Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	43,953	0.7	6.5
Nifty-50	12,874	0.7	5.8
Nifty-M 100	18,652	1.1	9.1
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,610	-0.5	11.7
Nasdaq	11,899	-0.2	32.6
FTSE 100	6,365	-0.9	-15.6
DAX	13,133	0.0	-0.9
Hang Seng	10,550	-0.3	-5.5
Nikkei 225	26,015	0.4	10.0
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	43	-0.8	-35.5
Gold ($/OZ)	1,880	-0.5	23.9
Cu (US$/MT)	7,047	-0.6	14.6
Almn (US$/MT)	1,961	1.3	10.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.5	-0.2	4.3
USD/EUR	1.2	0.2	5.8
USD/JPY	104.2	-0.4	-4.1
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	5.9	0.00	-0.7
10 Yrs AAA Corp	6.6	0.00	-1.0
Flows (USD b)	**17-Nov**	**MTD**	**CYTD**
FIIs	0.66	3.17	6.66
DIIs	-0.51	-2.68	6.81
Volumes (INRb)	**17-Nov**	**MTD***	**CYTD***
Cash	715	622	553
F&O	19,189	23,922	17,799

Note: *Average

Today's top research theme

India Strategy | 2QFY21 Results Review: An all-round beat!

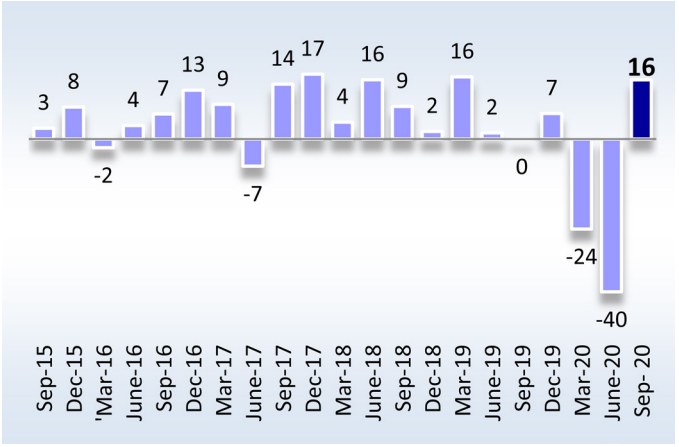
- The Sep-quarter (2QFY21) corporate earnings season was a blockbuster one, with big beats and upgrades across our Coverage Universe. With an upgrade (>5%) to downgrade ratio (<-5%) of 4:1, this has by far been the best earnings season in many years. 63% of the companies in our MOFSL Coverage Universe beat 2QFY21 estimates, while 18% reported below-est. results. This has resulted in the first material earnings upgrade for Nifty EPS estimates in many years.
- Nifty sales declined 6.7% YoY (est. -5.2%), while EBITDA/PBT/PAT reported growth of 8%/14%/17% YoY (est. -0.3%/-7%/-5%).
- The MOFSL Universe's sales/EBITDA/PBT/PAT reported growth of -7%/9%/16%/16% YoY (est. -6%/-0.1%/-6%/-7% YoY). Nine sectors posted YoY profit growth – Metals (152%), PSU Banks (67%), Cement (65%), Private Banks (53%), Healthcare (33%), Life Insurance (25%), O&G (14%), Technology (9%), and Utilities (3%). Retail (-88%), Auto (- 11%), and Consumer (-3%) posted YoY declines, but came in above our expectations. Capital Goods (-47%) and Telecom (INR60b loss) results were below expectations.
- Our FY21/FY22E Nifty EPS estimates have been revised up 9%/3.9% to INR497/INR677 (prior: INR456/INR651). We now expect FY21 Nifty EPS to grow 6.9% YoY.

Research covered

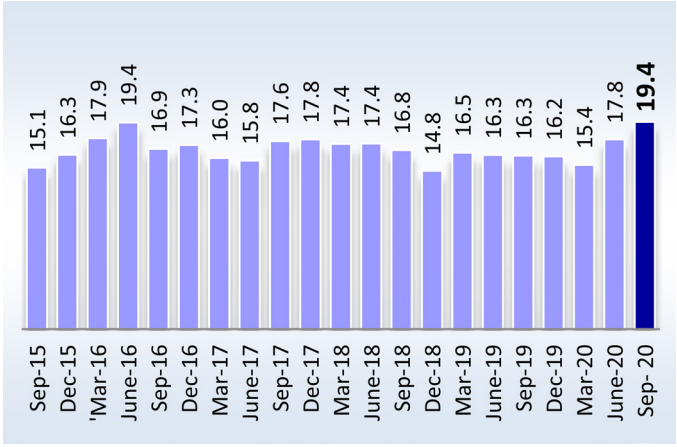
Cos/Sector	Key Highlights
India Strategy	Results Review: An all-round beat!
EcoScope	How long can we afford to ignore inflation?
Telecom	Noise of tariff hike gaining steam – positive for BHARTI and RJio
Repco	Spreads improve; asset quality stable

Chart of the Day: India Strategy (An all-round beat!)

