Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	48,174	-0.5	16.6
Nifty-50	14,146	-0.4	16.1
Nifty-M 100	21,652	0.5	26.3
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,748	0.6	15.0
Nasdaq	12,741	-0.6	40.1
FTSE 100	6,842	3.5	-10.0
DAX	13,892	1.8	3.8
Hang Seng	10,900	1.2	-3.7
Nikkei 225	27,056	-0.4	14.4
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	54	1.5	-19.2
Gold ($/OZ)	1,919	-1.6	26.4
Cu (US$/MT)	8,031	0.5	30.3
Almn (US$/MT)	2,031	-0.3	14.4
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.1	-0.1	2.6
USD/EUR	1.2	0.2	9.9
USD/JPY	103.0	0.3	-5.3
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	5.9	0.03	-0.7
10 Yrs AAA Corp	6.6	0.03	-1.1
Flows (USD b)	**6-Jan**	**MTD**	**CY21**
FIIs	-0.07	0.47	0.54
DIIs	-0.05	-0.14	-0.09
Volumes (INRb)	**6-Jan**	**MTD***	**YTD***
Cash	844	674	674
F&O	39,309	25,243	25,243

Note: *Average

Today's top research idea

Financials 3QFY21 Preview

Banks & Ins.: Earnings outlook poised for recovery | NBFCs: A decisive quarter

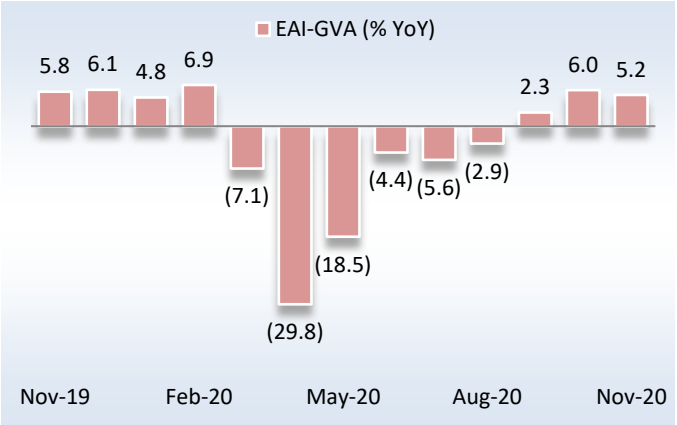
- The earnings outlook is poised for recovery, led by healthy traction in economic recovery and abating concerns of sharp deterioration in asset quality. On the growth front, retail disbursements are showing healthy recovery with certain segments reaching pre-COVID levels or even higher. We thus estimate business growth to pick up, aided by a good festive season. We believe although slippages are likely to increase in 2HFY21, many banks have already provided for this likely increase and carry additional provision buffers – which should limit the impact on profitability. We expect banks to continue to strengthen their balance sheets and estimate credit cost to remain elevated. Overall, we estimate our banking coverage universe to deliver ~12%/4% growth in 3QFY21 PPoP/PAT.
- 3QFY21 is the first quarter post lifting of the moratorium. Across product segments, there is expected to be MoM improvement in collection efficiency (CE). Over the past six months, steady improvement across all important parameters has been encouraging. Continued excess liquidity at the system level should be positive for margins going forward.

Research covered

Cos/Sector	Key Highlights
Financials 3QFY21 Preview	Banks & Ins.: Earnings outlook poised for recovery | NBFCs: A decisive quarter
Oil & Gas	OPEC+ meeting – Saudi turns messiah once again
EcoScope	Economic activity sustains momentum in Nov'20
Lupin	Observations out for Somerset facility
Titan Company	Growth resumes in Jewelry; other divisions recovering well
Bandhan Bank	Deposit traction remains strong; loan growth picks up QoQ
IDFC First Bank	Deposit traction healthy; retail loan growth stands strong

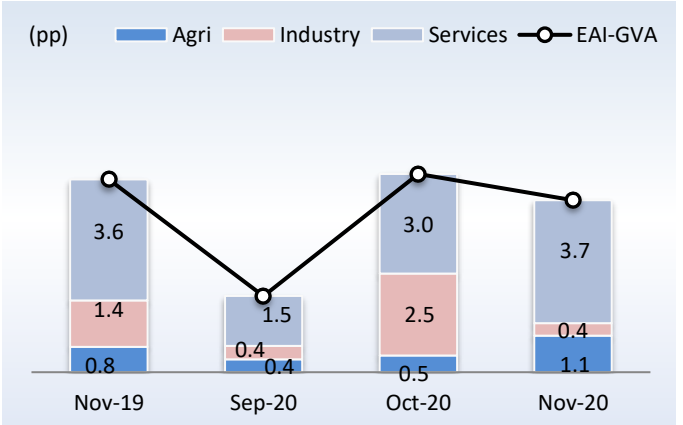
Chart of the Day: EcoScope (Economic activity sustains momentum in Nov'20)

India's EAI-GVA moderated in Nov'20...



Please refer to our earlier report for details

...led by weakness in the industrial sector



Contribution of different components to EAI-GVA growth

Source: Various national sources, CEIC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

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

Govt considers creating bank with $13.7 bn equity to fund roads, ports

The Centre is considering a proposal to create a bank to help fund port, road and power projects as Prime Minister Narendra Modi's administration aims to lift Asia's third-largest economy out of the recession…

2

Maharashtra government approves 50% reduction in realty development premiums

The government of Maharashtra has approved the proposal to reduce premiums charged by the civic authorities on real estate development by 50% for the next one year until December 31, 2021, as recommended by the Deepak Parekh committee. The reduction in premium can be availed only by those developers who would absorb homebuyers' stamp duty burden…

3

Petrol price nears all-time high after oil firms hike rates after month-long hiatus

Petrol price on Wednesday neared all-time high after state-owned fuel retailers hiked rates after a nearly month-long hiatus. Petrol price was raised by 26 paise per litre and diesel by 25 paise per litre, according to a price notification from oil marketing companies…

4

Housing sales down 37%, office leasing dips 35% in 2020 across eight cities

Housing sales fell 37 per cent year-on-year during the 2020 calendar year while gross office space leasing declined 35 per cent on low demand because of the coronavirus pandemic, but demand improved significantly in the last quarter to cross pre-COVID level, property consultant Knight Frank India said on Wed…

5

Tatas plan to infuse Rs 3,500 crore in Tata Cliq

The Tatas plan to invest Rs 3,500 crore on their ecommerce venture Tata Cliq and have increased the authorised share capital of the company from Rs 1,500 crore to Rs 5,000 crore for this.

