MOTILAL OSWAL

28 April 2021

MORNING INDIA

ASIAMONEY Brokers Poll 2020 (India)

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	48,944	1.2	2.5
Nifty-50	14,653	1.2	4.8
Nifty-M 100	24,047	1.6	15.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,187	0.0	11.5
Nasdaq	14,090	-0.3	9.3
FTSE 100	6,945	-0.3	7.5
DAX	15,249	-0.3	11.2
Hang Seng	10,983	0.0	2.3
Nikkei 225	28,992	-0.5	5.6
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	66	1.2	28.8
Gold ($/OZ)	1,777	-0.3	-6.4
Cu (US$/MT)	9,861	0.9	27.2
Almn (US$/MT)	2,389	-0.4	21.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	74.7	-0.1	2.2
USD/EUR	1.2	0.0	-1.0
USD/JPY	108.7	0.6	5.3
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.1	0.02	0.2
10 Yrs AAA Corp	6.7	0.00	0.2
Flows (USD b)	**27-Apr**	**MTD**	**CY21**
FIIs	-0.19	-1.43	7.33
DIIs	0.20	1.36	-3.17
Volumes (INRb)	**27-Apr**	**MTD***	**YTD***
Cash	691	731	779
F&O	27,850	45,061	41,979

Note: *Average

Today's top research idea

Axis Bank: Improving asset quality outlook; earnings set to gain momentum

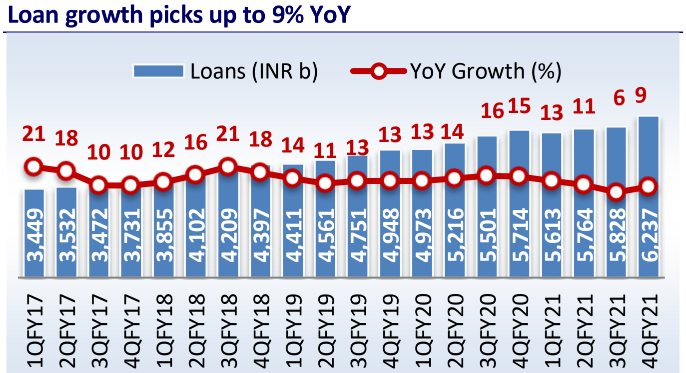
- AXSB reported a strong quarter with PAT above our estimates aided by lower provisions. Loan book grew 7% QoQ with strong growth across segments with retail loans growing at 5% QoQ and retail disbursement at all-time high growing 44% QoQ.
- On the asset quality front, slippages trend subsided sequentially (INR52.8b v/s INR67.4b in 3Q) and total restructuring stood at 0.3% of loans. Also, total funded and non-funded book declined to 2% of loans (v/s 2.4% in 3QFY21). Also, AXSB has ~72% coverage on GNPL and in addition holds provision buffer of 2% (including standard provisions) to protect the balance sheet against any potential stress.
- AXSB appears well positioned to report strong earnings traction as fresh slippages subsides while improved underwriting and increasing mix of retail helps maintain a strong control on credit cost. We expect credit cost to decline to 1.5%/1.3% over FY22/23 and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. Maintain Buy, with TP of INR925 (2.0x FY23E ABV).

Research covered

Cos/Sector	Key Highlights
Axis Bank	Improving asset quality outlook; earnings set to gain momentum
Bajaj Finance	Asset quality improves; expect a normalized FY22
Maruti Suzuki	Below our estimate; higher RM cost hurts margin; order backlog strong
Hindustan Zinc	Outlook remains strong, but priced in
Britannia Industries	Sales outlook improving; margin disappoints
United Breweries	Weaker-than-expected results despite favorable base
TVS Motor Company	Above est.; led by lower cost inflation, better cost mgmt.
Castrol (India)	Pent up demand drives earnings in 1QCY21
Other updates	Bharti Airtel | Jindal Steel And Power

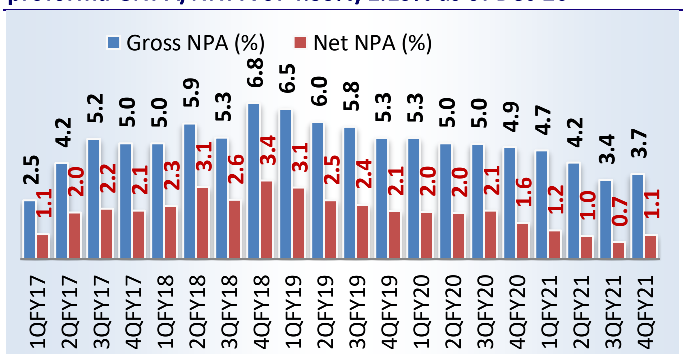
Chart of the Day: Axis Bank | Improving asset quality outlook; earnings set to gain momentum

Loan growth picks up to 9% YoY



Source: MOFSL, Company

GNPA/NNPA ratio down 85bp/14bp QoQ to 3.7%/1.1% v/s proforma GNPA/NNPA of 4.55%/1.19% as of Dec'20



Source: MOFSL, Company

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In the news today

Kindly click on textbox for the detailed news link

1

Info Edge to sell Rs 750 crore Zomato shares in upcoming IPO

Zomato's earliest and largest shareholder, Info Edge, will sell shares worth Rs 750 crore in the upcoming initial public offering (IPO) of the food delivery company, it said in a stock exchange filing on Tuesday evening. The parent of Naukri.com said details of the sale will be included in Zomato's Draft Red...

2

NBFCs seek one-off restructuring citing second wave

Non-bank finance companies (NBFCs) have sought one-off recast of retail and individual loans given to small businesses, taxi drivers and shopkeepers, citing the second wave of the coronavirus. The Finance Industry Development Council (FIDC), an industry body representing last-mile lenders, wrote to the central bank governor as rising caseloads have triggered localised lockdowns, denting the ability of the less privileged borrowers to repay.

3

OPEC+ sticks to plan to ease oil output cuts from May 1

OPEC, Russia and their allies will stick to plans for a phased easing of oil production restrictions from May to July amid upbeat forecasts for a recovery in global demand and despite surging coronavirus cases in India, Brazil and Japan. The group known as OPEC+ ditched plans to hold a ministerial meeting on Wednesday, four OPEC+ sources said, following Tuesday's meeting of ministers...

4

Axis Bank warns of slowing collections in coming weeks amid Covid second wave

Private sector lender Axis Bank expects collections to slow down in the coming weeks as infections continue to rise, impacting movement of executives on the ground, its chief executive Amitabh Chaudhry said on Tuesday. "These are early days, but we do see an immediate business impact across segments," said Chaudhry.....

5

Indian real estate institutional investments up 21% in Q1 at $922 million: Report

Institutional investments including private equity, pension and sovereign wealth funds continued its momentum during the first quarter of 2021, registering 21% growth in volumes at $922 million, indicating sustained investor interest in India's real estate market, showed data from JLL India. ...

6

Telcos gross revenue rises by 12.27% to Rs 71,588 crore in Oct-Dec 2020: Trai

Telecom operators recorded 12.27 per cent rise in their total revenue at Rs 71,588 crore in the quarter ended December 31, 2020 on a year-on-year basis, according to data published by sector regulator Trai on Tuesday. The gross revenue of the telecom service providers was ...