MOFSL Universe PAT posts growth of 16% YoY v/s expectation of 7% decline



EBITDA margin (excl. Financials) expands 310bp YoY to 19.4%



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

RBI proposes merger with DBS Bank as possible solution to Lakshmi Vilas Bank's capital woes

Lakshmi Vilas Bank is proposed to be merged with DBS Bank India, the local unit of Singapore-based DBS Holdings, ending years of speculation about the future of the teetering bank…

2

Sugar production jumps nearly 3-folds to 14.10 lakh tn till November 15: ISMA

Sugar production in India, the world's second-largest producer of the sweetener, has surged nearly three-folds to 14.10 lakh tonnes in the 2020-21 season so far due to better crop output and timely commencement of the crushing operation, industry body ISMA said on Tuesday. Sugar production stood at 4.84 lakh tonne in the same period of the 2019-20 season (October-September), it said…

3

Sales of budget, premium smartphones soar in festive season, mid-segment takes a hit

The budget category strengthened its dominance as smartphone sales hit a record in the third quarter amid a festive shopping spree, a development that dragged their average selling price lower, according to a market research firm…

4

ONGC signs contract for 7 blocks, OIL 4 blocks

State-owned Oil and Natural Gas Corp on Tuesday signed contracts for seven oil and gas blocks it had won in the latest bid round that saw scant participation from the private sector…

5

Hiring activities improve in metro cities, says report

In an indication of improving hiring activities in metro ctieis, job postings rose over five per cent in October compared to the previous month, according to a report. The report is based on job postings on job portal SCIKEY.

6

Monthly active users at all-time high for Flipkart, PhonePe: Walmart

American retail giant Walmart Inc. on Tuesday said that its Indian e-commerce unit Flipkart and payment app PhonePe have seen a strong quarter on the back of 'Big Billion Day' sales, with monthly active users (MAU) on an all-time high for the Indian e-tailer…

7

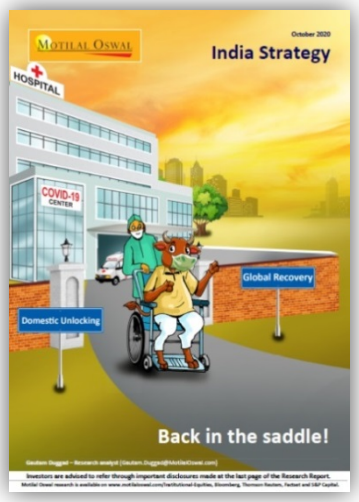
Embassy Reit to buy Embassy Tech Village in Bengaluru for $1.3 billion

Embassy Reit, India's first public listed real estate investment trust, said it has agreed to buy Embassy Tech Village assets from affiliates of sponsors Embassy Group and Blackstone Group Lp and other shareholders for around $1.3 billion…

India Strategy

BSE Sensex: 43,443 **Nifty-50: 12,720**

Refer to our Sep'20 Quarter Preview



Our recent Strategy notes

2QFY21 Results Review: An all-round beat!

Earnings upgrade after years; Upgrades outweigh downgrades by 4x

- **The Sep-quarter (2QFY21) corporate earnings season was a blockbuster one, with big beats and upgrades across our Coverage Universe. With an upgrade (>5%) to downgrade ratio (<-5%) of 4:1, this has by far been the best earnings season in many years. 63% of the companies in our MOFSL Coverage Universe beat 2QFY21 estimates, while 18% reported below-est. results. This has resulted in the first material earnings upgrade for Nifty EPS estimates in many years. More importantly, corporate commentaries across the sector suggest continued demand recovery in 3QFY21, underpinned by a healthy start to the festive season.**
- **While sales growth was in-line, (1) better-than-expected demand recovery, (2) continued cost control measures, and (3) lower-than-expected provisioning costs for the BFSI segment drove a spectacular profit beat. Cement, Pvt. Banks, PSU Banks, Healthcare, Oil & Gas (O&G), Technology, and Utilities reported YoY profit growth, while Auto, Capital Goods, Consumer, NBFC, and Retail reported YoY declines. The Telecom sector posted loss.**
- **Nifty sales declined 6.7% YoY (est. -5.2%), while EBITDA/PBT/PAT reported growth of 8%/14%/17% YoY (est. -0.3%/-7%/-5%). 62% of Nifty-50 companies reported a beat on our PAT estimates, and only 18% posted results below our expectations.**
- **The MOFSL Universe's sales/EBITDA/PBT/PAT reported growth of -7%/9%/16%/16% YoY (est. -6%/-0.1%/-6%/-7% YoY). Nine sectors posted YoY profit growth – Metals (152%), PSU Banks (67%), Cement (65%), Private Banks (53%), Healthcare (33%), Life Insurance (25%), O&G (14%), Technology (9%), and Utilities (3%). Retail (-88%), Auto (-11%), and Consumer (-3%) posted YoY declines, but came in above our expectations. Capital Goods (-47%) and Telecom (INR60b loss) results were below expectations.**
- **Of the 18 sectors that we track, 13/3/2 sectors delivered PAT above/in-line/below our estimates.**
- **<u>Our FY21/FY22E Nifty EPS estimates have been revised up 9%/3.9%</u> to INR497/INR677 (prior: INR456/INR651). We now expect FY21 Nifty EPS to grow 6.9% YoY. The breadth of earnings revision was positive, with an upgrade to downgrade ratio of >4:1. 107 companies in the MOFSL Universe saw upgrades of >5%, while 26 witnessed downgrades of >5% for FY21.**
- **Sectoral highlights – MOFSL's Private Banks Universe reported a strong set of earnings, with PAT growth of 53% YoY (est. 30% YoY). More importantly, commentary around asset quality remained better than expected, with banks reporting better collection efficiency and lower stress on asset quality than earlier envisaged. Our NBFC Universe's performance was above expectations as PAT declined 11% YoY (est. -21% YoY).**
- **MOFSL's Healthcare Universe continued to deliver robust numbers, with PBT/PAT growth of 43%/33% YoY (est. 25%/14% YoY). (a) A slower-than-expected uptick in marketing costs and (b) moderation in price erosion (v/s previous years) in the US helped companies post strong results. Our Technology Universe posted better-than-expected PAT growth of 9% YoY (est. 4% YoY growth) as 9 of 12 companies reported better-than-expected results. Management commentaries indicated the pandemic has acted as a tailwind for the sector – as enterprises are undertaking cloud adoption at a faster pace and digital transformation at the workplace has accelerated.**