6

Homebred gear vendor Tejas eyes home broadband; to bid for BSNL 4G via system integrator

Homegrown telecom gear maker Tejas Networks wireline broadband expansion in the country will create a $5 billion opportunity for domestic vendors who can in turn help reduce the import bill…

7

Maruti Suzuki's production rises 34 pc at 1,55,127 units in December

Maruti Suzuki India, the country's largest carmaker, on Wednesday said its total production in December 2020 increased 33.78 per cent to 1,55,127 units. The company had produced a total 1,15,949 units in the same month of 2019, Maruti Suzuki India NSE -0.35 % (MSI) said in a regulatory filing…

Financials

Result Preview

3QFY21 earnings estimate (INR b)

PAT (INR b)	3Q FY21E	YoY (%)	QoQ (%)
Pvt Banks			
AUBANK	5.66	197.5	75.8
AXSB	15.01	-14.6	-10.8
BANDHAN	9.32	27.5	1.3
DCBB	0.57	-41.2	-30.9
EQUITAS	0.61	-35.4	-41.0
FB	3.53	-19.9	14.7
HDFCB	82.31	11.0	9.6
ICICIBC	35.73	-13.8	-16.0
IIB	5.71	-56.4	-13.8
KMB	19.21	20.4	-12.1
RBK	1.05	50.0	-27.2
Pvt Total	**178.70**	**0.1**	**-1.7**
PSU Banks			
BOB	2.11	-115.0	-87.4
SBIN	47.22	-15.4	3.2
PSU Total	**49.33**	**18.1**	**-21.1**
Banks Total	**228.03**	**3.5**	**-6.6**
Life Insurance			
HDFCLIFE	3.38	34.9	3.5
IPRULIFE	3.12	3.2	3.0
SBILIFE	4.51	15.7	50.4
Life Total	**11.01**	**16.8**	**18.5**

Banks and Insurance: Earnings outlook poised for recovery

Remain watchful of asset quality; growth momentum to pick up

- **The earnings outlook is poised for recovery,** led by healthy traction in economic recovery and abating concerns of sharp deterioration in asset quality. On the growth front, retail disbursements are showing healthy recovery (led by Tractors, 2W, Housing loans, and Gold loans), with certain segments reaching pre-COVID levels or even higher. On the other hand, banks remain cautious on the unsecured book. CV and corporate loan demand remains tepid. Overall, we estimate business growth to pick up, aided by a good festive season, and expect systemic loan growth at 4.5% for FY21E. The private banks under our coverage are likely to grow relatively higher at ~9% YoY.
- **We remain watchful of asset quality** as banks recognize NPLs from moratorium / overdue loans. Although, overall trends have fared better than earlier expected, led by sharp improvement in collection efficiency. Overall, large banks reported collection efficiency of 95–97%, while mid-sized banks / MFI-focused players reported efficiency in the early 90%, resulting in low restructuring guidance by lenders. We believe although slippages are likely to increase in 2HFY21 (post the end of the SC order), many banks have already provided for this likely increase and carry additional provision buffers – which should limit the impact on profitability. We expect banks to continue to strengthen their balance sheets –as they have already shored up their capital ratios to absorb asset quality shocks – and estimate credit cost to remain elevated. Overall, we estimate our banking coverage universe to deliver ~12%/4% growth in 3QFY21 PPoP/PAT.
- **In private banks, provisioning would continue to weigh on earnings.** We **estimate private banks to report PPoP growth of ~18% YoY (+4.4% QoQ), and PAT to remain flattish YoY (~2% QoQ decline).** Higher credit cost, coupled with suppressed credit growth, is likely to put pressure on near-term earnings. Furthermore, higher slippages would result in interest reversals, putting pressure on NII. However, this may be partly offset by higher treasury income and traction in fee income as business activity picks up.
  - **Loan growth is likely to pick up,** led by improving consumer sentiment and a good festive season. On the other hand, wholesale lending remains muted. Growth is driven by a secured retail book as the bank remains cautious of higher stress in the unsecured portfolio. **Thus, we expect private banks' loans to grow 9%/16% over FY21/FY22,** and we estimate AXSB/ICICIBC to deliver 8.1%/6.6% YoY loan growth over 3QFY21. On the other hand, HDFCB reported a growth of 15.6% YoY, while IIB reported flattish growth; expect KMB/RBL to continue to report tepid growth trends.
  - **Margin trajectory to remain moderately under pressure** given the continued monetary easing, low lending rates, and relatively higher liquidity on the balance sheets – although the quantum is likely to moderate. Negative carry on NII on higher slippages could also impact margins. However, banks with a strong liability franchise are better placed to tackle margin pressure. Overall, we expect a low-single-digit impact on the margins

of private banks. **We expect NII growth of 14% YoY,** led by BANDHAN (27%), KMB (16%), and HDFCB (15%).

- **Deposit traction would remain strong**, reflecting steady 11% YoY growth for the system, while many banks have increased focus on ramping up retail deposits. Most banks indicated that the deposit rates have bottomed out and cost of funds is likely to remain largely stable.
- **Asset quality** would remain under watch as the bulk of the stress is likely to be recognized over 2HFY21. We remain watchful of banks such as AXSB, IIB, and RBL given the high rating downgrades and sluggish commentaries by the managements. Within MFI, while collection efficiency improved in Oct'20, certain state-specific reasons (farmer protests, floods, etc.) have impacted recovery trends, keeping us watchful of BANDHAN, IIB, and RBK.

- **PSBs' earnings would remain under pressure.** We estimate weakness to continue in PSBs, barring SBIN, impacted by sluggish loan growth, a higher proportion of MSME/SME loans, and delay in the resolution of stressed accounts. **PSBs are expected to deliver NII growth of 2.8% YoY and PAT growth of ~18% YoY**. However, treasury gains for these banks may remain a positive.
- **In mid-sized private banks, asset quality challenges would persist.** We expect the performances of mid-sized private banks to remain muted as they face challenges on the asset quality front even as collection efficiency improves. We estimate DCB to report decline of ~41% YoY in net earnings, while RBK's earnings should be impacted by higher credit cost. FB is best placed in terms of liability franchise and would reflect a stable margin trajectory, led by an improving CASA mix. However, it is likely to report earnings decline of ~20% YoY as we factor in higher credit cost.
- **In small finance banks, while collection efficiency is improving, the tail risk remains.** We expect AUBANK to report strong PPoP/PAT growth (led by a stake sale in Aavas), while using some of these gains to create higher provisions. EQUITAS is expected to report PPoP growth of 45% YoY and PAT decline of 35% YoY.
- **In life insurers, while premium growth remains tepid, operating metrics are resilient.** HDFCLIFE is witnessing gradual recovery in its new business premium (NBP) and would reflect APE growth of 19% YoY. On the other hand, IPRULIFE would continue to reflect tepid trends as FY21E is likely to be a base reset period, reflecting strong protection trends and slowdown in low-margin ULIPs. SBILIFE would also reflect tepid trends, with an APE decline of 1% over 3QFY21. Overall, we expect VNB growth of 25% for HDFCLIFE and 13% for SBILIFE, while IPRULIFE would report VNB decline of 5% YoY over 3QFY21.
- **Other monitorables:**
  - **Collection efficiency / Restructuring –** Management commentary on collection efficiency and slippage trends would be an important metric to assess the banking system's health in the near term. Also, more clarity would emerge on the restructuring pool. This would be the key in assessing the asset quality impact arising from the COVID-19 pandemic.
  - **Margins & growth outlook –** Margins may be impacted by muted loan growth, low lending rates, and the negative impact of interest reversals; although, this would be offset by lower cost of funds, to some extent.
  - **Treasury performance –** While bonds yield stood largely stable during the quarter, banks were sitting on MTM gains and could see some treasury profit booking during the quarter.

