusted) rose 49.1% to INR3b.
- **Gross margin expanded 670bp YoY to 69.3% (v/s our estimate of 61%).**
- As a percentage of sales, ad spends/employee costs declined 190bp/90bp YoY to 10.7%/4.1%, while other expenses (adjusted) rose 600bp YoY to 29.4%, leading to a 350bp expansion in EBITDA margin to 25.2% (v/s our expectation of 21.4%) in 2QFY21.

Highlights from the Balance Sheet

- There was an 80% YoY increase in negative net working capital as creditors were up 20%, while inventory declined 5% and debtors were flattish (up 2.6% YoY).
- Cash and cash equivalents were up 67% YoY to INR 12.7b. Of this, the company announced INR2.8b (INR85/share) to be paid as interim dividend.
- Cash flow from operations rose significantly (130% YoY) to INR7b in 1HFY21.

Highlights from the management commentary

- In the management's estimate, PAT, excluding one-time items, in 2QFY21 was up ~34%.
- Feminine Care and Healthcare businesses delivered strong double-digit growth in 2QFY21, ahead of category growth, thereby gaining market share.
- The company has declared an interim dividend of INR85 per equity share of INR10 each.
- PGHH continues to focus on superior execution, improving productivity, leading constructive disruption, and strengthening its organization and culture as the market recovers.
- The strategies mentioned above have enabled PGHH to deliver consistent results, despite a challenging environment, thus proving that these strategies will deliver balanced growth over the long-term.

Valuation and view

- Changes to the model have led to an increase in our FY22E/FY23E EPS growth forecast by ~7%. It is now evident that topline momentum is here to stay and the base of sales growth is far less challenging in the remaining two quarters of FY21.
- As highlighted in our annual report note released in Nov'20: a) increasing pace of distribution expansion, b) strong pace of category development efforts in schools to boost awareness and growth, c) rising ad spends after a lull in preceding years, d) healthy pipeline of new products, e) hastening consumer entry into the category through launches at low price points, and f) willingness to take price cuts, whenever required, to boost growth are all encouraging developments that should aid rapid growth for the company over the long term.
- Two factors make PGHH an attractive long-term core holding: a) huge category growth potential in the Feminine Hygiene segment (~67% of sales), coupled with potential for market share gains due to considerable moats, and b) potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term. With the return of strong topline and earnings momentum and among the best of breed RoEs of over 50%, valuations look attractive at 48.7x/40.5x FY22E/FY23E EPS. Upgrade to **Buy** with a TP of INR 14,000/share (targeting 50x FY23E EPS).

Standalone quarterly earnings (INR m)

Y/E June	FY20				FY21				FY20	FY21E	2QFY21E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				(%)
Net Sales	**8,521**	**8,593**	**6,561**	**6,345**	**10,095**	**10,184**	**8,201**	**7,554**	**30,020**	**36,034**	**9,968**	**2.2%**
YoY Change (%)	7.6	5.0	-6.2	-0.5	18.5	18.5	25.0	19.1	1.9	20.0	16.0	
Gross profit	**5,146**	**5,381**	**4,371**	**4,013**	**6,663**	**7,056**	**5,330**	**4,733**	**18,912**	**23,782**	6,080	
Margin (%)	60.4	62.6	66.6	63.2	66.0	69.3	65.0	62.7	63.0	66.0	61.0	
EBITDA	**1,822**	**1,867**	**1,384**	**1,103**	**2,293**	**2,567**	**1,980**	**1,160**	**6,176**	**7,999**	**2,130**	**20.5%**
Growth	-13.1	-2.4	-3.6	70.2	25.8	37.5	43.1	5.1	1.4	29.5	14.1	
Margin (%)	21.4	21.7	21.1	17.4	22.7	25.2	24.1	15.4	20.6	22.2	21.4	
Depreciation	115	115	118	132	118	120	142	161	479	540	122	
Interest	4	22	24	10	4	21	15	16	61	55	15	
Other Income	110	90	145	96	96	94	120	130	441	439	110	
PBT	**1,814**	**1,820**	**1,388**	**1,056**	**2,267**	**2,520**	**1,943**	**1,113**	**6,078**	**7,843**	**2,103**	**19.8%**
Tax	445	461	371	364	552	698	490	234	1,642	1,644	530	
Rate (%)	24.6	25.3	29.0	34.5	19.1	21.8	25.2	21.0	27.5	25.2	25.2	
Adjusted PAT	**1,368**	**1,359**	**1,016**	**692**	**1,715**	**1,822**	**1,454**	**879**	**4,436**	**5,869**	**1,573**	**15.8%**
YoY Change (%)	0.9	9.5	12.8	13.9	25.3	34.0	43.1	27.1	5.8	32.3	15.7	
Margin (%)	16.1	15.8	15.5	10.9	17.0	17.9	17.7	11.6	14.8	16.3	15.8	

E: MOFSL estimates

Jubilant FoodWorks

Estimate changes	↔
TP change	↑
Rating change	↔

Bloomberg	JUBI IN
Equity Shares (m)	132
M.Cap.(INRb)/(USDb)	349 / 4.9
52-Week Range (INR)	2987 / 1142
1, 6, 12 Rel. Per (%)	-10/16/9
12M Avg Val (INR M)	2435

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E	2023E
Sales	39.3	33.1	47.6	58.7
Sales Gr. (%)	10.2	-15.6	43.6	23.4
EBITDA	8.8	7.7	12.0	15.2
EBITDA Margin.%	22.3	23.1	25.2	25.9
Adj. PAT	3.0	2.1	5.1	7.0
Adj. EPS (INR)	22.5	15.8	38.3	53.1
EPS Gr. (%)	-6.5	-30.1	143.1	38.5
BV/Sh.(INR)	85.0	94.1	116.8	148.3
Ratios				
RoE (%)	26.5	16.8	32.8	35.8
RoCE (%)	20.3	12.2	22.7	26.9
Payout (%)	26.6	47.6	33.9	33.9
Valuation				
P/E (x)	117.3	167.7	69.0	49.8
P/BV (x)	31.1	28.1	22.6	17.8
EV/EBITDA (x)	41.0	46.5	29.3	22.9

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	41.9	41.9	41.9
DII	13.1	14.8	19.4
FII	39.6	38.1	32.8
Others	5.4	5.2	5.8

FII Includes depository receipts

CMP: INR2,644 TP: INR2,920 (+10%) Neutral

In line result, outlook improving

- 3QFY21 result was largely in line up to the operating profit level, but lower than expected depreciation led to a PAT beat.
- There was a near 100% recovery in 3QFY21 to pre-COVID levels, despite dine-in being weak (42% recovery). This indicates that delivery performance continued to be strong, given that dine-in was ~30% of sales pre-COVID. The management reckons that the weakness in dine-in is a supply-side issue, with 50% capacity restriction due to COVID-19 guidelines. Once these restrictions are lifted, dine-in too will do better.
- The narrative of structural gains for QSRs in a post-COVID world remains strong. Valuations of 69x/49.8x FY22E/FY23 EPS leave limited upside from a one-year perspective. Maintain **Neutral.**

Result largely in line

- JUBI reported flat standalone sales YoY at INR10.6b (in line), with SSS growth of -1.7% YoY (in line).
- Like-for-Like (LFL) growth (refers to year-over-year growth in sales for non-split restaurants opened before previous fiscal) stood at -0.2%. LFL growth, excluding restaurants temporarily closed due to COVID-19, stood at 1.4%.
- The company closed no Domino's Pizza stores and opened 50 new stores, leading to 1,314 stores at the end of 3QFY21. It added a net one Dunkin' Donuts store, taking its total count to 27. It added five restaurants in new brands (Hong's Kitchen and Ekdum!), taking the total count to 10.
- Gross margin were up 340bp YoY to 78.3%.
- Staff costs increased 6% YoY to INR2.2b.
- Other expenses (including rent) declined 1% YoY to INR3.3b.
- EBITDA grew 9.9% YoY to INR2.8b (in line).
- Higher gross margin was partially offset by increased staff costs as a percentage of sales (up 120bp YoY). Other expenses came in 20bp lower YoY. **EBITDA margin expanded 240bp YoY to 26.4% (in line).**
- Adjusted PAT grew 20.6% YoY to INR1.3b (v/s our estimate of INR1.2b).
- 9MFY21 sales/EBITDA/PAT declined 24,9%/26.9%/51.5% YoY.