- **Our Consumer Universe posted 3% YoY PAT decline (est. -12% YoY), led by a broad-based beat. Rural continued to outperform Urban in terms of demand. Strong cost control was evident as well. Our Cement Universe's results were well above expectations (65% YoY growth profit v/s est. 44% YoY) – aided by stable price realization, lower power, fuel, employee, and other costs – as companies put a tight lid on expenditure. Of 11 companies, 9 reported better-than-expected PAT. MOFSL's Metals Universe posted PAT growth of 152% YoY, albeit on a weaker base of 2QFY20. Results were above expectations for Hindalco, JSPL, JSW Steel, Nalco, and Tata Steel.**
- **Our Automobiles Universe posted PBT/PAT decline of 15%/11% YoY (est. -51%/-60% YoY), primarily led by a sharp reduction in loss in Tata Motors. The Tractor segment continued its outperformance in 2QFY21. Of the 17 companies under our coverage, 6 posted results above expectations. The O&G Universe's PAT was up 14% YoY (est. 26% YoY decline), largely led by massive inventory gains in OMCs. The Capital Goods Universe reported 47% YoY decline in profit, below our expectation, largely attributed to L&T (52% YoY decline) and BHEL (INR5.5b loss). Results for Havells, Crompton, Voltas, Blue Star, ABB, BEL, and KEC were above expectations.**
- **The MOFSL Universe's sector-level earnings revision: Auto, Metals, Cement, O&G, Retail, Pvt Banks, Healthcare, NBFC, Technology, and Consumer saw an FY21 earnings upgrade of 66%, 38%, 13%, 13%, 12%, 7%, 7%, 7%, 3%, and 2%, respectively.**
- **Top upgrades (FY22E): SBI (19%), Tata Steel (18%), Axis Bank (17%), Bajaj Finance (15%), Kotak Bank (14%), Tata Motors (13%), Divi's Lab (12%), Infosys (12%), JSW Steel (11%), and Shree Cement (10%)**
- **Top downgrades (FY22E): Tech Mahindra (-11%), Coal India (-8%), Hero MotoCorp (-6%)**
- **2QFY21 corporate earnings were a broad-based beat, leading to significant upgrades in earnings estimates. Better-than-expected demand recovery and continued cost control initiatives were the key highlights of the quarter. BFSI earnings were particularly strong, with commentaries from large private sector banks indicating the stress on asset quality may not be as bad as initially feared. Although, banks continue to increase provisions for COVID-related stress. Economic recovery continued, with high-frequency data for October coming in fairly strong (GST collections, Manufacturing PMI, rail freight, power demand, and IIP). With active COVID cases down to 4,65,478 from the peak of 1.02m, the abatement of the spread of the virus has coincided with an uptick in economic activity. Early trends from the festive season suggest continued demand recovery. However, after the 68% rebound from Mar'20 lows, Nifty valuations are no longer cheap. At 18.9x FY22 EPS, it is already pricing in much of the positives and hereafter needs consistent support in terms of earnings delivery, in our view. We stay OW on BFSI, IT, Healthcare, Auto, and Telecom and Neutral on Consumer in our model portfolio.**

Preferred large-cap ideas

Company	MCap (USD b)	CMP (INR)	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY20	FY21E	FY22E	FY20-22	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Reliance Inds.	170.1	2,002	66.8	64.8	105.1	25.4	30.0	30.9	19.1	2.8	2.5	2.3	10.2	8.7	12.6
Infosys	69.5	1,133	38.9	45.7	54.1	17.9	29.1	24.8	20.9	7.8	6.7	5.7	25.2	27.0	27.0
Hind. Unilever	68.8	2,189	31.2	34.8	42.7	17.0	70.1	62.9	51.2	58.9	10.5	10.5	86.0	28.6	20.4
ICICI Bank	45.0	487	12.3	20.0	27.7	50.3	39.7	24.4	17.5	2.7	2.4	2.1	7.3	10.5	12.8
Bharti Airtel	35.2	481	-7.5	1.8	4.5	LP	-64.5	274.0	107.9	3.4	4.2	4.0	-5.5	1.4	3.8
State Bank	27.5	230	22.1	30.9	41.3	36.5	10.4	7.4	5.6	0.9	0.8	0.7	7.2	9.9	12.4
Titan Company	15.3	1,285	17.1	9.3	22.3	14.3	75.3	138.7	57.6	17.1	16.7	14.6	23.8	12.2	27.0
Divis Labs	12.3	3,446	48.9	76.3	97.7	41.3	70.4	45.2	35.3	12.5	10.3	8.3	18.2	25.0	26.1
Hero MotoCorp	8.4	3,117	153.0	147.1	190.9	11.7	20.4	21.2	16.3	4.4	4.2	3.9	22.6	20.4	24.9
Muthoot Finance	6.4	1,188	75.3	87.3	102.2	16.5	15.8	13.6	11.6	4.1	3.3	2.7	29.0	27.0	25.6