Result Preview

Company name
Bajaj Finance
Chola Inv. & Fin.
HDFC
ICICI Securities
IIFL Wealth Management
LIC Housing Finance
M&M Financial Services
Manappuram Finance
MAS Financial Services
Muthoot Finance
PNB Housing Finance
Shriram City Union
Shriram Transport Finance

NBFCs: A decisive quarter

Collection efficiency improving, but below pre-COVID levels; all eyes on restructuring numbers

- **3QFY21 is the first quarter post lifting of the moratorium. Across product segments, there is expected to be MoM improvement in collection efficiency (CE). Adjusted for arrear collections, on-time CE is only marginally below pre-COVID levels. In addition, a large portion of customers who had not paid a single EMI during the moratorium period have started making payments in 3Q.**
- **The festival season was largely healthy across segments. Home loans witnessed a sharp improvement in volumes, with disbursements expected to be up YoY for the large players. In the Vehicle Finance segment, 2W volumes were slightly tepid, while PV and Tractor volumes remained healthy. M&HCV sales, though subdued, continue to improve every quarter. In the Consumer Durables space, BAF regained some lost market share. Gold lenders witnessed a steady quarter on disbursements.**
- **Given the accommodative stance of RBI, the incremental cost of funds continued to decline in the quarter. AAA-rated players with strong parentage are now able to borrow three-year money at ~5%. While the securitization market was largely shut during the moratorium period, there was some opening up. Sell-down volumes gained traction in 3Q, though not to pre-COVID levels yet. We expect margin expansion across most players in the quarter.**
- **Capital market players continued to witness strong traction during the quarter. Equity and derivative trading volumes for the industry remained elevated. New margin regulations from 1 December 2020 have not had any major impact on brokers. However, managements are guiding at a larger impact with the gradual tightening in margin funding norms over the next three quarters. Within the wealth management space, inflows remain healthy. However, clients remain risk-averse and continue to invest more in debt as compared to equity.**
- **Over the past six months, steady improvement across all important parameters has been encouraging. Continued excess liquidity at the system level should be positive for margins going forward. On the asset quality front, we expect companies to make elevated provisions for another 1-2 quarters, post which credit costs should revert to normal. Disclosures on restructuring will be a key monitorable. We continue to favor players with strong balance sheets and least impacted by the COVID-19 lockdown. Our top picks are HDFC, MUTH, ISEC, and IIFLWAM.**

HFCs: Growth momentum picking up; asset quality least disrupted

Contrary to initial expectations, home sales witnessed a sharp recovery in the past few months. Good schemes/discounts by builders, record low interest rates, and stamp duty cuts in certain states were key drivers, in our view. The home loan segment continues to witness heightened competitive intensity, especially from banks. **Nevertheless, HDFC delivered 26% YoY disbursement growth in individual loans in the quarter. We expect it to deliver ~10% YoY AUM growth, while other large HFCs are likely to deliver muted growth.** PNBHOUSI has nearly stopped fresh corporate sanctions and is undertaking primarily retail lending now. At the same time, its priority remains raising equity capital as soon as possible. REPCO is focusing more on collections. Hence, loan growth has taken a back seat and is likely to be in mid-single digits. While companies have not guided at any number, they do not foresee any major asset quality stress in the Retail Lending segment. The Non-Retail segment remains a key monitorable.

Vehicle financiers – Disbursements divergent; asset quality tail risk remains

Auto sales remained healthy across most products. Tractors and PVs witnessed a healthy festival season, while the same for 2Ws was a bit tepid compared to expectations. Though M&HCV volumes have seen a recovery QoQ, sales remain much below pre-COVID levels. **Used CV sales remain healthy on the back of unaffordability of new M&HCVs due to the recent price hikes.** Disbursements of vehicle financiers under our coverage are likely to be divergent. **In our opinion, CIFC and SHTF would deliver disbursements close to YoY levels, while that for MMFS would be at ~65% of YoY levels given its cautious approach to growth.** Margins could be a key positive surprise for MMFS and CIFC, given the sharp decline in incremental cost of funds in the quarter. On the asset quality front, CE has been on an improving trend. Also, as per managements, restructuring has been minimal (less than 1-2% of loans).

Gold financiers shining

Our interactions with the managements of gold financiers suggest that disbursements remained healthy, in line with 2Q levels. Both specialized gold financiers continue to focus on increasing share of online gold loans. There is a negligible impact of the 90% LTV cap norm for banks on the ground. With portfolio LTV ~65%, there is unlikely to be any asset quality risk. In the non-gold portfolio, we expect MGFL to witness a healthy performance on disbursements and asset quality in the Housing Finance segment. However, vehicle Finance and MFI segments still face some collection headwinds, in our opinion.

Wholesale lending still muted; diversified financiers better off

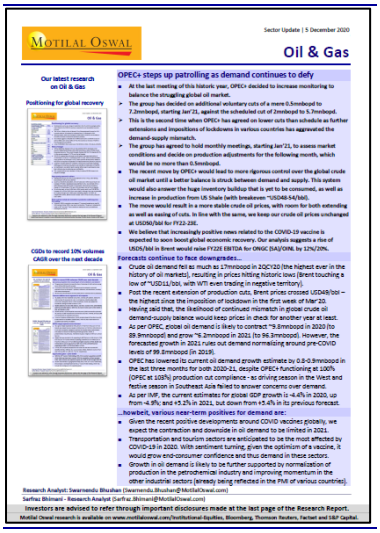
Real Estate activity, in terms of construction and sales, has been picking up. Labor, which was an issue at some projects, has returned to cities with the lifting of lockdown restrictions. However, lenders are disbursing only to existing projects and are not looking much at new projects. Diversified financiers are better off. **BAF witnessed a sharp sequential improvement in disbursement volumes to ~80% of YoY levels. AUM grew 5% QoQ to INR1.44t. We expect it to undertake elevated provisioning in 3Q too.** LTFH and SCUF, too, are likely to have sequentially flattish AUM. We expect LTFH to continue to build up its macro-prudential provision buffer.

Capital market players on healthy growth trajectory

3QFY21 remained a healthy quarter in terms of cash and derivatives trading volumes. We expect this to result in strong retail brokerage volumes for ISEC. The impact of the margin funding regulations from 1 December 2020 on industry volumes was minimal. However, with tightening of these regulations over the next three quarters, the impact could be more meaningful. ISEC continues to deliver a steady run-rate in new client acquisition, backed by its open architecture and increasing share of non-ICICIBC channels. IIFL Wealth had a stable quarter in terms of flows, in our view. TBR revenue could be lumpy as it is dependent on deal syndication opportunities. Traction in IIFL One and expense ratio reduction are key monitorables.

Oil & Gas

Our earlier report:
OPEC+ steps up patrolling as demand continues to defy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Sector Update | 5 December 2020

Oil & Gas

Our latest research on Oil & Gas

Positioning for global recovery

CGDs to record 10% volumes CAGR over the next decade

OPEC+ steps up patrolling as demand continues to defy

- At the last meeting of this historic year, OPEC+ decided to increase monitoring to balance the struggling global oil market.
  - The group has decided on additional voluntary cuts of a mere 0.5mnbopd to 7.2mnbopd, starting Jan'21, against the scheduled cut of 2mnbopd to 5.7mnbopd.
  - This is the second time when OPEC+ has agreed on lower cuts than schedule as further extensions and impositions of lockdowns in various countries has aggravated the demand-supply mismatch.
  - The group has agreed to hold monthly meetings, starting Jan'21, to assess market conditions and decide on production adjustments for the following month, which would be no more than 0.5mnbopd.
- The recent move by OPEC+ would lead to more rigorous control over the global crude oil market until a better balance is struck between demand and supply. This system would also answer the huge inventory buildup that is yet to be consumed, as well as increase in production from US Shale (with breakeven ~USD48-54/bbl).
- The move would result in a more stable crude oil prices, with room for both extending as well as easing of cuts. In line with the same, we keep our crude oil price unchanged at USD50/bbl for FY22-23E.
- We believe that increasingly positive news related to the COVID-19 vaccine is expected to soon boost global economic recovery. Our analysis suggests a rise of USD5/bbl in Brent would raise FY22E EBITDA for ONGC (SA)/OIN. by 12%/20%.

Forecasts continue to face downgrades...