7

Bengaluru saw highest home sales growth in March quarter

The top eight property markets across India saw a 32% growth in home sales in the January-March period compared with the preceding quarter, according to a new report by Liases Foras Real Estate Rating & Research Pvt. Ltd. A total of 69,697 units were sold during the period, the...

MOTILAL OSWAL | MORNING INDIA

28 April 2021

4QFY21 Results Update | Sector: Financials

Axis Bank

Estimate change	⬆
TP change	⬆
Rating change	⬌

Bloomberg	AXSB IN
Equity Shares (m)	3,061
M.Cap.(INRb)/(USDb)	2142.5 / 28.7
52-Week Range (INR)	800 / 333
1, 6, 12 Rel. Per (%)	0/17/9
12M Avg Val (INR M)	14071

Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E
NII	292.4	360.2	433.5
OP	257.0	319.5	384.9
NP	65.9	157.6	206.1
NIM (%)	3.4	3.7	3.8
EPS (INR)	22.4	51.5	67.3
EPS Gr. (%)	271.0	129.8	30.7
BV/Sh. (INR)	331.6	379.6	442.3
ABV/Sh. (INR)	306.0	355.9	417.7
Ratios			
RoE (%)	7.1	14.5	16.4
RoA (%)	0.7	1.5	1.7
Valuations			
P/E(X)	27.2	11.9	9.1
P/BV (X)	1.8	1.6	1.4
P/ABV (X)	2.0	1.7	1.5

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	13.3	13.6	15.7
DII	22.7	23.0	24.5
FII	52.6	52.2	46.5
Others	11.4	11.2	13.3

FII Includes depository receipts

CMP: INR699 TP: INR925 (+32%) Buy

Improving asset quality outlook; earnings set to gain momentum

PCR steady at >70%; additional provisioning buffer provides comfort

- Axis Bank (AXSB) reported a strong quarter, with PAT above our estimates, aided by lower provisions. Business growth was strong across segments, with retail disbursements at an all-time high.
- On the asset quality front, the slippage trend subsided sequentially (INR52.8b v/s INR67.4b in 3Q) and total restructuring stood at 0.3% of loans. Also, the total funded and non-funded book declined to 2.0% of loans (v/s 2.4% in 3QFY21). Also, AXSB has ~72% coverage on GNPL and additionally holds a provision buffer of 2% (including standard provisions) to protect the balance sheet against any potential stress. However, the resurgence of COVID and state-wise lockdown would be a key monitorable in the near term. We increase our FY22/FY23E earnings by 12%/6% and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. **Maintain Buy.**

PAT beat aided by lower provisions; robust growth trends across segments

- 4QFY21 PAT stood at INR26.8b (significantly above our estimate), largely aided by lower provisions. PPoP growth stood at 9% YoY. For FY21, NII/PPoP/PAT was up 16%/10%/305% YoY.
- NII grew 11% YoY (+2.5% QoQ), impacted by interest-on-interest refund and higher LCR. Thus, NIMs stood at 3.56% (v/s 3.59 in 3QFY21).
- Other income grew 17% YoY, with fee income rising 15% YoY to INR33.8b and higher treasury gains (INR7.9b). Opex grew 8% YoY on an increase in staff cost (+21% YoY). Hence, the C/I ratio declined to 43.8% (v/s 45.3% in 3QFY21). Therefore, Core PPoP grew 9% YoY to ~INR60.8b.
- Provisions stood at INR32.9b (28% QoQ decline, 21% below our estimate). The bank currently holds an additional provision buffer of ~2% of loans. It approved total restructuring of INR18.5b (0.3% of loans) with 26% PCR.
- The loan book grew 7% QoQ with strong growth across segments. This was led by retail loans growing at 5% QoQ and retail disbursements rising at an all-time high of 44% QoQ. Also, the corporate/SME portfolio grew 9%/9%. On the liability front, deposits were up ~8% QoQ, led by 13% QoQ growth in CASA deposits; thus, the CASA ratio improved to 45% (quarterly avg. CASA stood at 42%).
- On the asset quality front, slippages stood at INR52.8b; along with higher recovery and write-offs, this resulted in improvement in the GNPA/NNPA ratio by 85bp/14bp QoQ to 3.70%/1.05%. As a result, PCR stood at 72.4%. The funded/non-funded BB & below pool declined to INR74.4b/INR45.7b (~2.0% of loans). Standard restructured loans under the COVID resolution framework stood at INR18.5b, corresponding to 0.3% of gross customer assets; the bank carries a provision of 26% on this.

Highlights from management commentary

- The total COVID-related provision buffer stood at INR50b (0.8% of loans), while the total additional provision buffer (COVID, standard and restructured) stood at ~2% of loans.
- Gross slippages were in line with expectations. 64% of gross slippages were from the retail book. Thus, the annualized retail slippage ratio stood at 3.7%.
- The sourcing of retail loans from branches stood at 59% in 4QFY21.

Valuation and view

AXSB has delivered a strong performance and appears well-positioned to report robust earnings traction. Moreover, moderation in fresh slippages, coupled with improved underwriting and an increasing retail mix, would help maintain strong credit cost control. On the business front, retail disbursements reached an all-time high during the quarter, with strong disbursements seen in Home Loans (+45% QoQ) and LAP (+51% QoQ). AXSB delivered strong sequential growth across segments. On the asset quality front, total restructuring stood at 0.3% of loans. Furthermore, the bank has ~72% coverage on GNPL and also holds an additional provision buffer of 2% to protect the balance sheet against any potential stress. We expect credit cost to decline to 1.5%/1.3% over FY22/FY23. We increase our FY22/FY23E earnings by 12%/6% and estimate AXSB to deliver RoA/RoE of 1.7%/16.4% in FY23. **Maintain Buy, with revised TP of INR925 (2.0x FY23E ABV).**

Quarterly performance **(INR b)**

	FY20				FY21				FY20	FY21	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Interest Income	**58.4**	**61.0**	**64.5**	**68.1**	**69.9**	**73.3**	**73.7**	**75.5**	**252.1**	**292.4**	**76**	**-1%**
% Change (Y-o-Y)	13.1	16.6	15.2	19.3	19.5	20.1	14.3	11.0	16.1	16.0	12.3	
Other Income	38.7	39.0	37.9	39.9	25.9	38.1	37.8	46.7	155.4	148.4	41	15%
Total Income	**97.1**	**100.0**	**102.4**	**107.9**	**95.7**	**111.3**	**111.5**	**122.2**	**407.4**	**440.8**	**117**	**4%**
Operating Expenses	38.2	40.5	45.0	49.4	37.3	42.4	50.5	53.6	173.0	183.8	54	0%
Operating Profit	**58.9**	**59.5**	**57.4**	**58.5**	**58.4**	**69.0**	**61.0**	**68.6**	**234.4**	**257.0**	**63**	**9%**
% Change (Y-o-Y)	34.8	45.4	3.9	16.7	-0.8	15.9	6.1	17.3	23.3	9.7	8.0	
Provisions	38.1	35.2	34.7	77.3	44.2	45.8	46.0	32.9	185.3	169.0	42	-21%
Profit before Tax	**20.8**	**24.3**	**22.7**	**-18.8**	**14.3**	**23.2**	**14.9**	**35.7**	**49.0**	**88.1**	**22**	**64%**
Tax	7.1	25.5	5.1	-4.9	3.2	6.3	3.7	8.9	32.8	22.2	5	65%
Net Profit	**13.7**	**-1.1**	**17.6**	**-13.9**	**11.1**	**16.8**	**11.2**	**26.8**	**16.3**	**65.9**	**16**	**64%**
% Change (Y-o-Y)	95.4	NM	4.5	NM	-18.8	NM	-36.4	NM	-65.2	304.9	NM	
Operating Parameters												
Deposit (INR t)	5.4	5.8	5.9	6.4	6.3	6.4	6.5	7.1	6.4	7.1	7	2%
Loan (INR t)	5.0	5.2	5.5	5.7	5.6	5.8	5.8	6.2	5.7	6.2	6	2%
Deposit Growth (%)	20.9	21.7	15.1	16.7	16.2	8.8	10.6	10.5	16.7	10.5	8.0	250
Loan Growth (%)	12.7	14.4	15.8	15.5	12.9	10.5	5.9	9.2	15.5	9.2	7.1	205
Asset Quality												
Gross NPA (%)	5.3	5.0	5.0	4.9	4.7	4.2	3.4	3.7	4.9	3.7	4.7	(100)
Net NPA (%)	2.0	2.0	2.1	1.6	1.2	1.0	0.7	1.1	1.6	1.1	1.2	(11)
PCR (%)	62.5	61.7	59.6	69.0	74.8	77.2	79.0	72.4	69.0	72.4	76.2	(385)