Preferred mid-cap ideas

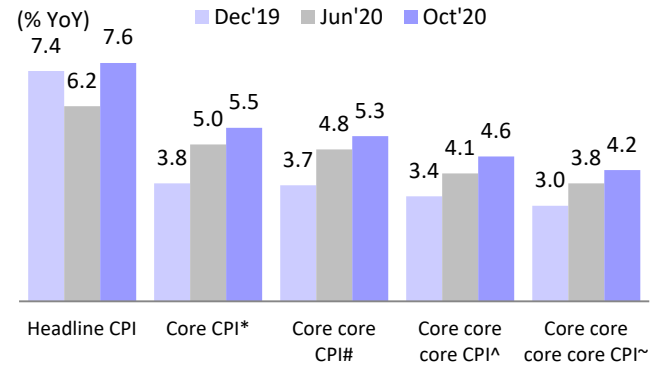
Company	MCap (USD b)	CMP (INR)	EPS (INR)			EPS CAGR (%)	PE (x)			PB (x)			ROE (%)		
			FY20	FY21E	FY22E	FY20-22	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Motherson Sumi	5.5	130	3.7	1.7	5.9	26.4	35.1	75.2	22.0	3.6	3.5	3.2	10.5	4.8	15.2
Ipca Labs.	3.5	2,095	51.4	93.7	94.9	35.9	40.8	22.4	22.1	7.3	5.7	4.7	19.2	28.7	23.3
AU Small Finance	3.5	852	22.6	29.5	35.5	25.2	37.6	28.9	24.0	6.0	5.1	4.2	18.0	19.1	19.2
Mphasis	3.4	1,326	61.5	66.2	78.0	12.7	21.6	20.0	17.0	4.2	4.2	3.7	21.4	21.4	24.1
CG Consumer Elect.	2.5	300	7.0	7.6	9.5	16.5	43.0	39.4	31.7	12.8	10.8	9.0	29.8	27.3	28.4
Emami	2.3	381	12.4	14.9	14.2	7.2	30.8	25.6	26.8	9.5	7.7	7.6	28.8	32.8	28.4
LIC Housing Fin	2.1	315	47.6	59.6	59.6	12.0	6.6	5.3	5.3	0.9	0.8	0.7	14.3	15.8	14.0
ICICI Securities	1.9	451	16.8	27.8	27.7	28.3	26.8	16.2	16.3	12.0	9.8	8.3	48.0	66.7	55.3
Aditya Birla Fashion	1.6	158	-0.2	-3.9	-0.7	Loss	-860.3	-40.2	-217.0	11.3	19.4	20.6	-1.1	-51.5	-9.9
India Energy Exch.	0.8	207	6.0	5.9	7.6	12.6	34.7	35.1	27.3	15.8	13.9	12.1	46.8	42.2	47.3

How long can we afford to ignore inflation?

Probably only for the next few months

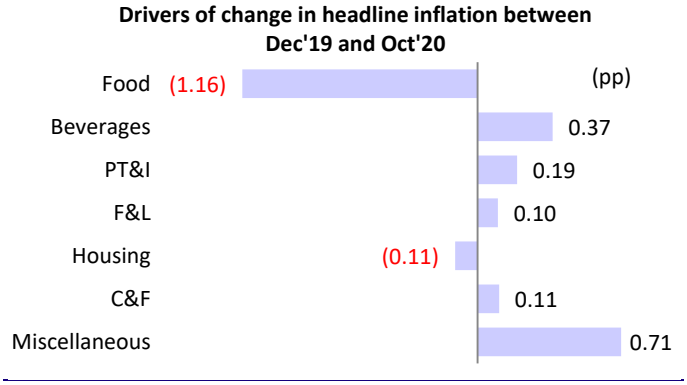
- **Considering the fact that the Indian economy entered its first technical recession in the past four decades (quarterly data available since mid-1990s) in 1HFY21, the worry about inflation may seem surprising and totally unwarranted. Equally surprising is the 77-month high headline inflation and 22-month high core inflation amid the recession.**
- **We find it irresistible to comment on this development because of two reasons. First, India is among the very few major nations in the world with higher inflation in Oct'20 compared to Dec'19 (pre-COVID levels), but the rise in core inflation is also the highest among 21 major economies in the world. While core inflation in advanced economies (AEs) and emerging and developing economies (E&DEs) have converged for the first time in 25 years, India (along with Turkey) continues to remain an exception.**
- **Second, while we continue to blame supply or logistics constraints for higher food inflation, we need to ponder over the validity of this reason amid growing economic activity and the mobility index back to pre-COVID levels. If supply constraints are responsible for higher food inflation, it is surprising to note that higher inflation is actually missing in a few food items, weak in other food items and very strong in some. A point-to-point comparison of headline inflation in Dec'19 and Oct'20 (from 7.4% to 7.6%) suggests that while the contribution of food items has fallen by over 100bp, core inflation has risen substantially and led to higher headline inflation.**
- **We don't intend to raise any alarm over very high inflation in India and it is most likely, and probably appropriate, for policy makers and market participants to ignore such risks at this stage. However, the forward-looking inflation-targeting Reserve Bank of India (RBI) may find it extremely difficult to ignore these trends for long and maintain its credibility, unless there is a sharp and sustained fall in the headline inflation (the target measure) towards 5-5.5% by Mar'21 and further towards 4% by mid-FY22. While the market expects headline inflation to ease to 4.2% in 4Q from 6.6% in 2QFY21 and below 4% in 1HFY22, our estimates suggest a trough of ~6% in Dec'20 and Jan'21, before rising back to 6.5% by Mar'21 and staying ~6% till Sep'21.**
- **If headline inflation is closer to our forecasts compared to market projections and stays ~6% consistently for the next 2-3 quarters, the mood could change quickly and inflation will become a concern sooner than later. Higher inflation has serious repercussions for various segments ranging from rural to the urban sector, borrowers to lenders and investors to savers in an economy.**