- Crude oil demand fell as much as 17mnbopd in 2QCY20 (the highest ever in the history of oil markets), resulting in prices hitting historic lows (Brent touching a low of ~USD11/bbl, with WTI even trading in negative territory).
- Post the recent extension of production cuts, Brent prices crossed USD49/bbl – the highest since the imposition of lockdown in the first week of Mar'20.
- Having said that, the likelihood of continued mismatch in global crude oil demand-supply balance would keep prices in check for another year at least.
- As per OPEC, global oil demand is likely to contract ~9.8mnbopd in 2020 (to 89.8mnbopd) and grow ~6.2mnbopd in 2021 (to 96.3mnbopd). However, the forecasted growth in 2021 rules out demand normalizing around pre-COVID levels of 99.8mnbopd (in 2019).
- OPEC has lowered its current oil demand growth estimate by 0.8-0.9mnbopd in the last three months for both 2020-21, despite OPEC+ functioning at 100% (OPEC at 103%) production cut compliance - as driving season in the West and festive season in Southeast Asia failed to answer concerns over demand.
- As per IMF, the current estimates for global GDP growth is -4.4% in 2020, up from -4.9%; and +5.2% in 2021, but down from +5.4% in its previous forecast.

...however, various near-term positives for demand are:

- Given the recent positive developments around COVID vaccines globally, we expect the contraction and downside in oil demand to be limited in 2021.
- Transportation and tourism sectors are anticipated to be the most affected by COVID-19 in 2020. With sentiment turning, given the optimism of a vaccine, it would prove end-consumer confidence and thus demand in these sectors.
- Growth in oil demand is likely to be further supported by normalization of production in the petrochemical industry and improving momentum in the other industrial sectors (already being reflected in the PMI of various countries).

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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.

OPEC+ meeting – Saudi turns messiah once again…

- **New Year 2021 starts on a higher note for crude oil prices as OPEC+ further increases production cuts by 1mnbopd (to ~8.1mnbopd) for Feb and Mar'21.**
- **The group has locked in production quotas for 1QCY21 (with Mar'21 quotas similar to Feb'21); the next meeting is scheduled on 4th Mar'21 to set production quotas for April.**
- **OPEC+, in its first monthly meeting of 2021 (to decide on additional incremental cuts of 0.5mnbopd for the following month), ended up deepening the cuts further in the wake of a) further lockdowns, b) concerns over a second wave / a new strain of COVID, and c) huge inventory buildup across the globe.**
- **Saudi Arabia solely extended its hand to take voluntary cuts of an additional 1mnbopd over Feb–Mar (to ~2.9mnbopd). On the other hand, Russia and Kazakhstan were each allowed to ease cuts by a total of 75kbopd for Feb–Mar'21. Other OPEC+ members would continue to produce at the same levels as in Jan'21 (refer to Exhibit 8).**
- **As highlighted in our recent report OPEC+ steps up patrolling as demand continues to defy, demand concerns continue to dampen the global crude oil market.**
- **We continue to believe the concerns highlighted by OPEC+ are legitimate and in line with our thesis. Thus, we keep our crude oil prices unchanged at USD50/bbl for FY22–23. Also, US shale production would increase as oil prices turn stable around USD50–60/bbl, theoretically capping global crude oil prices.**
- **The forward Brent price curve reflects a backwardation, with prices of USD51–53/bbl.**
- **Nonetheless, our analysis suggests a rise of USD5/bbl in Brent would raise FY22 EBITDA for ONGC (SA) / Oil India by 11%/18%.**

…but for how long against Russia?

- During the concluded meeting, Russia was in favor of easing production cuts by the scheduled 0.5mnbopd for Feb'21.
- Looking into the past, Russia has always been keen on enjoying the better share of the global crude oil market. Even in the last quarter of 2020, Russia's compliance with agreed cuts was ~95% v/s OPEC's compliance of ~103% (Saudi: ~100%; UAE: highest at 115–130%).
- Rising concerns over the same, along with questions over disparity among the OPEC+ members (as Russia and Kazakhstan are allowed to increase their production), may result in lower compliance by other OPEC+ members.
- Case in point – around the same time last year, due to Russia's disagreement, Saudi increased its production from <10mnbopd to >13mnbopd within just over a couple of weeks. In this tussle, Russia announced that it would increase production by 0.5mnbopd on its already high production rates (~11.5mnbopd at the time).

US shale operations to spike

- As crude oil prices rise, the economies of US shale producers turn favorable as they achieve oil price breakeven of USD48–54/bbl.
- Since the last meeting of OPEC+ at the start of Dec'20, the US rig count jumped by 9% MoM to 351 rigs on the last day of 2020 (Dec'20 Brent oil price averaged ~USD50/bbl; up~17% MoM).
- US production was down ~15% YoY (~1.9mnbopd lower) in Dec'2020, with the US rig count down ~56% YoY. As crude oil prices turn more stable around current levels (USD50–60/bbl), we expect more rigs to come on-stream.
- OPEC expects total US crude production at 11.4mnbopd in 2021 – ~0.5mnbopd higher than current levels.

Valuation and recommendation

ONGC – developing new fields is key

- Despite the delay, ONGC is expected to grow its gas production in FY22, with efforts to arrest the decline in oil production from age-old fields (accounting for 60–70% of total oil production).
- In FY20, ONGC made a total of 12 discoveries (seven onshore, five offshore), seven of which are prospects (three onshore, four offshore) and five are pools (four onshore, one offshore). The management has notified of seven new discoveries (four pools and three prospects) in FY21 thus far.
- We model in flattish oil production for the next two years, while we build a 14% gas production CAGR to 26.8bcm/30.8bcm for FY22/FY23E.
- The company is likely to generate FCF of INR554b (translating to FCF yield of ~45%), with dividend yield of ~5% over FY22–23.
- ONGC is trading at 3.4x FY23 EV/EBITDA and 4.9x FY23 P/E. We value the company at 10x Dec'22E adj. EPS of INR7.7 and add the value of investments to arrive at Target Price of INR110/share. Reiterate Buy.

Oil India – concerns over production declines continue

- We expect no incremental change in production volumes for both oil and gas in the near term. The company intends to increase gas production by ~5mmscmd over 2024–25 (from 7.5mmscmd currently), while arresting decline in oil production.
- We build in a ~3% per year increase in gas production (to ~2.9bcm) for FY23.
- Dividend yield appears attractive at 8–10% for FY22–23. The stock trades at 5.9x FY23E EPS of INR19.2. We use an SOTP-based fair value of 8x Dec'22E adj. EPS of INR15.2 and add the value of investments to arrive at Target Price of INR130. Maintain Buy.