E:MOFSL Estimates

27 April 2021
4QFY21 Results Update | Sector: Financials

Bajaj Finance

Estimate change	↔
TP change	↑
Rating change	↑

Bloomberg	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	2936.7 / 39.3
52-Week Range (INR)	5922 / 1783
1, 6, 12 Rel. Per (%)	-6/20/84
12M Avg Val (INR M)	22453

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Income	172.7	211.9	261.0
PPP	119.6	148.5	183.9
PAT	44.2	89.2	109.8
EPS (INR)	73.5	148.2	182.6
EPS Gr. (%)	-16.3	101.7	23.2
BV/Sh. (INR)	605	739	903
Ratios			
NIM (%)	9.5	10.5	10.5
C/I ratio (%)	30.7	29.9	29.5
RoA (%)	2.6	4.7	4.7
RoE (%)	12.8	22.1	22.2
Payout (%)	13.6	10.0	10.0
Valuations			
P/E (x)	66.3	32.9	26.7
P/BV (x)	8.1	6.6	5.4
Div. Yield (%)	0.2	0.3	0.4

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	56.1	56.1	56.2
DII	9.1	9.1	10.9
FII	24.2	24.2	21.5
Others	10.6	10.6	11.5

FII Includes depository receipts

CMP: INR4,873 TP: INR5,865 (+20%) Upgrade to Buy

Asset quality improves; expect a normalized FY22

- Bajaj Finance (BAF)'s 4QFY21 PAT grew 42% YoY / 18% QoQ to INR13.5b (2% miss). While NII beat our estimates by 7%, opex was 12% above our expectations. With in-line provisions, PAT came in largely in line with our expectations. For FY21, the company reported AUM/NII/PPoP growth of 4%/3%/6% YoY. However, PAT declined 16% on the back of aggressive cleanup stress due to COVID.
- The proforma GNPL ratio declined from 2.9% to 1.8% QoQ. BAF wrote off ~INR15b worth of loans (1.0% of loans). The company has a provisioning coverage ratio of 58% on GS3 and 181bps on GS1&2. BAF continues to carry COVID-related provisioning of INR8.4b.
- With growth drivers back in place, we expect BAF to deliver ~25% AUM CAGR going forward. FY22 is also likely to see margin improvement with a) a reduction in negative carry as excess liquidity would reduce, b) the continued fall in Cost of Funds, and c) a shift in the asset mix toward high-yielding assets. With greater clarity on the stressed pool, we cut our FY22E credit cost estimate by ~20bp to 1.6%. **We estimate ~4.8% RoA / 22% RoE over the medium term. BAF's return ratios have not only been consistent but are also the highest in our Coverage Universe after the gold financiers. Given the improved clarity on business trends, we upgrade the stock to Buy, with Target Price of INR5,865 per share (6.5x FY23E BV).**

Disbursements exceed 90% of YoY levels; guidance positive

- In 4QFY21, disbursements scaled above 90% of YoY volumes for most segments – B2B (urban) was at 105%, B2B (rural) at 119%, Credit Card Origination at 95%, E-Commerce at 84%, Auto Finance at 80%, B2C (urban) at 87%, B2C (rural) at 115%, SME at 138%, and Mortgages at 147%.
- AUM grew 6% QoQ to INR1.53t (4% YoY). The loan mix was largely stable on a sequential basis.
- The management is positive about delivering on long-term target metrics in FY22 (AUM growth of ~25%; RoE of ~20%) – provided there are no large-scale lockdowns.

Liquidity maintained on the books; CoF declining

- The company has largely maintained liquidity on the books (at 12.5% of borrowings) – contrary to the management's guidance for a further reduction in the coming months to a run-rate of 7–8%.
- Spreads (calculated) improved 23bp QoQ to 11.6%, driven by stable yields and 72bp decline in cost of funds to 6.9%. **Interest reversals during the quarter stood at INR2.98b v/s INR4.5b QoQ.**
- During the quarter, the share of bank borrowings declined 300bp to 32%, offset by 250bp share gains in the money markets (44%). While the total deposit book grew ~19% YoY to INR263b, the share of retail increased to 77%, from 67%, over this period.

GS2 pool at 4.5% of loans, of which RL forms INR17b (1.1%)

- **Proforma GS3 loans improved 110bp QoQ to 1.8%, with PCR of 58%.** The non-overdue one-time restructuring (OTR) book stood at INR17.4b. This includes secured exposures of INR9.2b, one large B2B retailer account of INR4b, and INR4.2b unsecured assets. BAF has classified this as Stage 2. ECL provisions on the same stood at INR3.3b (19%).
- Non-OTR stage 2 assets stood at ~INR50b, against which there is an ECL provision of INR12.4b (25%).
- **The management expects credit costs to normalize in FY22, barring any large-scale adverse macros. The management overlay now stands at INR8.4b.**

Highlights from management commentary

- It would see meaningful decline in the C/I ratio post the launch of the business transformation process.
- New loan originations, barring auto finance, are back at pre-COVID levels. The Wallet Loans business (paused) and Retail EMI business have moderated. REMI is doing 50k/month instead of a 150k/month run-rate.

Other highlights

- Opex increased by INR1.53b YoY, led by an INR1.40b/INR1.51b increase in recovery commissions and employee expenses. This was partially offset by a reduction in other expense heads.
- The capital adequacy ratio stood at 28.34%, of which Tier-1 capital was 25.10%.
- **The Housing Finance arm's AUM grew 19% YoY to INR388.7b and reported PAT stood at INR4.5b (+8% YoY).**
- Despite significant disruptions, BAF remains open for business across geographies, in line with local administration advisories. In the last 7–10 days, the company has continued to originate 50–55% of daily volumes in the B2B business, 80–85% in the B2C and SME businesses, and 40–50% in Mortgages.

Valuation and view

4QFY21 was a healthy quarter for BAF. Disbursements have exceeded 90% of YoY levels across most segments. The initial asset quality performance of incremental disbursements is in line with or marginally better than pre-COVID levels. This bodes well for asset quality in the medium term. In the near term, we do not foresee any major asset quality disruption, unless the impact of the second wave is worse than expected. Margins are likely to see a sharp improvement in FY22 on a) lower cost of funds, b) a reduction in liquidity, and c) a favorable base due to interest reversals. We largely keep our estimates unchanged and expect the company to deliver ~4.8% RoA / 22% RoE over the medium term. Given the positive outlook, we upgrade our Neutral rating to BUY, with TP of INR5,865 per share (6.5x FY23E BVPS).