Inflation in India has risen irrespective of which measure we look at



* CPI less Food and Beverages, Fuel and Light, Pan and Tobacco
\# Core CPI less fuel items
^ Core CPI less gold
~ Core CPI less telecom charges

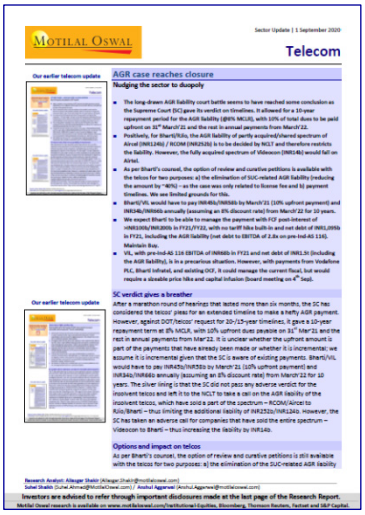
What has contributed to India's higher headline inflation since Dec'19?



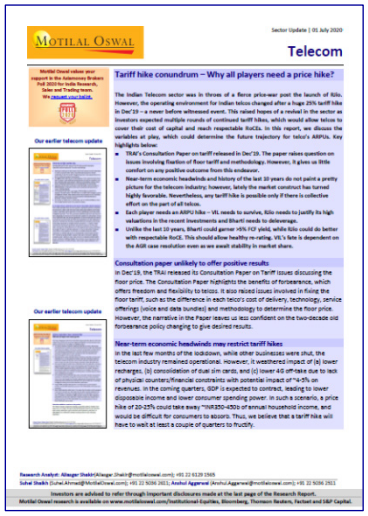
Core CPI=Housing + Clothing & Footwear + Miscellaneous
Source: CSO, CEIC, MOFSL

Telecom

Our earlier telecom update



Our earlier telecom update



Noise of tariff hike gaining steam – positive for BHARTI and RJio

- As per media reports, IDEA is exploring a 15-20% price hike in Dec'20 or Jan'21. We expect BHARTI and RJio to follow suit as both players may not be keen to take the lead on a price hike and face risk of a market share loss or a negative consumer reaction.
- Our discussion with industry experts indicate that a price hike could be around the corner and may be anticipated soon as economic activity has restarted post the COVID-led lockdown and demand for data consumption is growing unabated. The timing of a price hike is in line with our expectations of a tariff hike by FY21-end or early FY22.
- This is a welcome move and a big positive for BHARTI/RJio, while we remain cautious about IDEA given the liquidity crunch.
- We have not factored in a material price hike in our model at present. A 20% price hike should increase BHARTI/RJio/IDEA's ARPU to INR178/INR167/INR140 in FY22E. At 70% incremental margin, EBITDA (pre IND AS 116) in FY22E should touch INR559b/INR559b/INR142b, a 16%/22%/30% increase at the consolidated level.
- Without any tariff hike, we expect BHARTI/RJio to generate post interest FCF of INR64b/-INR64b, including one-time spectrum renewal cost of INR130b/INR280b.
- Although this should provide IDEA with additional cash flow, it would still not be enough to fulfill its obligations. Our workings suggest that IDEA needs 74% ARPU hike to achieve EBITDA (pre IND AS 116) of INR300b to sufficiently furnish its complete cash obligations sustainably in FY23, including deferred spectrum payments.
- It also needs to arrest its subscriber churn to realize the benefit of price hike. As we witnessed in the previous round of price hike (Dec'19), ~25% tariff hike increased its EBITDA by just INR14b (25%), given the huge subscriber churn. This was a far cry from our anticipated EBITDA increase of INR43b.
- We continue to remain bullish on BHARTI/RJio with a target price of INR650/INR900 (for its 66% stake). We have assigned a higher multiple of 11x/18x to BHARTI/RJio for capturing expected gains from any potential tariff hike, higher market share gains. The premium valuation to RJio captures the additional a) Digital revenue opportunity, and b) growing subscriber market share in the low-cost device market.
- We continue to maintain IDEA **under review** due to its liquidity crunch and limited clarity on business continuity.