Economic activity sustains momentum in Nov'20

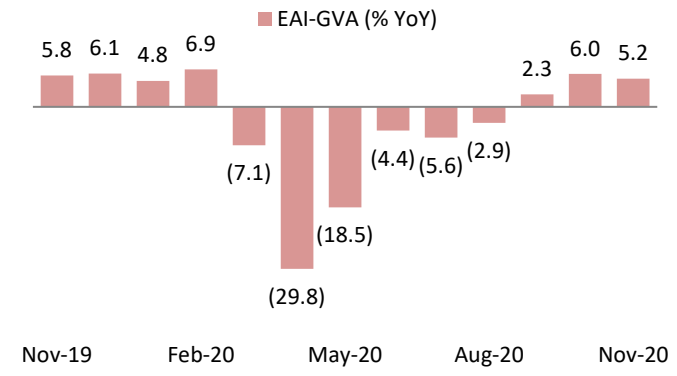
Expect real GDP growth to be between -1% and +1% YoY in 3QFY21

- **Our in-house Economic Activity Index (EAI) for India's real GVA (called EAI-GVA) grew for the third consecutive month – albeit slower by 5.2% YoY in Nov'20 – following 6% growth in the previous month. Growth in the farm sector once again surpassed growth in the non-farm sector in Nov'20.**
- **However, the EAI-GDP index (our in-house measure of official GDP) contracted just 4.2% YoY in Nov'20, following decline of 8.1% in Oct'20. Slower decline was largely attributable to 47% YoY growth in government consumption expenditure (GCE). Excluding GCE, EAI-GDP contracted 5.9% YoY in Nov'20 v/s a fall of 6.6% YoY in Oct'20. Although the fall in personal consumption expenditure (PCE) moderated further to -7.7% YoY in Nov'20, total investments declined 3.9% YoY during the month, faster than decline of just 2.3% YoY in Oct'20.**
- **Overall, although EAI-GVA moderated in Nov'20, the momentum appears to have sustained. However, based on certain indicators available for Dec'20, such as the PMI indices, e-way registrations, and power generation, the uptick appears to have sustained last month. Accordingly, we believe real GDP growth could be between -1% and +1% YoY in 3QFY21, before higher growth is seen in 4QFY21. In any case, now that the mass rollout of COVID-19 vaccines is imminent, the complete normalization of economic activity is only a matter of time.**

Preliminary estimates reveal EAI-GVA grew 5.2% YoY in Nov'20, following higher growth of 6% in the previous month

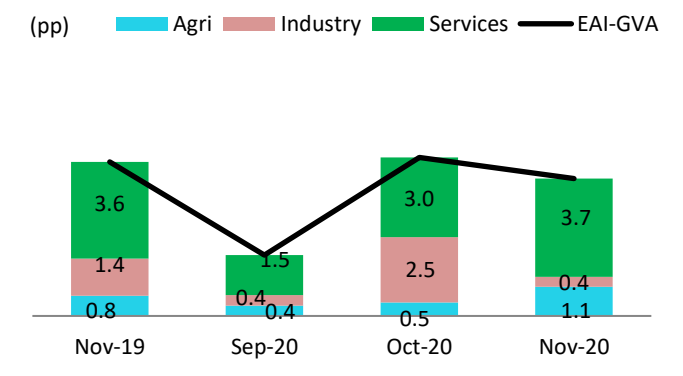
- **EAI-GVA growth weakened slightly in Nov'20…:** Preliminary estimates reveal EAI-GVA grew 5.2% YoY in Nov'20, following higher growth of 6% YoY in the previous month *(Exhibit 1)*. While the non-farm sector (both industrial and services) grew 5.1% YoY in Nov'20, the farm sector reported three-month high growth of 7.4% during the month *(Exhibit 2)*.
- **…while EAI-GDP continued to contract:** EAI-GDP, however, continued to contract in Nov'20 (down 4.2% YoY), following decline of 8.1% in Oct'20. Slower decline was largely attributable to 47% YoY growth in government consumption expenditure (GCE). Excluding GCE, EAI-GDP contracted 5.9% YoY in Nov'20 v/s a fall of 6.6% YoY in Oct'20. Although the fall in personal consumption expenditure (PCE) moderated to -7.7% YoY in Nov'20, total investments declined 3.9% YoY during the month, faster than decline of just 2.3% YoY in Oct'20.

India's EAI-GVA moderated in Nov'20…



Please refer to our earlier report for details

…led by weakness in the industrial sector



Contribution of different components to EAI-GVA growth

Source: Various national sources, CEIC, MOFSL

Lupin

BSE SENSEX	S&P CNX
48,174	14,146

Bloomberg	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USDb)	453.8 / 6.5
52-Week Range (INR)	1122 / 505
1, 6, 12 Rel. Per (%)	0/-18/13
12M Avg Val (INR M)	3164

Financials & Valuations (INR b)

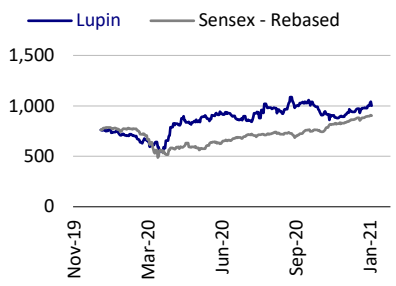
Y/E MARCH	2020	2021E	2022E
Sales	153.7	158.3	179.0
EBITDA	23.5	26.0	33.5
Adj. PAT	10.6	10.5	16.6
EBIT Margin (%)	9.0	10.8	13.6
Cons. Adj. EPS (INR)	23.3	23.3	36.8
EPS Gr. (%)	74.1	0.0	58.0
BV/Sh. (INR)	276.7	292.6	318.9
Ratios			
Net D:E	0.0	0.1	0.0
RoE (%)	8.0	8.2	12.1
RoCE (%)	4.8	6.6	10.1
Payout (%)	-119.0	35.4	28.6
Valuations			
P/E (x)	42.8	42.9	27.1
EV/EBITDA (x)	19.3	18.0	13.6
Div. Yield (%)	0.9	0.7	0.9
FCF Yield (%)	15.4	-1.4	3.5
EV/Sales (x)	3.0	2.9	2.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	46.9	46.9	47.0
DII	20.1	18.9	13.3
FII	20.4	21.3	25.7
Others	12.6	12.9	14.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1000 TP: INR1,130 (+13%) Buy

Observations out for Somerset facility; enhanced efforts needed to resolve regulatory issues

- **The 13 observations in Form 483 issued by the USFDA post the inspection over Sep–Nov 2020 largely pertain to cleanliness and equipment maintenance, out-of-specification (OOS) samples, the stability program, and the lack of training given to employees.**
- **The Somerset facility currently contributes <5% to Lupin's revenues globally. Ongoing sales from Somerset (currently under OAI) are not impacted, but future approvals are likely to get delayed.**
- **We remain positive on LPC owing to (a) a ramp-up in recent niche launches and (b) its outperformance in Domestic Formulations (DF). We value LPC at 25x 12M forward earnings to arrive at Target Price of INR1,130. Reiterate Buy.**

Highlights from observations sited in Form 483

- The 13 observations issued by the USFDA pertain to a) the lack of cleanliness and equipment maintenance, particularly for non-dedicated equipment, b) inadequate root cause analysis of OOS samples (repeat observation), c) standard operating procedure not being followed for the stability program, d) accuracy and sensitivity related to test methods, e) the responsibility of the Quality unit to approve/reject procedures/specifications on the identity/strength/quality and purity of drug products, f) maintenance of the buildings, g) the lack of isolated areas to prevent contamination, and h) controls on computer systems. Based on the nature of observations, we expect enhanced efforts by LPC to resolve the regulatory concerns at this site.

Recap of regulatory statuses at other sites

- Currently, four of Lupin's facilities at Pithampur Unit-2, Goa, Somerset, and Tarapur have the Official Action Indicated (OAI) status, and the Mandideep plant has a Warning Letter. With the USFDA unable to conduct overseas inspections, we expect the resolution of regulatory sanctions to be delayed.

Valuation and view

- We expect a 24% earnings CAGR over FY20–23E, led by differentiated launches in the US/EU – particularly the recently launched g-Albuterol Sulfate and pipeline product g-Spiriva – and better-than-industry growth in DF. Accordingly, we expect RoE to improve to 13.3% by FY23E from 8% in FY20.
- We value LPC at 25x 12M forward earnings to arrive at Target Price of INR1,130. Maintain **Buy**.