Highlights from the management commentary

- JUBI witnessed near 100% recovery, but dine-in continued to remain slow (41.6% recovery only). Even though there was a sequential improvement, capacity restriction at 50% was a major barrier to a full recovery.
- The management believes there is a potential to open 3,000 stores in the medium term (1,314 at the end of 3QFY21). This is a revised estimate from the 2,000 levels mentioned in earlier years.
- It believes that dine-in recovery in the overall market won't be a headwind for a delivery-based player like Domino's because of its ubiquitous access, affordability of products, and variety of formats.

Valuation and view

- There is no material change to our earnings forecasts. FY21E/FY22E/FY23E estimate increased by 1.7%/0.5%/1.6%.
- JUBI has been the biggest success story in the Indian QSR industry in terms of growth with its delivery-based business model. It offers the highest margin and best return-ratios among peers. Post-COVID, its longer-term prospects appear even brighter with: a) faster shift toward organized players in the Indian Food Service industry, b) Key domains – delivery and takeaway – gain further traction, and c) increased usage of technology by customers, which facilitates growth for players like JUBI (that are at the vanguard of this move). The introduction of delivery charges (without any negative feedback on ratings) and closure of 105 least profitable stores are factors driving structural margin improvement.
- Valuations of 69x/49.8x FY22E/FY23 EPS leave limited upside from a one-year perspective. Maintain **Neutral** with a TP of INR2,920 per share.

Quarterly Standalone Perf. (INR m)

Y/E March	FY20				FY21				Consol.	Consol.	FY21E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY20	FY21E	3QE	(%)
No of stores (Dominos)	**1,249**	**1,283**	**1,325**	**1,335**	**1,354**	**1,264**	**1,314**	**1,350**	**1,335**	**1,350**	**1,294**	
SSG (%)	**4.1**	**4.9**	**5.9**	**-3.4**	**-61.4**	**-20.0**	**-1.7**	**9.0**	**3.2**	**-18.5**	**0.0**	
Net Sales	**9,401**	**9,882**	**10,596**	**8,979**	**3,803**	**8,055**	**10,572**	**10,056**	**39,273**	**33,149**	**10,808**	-2.2%
YoY change (%)	9.9	12.1	14.1	3.8	-59.5	-18.5	-0.2	12.0	10.2	-15.6	2.0	
Gross Profit	**7,093**	**7,439**	**7,937**	**6,682**	**2,967**	**6,346**	**8,278**	**7,844**	**29,438**	**25,694**	**8,430**	
Gross margin (%)	75.5	75.3	74.9	74.4	78.0	78.8	78.3	78.0	75.0	77.5	78.0	
EBITDA	**2,191**	**2,350**	**2,536**	**1,695**	**241**	**2,147**	**2,786**	**2,664**	**8,756**	**7,670**	**2,859**	-2.5%
EBITDA growth %	54.2	59.3	48.6	14.8	-89.0	-8.7	9.9	57.2	44.1	-12.4	12.7	
Margins (%)	23.3	23.8	23.9	18.9	6.3	26.7	26.4	26.5	22.3	23.1	26.5	
Depreciation	808	838	880	916	908	1,030	876	1,000	3,523	3,951	1,050	
Interest	395	404	426	410	419	412	405	410	1,652	1,680	410	
Other Income	153	172	159	204	127	311	156	180	696	742	150	
PBT	**1,141**	**1,281**	**1,389**	**573**	**-959**	**1,016**	**1,661**	**1,434**	**4,277**	**2,781**	**1,549**	7.2%
Tax	393	396	352	121	-233	247	410	361	1,303	701	390	
Rate (%)	34.4	30.9	25.4	21.1	24.3	24.3	24.7	25.2	30.5	25.2	25.2	
Adjusted PAT	**748**	**884**	**1,037**	**452**	**-726**	**769**	**1,251**	**1,073**	**2,974**	**2,080**	**1,158**	8.0%
YoY change (%)	0.1	13.9	7.4	-42.9	P/L	-13.0	20.6	137.4	-9.3	-30.1	11.7	

E: MOFSL Estimates; Interim nos. are standalone while annual nos. are on consol. basis

PI Industries

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	PI IN
Equity Shares (m)	152
M.Cap.(INRb)/(USDb)	341.6 / 4.3
52-Week Range (INR)	2544 / 974
1, 6, 12 Rel. Per (%)	-6/-14/19
12M Avg Val (INR M)	664

Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Sales	45.5	55.3	66.2
EBITDA	10.6	13.3	16.1
PAT	7.7	10.1	12.2
EBITDA (%)	23.4	24.0	24.4
EPS (INR)	51.0	66.8	80.6
EPS Gr. (%)	69.6	31.0	20.6
BV/Sh. (INR)	348	408	481
Ratios			
Net D/E	(0.4)	(0.3)	(0.4)
RoE (%)	19.6	17.7	18.1
RoCE (%)	17.8	16.6	17.4
Payout (%)	14.1	10.8	8.9
Valuations			
P/E (x)	44.1	33.7	27.9
EV/EBITDA (x)	30.5	24.2	19.6
Div Yield (%)	0.3	0.3	0.3
FCF Yield (%)	0.6	1.6	2.0

Shareholding pattern (%)

	Dec-20	Sep-20	Dec-19
Promoter	46.8	46.8	51.4
DII	21.3	25.8	20.5
FII	19.6	14.8	13.9
Others	12.4	12.6	14.3

Note: FII includes depository receipts

CMP: INR2,251 TP: INR2,659 (+18%) Buy

Strong earnings growth momentum continues

- PI Industries (PI) reported a strong 3QFY21 performance, led by a 40%/26% YoY growth in Custom Synthesis and Manufacturing (CSM)/Domestic business. EBITDA growth of 48% YoY (on a high base of last year) was on the back of gross margin expansion and operating leverage.
- PI reported in line numbers in 3QFY21. We, thus, maintain our estimates for FY21E/FY22E/FY23E. We value the stock at 33x FY23E EPS to arrive at TP of INR2,659, implying 18% upside. Maintain **Buy.**

Domestic business and CSM drives overall performance

- Revenue was up 37% YoY in 3QFY21 (including Isagro's performance, which was absent in the base quarter) to INR11.6b (v/s our estimate of INR11.2b). EBITDA was up 48% YoY to INR2.8b (v/s our expectation of INR2.7b). EBITDA margin expanded 180bp YoY to 23.7% (v/s our estimate of 24.1%), supported by gross margin expansion and operating leverage.
- Adjusted PAT grew 61% YoY to INR1,954m (v/s our expectation of INR2,058m), aided by higher other income (+104% YoY to INR389m) and lower tax rate (25.9% v/s 28.7% last year). The same was offset by higher finance cost (+74% YoY to INR66m) and higher depreciation (+38% YoY to INR440m). In 9MFY21, revenue/EBITDA/PAT grew 35%/48%/61%.
- 3QFY21 exports/CSM revenue rose 40% YoY (to INR9b) on pro-active raw material planning and efficient capacity utilization. All commercial molecules have maintained a strong demand focus in line with its order book.
- Revenue for domestic Agrochemicals grew 26% YoY (to INR2.6b), supported by: i) Isagro's sales, and ii) good traction from PI brands like Nominee Gold, Osheen, Awkira (wheat herbicide). and Londax Power (Rice herbicide).
- The order book stood ~USD1.5b (flat QoQ), which provides higher visibility for sustainable growth over the next 3-4 years.