Expected earnings post 20% tariff hike

	FY22E		
Company	**IDEA**	**BHARTI**	**RJio**
Amount (INR b)			
Old ARPU (INR)	117	148	149
Expected price hike (%)	20	20	20
New ARPU (INR)	**140**	**178**	**167**
Subscribers (m)	283	303	496
Old revenue	430	1,058	846
New revenue	**476**	**1,166**	**990**
Old EBITDA (pre IND 116)	109	484	458
Incremental EBITDA	**33**	**75**	**101**
New EBITDA (pre IND 116)	142	559	559
Increase in EBITDA (%)	**30**	**16**	**22**

IDEA's ARPU hike requirement

(Amount in INR b)	FY22E
Capex	38
Cash interest	30
Deferred spectrum liability	165
AGR payment/year (20 years)	66
Total EBITDA requirement	**300**
EBITDA (pre IND AS 116)	109
Incremental EBITDA required	191
Incremental revenue required	293
ARPU (INR)	117
Subscribers (m)	283
ARPU hike required (INR)	87
New ARPU (INR)	204
Increase in ARPU required (%)	**74**

BHARTI SoTP on FY22E

	EBITDA (INR b)	Ownership	Proportionate EBITDA (INR b)	EV/EBITDA	Fair Value (INR b)	Value/share
India SA business (excl. towers)	352	100%	352	11	3,870	709
Tower business (15% discount to fair value)		53.5%			235	43
Africa business	154	55.2%	85	6	509	93
Less: Net debt					1,074	197
Total value					**3,540**	**650**
Shares o/s (b)	5.5					
CMP						**485**
Upside (%)						**34**

Source: MOFSL, Company

RJio SoTP

Particulars	(INR b)
EBITDA	488
EV/EBITDA (x)	18
EV	8,597
Debt	12
Equity value	8,584
Value per share	1,354
Stake	66.48%
RIL stake in RJio	**900**

Source: MOFSL, Company

Repco Home Finance

Bloomberg	REPCO IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	15.5 / 0.2
52-Week Range (INR)	366 / 91
1, 6, 12 Rel. Per (%)	24/81/-21
12M Avg Val (INR M)	65
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	4.9	5.5	5.8
PPP	4.2	4.7	4.8
PAT	2.8	3.0	3.2
EPS (INR)	44.8	48.0	50.8
EPS Gr. (%)	19	7	6
BV/Sh. (INR)	286	330	378
Ratios			
NIM (%)	4.4	4.6	4.4
C/I ratio (%)	20.2	18.6	19.6
RoAA (%)	2.4	2.4	2.4
RoE (%)	16.9	15.6	14.3
Payout (%)	7.0	7.0	7.0
Valuation			
P/E (x)	5.6	5.2	4.9
P/BV (x)	0.9	0.8	0.7
Div. Yield (%)	1.1	1.2	1.2

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	37.1	37.1	37.1
DII	20.2	18.6	26.1
FII	19.1	26.7	26.8
Others	23.6	17.6	9.9

FII Includes depository receipts

CMP: INR249 TP: INR325 (+31%) Buy

Spreads improve; asset quality stable

- Repco Home Finance's (REPCO) 2QFY21 PBT was up 6% YoY at INR1.08b. On the back of a lower tax rate (1.3%) in the base quarter, PAT declined 20% YoY to INR808m. The quarter was characterized by a gradual pick up in business volumes, improvement in spreads, and focus on collections.
- The company created INR72m in provisions in 2QFY21. Collection efficiency stood at 93% in Sep'20.
- On the back of strong spreads and conducive liquidity environment, we upgrade our estimates by 10-12% for FY21E/FY22E. We expect a RoE of 14-15% over FY21-23E and a RoA of 2.4%. We expect the focus on collections to take precedence over growth in the near term. Maintain Buy

Business volumes pick up; yields improve

- On a low base, HL/LAP disbursements picked up 2x/3x QoQ, although it is still at 70% of pre-COVID levels. Loans were flat QoQ but grew 4% YoY to INR121b.
- **Yields improved by ~30bp QoQ to 11.6% (stable YoY), and cost of funds declined by 10bp sequentially to 8.2%.** This led to a 40bp improvement in spreads to 3.4% (higher than their long-term average). As per the management, the improvement in yields is unlikely to sustain ahead.

Lower provisioning supports PPOP; asset quality improves

- Opex jumped 9% QoQ to INR257m. As business volumes have started to pick up, these should return to pre-COVID levels in ensuing quarters.
- GNPL ratio declined 10bp QoQ to 3.95%, led by a 10bp/20bp improvement in HL/LAP. Over the past three quarters, Stage 3 PCR has increased to 41% from 29% and total ECL provision to 2% from 1.5%. The company carries management overlay related provisions of INR512m (40bp of loans).

Highlights from the management commentary

- Expect 8–10% AUM growth in FY21 and disbursements of INR7-8b in Q3 and ~INR9b in Q4.
- Incremental yields for HL/HE at 10.39%/13.22% (1QFY21 10.46%/13.15%).