Titan Company

BSE SENSEX	S&P CNX
48,174	14,146

Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	1397.6 / 19
52-Week Range (INR)	1621 / 720
1, 6, 12 Rel. Per (%)	3/23/17
12M Avg Val (INR M)	3762
Free float (%)	47.1

Financials Snapshot (INR b)

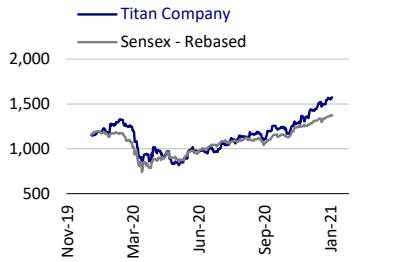
Y/E Mar	2020	2021E	2022E
Sales	210.5	192.9	251.0
Sales Gr. (%)	6.4	-8.4	30.1
EBITDA	24.9	14.8	30.4
EBITDA Margin (%)	11.8	7.7	12.1
Adj. PAT	15.2	8.0	20.0
Adj. EPS (INR)	17.1	9.0	22.5
EPS Gr. (%)	8.9	-47.1	149.0
BV/Sh.(INR)	75.2	76.8	88.0
Ratios			
RoE (%)	23.8	11.9	27.3
RoCE (%)	22.5	11.5	24.5
Payout (%)	23.8	45.0	50.0
Valuation			
P/E (x)	92.2	174.4	70.0
P/BV (x)	20.9	20.5	17.9
EV/EBITDA (x)	56.2	94.0	45.5
Div. Yield (%)	0.3	0.3	0.7

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	52.9	52.9	52.9
DII	11.3	11.2	8.8
FII	18.1	17.6	18.8
Others	17.7	18.4	19.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,574 TP: INR1,750 (+11%) Buy

Growth resumes in Jewelry; other divisions recovering well

TTAN has released its pre-quarterly update for 3QFY21. Here are the key highlights:

Festive season demand and higher walk-ins augur well

- The Jewelry business returned to the growth phase on strong festive demand and pent up wedding purchases. Watches and Eyewear recovered to 88% and 92% YoY, respectively.
- TTAN continues to focus on offering an omni-channel experience to its customers, with brands adding augmented reality to their websites and enabling virtual try-outs of certain products.
- Following the creation of its international business division last year, Tanishq opened its first boutique in Dubai in 3QFY21 and its first store outside India. The response from NRIs and locals has been encouraging.
- TTAN's 'War on waste' program is proceeding well and the focus on cash generation continues to yield good results.
- The company is set to begin its gold trading activities on the MCX as its wholly owned subsidiary, Titan Commodity Trading, has received approval to enlist as a member of the exchange.

Jewelry: Resumes its growth trajectory

- The industry saw a revival during the festive season, aided by pent up demand for wedding jewelry as most weddings were deferred in 1HFY21.
- **TTAN had earlier announced 15% growth for the 30-day festive period.** It ended 3QFY21 with the same growth rate persisting for the entire quarter (excluding sales of raw gold).
- The division witnessed good recovery, with improving walk-ins and a pick-up in sales in the metros during the quarter, although a complete recovery in the number of buyers (invoices) is yet to be seen.
- **The division continued to witness a significantly higher share of gold coin sales as well as growth in wedding jewelry sales.** While the studded mix improved sequentially, it was still lower YoY.
- **Ticket sizes continued to be higher due to inflated gold prices and a higher share of wedding jewelry.**
- TTAN continued to sell excess gold in its inventory, with ~INR3.3b of raw gold sales posted in 3QFY21. This should help improve the division's cash flow significantly.
- During the quarter, the division launched its 'Ekatvam' and the 'Moods of earth' (high-value studded) collections.
- **The division added 24 Tanishq stores in FY21 YTD**, with a retail space addition of ~104,000 sq. ft.

Watches and Wearables: Recovery continues to improve

- **The division had a YoY revenue recovery rate of ~88% in 3QFY21** as the festive season saw a surge in footfalls and the recovery rate in metros improved.
- **E-commerce is leading the recovery with an absolute growth of 30%**. The recovery rate for retail channels is also improving MoM due to higher walk-ins and larger ticket sizes.
- Sales in the Wearables segment have been very encouraging.
- Around 80% of 'World of Titan' and Fastrack stores now have omni-channel capabilities.
- **New launches:**
  - Under the **Titan brand**, the company launched the 'Titan Grandmaster' collection for men, and the 'Raga Moments of Joy' collection for women. Both of these are aimed at strengthening its above INR10k offering.
  - The brand also launched its latest line of smart watches, TRAQ, aimed at sports persons. The initial reviews have been encouraging.
  - **Fastrack** launched four major collections during the quarter inspired by current trends.
- **In FY21 YTD, the division added six Helios stores and closed 14 Fastrack stores**, reducing retail space by 7,000 sq. ft.

Eyewear: Strong recovery and an array of new launches

- **The division saw a YoY revenue recovery of ~92% in 3QFY21**.
- During the quarter, the company introduced its 'Eco lite' format of stores that requires lower investment and improves franchisee profitability.
- **New launches:**
  - Titan Crest – Designed for Indian faces under the IndiFit collection.
  - Titan Ace – Limitless collection' of rimless frames.
  - Budget conscious offerings of spectacles under the Titan Ace and Fastrack brands starting at INR999.
  - Spectacles with anti-reflective and blue-light filters for kids and adults under the 'Dash' and Fastrack brands starting at INR999.
- Around 39 stores were added, while 52 stores were closed by this division in FY21 YTD. This led to a reduction of 13 stores and loss of ~10,000 sq. ft. of retail space.

New businesses

- New businesses had a recovery rate of ~80% YoY in 3QFY21.
- *Taneira* – The brand opened another store in Mumbai, taking the total store count for the business to 14 across six cities. It launched a range of stitched Kurta sets under the 'EIRA' collection. Taneira increased its online presence by listing its products on platforms such as Myntra and Nykaa Fashion.
- Fragrances and accessories – The recovery rate continued to be muted due to the slow recovery of two of the biggest channels, trade, and LFS.
- *CaratLane* – The brand delivered ~39% growth in 3QFY21 and turned positive for the fiscal to date. Growth was driven by: a) a strong execution plan in Diwali, b) pick-up in consumer sentiment during the season, and c) surge in retail store demand from mid-Oct'20 after the beginning of the festive season, in addition to continued strong demand online. It also launched next day delivery. The brand added 11 new stores during the quarter, taking its total store count above 100 stores.

Other points

- TEAL recorded ~31% revenue decline in 3QFY21. It currently has one large order in transit. While the Automation business has been doing well, the Aerospace business continues to face headwinds. The division continues to focus on costs and capital employed.

Valuation and view

- TTAN's end-of-quarter update, indicating 15% growth in Jewelry in 3QFY21 (excluding raw gold sales), reflects a strong rebound in consumer sentiment, supported by the bunching up of wedding and festive demand.
- Despite elevated gold prices, though marginally lower sequentially, the surge in demand demonstrates resilience for its offerings. It would appear that a large part of the COVID travails are now behind it.
- We expect some pressure on margin despite this recovery due to the impact of INR3.3b of pure gold sales and lower mix of studded jewelry YoY. Both these factors are temporary in nature and should not affect subsequent quarters.
- The recovery in the 'Watches and Wearables' and 'Eyewear' segments at 88% and 92%, respectively, are also above expectations.
- The structural investment case for TTAN remains extremely strong. Maintain **Buy** with a TP of INR1,750 per share at 60x FY23E EPS.