Highlights from the management commentary

- Capital expenditure for 9MFY21 stood at INR3.2b. In 9MFY21, PI generated CFO of INR6.7b.
- Four molecules have been commercialized in CSM as on 9MFY21. PI plans to commercialize another 5-6 molecules at various stages of development by FY22-end. At the commercial stage, PI has 24-25 products. At the synthesis stage (R&D), the company has 40-45 products at various levels.
- At present, PI has 15 active MPP, with MPP no. 10 in Jambusar coming on stream in 4QFY21. Two new plants were commercialized last year, of which one plant is operating at 80% utilization, while the other is operating below 50% utilization.

Valuation and view

- PI reported strong all-round performance during 3QFY21 with over 25% revenue growth in CSM and the domestic business. EBITDA margin expansion was led by gross margin expansion and operating leverage. Adjusted PAT growth was higher than EBITDA growth due to lower tax rate and higher other income.
- The company has levers in place to sustain the growth momentum in the near term, led by: a) ramp-up in operations of two multi-purpose plants that have recently commenced and one new MPP is planned to be made ready by 4QFY21, b) revenue from the Isagro acquisition, c) sustained growth momentum in the CSM business on strong (USD1.5b) order book, increasing pace of commercialization of new molecules, and ramping up of sales of existing molecules, and d) product launches in the domestic market (2-3 annually) providing earnings visibility.
- With the completion of INR20b QIP, the company is exploring inorganic acquisition opportunities in the Pharma space, which would drive long-term growth. The company would deploy capital to the existing business.
- PI reported in line numbers in 3QFY21. We, thus, maintain our estimates for FY21E/FY22E/FY23E.
- The company trades at an average of 31x over the last three years on a one-year forward basis. On the other hand, we have ascribed 33x P/E after considering the strong growth outlook for the existing business and its venture into the Pharma segment, which presents a huge opportunity for the company to play on. We expect revenue/EBITDA/PAT CAGR of 25%/31%/39% over FY20-23E.
- We value the stock at 33x FY23E EPS to arrive at TP of INR2,659, implying 18% upside. Maintain **Buy.**

Quarterly earning model (INR m)

Y/E March	FY20				FY21				FY20	FY21E	3Q	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			FY21E	(%)
Net Sales	**7,541**	**9,074**	**8,498**	**8,552**	**10,601**	**11,577**	**11,621**	**11,661**	**33,665**	**45,460**	**11,241**	**3**
YoY Change (%)	24.5	25.5	20.1	6.3	40.6	27.6	36.7	36.4	18.5	35.0	32.3	
Total Expenditure	6,016	7,149	6,633	6,689	8,309	8,776	8,866	8,891	26,487	34,842	8,531	
EBITDA	**1,525**	**1,925**	**1,865**	**1,863**	**2,292**	**2,801**	**2,755**	**2,770**	**7,178**	**10,618**	**2,709**	**2**
Margin (%)	20.2	21.2	21.9	21.8	21.6	24.2	23.7	23.8	21.3	23.4	24.1	
Depreciation	295	317	319	436	427	433	440	450	1,367	1,750	440	
Interest	23	25	38	84	96	76	66	65	170	303	80	
Other Income	121	109	191	68	82	336	389	500	489	1,307	450	
PBT before EO expense	**1,328**	**1,692**	**1,699**	**1,411**	**1,851**	**2,628**	**2,638**	**2,755**	**6,130**	**9,872**	**2,639**	
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**1,328**	**1,692**	**1,699**	**1,411**	**1,851**	**2,628**	**2,638**	**2,755**	**6,130**	**9,872**	**2,639**	
Tax	312	461	487	312	444	451	682	606	1,572	2,183	581	
Rate (%)	23.5	27.2	28.7	22.1	24.0	17.2	25.9	22.0	25.6	22.1	22.0	
Minority Interest and Profit/Loss of Asso. Cos.	0	-1	1	-8	-48	1	2	-8	-8	-53	1	
Reported PAT	**1,016**	**1,232**	**1,211**	**1,107**	**1,455**	**2,176**	**1,954**	**2,157**	**4,566**	**7,742**	**2,058**	
Adj. PAT	**1,016**	**1,232**	**1,211**	**1,107**	**1,455**	**2,176**	**1,954**	**2,157**	**4,566**	**7,742**	**2,058**	**-5**
YoY Change (%)	24.4	30.2	12.4	-11.9	43.2	76.6	61.4	94.8	11.3	69.6	69.9	
Margin (%)	13.5	13.6	14.3	12.9	13.7	18.8	16.8	18.5	13.6	17.0	18.3	

The Ramco Cements

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	TRCL IN
Equity Shares (m)	236
M.Cap.(INRb)/(USDb)	203 / 2.8
52-Week Range (INR)	903 / 457
1, 6, 12 Rel. Per (%)	3/-9/-17
12M Avg Val (INR M)	574

Financial Snapshot (INR bn)

Y/E Mar	2021E	2022E	2023E
Sales	52.0	60.7	70.4
EBITDA	15.2	15.7	18.0
Adj. PAT	7.8	7.7	9.1
EBITDA Margin (%)	29.3	25.8	25.6
Adj. EPS (INR)	33.1	32.6	38.7
EPS Gr. (%)	29.6	-1.5	18.9
BV/Sh. (INR)	238	266	299
Ratios			
Net D:E	0.5	0.4	0.3
RoE (%)	14.8	12.9	13.7
RoCE (%)	10.1	9.7	10.6
Payout (%)	10.6	15.4	14.2
Valuations			
P/E (x)	26.0	26.4	22.2
P/BV (x)	3.6	3.2	2.9
EV/EBITDA(x)	14.4	14.6	12.2
EV/ton (USD)	142	140	129
Div. Yield (%)	0.4	0.6	0.6
FCF Yield (%)	1.7	1.5	5.4

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	42.6	42.6	42.7
DII	26.3	27.0	25.3
FII	8.0	7.6	11.7
Others	23.1	22.8	20.3

FII Includes depository receipts

CMP: INR861 TP: INR805 (-6%) Neutral

Weaker regional mix leads to miss on margins

Maintain Neutral – valuation pricing in strong growth outlook

- The Ramco Cements (TRCL)'s 3Q result highlights the benefits of high cement prices in South India, which led to cement EBITDA/t at INR1,508 (+111% YoY). Volumes, though, declined 8% YoY on weak demand in South.
- We reduce our FY21/FY22E EPS by 11%/7%, factoring in a weaker volume mix in favor of East – as South demand remains weak. We retain our **Neutral** rating as we believe the valuation at 14.6x FY22E EV/EBITDA is pricing in the expectation of a strong 18% CAGR in volumes over FY21–23E.

EBITDA up 99% YoY; misses estimate on lower realization

- Revenue/EBITDA/PAT rose 5%/99%/112% YoY to INR13.4b/INR4.0b/INR2.0b – 8%/11%/22% below our estimate due to lower-than-expected realization (5% miss – down 8% QoQ to INR5,090/t; +14% YoY). We believe this is attributable to pricing pressure as well as a higher share of sales in East, which reported lower prices. As a result, cement EBITDA/t fell 20% QoQ to INR1,508/t (+111% YoY).
- Cost/t (incl. Windmills) fell to INR3,604/t (-5% YoY; -2% QoQ), led by lower a) power and fuel costs at INR818/t (-10% YoY; -1% QoQ) on account of low-cost fuel inventory and b) other expenses at INR575/t (-18% YoY; -12% QoQ).
- Sales volumes declined 8% YoY to 2.61mt (v/s est. 2.70mt) on account of prolonged and above-normal monsoons in South. Although, the impact was partially offset by good growth in East.
- 9MFY21 capex stood at INR11.7b and 4QFY21 guidance stands at INR5.4b.
- Gross debt stands at INR31.1b, while cost of debt fell to 6.14% p.a.
- 9MFY21 revenue/EBITDA/PAT stood at INR36.4b/INR11.0b/INR5.5b at -8%/+31%/+20% YoY as volumes declined 18% YoY to 6.76mt.