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21	4QFY21E	Act V/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	51,010	54,635	61,037	63,023	57,932	57,631	57,225	60,343	2,29,704	2,33,034	58,721	3
Interest expenses	21,134	23,234	24,890	25,474	24,976	23,581	23,627	21,956	94,732	94,140	22,951	-4
Net Interest Income	**29,876**	**31,400**	**36,147**	**37,549**	**32,956**	**34,050**	**33,598**	**38,388**	**1,34,972**	**1,38,894**	**35,770**	**7**
YoY Growth (%)	38.9	40.8	38.9	36.9	10.3	8.4	-7.1	2.2	38.8	2.9	-4.7	
Other Operating Income	7,068	8,596	9,202	9,286	8,565	7,568	9,360	8,206	34,152	33,797	8,918	-8
Net Income	**36,944**	**39,997**	**45,349**	**46,834**	**41,521**	**41,618**	**42,958**	**46,594**	**1,69,124**	**1,72,691**	**44,688**	**4**
YoY Growth (%)	43.3	47.7	41.4	38.4	12.4	4.1	-5.3	-0.5	42.4	2.1	-4.6	
Operating Expenses	12,922	13,830	15,341	14,515	11,567	11,559	13,896	16,060	56,608	53,082	14,386	12
Operating Profit	**24,022**	**26,167**	**30,008**	**32,320**	**29,954**	**30,059**	**29,062**	**30,534**	**1,12,516**	**1,19,608**	**30,303**	**1**
YoY Growth (%)	47.9	49.6	43.8	45.5	24.7	14.9	-3.2	-5.5	46.5	6.3	-6.2	
Provisions and Cont.	5,507	5,942	8,308	19,538	16,857	17,004	13,517	12,308	39,295	59,686	12,462	-1
Profit before Tax	**18,514**	**20,224**	**21,701**	**12,782**	**13,097**	**13,055**	**15,545**	**18,226**	**73,221**	**59,923**	**17,841**	**2**
Tax Provisions	6,562	5,161	5,560	3,301	3,474	3,406	4,085	4,760	20,584	15,724	4,664	2
Net Profit	**11,953**	**15,063**	**16,141**	**9,481**	**9,623**	**9,649**	**11,460**	**13,466**	**52,638**	**44,198**	**13,177**	**2**
YoY Growth (%)	43.0	63.1	52.3	-19.4	-19.5	-35.9	-29.0	42.0	31.8	-16.0	39.0	
Key Operating Parameters (%)												
Fees to Net Income Ratio	19.1	21.5	20.3	19.8	20.6	18.2	21.8	17.6	20.2	19.6		
Credit Cost	1.85	1.86	2.46	5.56	4.93	5.15	4.01	3.46	3.06	4.10		
Cost to Income Ratio	35.0	34.6	33.8	31.0	27.9	27.8	32.3	34.5	33.5	30.7		
Tax Rate	35.4	25.5	25.6	25.8	26.5	26.1	26.3	26.1	28.1	26.2		
Balance Sheet Parameters												
AUM (INR B)	1,289	1,355	1,451	1,472	1,381	1,371	1,436	1,529	1,472	1,529		
Change YoY (%)	41.2	38.3	35.0	27.0	7.1	1.1	-1.1	3.9	27.0	3.9		
Borrowings (INR B)	1,122	1,195	1,221	1,298	1,211	1,249	1,242	1,316	1,298	1,316		
Change YoY (%)	66.4	46.1	31.4	27.8	8.0	4.5	1.7	1.4	27.8	1.4		
Loans/Borrowings (%)	111.5	109.4	114.3	108.9	109.3	105.5	111.1	111.4	108.9	111.4		
Asset Quality Parameters (%)												
GS 3 (INR B)	21.0	22.2	23.6	23.6	19.4	14.4	41.9	24.3	23.6	27.3		
Gross Stage 3 (% on Assets)	1.60	1.61	1.61	1.61	1.40	1.34	2.86	1.79	1.61	1.79		
NS 3 (INR B)	8.2	8.9	10.2	9.4	6.8	5.2	17.6	11.4	9.4	11.4		
Net Stage 3 (% on Assets)	0.64	0.65	0.70	0.66	0.50	0.56	1.22	0.75	0.66	0.75		
PCR (%)	60.7	59.9	56.7	60.3	64.9	64.3	58.0	53.3	60.3	58.4		
Return Ratios (%)												
ROAA (Rep)	4.0	4.8	4.8	2.8	2.8	2.8	3.6	3.6	3.6	2.6		
ROAE (Rep)	23.5	28.0	23.6	11.6	11.6	11.6	13.2	14.8	20.2	12.8		

Source: MOFSL, Company

28 April 2021

4QFY21 Results Update | Sector: Automobiles

Maruti Suzuki

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MSIL IN
Equity Shares (m)	302
M.Cap.(INRb)/(USDb)	1981.1 / 26.5
52-Week Range (INR)	8400 / 4640
1, 6, 12 Rel. Per (%)	-3/-29/-24
12M Avg Val (INR M)	8719

Financials & valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	703.3	915.8	995.6
EBITDA	53.5	86.8	113.3
Adj. PAT	42.3	70.3	93.2
Cons. Adj. EPS (INR)	145.3	236.2	312.5
EPS Gr. (%)	-22.7	62.5	32.3
BV/Sh. (INR)	1,700	1,888	2,097
Ratios			
RoE (%)	8.2	12.3	14.7
RoCE (%)	10.1	15.6	18.8
Payout (%)	31.0	42.3	38.4
Valuations			
P/E (x)	45.1	27.8	21.0
P/BV (x)	3.9	3.5	3.1
EV/EBITDA (x)	28.8	17.1	12.5
Div. Yield (%)	0.7	1.5	1.8

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	56.4	56.4	56.3
DII	15.1	15.7	16.7
FII	23.1	23.1	21.6
Others	5.4	4.9	5.4

FII Includes depository receipts

CMP: INR6,558 TP: INR8,450 (+29%) Buy

Below our estimate; higher RM cost hurts margin; order backlog strong

Higher cost inflation to keep margin under pressure in 1HFY22E

- MSIL's 4QFY21 operating performance was impacted by higher commodity costs, partially offset by price hikes and lower discounts. Near-term challenges (of COVID-19 and commodity) notwithstanding, there are drivers in place for sustained volume and margin recovery from 2HFY22E.
- We lower our FY22E/FY23E EPS by 11%/3% to factor in some negative impact of the COVID-led lockdown on volumes as well as higher cost. Maintain **Buy** with a TP of INR8,450/share (27x Mar'23E consolidated EPS)**.**

Higher cost impacts margin; greater other income supports PAT

- Revenue grew to ~INR240.2b (+32% YoY) in 4QFY21, while EBITDA/PAT grew 29%/-10% to INR19.9b/INR11.7b. Revenue/EBITDA/PAT fell 7%/27.6%/25% YoY in FY21.
- Net realizations grew 3% YoY (+3% QoQ) to INR488k (v/s our estimate of INR483.9k) due to price hikes and lower discounts (at INR16.6k/unit v/s INR20.1k in 3QFY21).
- Gross margin declined 140bp QoQ (-360bp YoY) to 26.1% (v/s our expectation of 27%), impacted by RM cost impact of slightly less than 300bp QoQ (+400bp YoY) in 4QFY21, partially offset by price hikes (~0.8% QoQ) and lower discounts (~0.9%).
- EBITDA margin declined by 20bp YoY (-120bp QoQ) to 8.3% (v/s our estimate of 9.7%), impacted by a weaker gross margin and higher other expenses. EBIT margin rose 120bp YoY (-110bp QoQ) to 5.2% (v/s our expectation of 6.5%) due to lower depreciation. Lower other income (-90% YoY/QoQ) resulted in PAT declining by 10% YoY to INR11.7b (v/s our estimate of INR17.5b).