Bandhan Bank

BSE SENSEX	S&P CNX
48,174	14,146

Stock Info

Bloomberg	BANDHAN IN
Equity Shares (m)	1,610
M.Cap.(INRb)/(USDb)	638 / 8.9
52-Week Range (INR)	526 / 152
1, 6, 12 Rel. Per (%)	-6/-21/-39
12M Avg Val (INR M)	4384
Free float (%)	60.0

Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	63.2	78.8	97.8
OP	54.5	68.3	83.3
NP	30.2	35.7	47.9
NIM (%)	9.0	8.2	8.5
EPS (INR)	21.6	22.2	29.7
EPS Gr. (%)	31.9	2.8	34.1
BV/Sh. (INR)	94	112	136
ABV/Sh. (INR)	93	110	133
Ratios			
RoE (%)	22.9	21.5	24.0
RoA (%)	4.1	3.5	4.0
Valuations			
P/E(X)	18.4	17.9	13.3
P/BV (X)	4.2	3.5	2.9
P/ABV (X)	4.3	3.6	3.0

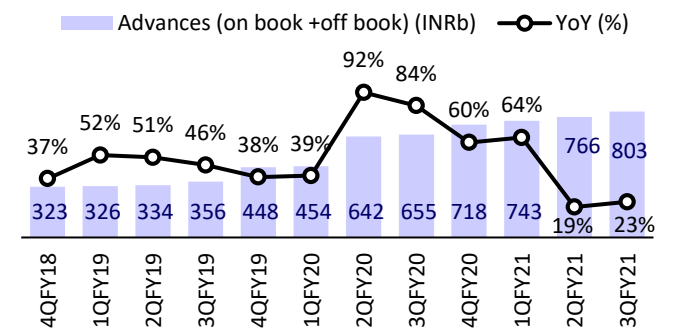
CMP: INR396 TP: INR450(+14%) Buy

Deposit traction remains strong; loan growth picks up QoQ

Bandhan Bank released its quarterly business update highlighting the trends for 3QFY21. The following are the key highlights:

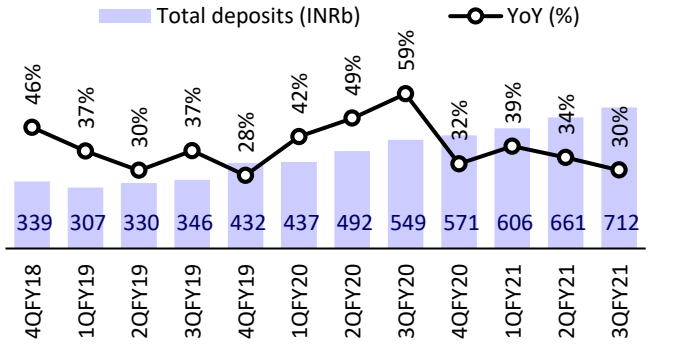
- Advances (on-book + off-book + TLTRO investments) grew at 22.6% YoY (4.8% QoQ), aided by the festive season and improved demand. We believe growth to have been enabled by both the MFI and HFC books as economic activity has already started showing early signs of an uptick.
- Bandhan continues to report strong deposit growth to INR712b (at 29.6% YoY / 7.7% QoQ), led by strong growth in CASA deposits at ~62% YoY / ~21% QoQ. Thus, the CASA ratio improved ~460bp to 42.8% v/s 38.2% in 2QFY21.
- Overall, the proportion of retail deposits improved to 81% (v/s 77% in 2QFY21 and 76% in 3QFY20).
- **Valuation and view:** Bandhan reported strong business trends, aided by the festive season and improved economic activity, particularly in rural India. It continues to demonstrate strong deposit performance, led by retail deposits, with the CASA mix improving to 43% and retail deposits mix to 81%. Furthermore, the bank holds COVID-related / excess standard provisions of INR17.4b to manage higher delinquencies over FY21. We expect LGDs to remain lower (v/s those of peers) given Bandhan's strong market share and higher unique customer base. We maintain a **Buy** rating, with TP of INR450 (3.0x Sep'22E BV).

Advances grew ~23% YoY (~4.8% QoQ)



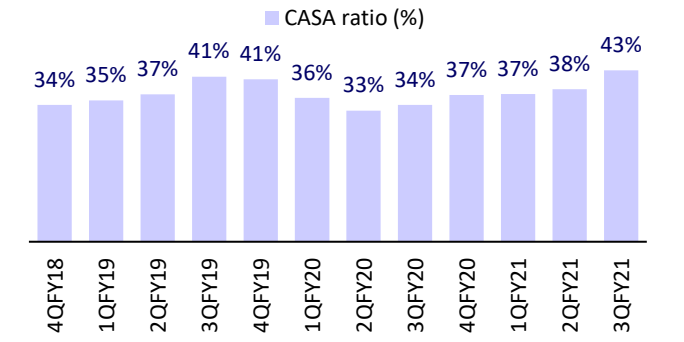
Post 1QFY20 reflects merged numbers Source: MOFSL, Company

Deposits grew ~30% YoY (~8% QoQ)



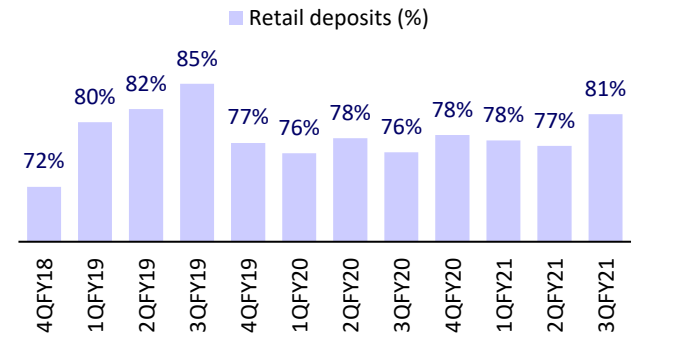
Source: MOFSL, Company

CASA ratio improved by 460bp QoQ to 42.8%



Source: MOFSL, Company

Retail deposit mix improved to ~81%



Source: MOFSL, Company

IDFC First Bank

BSE SENSEX	S&P CNX
48,174	14,146

Financials Snapshot (INR b)

Y/E March	FY18	FY19	FY20
NII	18.0	32.0	56.4
OP	12.6	-18.4	19.4
NP	8.6	-19.4	-28.6
NIM (%)	1.7	2.4	4.0
EPS (INR)	2.5	-4.8	-6.0
EPS Gr. (%)	-15.9	NM	NM
BV/Sh. (INR)	44.8	38.0	31.9
ABV/Sh. (INR)	43.9	37.5	31.4
Ratios			
RoE (%)	5.7	-11.6	-17.1
RoA (%)	0.7	-1.3	-1.8
Valuations			
P/E(X)	16.4	-8.7	-6.9
P/BV (X)	0.9	1.1	1.3
P/ABV (X)	0.9	1.1	1.3

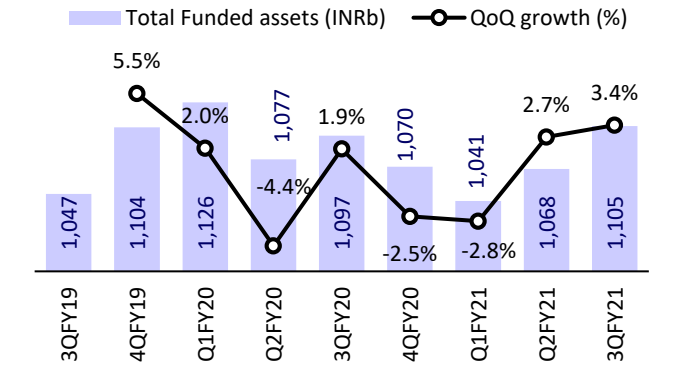
CMP: INR41 **TP: NA** **NOT RATED**

Deposit traction healthy; retail loan growth stands strong

IDFC First Bank released its quarterly business update highlighting the trends for 3QFY21. The following are the key highlights:

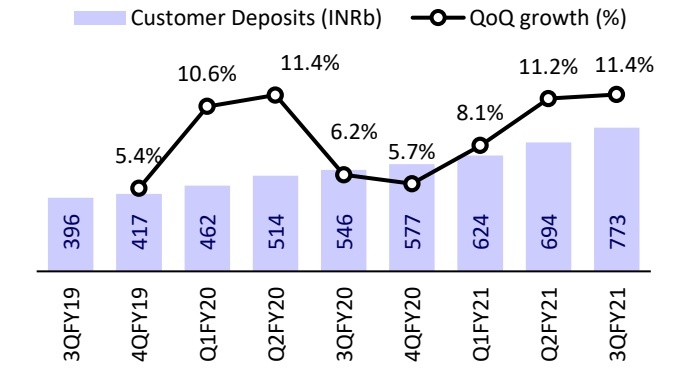
- Overall Funded Assets grew 0.7% YoY (3.4% QoQ) to INR1.1t, within which retail assets grew 24% YoY (11% QoQ) to INR666.4b. Retail Funded Assets, including the PSL Buyouts, thus constitute 64% of overall Funded Assets. We believe the strong traction in retail loans was aided by festive demand and an improved economic outlook.
- IDFCFB continues to show strong momentum in deposits. Customer deposits grew 41% YoY (11% QoQ) to INR772.9b, within which retail deposits (CASA + Term Deposits) grew 100% YoY (18% QoQ) to INR584.4b.
- Thus, the average CASA ratio for 3QFY21 stood at 44.6% v/s 36.5% in 2QFY21. The CASA ratio on outstanding deposits stood at 48.4%.
- On the other hand, wholesale deposits continued to decline and de-grew 26% YoY (5% QoQ decline) to INR188.5b. Thus, the concentration of the Top 20 depositors declined to 9.7% from 12.4% in 2QFY21 and 23% in 3QFY20.
- **Valuation and view:** We believe the bank is progressing well in its endeavor to become a retail lender and showing strong traction in growing its retail franchise in terms of both loans and deposits.

Funded Assets grew 3.4% QoQ (+0.7% YoY)



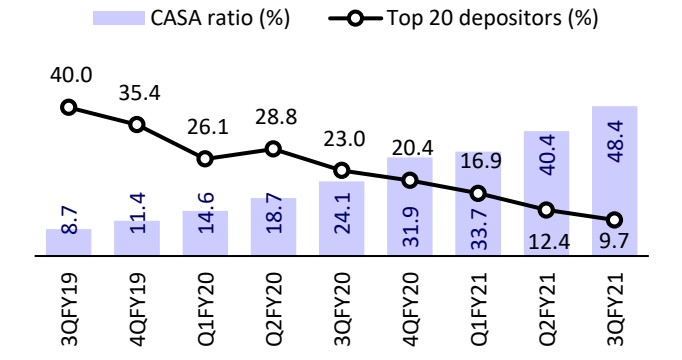
Source: MOFSL, Company

Deposits grew ~11.4% QoQ (~41% YoY)



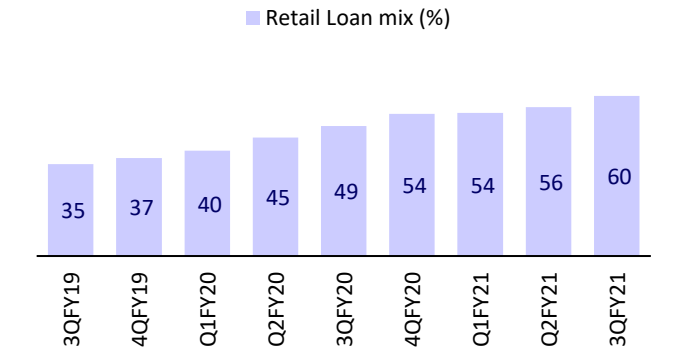
Source: MOFSL, Company

CASA ratio improved ~800bp QoQ to 48.4%



Source: MOFSL, Company

Retail loan mix improved to 60%



Source: MOFSL, Company

HDFC: Witnessing growth across segments; demand for high ticket sized loans improving; Keki Mistry, VC & CEO

- 74% of loans are in individual segment as of Q2
- Demand in affordable housing segment is the highest
- Properties in Central Mumbai, Delhi & Gurugram seen pick-up in demand
- December 2020 was better than December 2019
- Now seeing demand in higher ticket sized loans too
- Its early to call the current situation as good as 2003
- One can compare current situation to 2010 in terms of growth
- RBI has ensured adequate liquidity leading to interest rates remaining low
- 16.6% of retail loans were under moratorium at the start
- As of October, collection efficiency stood at 96.3%
- Properties are selling, liquidity with developers has improved
- Removal of stamp duty incentive will not impact growth
- Spreads will remain stable between 2.2-2.35%
- Lower interest rates have been passed onto the customers

Read More

GAIL: Looking at significant capex increase in FY22; Manoj Jain, CMD

- Have started supplying gas to a big fertilizer plant via new Mangaluru-Kochi pipeline
- The Kochi-Mangaluru pipeline has a capacity of 12 mmscmd
- Will be connecting MRPL, Mangalore Chemicals to the pipeline
- Pipeline capacity will reach to 5-6 mmscmd in six months timeframe
- Will bring in 1 mmscmd of gas by March 21
- Spot LNG prices have recovered from the lows. Crude at $50/bbl good for company
- Seeing some issues w.r.t implementation of unified tariffs
- Pipelines have been received through bidding since last 3 years
- Outlook in H2FY21 is much brighter than H1FY21
- Will meet capex target of more than Rs. 5400 crore by FY21

Read More

Petronet LNG: New pipeline to increase revenue by Rs. 180 crore per year over 1-2 years; Vinod Kumar Mishra, Director (Finance)

- Kochi terminal utilisation will go up to 30% vs. 16-17% currently
- Utilisation will increase once city gas distribution network expands further
- New pipeline will increase revenue by Rs. 180 crore per year for company in next 2-3 years
- Volume currently is higher than pre-COVID levels. Volume in November-December was at 157-160 mmscmd
- Expecting more demand from city gas distribution segment
- Have not heard from the Government on change in gas pricing formula
- Gas discovery by Reliance will be priced at $4/ mmbtu
- Have long-term contracts in place, domestic gas discovery will not impact volume

Read More

Galaxy Surfactants: Should be able to maintain margin at Q2 levels; U Shekhar, Founder Promoter & MD

- Raw material prices have surged significantly in the last 1 month
- Freight rates have gone up 4-5x
- Have passed on the hike in prices
- Demand in FMCG products has continued
- Company is not opting for PLI scheme
- Looking at expansion of existing facilities
- Will be funding any expansion via internal accruals
- Research and Development expenses are 1.5% of total sales

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MRPL: Expect Rs. 100-150 crore per year benefit from Kochi-Mangaluru pipe commissioning; M Venkatesh, MD

- Looking at benefit of Rs. 100-150 crore/ annum due to Kochi-Mangaluru pipe commissioning
- Ready for gas as feedstock, should happen by year-end
- Able to consume 0.5 million cubic meter of gas as of now
- Desalination plant should be up and running by Q1FY22
- Have significant debt in our books; do not think debt will reduce in FY22
- Product cracks should improve as demand comes back
- Petrol demand is more than pre-COVID levels

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Investment Rating	**Expected return (over 12-month)**
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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