Highlights from management commentary

- Clinker utilization stood at 83% in 3QFY21, but is higher at 90% currently.
- Volume was impacted on account of prolonged and above-normal monsoons in South, partially offset by higher sales in East. The company expects to achieve flattish or marginal volume growth in 4QFY21.
- The company would continue to implement measures to reduce power and fuel cost. The commissioning of 39MW of WHRS over the next six months would result in cost savings of INR1.3b p.a. and have a payback period of 3.5 years.
- A 1.5mt clinker in Jayanthipuram is guided to be commissioned by Mar'21. A 2.25mt clinker in Kurnool would be commissioned by May'21.
- TRCL plans to set up plants for wall putty, tile adhesives, and dry mortar mix in CY21, and expects to achieve revenue of INR1b p.a. from each of them.

Valuation and view

- TRCL is expected to gain market share in its operating regions (South/East), led by capacity expansions over the next six months. We expect an 18% volume CAGR over FY21–23E, supported by a low base and expansions.
- The stock trades at 14.6x FY22E EV/EBITDA and USD140/t capacity, at a significant premium to peers. We value it at 12x Dec'22E EV/EBITDA (in line with 10-yr average) to arrive at TP of INR805. Maintain **Neutral**.

Quarterly Performance												(INR m)
Y/E March	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Sales Dispatches (m ton)	2.70	2.72	2.84	2.93	1.94	2.21	2.61	3.09	11.20	9.86	2.70	-3
YoY Change (%)	3.4	10.3	3.5	-10.9	-28.2	-18.9	-8.1	5.5	0.7	-12.0	-5.0	
Realization (INR/ton)	4,989	4,708	4,475	4,725	5,284	5,558	5,090	5,041	4,718	5,218	5,378	-5
YoY Change (%)	10.0	1.8	1.9	1.8	5.9	18.1	13.7	6.7	3.7	10.6	20.2	
QoQ Change (%)	7.5	-5.6	-4.9	5.6	11.8	5.2	-8.4	-1.0			-3.2	
Net Sales	**13,698**	**13,129**	**12,746**	**13,899**	**10,418**	**12,570**	**13,391**	**15,644**	**53,435**	**52,022**	**14,549**	-8
YoY Change (%)	13.7	11.2	5.6	-9.1	-23.9	-4.3	5.1	12.6	4.3	-2.6	14.2	
EBITDA	**3,452**	**2,915**	**1,995**	**2,793**	**2,600**	**4,420**	**3,970**	**4,237**	**11,117**	**15,227**	**4,485**	-11
Margins (%)	25.2	22.2	15.6	20.1	25.0	35.2	29.6	27.1	20.8	29.3	30.8	
Depreciation	758	765	797	833	844	855	896	924	3,153	3,519	935	
Interest	135	147	215	216	299	265	160	192	714	916	250	
Other Income	223	129	119	114	101	83	64	87	622	334	90	
PBT before EO expense	**2,782**	**2,132**	**1,101**	**1,858**	**1,557**	**3,383**	**2,977**	**3,208**	**7,872**	**11,126**	**3,390**	-12
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**2,782**	**2,132**	**1,101**	**1,858**	**1,557**	**3,383**	**2,977**	**3,208**	**7,872**	**11,126**	**3,390**	-12
Tax	862	450	153	396	461	1,026	964	887	1,861	3,338	814	
Rate (%)	31.0	21.1	13.9	21.3	29.6	30.3	32.4	27.7	23.6	30.0	24.0	
Reported PAT	**1,920**	**1,682**	**948**	**1,462**	**1,096**	**2,358**	**2,014**	**2,321**	**6,011**	**7,788**	**2,576**	-22
Adj PAT	**1,920**	**1,682**	**948**	**1,462**	**1,096**	**2,358**	**2,014**	**2,321**	**6,011**	**7,788**	**2,576**	-22
YoY Change (%)	53.6	46.9	-6.2	-13.2	-42.9	40.2	112.4	58.7	18.1	29.6	171.8	
Margins (%)	14.0	12.8	7.4	10.5	10.5	18.8	15.0	14.8	11.2	15.0	17.7	

Per ton analysis (incl. Windmills)												(INR/t)
Net realization	**5,068**	**4,820**	**4,482**	**4,740**	**5,370**	**5,688**	**5,123**	**5,055**	**4,770**	**5,277**	**5,385**	-4.9
YoY (%)	10.0	0.8	2.0	2.0	6.0	18.0	14.3	6.6	3.6	10.6	20.2	-29
RM Cost	743	733	834	805	972	731	822	771	780	815	780	5
Employee Expenses	327	362	339	288	502	498	382	351	329	422	389	-2
Power, Oil & Fuel	984	996	911	868	779	824	818	907	938	840	862	-5
Freight and Handling Outward	1,040	990	996	1,037	1,040	978	1,007	1,018	1,016	1,011	1,015	-1
Other Expenses	696	668	700	790	737	656	575	639	715	645	680	-15
Total Expenses	**3,791**	**3,750**	**3,780**	**3,788**	**4,030**	**3,688**	**3,604**	**3,686**	**3,777**	**3,732**	**3,725**	-3
EBITDA	**1,277**	**1,070**	**701**	**952**	**1,340**	**2,000**	**1,519**	**1,369**	**992**	**1,545**	**1,660**	-9
Cement EBITDA (ex-Windmills)	**1,217**	**977**	**714**	**955**	**1,283**	**1,895**	**1,508**	**1,372**	**959**	**1,507**	**1,671**	-10

Indian Hotels

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USDb)	146.1 / 2
52-Week Range (INR)	144 / 62
1, 6, 12 Rel. Per (%)	-6/23/-39
12M Avg Val (INR M)	332

Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Sales	16.6	42.0	48.2
EBITDA	-3.9	9.1	11.3
PAT	-8.1	0.9	2.4
EBITDA (%)	(23.4)	21.7	23.4
EPS (INR)	(6.8)	0.8	2.0
EPS Gr. (%)	NA	NA	165.4
BV/Sh. (INR)	30.5	30.6	32.1
Ratios			
Net D/E	0.9	0.8	0.7
RoE (%)	(20.2)	2.5	6.5
RoCE (%)	(5.6)	5.6	7.7
Payout (%)	(4.1)	79.0	29.8
Valuations			
P/E (x)	(18.1)	159.1	60.0
EV/EBITDA (x)	(47.6)	20.1	16.1
Div Yield (%)	0.2	0.4	0.4
FCF Yield (%)	(6.8)	4.2	3.5

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	40.8	40.8	39.1
DII	29.6	31.5	35.5
FII	12.5	10.5	11.8
Others	17.2	17.3	13.7

FII Includes depository receipts

CMP: INR123 TP: INR143 (+16%) Buy

Performance further improves on a QoQ basis

Miss on EBITDA/PAT; watch out for recovery in corporate travel

- IHIN's RevPAR performance has improved sequentially on the back of occupancy and ARR improvement. The cost reduction measures being deployed by the management have yielded results and led to a positive standalone EBITDA during 3QFY21. Around 86% of IHIN's domestic hotels (excluding Ginger) were EBITDA positive in Dec'20. Consolidated performance was dragged by the international business due to the COVID-19 led lockdown.
- Factoring in 3QFY21 performance and the demand scenario, we have lowered our revenue estimate by 5% for FY21 and increased EBITDA loss (to INR3,881m from INR2,969m). We have maintained our estimates for FY22E/FY23E. We maintain our Buy rating on the stock, with a SoTP-based TP of INR143.