Highlights from the management commentary

- **Demand**: The current demand environment is holding out with decent inquiries as well as a substantial order book of ~200k units. Lockdown in nine states (which constitute 35% of company sales) will impact demand in 1QFY22.
- **Inventory:** Current dealer inventory stands at 85-90k units (v/s 32k units as of Mar'20 end v/s normal inventory levels of 135-140k units).
- **Retail market share** in FY21 stood slightly less than 50% excluding Toyota supplies and over 51% including supplies to Toyota. This compares with wholesale market share of 47.7% excluding Toyota supplies and 49.2% including Toyota supplies.
- The impact of **commodities cost** inflation was slightly less than 300bp QoQ (+400bp YoY) in 4QFY21. This was diluted by price hikes (~0.8% QoQ) and lower discounts (~0.9%). The management expects further impact from commodity price inflation (steep increase in steel and rhodium) in 1QFY22, but not as high as in 4QFY21.

- **Margins:** It expects margins to be volatile in 1HFY22. The management expects to dilute the impact of cost inflation by price increases (full benefit of 4QFY21 rise as well as a 1.25% increase in 1QFY22), focus on improving yield, and reduced consumption of precious metals as a large part of operating leverage has already reflected in 2HFY21.

Valuation and view

- While MSIL has seen a strong demand recovery, sharp commodity cost inflation and the recent lockdown have delayed a margin recovery. We expect 2HFY22 recovery for both market share and margin, led by favorable product lifecycle and mix, and price action/cost-cutting.
- The stock trades at 27.8x/21x FY22E/FY23E consolidated EPS. Maintain Buy with a TP of INR8,450/share (27x Mar’23E consolidated EPS).

Standalone quarterly (INR m)

Y/E March	FY20				FY21				FY20	FY21	4Q
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			FY21E
Financial Performance											
Volumes ('000 units)	402.6	338.3	437.4	384.4	76.6	393.1	495.9	492.2	1,562.6	1,457.9	492.2
Change (%)	-17.9	-30.2	2.0	-16.2	-81.0	16.2	13.4	28.1	-16.1	-6.7	28.1
Realizations (INR/car)	489,819	502,053	473,449	473,489	536,104	476,802	473,038	488,054	483,869	482,436	484,665
Change (%)	7.0	9.5	3.2	1.2	9.4	-5.0	-0.1	3.1	4.8	-0.3	2.4
Net operating revenue	**197,198**	**169,853**	**207,068**	**181,987**	**41,065**	**187,445**	**234,578**	**240,237**	**756,106**	**703,325**	238,569
Change (%)	-12.2	-23.6	5.3	-15.2	-79.2	10.4	13.3	32.0	-12.1	-7.0	31.1
EBITDA	**20,478**	**16,063**	**21,021**	**15,464**	**-8,634**	**19,336**	**22,261**	**19,911**	**73,026**	**53,453**	**23,023**
EBITDA Margin (%)	10.4	9.5	10.2	8.5	-21.0	10.3	9.5	8.3	9.7	7.6	9.7
EBIT	**11,292**	**6,802**	**12,441**	**7,234**	**-16,467**	**11,677**	**14,848**	**12,501**	**37,769**	**23,138**	**15,455**
EBIT Margin (%)	5.7	4.0	6.0	4.0	-40.1	6.2	6.3	5.2	5.0	3.3	6.5
Non-Operating Income	8,364	9,200	7,840	8,804	13,183	6,025	9,937	898	34,208	29,464	6,276
PBT	**19,109**	**15,720**	**20,064**	**15,755**	**-3,457**	**17,478**	**24,498**	**13,075**	**70,648**	**51,594**	**21,565**
Adjusted PAT	**14,355**	**13,586**	**15,648**	**12,917**	**-2,494**	**13,716**	**19,414**	**11,661**	**56,506**	**42,297**	**17,541**
Change (%)	-27.3	-35.3	5.1	-28.1	-117.4	1.0	24.1	-9.7	-23.2	-25.1	35.8

27 April 2021

4QFY21 Results Update | Sector: Metals

Hindustan Zinc

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	HZ IN
Equity Shares (m)	4,225
M.Cap.(INRb)/(USDb)	1346.6 / 18
52-Week Range (INR)	334 / 164
1, 6, 12 Rel. Per (%)	15/28/38
12M Avg Val (INR M)	429

Financials & valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	226	283	300
EBITDA	116.8	156.7	166.4
NP	79.8	108.8	115.7
Adj. EPS (INR)	18.9	25.8	27.4
EPS Gr (%)	17.3	36.3	6.3
BV/Sh. (INR)	76.5	82.2	87.6
RoE (%)	22.0	32.5	32.3
RoCE (%)	28.5	38.5	38.3
Payout (%)	200.1	77.6	80.3
Valuations			
P/E (x)	16.8	12.3	11.6
P/BV	4.2	3.9	3.6
EV/EBITDA (x)	10.1	7.3	6.7
Div. Yield (%)	11.9	6.3	6.9

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	64.9	64.9	64.9
DII	32.2	32.1	32.3
FII	1.1	1.1	1.0
Others	1.8	1.8	1.8

FII Includes depository receipts

CMP: INR319 TP: INR290 (-9%) Neutral

Outlook remains strong, but priced in

Maintain Neutral

- Hindustan Zinc (HZ)'s 4QFY21 results were strong as EBITDA jumped 19% QoQ to INR38.8b on record-high refined metal sales of 260kt (+11% YoY). The Silver business remained strong with EBIT of INR12.2b (38% of total).
- We expect a 9% CAGR in HZ volumes over FY21–23E, which would drive a 19% EBITDA CAGR. However, we believe this growth is factored in the current valuation; therefore, we rate it **Neutral**.

EBITDA up 19% QoQ, led by higher volumes

- Revenue/EBITDA/PAT grew 15%/19%/13% QoQ to INR69.5b/INR38.8b/ INR24.8b, 10%/12%/2% above our estimate – driven by 11% higher refined metal volumes and higher LME pricing. The beat was led by better-than-expected refined volumes of 260kt (est. 245kt) and silver volumes of 203t (est. 167t).
- During the quarter, the company achieved record-high mined metal volumes of 288kt (up 18% QoQ) and refined metal production of 256kt (up 9% QoQ).
- Sales volumes were strong across the business, with Zinc coming in at +9% YoY to 198kt, Lead at +17% YoY to 62kt, and Silver at +11% YoY to 203t.
- Reported CoP was up 2% QoQ to USD945/t (adjusted for a one-time employee payout amounting to ~USD20/t in 3QFY21).
- Other income declined 34% QoQ to INR 2.9b due to lower yields in 4QFY21.
- Net cash balance stood at INR151.3b v/s INR110.0b at 3QFY21-end (INR216b at FY20-end).
- FY21 EBITDA/PAT stood at ~INR117b/INR80b (+33%/17% YoY). The increase in finance cost and higher tax rate of 24.5% (18.9% in FY20) led to slower PAT growth. FY21 OCF/FCF stood at INR106b/INR80.8b (+60%/171% YoY) on account of higher EBITDA and lower capex.