Valuation and view

Over the past year, REPCO has reduced its dependence on capital market borrowings – 96% share of borrowings now come from banks and National Housing Bank (NHB). Issues of the past (sand mining and the registration ban in Tamil Nadu) continue to impact the company's growth. We expect disbursements to pick up in 2HFY21 on back of buoyancy in RE sector. However, loan growth is likely to be in low digits in FY21/FY22. Improvement in asset quality is encouraging. However, a clearer picture would emerge toward the end of FY21. Maintain Buy with a TP of INR325/share (0.8x Sep'22E BVPS).

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest income	3,286	3,322	3,406	3,441	3,384	3,486	3,512	3,533	13,174	13,915
Interest expenses	2,015	2,085	2,088	2,062	2,104	2,090	2,095	2,100	8,250	8,389
Net income	**1,271**	**1,237**	**1,318**	**1,379**	**1,280**	**1,396**	**1,417**	**1,433**	**4,924**	**5,526**
YoY growth (%)	11.2	3.4	10.8	18.5	0.7	12.9	7.5	3.9	4.9	12.2
Other income	-2	33	4	20	35	16	60	91	337	202
Total income	**1,270**	**1,270**	**1,322**	**1,399**	**1,315**	**1,412**	**1,477**	**1,524**	**5,261**	**5,728**
YoY growth (%)	6.8	5.4	11.0	19.9	3.6	11.2	11.7	8.9	10.7	8.9
Operating expenses	235	249	274	307	235	257	275	301	1,065	1,068
YoY growth (%)	7.3	5.7	8.5	10.8	0.1	3.2	0.3	-1.9	8.2	0.3
Operating profits	**1,035**	**1,021**	**1,048**	**1,093**	**1,080**	**1,155**	**1,202**	**1,223**	**4,196**	**4,660**
YoY growth (%)	6.7	5.3	11.6	22.7	4.4	13.1	14.7	11.9	11.4	11.1
Provisions	75	1	115	403	221	72	175	178	594	647
Profit before tax	**960**	**1,020**	**933**	**690**	**859**	**1,083**	**1,027**	**1,045**	**3,602**	**4,014**
Tax provisions	336	14	236	213	219	275	257	261	798	1,011
Profit after tax	**624**	**1,006**	**697**	**477**	**640**	**808**	**770**	**784**	**2,804**	**3,002**
YoY growth (%)	2.4	51.1	25.3	-7.4	2.6	-19.7	10.5	64.4	19.5	7.1
Loan growth (%)	12.6	10.7	9.0	7.2	5.6	5.2	4.9	4.9	6.9	7.0
Cost to income ratio (%)	18.5	19.6	20.7	21.9	17.9	18.2	18.6	19.7	20.2	18.6
Tax rate (%)	35.0	1.3	25.3	30.8	25.5	25.4	25.0	25.0	22.2	25.2
Key parameters (%)										
Yield on loans (cal)	11.7	11.6	11.8	11.7	11.4	11.6			11.7	
Cost of funds (cal)	8.6	8.5	8.4	8.3	8.3	8.2			8.5	
Spreads (cal)	3.2	3.1	3.4	3.4	3.0	3.4			3.2	
NIMs (reported)	4.5	4.3	4.6	4.7	4.3	4.6			4.4	
Credit cost	0.3	0.0	0.4	1.4	0.7	0.2				
Cost to income ratio	18.5	19.6	20.7	21.9	17.9	18.2	18.6	19.7		
Tax rate	35.0	1.3	25.3	30.8	25.5	25.4	25.0	25.0		
Balance Sheet										
AUM (INR b)	113	115	116	118	120	121				
Change YoY (%)	12.6	10.7	9.0	7.2	5.6	5.2				
AUM mix (%)										
Non-salaried	54.2	53.4	52.8	51.6	51.7	51.7				
Salaried	45.8	46.6	47.2	48.4	48.3	48.3				
AUM mix (%)										
Home loans	81.5	81.5	81.4	81.3	81.3	81.1				
LAP	18.5	18.5	18.6	18.7	18.7	18.9				
Disbursements (INR b)	6.7	7.0	6.6	6.0	1.8	4.7				
Change YoY (%)	-5.2	-9.6	-10.6	-31.4	-72.8	-33.4				
Borrowings (INR b)	95.6	100.3	97.9	100.6	101.5	103.0				
Change YoY (%)	14.8	15.1	9.7	8.4	6.2	2.6				
Loans/borrowings (%)	118.7	114.6	118.8	117.6	118.0	117.4				
Borrowings mix (%)										
Banks	70.9	74.5	75.9	75.2	74.8	71.7				
NHB	10.9	10.1	9.4	7.8	10.5	14.8				
REPCO	7.9	7.9	8.0	10.5	10.3	9.9				
NCD	8.7	7.5	6.7	6.5	4.5	2.6				
CP	1.6	0.0	0.0	0.0	0.0	1.0				
Asset quality										
GS 3 (INR b)	4.8	4.9	4.9	5.1	4.8	4.8				
Gross Stage 3 (% on assets)	4.2	4.2	4.2	4.3	4.0	4.0				
NS 3 (INR b)	3.3	3.5	3.5	3.3	2.8	2.8				
Net Stage 3 (% on assets)	3.0	3.1	3.1	2.8	2.4	2.4				
PCR (%)	30.5	28.2	28.6	35.8	41.2	41.4				
Return ratios (%)										
RoA (Reported)	2.2	3.5	2.4	1.6	2.2	2.7				
RoE (Reported)	17.7	26.1	17.3	11.5	15.0	18.3				