Standalone business reports positive EBITDA, but posts a loss at the consolidated level

- Revenue declined 59% YoY to INR5,599m (v/s our estimate of INR5,834m). On a QoQ basis, revenue grew 118%. EBITDA loss stood at INR167m v/s a gain of INR4,257m last year (loss of INR1,503m in 2QFY21). We estimate an EBITDA gain of INR50m in 3QFY21. The company reported a net loss of INR1,399m v/s a gain of INR2,040m last year.
- On a QoQ basis, RevPAR for IHIN's domestic network grew 2.4x to INR2,573 due to a 17.4pp improvement in occupancy to 45.6% and ARR grew 50% YoY to INR5,643.
- **Standalone** revenue declined 52% YoY to INR4,087m. On a QoQ basis, revenue grew 147%. In 3QFY21, room revenue /F&B grew by 1.3x /2.4x QOQ to INR1,600m/INR1,610m respectively. On a QoQ basis, RevPAR grew 2.2x to INR3,936 due to 15.1pp improvement in occupancy to 47.4% and ARR grew 53% YoY to INR8,300. EBITDA stood at INR480m, down 85% YoY. In 2QFY21, it had posted an EBITDA loss of INR877m. EBITDA was 64% above our estimate. IHIN reported a net loss of INR527m v/a s gain of INR1,687m last year.
- **Subsidiary (consolidated less standalone)** sales fell 71% YoY to INR1,511m (revenue grew 65% QoQ). Subsidiary EBITDA loss stood at INR648m v/s a gain of INR1,086m last year (loss of INR626m in 2QFY21).

Highlights from the management commentary

- Consolidated gross/net debt as on 3QFY21 stood at INR35.9b/INR30.8b v/s INR34.6b/INR29.4b as on 2QFY21.
- In 9MFY21, IHIN reduced fixed cost per month by 27% YoY to INR1.2b.
- In Apr'20, staff-to-room ratio stood at 1.53x, which declined to 1.14x in Dec'20 due to redeployments, multi-skilling, and new ways of working. The ratio is expected to increase as occupancy rises. However, there would be some reduction in the staff-to-room ratio as compared to pre-COVID levels.
- IHIN has signed 14 hotels under management contract in 9MFY21 and six hotels have been opened.

Valuation and view

- Faster demand revival in the Leisure travel segment has aided IHIN. However, Corporate travel demand remains muted in key metros like Mumbai, NCR, and Bengaluru, which has impacted performance.
- To ride out the COVID-19 pandemic, the management has laid down a new strategy 'RESET 2020' (R: Revenue growth initiatives, E: Excellence initiatives, S: Spend optimization initiatives, E: Effective asset management, T: Thrift and financial prudence).
- Through the RESET strategy in 9MFY21, IHIN has ensured: i) incremental revenue growth of INR2b, ii) spend optimization of INR2.8b, iii) effective asset management (sale of residential apartments and lease cost savings) of INR640m, and iv) financial prudence in corporate expenditure of INR670m.
- While FY21E earnings would remain weak, we expect a sharp recovery in FY22E on: a) a low base, b) improvement in ARRs once things normalize, c) improved occupancies, d) positivity in cost rationalization efforts in FY21, e) an increase in F&B income as banqueting/conferences resume, and f) higher income from management contracts.
- Factoring in 3QFY21 performance and the demand scenario, we have lowered our revenue estimate by 5% for FY21 and increased EBITDA loss (to INR3,881m from INR2,969m). We have maintained our estimates for FY22E/FY23E. We maintain our Buy rating on the stock, with a SoTP-based TP of INR143.

Consolidated quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	3QFY21E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				(%)
Gross Sales	**10,200**	**10,074**	**13,727**	**10,630**	**1,436**	**2,567**	**5,599**	**7,016**	**44,631**	**16,617**	**5,834**	**-4**
YoY Change (%)	4.1	4.4	3.7	-14.6	-85.9	-74.5	-59.2	-34.0	-1.1	-62.8	-57.5	
Total Expenditure	8,466	8,470	9,470	8,551	4,096	4,070	5,766	6,566	34,956	20,498	5,784	
EBITDA	**1,734**	**1,605**	**4,257**	**2,079**	**-2,660**	**-1,503**	**-167**	**449**	**9,675**	**-3,881**	**50**	**-435**
Margin (%)	17.0	15.9	31.0	19.6	-185.2	-58.6	-3.0	6.4	21.7	-23.4	0.9	
Depreciation	1,004	999	1,008	1,031	1,001	1,028	1,023	1,060	4,042	4,113	1,060	
Interest	847	868	849	848	879	968	1,121	1,125	3,411	4,092	1,020	
Other Income	371	211	362	380	317	669	547	550	1,324	2,083	300	
PBT before EO expense	**255**	**-52**	**2,762**	**581**	**-4,223**	**-2,831**	**-1,764**	**-1,186**	**3,546**	**-10,004**	**-1,730**	
Extra-Ordinary expense	-23	3	12	-401	-861	-205	-280	0	-410	-1,346	0	
PBT	**277**	**-54**	**2,750**	**982**	**-3,362**	**-2,626**	**-1,484**	**-1,186**	**3,955**	**-8,658**	**-1,730**	
Tax	176	-855	813	314	-693	-429	-307	-391	448	-1,820	-571	
Rate (%)	63.5	NA	29.6	32.0	20.6	16.3	20.7	33.0	11.3	21.0	33.0	
MI and P/L of Asso. Cos.	45	88	-94	-75	130	103	12	-40	-37	205	-50	
Reported PAT	**57**	**713**	**2,031**	**743**	**-2,799**	**-2,300**	**-1,189**	**-754**	**3,544**	**-7,042**	**-1,109**	
Adjusted PAT	**39**	**715**	**2,040**	**442**	**-3,445**	**-2,454**	**-1,399**	**-754**	**3,237**	**-8,052**	**-1,109**	
YoY Change (%)	-78.3	148.8	55.7	-57.4	NA	NA	NA	-270.5	14.8	-348.7	NA	
Margin (%)	0.4	7.1	14.9	4.2	-239.9	-95.6	-25.0	-10.7	7.3	-48.5	-19.0	

3 February 2021
4QCY20 Results Update | Sector: Oil & Gas

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	127.5 / 1.7
52-Week Range (INR)	162 / 90
1, 6, 12 Rel. Per (%)	1/-22/-38
12M Avg Val (INR M)	201

Financials & Valuations (INR b)

Y/E December	2020	2021E	2021E
Sales	30.0	37.0	39.7
EBITDA	8.1	11.5	11.6
Adj. PAT	5.8	8.4	8.4
Adj. EPS (INR)	5.9	8.5	8.5
EPS Gr. (%)	-29.6	44.4	-0.3
BV/Sh.(INR)	14.3	16.0	17.7
Ratios			
Net D:E	-0.9	-0.9	-0.9
RoE (%)	41.9	56.2	50.3
RoCE (%)	42.1	56.3	50.4
Payout (%)	93.3	80.0	80.0
Valuations			
P/E (x)	22.1	15.3	15.3
P/BV (x)	9.1	8.1	7.3
EV/EBITDA (x)	14.2	9.9	9.8
Div. Yield (%)	4.2	5.2	5.2
FCF Yield (%)	6.6	6.1	6.1

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.0	51.0	51.0
DII	17.3	18.3	17.6
FII	12.0	11.5	12.2
Others	19.7	19.2	19.2

FII Includes depository receipts

CMP: INR129 TP: INR170 (+32%) Buy

Volumes recover to normal levels; dividend payout remains strong

- Castrol India (CSTRL) missed our estimates, weighed by lower-than-expected sales volumes and realization. Volumes stood at ~52m liters (-4% YoY; +11% QoQ), with realization at ~INR180/lit (-4% YoY/QoQ). This was attributable to corrective price action in commercial vehicles segment – in line with the competition.
- The board recommended final dividend of INR3/share (resulting in full-year dividend of INR5.5/share, similar to CY19 levels); this translated to a dividend payout of ~93% (dividend yield at 4.2%) in CY20.
- CSTRL reiterated that it would continue to focus on the Personal Mobility segment on the back of a) a better product mix, b) cost optimization initiatives, and c) necessary pricing actions to maintain lucrative margins.
- The company has announced a price hike (~4% on average) in Jan'21 due to cost pressures on account of an increase in base oil prices.
- We value the stock at 20x CY22E EPS to arrive at Target Price of INR170.