FY21 exit run-rate at 1.2mtpa, but volume guidance lowered

- The management highlighted that the zinc demand environment remains buoyant, driven by China. However, domestic zinc demand is impacted in Apr'21 by a surge in the number of COVID cases.
- The company achieved an exit run-rate of 1.2mtpa over FY21 (288kt in 4QFY21). However, the management guided for 1,025–1,050kt of mined and refined metals due to demand uncertainty in the current scenario. The company remains confident of achieving >1,100t volumes – provided the COVID situation improves by May-end. Silver volumes are guided at 720t for FY22. We factor in refined metal volumes of 1,060kt.
- CoP is guided at <USD1,000/t v/s USD954/t in FY22.

Valuation and view

- We expect HZ's EBITDA to grow at a 19% CAGR over FY21–23E, primarily led by a ~9% CAGR in refined metal volumes to 1,128kt.
- With the outlook for zinc prices remaining strong, we build in USD2,750/USD2,700 per ton for FY22/FY23E.
- We remain **Neutral** on 6.0x FY23E EV/EBITDA, with TP of INR290/share. The stock trades at 6.7x FY23E EV/EBITDA, which prices in attractive dividend yield and potential EBITDA growth, in our view.

Quarterly performance (standalone) – INR b

Y/E March	FY20				FY21				FY20	FY21E	FY21E	vs Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			4QE	%
Net Sales	**49.9**	**45.1**	**46.7**	**43.9**	**39.9**	**56.6**	**60.3**	**69.5**	**185.6**	**226.3**	**63.2**	10
Change (YoY %)	-6.1	-5.6	-15.7	-20.0	-20.0	25.5	29.1	58.3	-12.1	21.9	44.0	
EBITDA	**24.8**	**21.2**	**22.9**	**19.6**	**15.8**	**29.5**	**32.7**	**38.8**	**88.5**	**116.8**	**34.5**	12
Change (YoY %)	-8.7	-9.3	-19.3	-29.6	-36.4	39.4	42.8	97.5	-17.1	32.0	75.9	
As % of Net Sales	49.7	46.9	49.0	44.7	39.5	52.2	54.2	55.8	47.7	51.6	54.7	
Finance cost	0.3	0.3	0.4	0.2	0.5	0.7	1.4	1.3	1.1	3.9	1.3	
DD&A	5.3	6.0	6.0	5.5	5.4	6.5	6.4	7.0	22.8	25.3	6.5	7
Other Income	4.3	5.9	4.5	4.7	6.8	3.9	4.5	3.0	19.3	18.2	4.6	-36
PBT	**23.4**	**20.9**	**21.0**	**18.7**	**16.6**	**26.2**	**29.5**	**33.5**	**83.9**	**105.8**	**31.3**	7
Total Tax	5.8	0.1	4.8	5.3	3.1	6.8	7.5	8.6	15.9	25.9	7.0	22
% Tax	24.7	0.3	22.7	28.2	18.3	26.0	25.3	25.8	18.9	24.5	22.5	
Reported PAT	**17.7**	**20.8**	**16.2**	**13.4**	**13.6**	**19.4**	**22.0**	**24.8**	**68.1**	**79.8**	**24**	2
Adjusted PAT	**17.7**	**20.8**	**16.2**	**13.4**	**13.6**	**19.4**	**22.0**	**24.8**	**68.1**	**79.8**	**24**	2
Change (YoY %)	-8.0	14.7	-26.7	-33.4	-23.0	-6.8	35.8	85.5	-14.5	17.3	81.2	

28 April 2021

4QFY21 Results Update | Sector: Consumer

Britannia Industries

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	852.7 / 11.4
52-Week Range (INR)	4015 / 2869
1, 6, 12 Rel. Per (%)	1/-22/-45
12M Avg Val (INR M)	2878

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	131.4	141.9	161.8
Sales Gr. (%)	13.2	8.0	14.0
EBITDA	25.1	25.3	29.1
Margins (%)	19.1	17.8	18.0
Adj. PAT	18.5	18.6	21.4
Adj. EPS (INR)	76.8	77.2	88.9
EPS Gr. (%)	31.0	0.5	15.1
BV/Sh.(INR)	147.3	199.5	217.3
Ratios			
RoE (%)	46.5	44.5	42.7
RoCE (%)	29.2	27.4	28.1
Payout (%)	80.0	80.0	80.0
Valuations			
P/E (x)	46.1	45.8	39.8
P/BV (x)	24.0	17.7	16.3
EV/EBITDA (x)	33.6	32.8	28.4
Div. Yield (%)	1.7	1.7	2.0

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	50.6	50.6	50.6
DII	11.2	10.7	13.4
FII	18.0	17.7	14.7
Others	20.3	21.1	21.3

FII Includes depository receipts

CMP: INR3,540 TP: INR4,450 (+26%) Buy

Sales outlook improving; margin disappoints

- BRIT's 4QFY21 topline growth was in line with volume growth, slightly above our expectation (7%) at 8%, even as there seems to be some mix deterioration sequentially. The management said it is seeing healthy growth momentum in Apr'21 as well.
- While deterioration in mix and higher than usual ad spends in 4QFY21 led to EBITDA miss, the overall commodity basket inflation, at 3%, is not challenging, as the management reportedly took some price increases towards the end of 4QFY21.
- The structural story for BRIT remains strong, especially aided by: a) direct reach expansion to ~2.4m outlets (second best after HUVR) and b) further investment in IT infrastructure as highlighted in 4QFY21. The remarkable market share improvement for eight consecutive years will continue as the company widens its moats over peers. Maintain **BUY**.

Sales in line, profitability below our expectations

- **BRIT's consolidated sales increased 9.2% YoY to INR31.3b** (v/s our estimate of INR31.6b) in 4QFY21. Standalone sales grew 9.7% YoY to INR29.5b. Base business volume growth was 8% in 4QFY21 (v/s our expectation of 7%).
- Consolidated EBITDA grew 11.3% YoY to INR5.1b (v/s our estimate of INR5.9b), consolidated PBT grew 7.6% to INR4.9b (v/s our expectation of INR6b), while consolidated adjusted PAT fell 3.5% to INR3.6b (v/s our estimate of INR4.7b).
- **Consolidated gross margin expanded 80bp YoY to 40.5%.** Sudden and steep inflation in palm oil and milk costs were witnessed.
- Lower staff cost (-20bp YoY), as a percentage of sales, and higher other expenses (+70bp) meant that EBITDA margin expanded 30bp to 16.1%.

Highlights from the management commentary

- There was no disruption to manufacturing and supply chain in Apr'21 and there has been a surge in demand compared to 4QFY21.
- BRIT migrated to: a) the cutting edge S4 Hana ERP, b) Arteria data management system, and c) a new vendor management system in 4QFY21, which resulted in a one-off sales impact of ~3 days.
- The three IT initiatives will give BRIT an edge over peers with benefits likely to accrue in a couple of quarters.
- Group ICDs remain in the same range as FY20 levels.