Source: Company, MOFSL, E: MOFSL estimates

COVID Vaccine logistic infrastructure

TCI Express: Chander Agarwal, MD

- If storage requirements will be at -7-8degrees than it should be ok, anything lower will require new investments
- Already awarded contracts for state vaccine distribution. Distribution has to be made to smaller towns & villages too. Govt. to allocate the distribution job to diversified players
- Air cargo disqualified due to high cost
- Emphasis to be in express road segment, where TCI is strong

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Blue Star: B Thiagarajan, MD

- We manufacture entire chain of cold storage equipments
- Have 70% market share in pharma & pharmacy segments. Involved in many vaccination programs. Have ~14 lakh vaccine carriers
- If -20 degrees is the requirement then investments wil be required for transport
- State Govt already buying vaccine related equipments
- If storage requirement is at -2-8 degrees, can earn Rs. 150cr additional revenues. If it is -20 degrees then we expect Rs. 500cr incremental revenues over 2 years

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FADA: Diwali sales were a mixed bag for the auto sector; Vinkesh Gulati, President

- Good momentum in PVs & Tractors, other segments seeing a challenge. PVs will have similar numbers as last year or slightly degrow
- Entry level cars seeing growth. New launches mostly are stocked out. Hyundai Venue, Creta are seeing good growth
- 2W 100cc segment not in flavor, it may degrow by ~20% YoY. 125-150cc segment in huge demand
- Since retails sales did not happen as expected, one of the OEMs had to offer discounts in last 2 days
- Inventory levels will continue to be an issue. HMSI all Activas are sold out but few other players facing issues
- CV demand improving MoM. SCV doing well, MHCV will still take time

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Mahanagar Gas: Have reached 100% of pre-COVID volumes; Deepak Sawant, Dy MD

- In Q3 & Q4 we will cross 3 mmscmd but on an overall FY21 basis we will be at ~2.5 mmscmd
- CNG volumes still at 90% as on date, so volume growth has come from other sectors
- Margins have improved due to decline in gas prices & decline in maintenance and other costs
- FY21 Capex is planned at Rs. 550cr. FY22 will be 1.5x of FY21 capex
- With addition of new CNG stations and in last 6months ~40k new vehicles converted to CNG in Mumbai which is ~10% of CNG volumes

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Fortis Healthcare: Expect H2 to be much better than H1; Ashutosh Raghuvanshi, MD & CEO

- 20% Revenues came from COVID & balance from Non COVID. Elective surgeries at ~75-80% of pre-COVID levels
- Due to surge of cases in Delhi-NCR we are scaling up our COVID capacities there. 100% occupancy in COVID facilities
- See a similar trend as in last 2 months of the quarter to continue in November & December
- H2 will be much better than H1FY21. Q3 expected to be much better & Q4 will be near normal for us
- Debt levels have increased by Rs. 100crs due to losses in Q1.
- Plan to add 1,300 beds in 3-5 years. Have started incurring capex for expansion

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INDIA'S CHALLENGES FROM THE RCEP MIGHT HAVE INCREASED IN SPITE OF STAYING OUT OF IT

- The RCEP was finally signed by its 15 members on the sidelines of the Asean Summit last week. Kicking off of RCEP will have interesting implications for the region. These implications are connected to the onset of a Biden Presidency in the US and the steady advancement of the Resilient Supply Chain Initiative (RSCI).
- The RCEP would be going ahead without India. This would make it a trade deal that includes the ten Asean economies, and all of Asean's bilateral FTA partners, except India. The most significant part of the deal is the new market access that it would create for some member economies. These include China and Japan—the two largest economies of the group—which weren't part of any bilateral or regional trade pacts. China, Japan and Korea were negotiating a trilateral trade pact, which now might become inconsequential following RCEP. In this respect, RCEP—despite growing out of an Asean-centric economic framework—would actually produce much greater market access outside of the Asean, among non-Asean members China, Japan and Korea. Asean's specific market access gains would be over and above those that are already available through various Asean+1 FTAs. Additional market access gains would be more with respect to China, in terms of the additional tariff coverage and concessions that RCEP would provide.
- China clearly is the biggest beneficiary of RCEP. Apart from the additional preferential access it obtains in Japanese, Korean, and other member markets, by concluding RCEP, it is also able to pull off strategic dividends. Notwithstanding difficult relations with some Asean members in recent months, most notably Australia and Japan, the conclusion of RCEP establishes the significance of China as the undisputed leader of trade pacts in the region. As the RCEP proceeds, it would establish China's decisive say in writing the rules of trade in the region through the RCEP. And this is precisely what the US would be wary of. The finalisation of RCEP just before a new Democrat President-elect walks into White House marks the culmination of a peculiar cycle of events around the US role in trade engagement in the Asia-Pacific.
- The biggest strategic motivation for a Biden Presidency to rejoin CPTPP could be the intention to snatch the strategic advantage from China in managing trade in the Indo-Pacific. RCEP might actually force the Biden Presidency to look at returning to CPTPP much more proactively than it might have imagined. It would also, expectedly, look at India to join the bloc. Might India be willing to do so? That would be another challenge to navigate. India's challenges from the RCEP might have increased in spite of staying out of it.

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

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CIN No.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579 ;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.* MOFSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Ben