Miss due to lower-than-est. volumes and realization

- Net sales stood at INR9.4b (est.-9%; -8% YoY), driven by lower volumes and realization. The EBITDA miss of 21% to INR2.6b (-25% YoY) was attributable to higher advertisement expenses during the quarter.
- Advertisement expenses increased to INR650m in 4QCY20 (v/s INR110m in 4QCY19) on account of a strong promotion drive held during the quarter. However, the company has guided ad spend to be in line with past averages going forward.
- In the quarter, PAT stood at INR1.9b (-31% YoY) and tax rate at 24.9%.
- For CY20, EBITDA/PAT was down 29–30% YoY to INR8.1b/INR5.8b.

Strategic developments

- CSTRL launched Castrol POWER1 ULTIMATE – a premium range of two-wheeler lubricants in 4QCY20. The company also launched two new variants in the Thinner Oils segment – Castrol GTX SUV (for Cars) and Castrol Activ CRUISE (for 2W) – in CY20.
- CSTRL launched EV fluids globally (China and Europe), and in CY20, signed agreements with MG Motors and Tata Motors for the supply of EV fluids.
- CSTRL products are now available in more than 1,350 Jio-BP retail outlets. Furthermore, expansion in the number of Jio-BP retail outlets (expected to 5,000+ sites) over the next couple of years would also prove beneficial for CSTRL, aiding the company in strengthening its network.

Valuation and view

- The company's Cash Flow from Operations stood at ~INR8.9b for CY20. Furthermore, working capital improved due to the better management of debtors.
- Capex guidance for CY21 stands at INR800–1000m. Although, ~INR420m capex was incurred in CY20 due to COVID-led disruption in 1HCY20.
- Competition remains intense, and the industry is likely to grow in the lower single digits; CSTRL has always enjoyed its brand equity heritage and we believe it would continue to do so.
- The stock trades at 15.3x CY22 EPS of INR8.5 and EV/EBITDA of 9.8x. On a one-year forward PE basis, the stock trades at a ~40% discount to its LT PE average of 27.1x. **Maintain Buy.**

Quarterly Performance (INR Million)

Y/E December	CY19				CY20				CY19	CY20E	CY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Volume (m litres)	**50.4**	**55.4**	**44.2**	**54.0**	**37.6**	**29.0**	**47.0**	**52.0**	**204**	**166**	**55.7**	**-7%**
Realization	**194**	**188**	**192**	**187**	**183**	**169**	**188**	**180**	190	181	**190**	**-5%**
Net Sales	**9,762**	**10,396**	**8,492**	**10,118**	**6,880**	**4,906**	**8,831**	**9,352**	**38,768**	**29,969**	**10,273**	**-9%**
YoY Change (%)	5.3	2.2	-8.4	-2.1	-29.5	-52.8	4.0	-7.6	-0.7	-22.7	1.5	
EBITDA	**2,830**	**2,843**	**2,445**	**3,412**	**1,730**	**953**	**2,882**	**2,576**	**11,530**	**8,141**	**3,280**	**-21%**
YoY Change (%)	3.2	13.0	7.5	7.5	-38.9	-66.5	17.9	-24.5	7.7	-29.4	-3.9	
Margins (%)	29.0	27.3	28.8	33.7	25.1	19.4	32.6	27.5	29.7	27.2	31.9	
Depreciation	162	166	186	183	222	206	215	223	697	866	224	0%
Interest	3	3	3	3	11	14	9	8	12	42	6	33%
Other Income	211	159	116	162	198	152	117	153	648	620	148	3%
PBT	**2,876**	**2,833**	**2,372**	**3,388**	**1,695**	**885**	**2,775**	**2,498**	**11,469**	**7,853**	**3,198**	**-22%**
Rate (%)	35.7	35.5	20.6	19.9	26.1	26.1	26.3	24.9	27.9	25.8	25.1	
PAT	**1,850**	**1,827**	**1,884**	**2,713**	**1,252**	**654**	**2,046**	**1,877**	**8,274**	**5,829**	**2,394**	**-22%**
YoY Change (%)	1.8	11.3	25.3	28.0	-32.3	-64.2	8.6	-30.8	16.8	-29.6	-11.7	

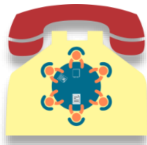
Thermax Ltd

BSE SENSEX	S&P CNX
50,256	11,308

CMP:INR1015 Neutral

In line revenue, favorable mix aids operating profit

Conference Call Details



Date: 4th February 2021
Time: 11:15am IST
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Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	57.3	50.6	59.1
EBITDA	4.1	3.1	5.0
PAT	2.1	2.2	3.6
EBITDA (%)	7.1	6.2	8.5
EPS (INR)	18.9	19.2	32.2
EPS Gr. (%)	-30.6	1.9	67.3
BV/Sh. (INR)	268.9	278.8	300.7
Ratios			
Net D/E	-0.1	-0.1	-0.2
RoE (%)	7.0	6.9	10.7
RoCE (%)	7.2	7.1	10.8
Payout (%)	38.5	41.5	27.3
Valuations			
P/E (x)	53.8	52.8	31.5
P/BV (x)	3.8	3.6	3.4
EV/EBITDA (x)	27.5	35.1	21.4
Div Yield (%)	0.7	0.8	0.9
FCF Yield (%)	4.2	2.5	3.1

3QFY21 snapshot

- Revenue came in at INR14.1b, flat YoY and in line with our estimate.
- **Gross margin stood higher at 46.7% (+230bp YoY), owing to better mix.**
- EBITDA stood at INR1.5b, up 30% YoY (34% above our estimate).
- **EBITDA margin stood at 10.5% (+250bp YoY).**
- An exceptional item of INR209m was due to impairment of goodwill in Thermax Netherlands.
- PBT stood at INR1.4b (+34% YoY).
- The effective tax rate stood at 26.2% (v/s 19.4% YoY).
- **Adjusted PAT stood at INR1b, up 23% YoY.**
- **Order inflows stood at INR15.6b (-3% YoY),** while order book stood at INR52b (-4% YoY) **(OB-to-revenue: 1.1x).**

3QFY21 segmental snapshot

- **a) Energy:** Revenue stood at INR10.6b, down 5% YoY. EBIT margin stood at 9.1% (+330bp YoY). **b) Environment:** Revenue stood at INR2.5b, up 28% YoY. EBIT margin stood at 7.1% (+190bp YoY). **c) Chemical:** Revenue stood at INR1.1b, down 5% YoY. EBIT margin stood at 26.1% (+140bp YoY).