Valuation and view

- While sales were in line with our expectations, margin disappointed due to mix deterioration and higher-than-expected ad spends. We have reduced our FY22E/FY23E EPS by ~3% each.
- As highlighted in our upgrade note, the challenge for BRIT from a base perspective would only come largely in 1QFY22, with the base becoming far less challenging in subsequent quarters.

- Despite: 1) ~31% EPS growth in FY21, 2) a strong track record of ~20%/27% EPS growth in the preceding five/10 years ended FY20, 3) an improving outlook for FY22, 4) among the best-of-breed structural growth opportunities in the sector, and 5) RoE of over 40%, the stock trades at 39.8x FY23E, which is at a substantial discount to its historical three/five year average of 46x/48x. Maintain BUY, with a revised TP of INR4,450/share (from INR4,575 earlier), targeting 50x FY23E EPS.

Consolidated quarterly performance **(INR b)**

Y/E March	FY20				FY21				FY20	FY21	4Q	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			FY21E	(%)
Volume growth in the base business (%)	**3.0**	**3.0**	**3.0**	**-**	**21.0**	**9.0**	**3.0**	**8.0**	**2.3**	**10.0**	**7.0**	
Net Sales	**27.0**	**30.5**	**29.8**	**28.7**	**34.2**	**34.2**	**31.7**	**31.3**	**116.0**	**131.4**	**31.6**	(0.9)
YoY change (%)	6.2	6.2	4.9	2.5	26.7	12.1	6.1	9.2	4.9	13.2	10.1	
Gross Profit	**10.9**	**12.2**	**12.2**	**11.4**	**14.2**	**14.5**	**13.6**	**12.7**	**46.7**	**55.1**	**13.4**	
Margin (%)	40.4	40.2	40.9	39.7	41.7	42.5	43.1	40.5	40.3	41.9	42.5	
EBITDA	**3.9**	**4.9**	**5.0**	**4.5**	**7.2**	**6.8**	**6.1**	**5.1**	**18.4**	**25.1**	**5.9**	(14.0)
Margin (%)	14.6	16.1	16.8	15.8	21.0	19.8	19.3	16.1	15.9	19.1	18.6	
YoY growth (%)	1.4	8.3	11.1	4.1	81.7	37.2	21.8	11.3	6.3	36.1	29.3	
Depreciation	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	1.8	2.0	0.5	
Interest	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.8	1.1	0.3	
Other Income	0.7	0.7	0.7	0.8	0.9	0.7	0.8	0.6	2.8	3.1	1.0	
PBT	**4.1**	**5.0**	**5.0**	**4.6**	**7.4**	**6.7**	**6.1**	**4.9**	**18.6**	**25.1**	**6.0**	(18.6)
Tax	1.4	1.0	1.3	0.8	1.9	1.7	1.6	1.3	4.5	6.6	1.3	
Rate (%)	35.1	19.1	25.6	18.6	26.4	26.1	26.2	26.9	24.2	26.4	21.6	
Adjusted PAT	**2.6**	**4.0**	**3.7**	**3.7**	**5.4**	**5.0**	**4.5**	**3.6**	**14.1**	**18.5**	**4.7**	(24.2)
YoY change (%)	2.4	33.2	22.9	26.5	105.4	22.7	22.5	- 3.5	21.9	31.2	27.3	

E: MOFSL estimates

United Breweries

BSE SENSEX	S&P CNX
48,944	14,653

Conference Call Details

Date: 28th Apr 2021
Time: 2:00pm IST
Dial-in details:
+91 22 6280 1245 /
+91 22 7115 8146

Financials & Valuations (INR b)

Y/E MAR	FY21E	FY22E	FY23E
Net Sales	42.4	58.5	65.5
Sales Gr. (%)	-34.9	38.0	12.0
EBITDA	4.0	8.2	10.2
Margin (%)	9.5	14.1	15.5
Adj. PAT	1.4	3.7	4.4
Adj. EPS (INR)	5.3	14.1	16.8
EPS Gr. (%)	-67.2	164.8	19.2
BV/Sh. (INR)	135.5	144.3	153.9
Ratios			
RoE (%)	4.0	10.1	11.2
RoCE (%)	4.6	9.7	10.8
Valuations			
P/E (x)	219.2	82.8	69.4
P/BV (x)	8.6	8.1	7.6
EV/EBITDA (x)	75.6	36.9	30.6

CMP: INR1,164

Weaker-than-expected results despite favorable base

4QFY21 performance

- **Standalone net sales grew 8.4% YoY to INR15.4b (v/s est. INR16.6b).** EBITDA stood at INR2.6b (v/s est. INR3.2b). PBT stood at INR2.1b (v/s est. INR2.5b). Adj. PAT stood at INR1.6b (v/s est. INR2.0b). Given a) the strong pace of recovery in 3QFY21, b) a low base (13% sales decline, 23% EBITDA decline, and 39% PAT decline YoY in 4QFY20), and c) further recovery in on-trade sales, the company's 4QFY21 performance came in below expectations.
- Gross margins expanded 110bp YoY to 52.0%, but declined on a sequential basis by 190bp.
- With lower employee costs / other expenses (down 30bp/620bp YoY) as a percentage of sales, 4Q standalone EBITDA margins expanded 760bp YoY (off a very low base) to 16.9% (v/s est. 19.0%).
- UBBL recognized exceptional expenses of INR622m in 4Q on account of:
  - INR445m toward the impairment on property, plant, and equipment at Bihar facilities
  - INR178m toward impairment on investments in its subsidiary
- **FY21 results:** FY21 sales declined 34.9% to INR42.4b, EBITDA 54% YoY to INR4b, and adj PAT 64.7% YoY to INR1.5b. EBITDA margins fell 400bp to 9.5% in FY21.
- **Balance sheet and cash flows:** Given the weak P&L performance, the company did very well on the balance sheet, particularly on the working capital front. Consequently, operating cash flows grew 22% to INR6.2b in FY21. Capex stood at around INR1.5b in FY21, significantly lower than FY20 capex of INR4b, due to a weak demand environment.
- The company declared a dividend of INR0.5/share for the year.

Other key highlights

- CCI case update: The matter was heard before the CCI on 11th Feb'21 and 2nd Mar'21, followed by post-hearing submissions filed by the company with the CCI on 23rd Mar'21.
- Markets across the country saw good volume growth in 4Q – barring certain key markets of Telangana, Odisha, and Delhi – resulting in **overall 9% volume growth in the quarter.**
- The company posted strong sequential recovery in demand and underlying profitability.
- The gross margin came in higher by 110bp in 4Q on account of higher revenues, led by price increases and a better state mix.
- UBBL was net cash positive as of 31st Mar'21.

- Region-wise performance:

a) The quarter saw double-digit growth across regions, barring South.
b) South recorded the low single-digit growth due to sharp decline in Telangana – on account of the COVID excise taxation.
c) The quarter saw good recovery in key markets of Karnataka, Maharashtra, and Goa.
d) North – Rajasthan, Punjab, Haryana, and Himachal Pradesh recorded good growth (except Delhi), with Uttar Pradesh remaining flat.
e) East – West Bengal posted >100% growth, while other markets grew in the double digits, barring Odisha.
f) South – Other than Telangana and Puducherry, all other markets posted double-digit growth.
g) West – Healthy double-digit growth was seen in all markets, barring Chhattisgarh.