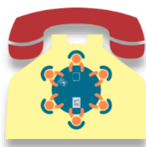
Quarterly performance (INR M)

	FY20				FY21				FY20	FY21E	MOSL	Var
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4QE**			**3QE**	**v/s est**
Sales	**13,925**	**16,059**	**14,101**	**13,230**	**6,649**	**11,412**	**14,106**	**18,444**	**57,313**	**50,611**	**14,621**	**-3.5%**
Change (%)	34.5	12.5	-1.8	-36.2	-52.2	-28.9	0.0	39.4	-4.0	-11.7	3.7	
EBITDA	**991**	**1,303**	**1,132**	**636**	**-114**	**793**	**1,476**	**974**	**4,062**	**3,129**	**1,100**	**34.2%**
Change (%)	42.9	18.4	5.5	-62.8	-111.5	-39.1	30.4	53.2	-11.2	-23.0	-2.9	
As a % of Sales	7.1	8.1	8.0	4.8	-1.7	7.0	10.5	5.3	7.1	6.2	7.5	
Depreciation	262	281	316	308	280	287	291	390	1,166	1,248	320	
Interest	44	38	19	49	40	47	57	5	150	148	35	
Other Income	216	220	258	307	209	228	282	440	1,000	1,159	300	
Extra-ordinary Items	-	-	-	-	-	(200)	(209)	-	-	-	-	
PBT	**901**	**1,204**	**1,054**	**586**	**-225**	**687**	**1,411**	**1,020**	**3,745**	**2,893**	**1,045**	**35.1%**
Tax	273	947	205	196	-72	175	369	256	1,621	728	263	
Effective Tax Rate (%)	30.3	78.7	19.4	33.4	32.1	25.5	26.2	25.1	43.3	25.2	25.2	
Reported PAT	**628**	**257**	**850**	**390**	**-153**	**312**	**833**	**764**	**2,125**	**2,165**	**781**	**6.6%**
Change (%)	28.2	(65.5)	13.2	(69.2)	(124.3)	21.6	(2.0)	95.7	(34.7)	1.9	(8.0)	
Adj. PAT	**628**	**257**	**850**	**390**	**-153**	**512**	**1,042**	**764**	**2,125**	**2,165**	**781**	**33.3%**
Change (%)	29.8	(62.3)	30.4	(68.6)	(124.3)	99.2	22.6	95.7	(30.6)	1.9	(8.0)	

Security & Intel

BSE SENSEX	S&P CNX
50,256	14,790

Conference Call Details



Date: 4th Feb 2021
Time: 14:00 IST
Dial-in details:
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Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Net Sales	91.0	105.4	120.2
EBITDA	5.4	6.7	7.9
EBIT	4.3	5.5	6.5
NP	3.4	3.5	4.4
EPS (INR)	22.6	23.6	29.7
EPS Gr. (%)	40.0	4.3	26.1
BV/Sh. (INR)	253.1	304.8	369.7
RoE (%)	21.9	18.6	19.2
RoCE (%)	15.9	14.2	14.9
Payout (%)	0.0	0.0	0.0
Div. Yield	0.0	0.0	0.0

CMP: INR405

SIS 3QFY21: Big beat on revenue led by strong growth in the international business, margin in line

Headline numbers

- Revenue increased 8.2% YoY to INR23.5b (v/s our expectation of 2.2% growth). EBITDA rose 10% YoY to INR1. 5b (v/s our estimate of +3.5% YoY). PAT grew 26.5% YoY to INR990m (v/s our expectation of +12% YoY).

Beat on revenue led by strong growth in the international business

- Revenue increased 8.2% YoY and 9.2% QoQ to INR23.5b (6% miss).
- Revenue growth was led by 27% YoY growth in the international business (v/s our estimate of 15% YoY growth).
- India Security/FM business grew sequentially by 11.4%/10.7%. However, the same was still down 2%/15% YoY.

In line margin

- EBITDA margin rose 20bp/10bp QoQ/YoY to 6.2% (in line with our expectation).
- Margin was flattish for the India Security and FM business. For the FM business, margin increased 190bp QoQ, led by positive operating leverage.
- Consolidated PAT for 3QFY21 stood at INR990m, a QoQ growth of 26.5%, and PAT margin at 4.2%

Others

- Net debt came in at INR4.9b, implying a net debt-to-EBITDA ratio of 0.92x (below the management's guidance of 1x).
- Net debt for the India business fell INR160m, but rose by only INR460m in the international business despite an INR2b payment for balance stake in SXP.
- OCF-to-EBITDA ratio for 3QFY21 stood at 145%.
- RoCE in 3QFY21 stood at 19%.
- The management guided for annual interest cost reduction target of 20% on an annualized basis due to lower cost of borrowing.
- SIS plans to raise up to INR2.5b through NCD to replace INR1.5b coming up for renewal.

Valuation

- We await management commentary before taking a relook at our estimates. Growth outlook on macro and various key operating segments will be keenly watched.

Consolidated quarterly earnings model (INR M)

Y/E March	FY20				FY21				FY20	FY21E		Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY21E	(%/bp)
Gross Sales	**20,084**	**20,889**	**21,782**	**22,097**	**21,667**	**21,579**	**23,575**	**24,211**	**84,852**	**91,032**	**22,270**	**5.9**
YoY Change (%)	24.6	23.6	18.6	13.0	7.9	3.3	8.2	9.6	19.6	7.3	2.2	**600bp**
Total Expenditure	18,837	19,652	20,447	20,713	20,459	20,282	22,106	22,747	79,648	85,594	20,888	5.8
EBITDA	**1,247**	**1,237**	**1,335**	**1,385**	**1,209**	**1,297**	**1,469**	**1,463**	**5,204**	**5,438**	**1,382**	**6.3**
Margin (%)	6.2	5.9	6.1	6.3	5.6	6.0	6.2	6.0	6.1	6.0	6.2	0bp
Depreciation	294	326	333	331	285	283	277	286	1,283	1,131	295	-6.1
Interest	371	378	382	386	373	333	286	381	1,517	1,372	343	-16.8
Other Income	2	-21	47	504	231	665	384	166	531	1,446	361	6.3
PBT	**584**	**512**	**667**	**1,172**	**782**	**1,346**	**1,291**	**962**	**2,935**	**4,380**	**1,106**	**16.7**
Tax	-188	-249	-112	1,186	200	268	299	192	636	959	221	35.2
Rate (%)	-32.3	-48.6	-16.9	101.2	25.6	19.9	23.2	20.0	21.7	21.9	20.0	320bp
Minority Interest and Profit/Loss of Asso. Cos.	-23	0	4	-25	-3	3	-2	-4	-44	-5	-7	-75
Reported PAT	**749**	**762**	**783**	**-39**	**579**	**1,081**	**990**	**766**	**2,255**	**3,416**	**878**	**12.8**
YoY Change (%)	89.7	74.0	32.5	-105.4	-22.7	42.0	26.5	-2,058.5	-6.8	51.5	12.1	1,440bp
Margin (%)	3.7	3.6	3.6	-0.2	2.7	5.0	4.2	3.2	2.7	3.8	3.9	30bp

Economic recovery loses sheen in Dec'20…

…expect real GDP change between -1% and +1% YoY seen in 3QFY21

- **Our in-house Economic Activity Index (EAI) for India's real gross value added (GVA; called EAI-GVA) posted slower growth of 3.9% YoY in Dec'20, v/s 5.1%/6.3% YoY growth in Nov'20/Oct'20. Consequently, EAI-GVA grew 5.1% YoY in 3QFY21 after two consecutive declines of 17.6% and 2.1% YoY in 1QFY21 and 2QFY21, respectively. Slower growth in Dec'20 was due to moderation in the Services and Farm sectors, while industrial activity appears to have performed relatively better.**
- **The EAI-GDP index (our in-house measure for official GDP) declined at the slowest pace in 10 months – by 3.8% YoY in Dec'20 v/s a 5.8% YoY contraction in Nov – implying EAI-GDP decline of 6% YoY in 3QFY21 (v/s decline of 11.5% YoY in 2QFY21). Excluding fiscal spending, which grew 29.2% YoY in Dec'20, EAI-GDP declined 5% YoY during the month, marking its slowest fall in 10 months. Following a 10-month long streak of contractions, investments grew a marginal 0.5% YoY in Dec'20, led by strong government capex and cargo traffic. IIP for capital goods is also expected to have grown 13.1% YoY in Dec'20.**
- **Overall, economic recovery was much better during Oct–Nov'20 v/s Dec'20. This may be due to the tapering of pent-up festive demand from previous months. Accordingly, we believe real GDP growth could be between -1% and +1% YoY in 3QFY21, before higher growth is seen in 4QFY21. Additionally, early indicators such as power generation growth and PMI indices show marginally better growth for Jan'21. In any case, now that the mass rollout of COVID-19 vaccines is imminent, it is only a matter of time before we witness the complete normalization of economic activity.**

Preliminary estimates reveal India's EAI for GVA posted slower growth of 3.9% YoY in Dec'20 v/s 5.1% YoY and 6.3% YoY growth in Nov'20 and Oct'20, respectively.

- **EAI-GVA grew 3.9% YoY in Dec'20:** Preliminary estimates reveal India's EAI posted slower growth of 3.9% YoY in Dec'20 v/s 5.1% YoY and 6.3% YoY growth in Nov'20 and Oct'20, respectively *(Exhibit 1)*. Consequently, EAI-GVA is expected to rebound further – with growth of 5.1% YoY in 3QFY21 after two consecutive declines of 17.6% and 2.1% YoY in 1QFY21 and 2QFY21, respectively. Slower growth in Dec'20 was due to moderation in the Services and Farm sectors, while industrial activity appears to have performed relatively better *(Exhibit 2)*.
- **EAI-GDP, however, continued to decline:** The EAI-GDP declined at the slowest pace in 10 months by 3.8% YoY in Dec'20 v/s a contraction of 5.8% YoY in Nov'20 *(Exhibits 3, 4)*. This implies EAI-GDP declined much slower at 6% YoY in 3QFY21 v/s decline of 11.5% YoY in 2QFY21. Excluding fiscal spending, however, EAI-GDP declined 5% YoY in Dec'20 (the slowest decline in 10 months) v/s 7.5% YoY in Nov'20.

HDFC: Demand growth coming from mid, high-income brackets; Keki Mistry, Vice Chairman & CEO

- Believe any stress in the system would have shown up by now. Have been extremely conservative in provisioning. Carrying Rs. 12342 crore of provision on the B/S
- 74% of restructuring is for non-individual loans, 26% for individual loans
- Do not have any restructuring in the pipeline
- Guided for a growing non-individual book at a lower pace than before. See demand in non-individual book; continue to remain cautious
- Interest rates are at very low levels, making home loans attractive. Various states have undertaken measures to boost housing
- December 2020 individual disbursement at all-time high of 26% growth YoY

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Dixon Technologies: Aim to achieve revenue of Rs. 10,000 crore; Atul Lall, MD

- Will end FY21 with revenue of Rs. 6200-6300 crore. Target to achieve revenue of Rs. 10,000 crore in FY22
- Believe mobile business will be the big driver of growth in FY22
- Margin compression is due to change in sales mix
- Expect margin for next quarter to be in similar range as Q3
- Expect Rs. 3500 crore revenue from consumer electricals business & Rs. 4000-4500 crore from mobile segment in FY22
- Expect to end the year with a capex spend of over Rs. 140 crore. FY22 capex target of Rs. 120-150 crore
- May look at capex funding without diluting equity

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L&T: See building health infra as big opportunity; R Shankar Raman, WTD & CFO

- Health-related services will get a fairly decent allocation. This would mean building health infrastructure in the country
- Water both in terms of availability of clean drinking water as well as possibly the affluent and sewage treatment as part of Swachh Bharat programme could also get a fair bit of allocation
- The country is getting more and more committed to the climate change initiatives and hence renewable energy will get an allocation in terms of power
- Government has been practical in realising that the investment momentum has to be led by the government's own spending programmes as well as the PSU capex
- We have a win rate of 20-25 percent. If we are chasing about Rs 75,000 crore worth of orders, normally four times that would be the pipeline of interested orders that we will be pursuing

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Tata Consumer Products: 'Soulfull' gets us into new categories, is margin accretive; Sunil D'Souza, MD & CEO

- Tea prices have not started to taper off. We remain confident that our execution is in place and we will be delivering good results in the future
- ** Out-of-home business Starbucks and NourishCo Beverages are showing sequential improvement
- ** ‘Soulfull’ acquisition gets us into new categories which is breakfast cereals, snacking. It is margin accretive, it has a strong pipeline
- ** Indian beverages the margins are a transient issue it is just a matter of time. We feel very confident that we will be able to continue growth going in the future for the very simple reason that we put the right building blocks in the place

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Ashok Leyland: Tractor Demand Growth Continues In Feb; Anuj Kathuria, COO

- Witnessed MoM growth in sales
- Intermediate CVs saw good growth. Followed by Tippers because of pick up in Infra, it should continue to grow. Long haul demand was better than December
- Total Industry volumes for CVs especially Trucks will continue to grow
- Total industry volumes for M&HCVs was 24k . AL volumes were close to 7k. Industry volumes should grow by at least 18-20% in February & March compared to January
- LCVs segment doing well with new launches

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GOVERNMENT NOT FUNDING THE ARC IS A GOOD IDEA

- It is a huge relief the government is not going to fund the proposed Asset Management Company (AMC) that will house the bad assets of banks before they are sold to buyers like alternative Investment Funds (AIF). A bad bank is a bad idea at any time, even in these difficult circumstances, but had the government capitalised the AMC, it would have amounted to a bailout creating a moral hazard. From all appearances, the idea is to capitalise the AMC with the capital provisions that banks have already set aside for the bad loans and then transfer the loan exposures. That seems to be a good way to do it since it would not cost the banks growth capital; the shareholding of each of the banks in the ARC would be proportional to the stressed assets that they transfer. The advantage of pooling the toxic loans is that it would be easier to negotiate with a prospective buyer. Else, it takes consortiums forever to come to a decision with one bank or another dragging its feet. For the moment it is not immediately clear whether the bad loans will be immediately sold to a buyer or whether, as some experts have suggested, the businesses will be turned around with the help of professionals before the sale. The experience with ARCIL and other asset reconstruction companies (ARC) has been bad.
- To begin with, the haircuts were steep—as high as 30-40%—with the ARCs striking a tough bargain. Worse, banks received very little cash upfront—at one time just 5-10%—and were left holding the security receipts (SR) for the remaining amount. Most of the time, they ended up recovering very little money. The fact is the ARCs found it extremely profitable to pay a small sum upfront as cash and little thereafter; the economics worked for them. In September 2016, RBI made it mandatory for banks to frame a pre-defined policy to manage NPLs and widened the pool of buyers to include other banks, NBFCs and FIs that had capital and expertise. RBI amended the rules to remove a key arbitrage; banks were delaying provisions by selling NPLs, especially doubtful loans, to an ARC, and writing down the value of investments over a much longer period. RBI asked them to ensure the outstanding SRs held by banks on loans that had been sold was not more than 50%.
- DFS secretary Debashish Panda has suggested the model would be a 15:85 one; with 15% cash upfront and 85% as SRs. That does not sound promising. To begin with, prospective buyers typically look for attractive prices, which means banks will need to take stiff haircuts even if they are negotiating as a team and not individually. To be sure, taking a big haircut is not a crime; it is perhaps the best way out for lenders whose capital is blocked. However, it is important the government ensures the lenders are protected from the 3Cs, and like, with the Insolvency and Bankruptcy Code (IBC) no questions are raised. If possible the stressed companies should be revived, at least partially, with the help of professionals and in the absence of the promoters before the debt is sold. Obviously, a cost analysis of each company would need to be done to assess whether such an exercise is worth it.

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