Standalone - Quarterly Earnings Model **(INR m)**

Y/E March	FY20				FY21				FY20	FY21E	FY21	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	20,485	15,786	14,548	14,242	5,069	9,006	12,897	15,435	65,092	42,407	16,639	-7.2%
YoY Change (%)	9.8	3.4	0.3	-12.6	-75.3	-42.9	-11.3	8.4	0.5	-34.9	16.8	
Gross Profit	10,314	8,225	7,692	7,248	2,365	4,707	6,948	8,024	33,581	22,044	8,952	
Margin (%)	50.3	52.1	52.9	50.9	46.7	52.3	53.9	52.0	51.6	52.0	53.8	
EBITDA	3,289	1,925	2,215	1,323	-957	404	1,965	2,613	8,758	4,025	3,167	-17.5%
YoY Change (%)	-17.8	-39.5	-10.6	-22.8	-129.1	-79.0	-11.3	97.6	-23	-54.0	139.5	
Margins (%)	16.1	12.2	15.2	9.3	-18.9	4.5	15.2	16.9	13.5	9.5	19.0	
Depreciation	692	689	736	734	505	612	578	623	2,851	2,319	679	
Interest	77	88	99	48	72	60	53	42	287	227	74	
Other Income	32	19	35	6	14	326	46	116	69	502	41	
PBT	2,552	1,167	1,416	547	-1,519	59	1,379	2,064	5,689	1,982	2,455	-15.9%
Tax	907	16	346	135	-376	18	355	474	1,406	471	478	
Rate (%)	35.5	1.3	24.4	24.7	24.8	31.5	25.7	23.0	24.7	23.7	19.5	
Adj PAT	1,645	1,151	1,070	412	-1,143	40	1,024	1,590	4,279	1,511	1,977	-19.6%
YoY Change (%)	-25.9	-29.7	-2.0	-39.4	-169.5	-96.5	-4.3	286.0	-24.0	-64.7	380.0	
Margins (%)	8.0	7.3	7.4	2.9	-22.5	0.4	7.9	10.3	6.6	3.6	11.9	

E: MOFSL Estimates; Note: Full year numbers won't be a summation of quarterlies because interim results are standalone.

TVS Motor Company

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	TVSL IN
Equity Shares (m)	475
M.Cap.(INRb)/(USDb)	269 / 3.6
52-Week Range (INR)	660 / 291
1, 6, 12 Rel. Per (%)	-1/10/35
12M Avg Val (INR M)	1484

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	167.5	208.0	230.6
EBITDA	14.3	19.7	25.1
Adj. PAT	6.1	10.5	14.4
EPS (INR)	12.9	22.2	30.3
EPS Gr. (%)	-0.9	72.1	36.9
BV/Sh (INR)	87.8	105.5	130.3
Ratios			
RoE (%)	15.7	22.9	25.7
RoCE (%)	17.8	26.8	32.1
Payout (%)	27.2	20.3	18.1
Valuations			
P/E (x)	44.0	25.5	18.7
P/BV (x)	6.5	5.4	4.3
Div. Yield (%)	0.6	0.8	1.0
FCF Yield (%)	7.5	-0.5	5.3

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	57.4	57.4	57.4
DII	20.8	21.5	21.2
FII	12.3	11.2	11.4
Others	9.4	10.0	10.0

FII Includes depository receipts

CMP: INR566 TP: INR635 (+12%) Neutral

Above est.; led by lower cost inflation, better cost mgmt.

Double-digit margins achieved in 4Q; balance sheet deleveraged

- TVS Motor Company (TVSL)'s operating performance was led by lower-than-expected cost inflation, price hikes, a favorable mix, and cost reduction initiatives. While the lockdown is likely to impact in the near term, export strength, coupled with a continued focus on cost management, would support profitability.
- We upgrade our FY22/FY23E EPS by ~14% to reflect price hikes and astute cost management. Maintain **Neutral**, with TP of INR635.

Credible cost control leads to best EBITDA margins in over 15 years

- 4QFY21 revenue / EBITDA / adj. PAT grew 53%/119%/191% YoY to INR53.2b/INR5.4b/INR2.9b. FY21 revenue / EBITDA / adj. PAT came in at +2%/+6%/-0.9% to INR167.5b/INR14.3b/INR6.1b.
- Net sales grew 52.9% YoY (-1% QoQ) to INR53.2b (v/s est. INR51.8b) as realizations rose 4.3% YoY (+5.3% QoQ) to INR57.4k (v/s est. INR55.8k).
- Gross margins expanded ~80bp QoQ (-30bp YoY) to 24.7% (v/s est. 23%) as the 150bp commodity cost inflation was more than offset by price hikes (100bps) and the cost reduction impact (100bp).
- It reported an EBITDA margin of 10.1% (+310bp YoY / +60bp QoQ; v/s est. 8.6%) on higher gross margins.
- Higher EBITDA and lower interest cost boosted adj. PAT by 8.9% QoQ to ~INR2.89b (v/s est. INR2.2b).
- The company generated FCF of INR3.38bn in 4Q and ~INR19b in FY21. Excl. sales tax loans, it has turned net debt zero.

Highlights from management commentary

- **Demand:** Localized lockdowns may hamper buying sentiment, but pan-India vaccinations may lead to high growth in 2HFY22. Rural demand would remain strong on the back of a normal monsoon season and high crop yield. Exports would see growth in all key markets.
- It expects a **further 1.9% QoQ increase in RM cost** in 1QYF22, for which it has already taken a 1.6% price hike in Apr'21.
- **EVs:** TVS iQube was recently launched in Delhi (second market after Bengaluru). It plans to launch this in more than 20 new cities in FY22. It would also expand the capacity and portfolio of e-2Ws. Moreover, it plans to launch e-3Ws.
- The Indonesia business has turned PBT positive – 4Q/FY21 PBT stood at USD1.6m/USD3.1m (v/s PBT loss of USD3m/USD5.8m in 4Q/FY20).
- **Capex** for FY22 would be at INR5–6b. It would invest INR1.5b toward TVS CS and INR1b toward other projects.

Valuation and view

- TVSL's volume growth is now falling in line with the domestic market as a large portion of the portfolio gaps has been filled, but the ramp-up in exports supports overall growth. However, it is seeing benefit from economies of scale and operating leverage, resulting in EBITDA margins trending toward the double digits.
- Valuations at 25.5x/18.7x FY22E/FY23E EPS already reflect a large portion of the earnings recovery. Maintain Neutral, with TP of ~INR635 (~20x Mar'23 EPS + INR32 for NBFC).

S/A Quarterly Performance **(INR m)**

Y/E March (INR m)	FY20				FY21				FY20	FY21	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Vols ('000 units)	**923.2**	**885.8**	**821.5**	**632.9**	**266.9**	**867.8**	**989.5**	**927.6**	**3,263.5**	**3,051.8**	**927.6**
Growth (%)	(0.5)	(18.6)	(17.0)	(30.2)	(71.1)	(2.0)	20.4	46.5	(16.6)	(6.5)	46.5
Realn (INR '000/unit)	**48.4**	**49.1**	**50.2**	**55.0**	**53.6**	**53.1**	**54.5**	**57.4**	**50.3**	**54.9**	**55.8**
Growth (%)	7.7	7.0	6.6	13.7	10.8	8.1	8.5	4.3	8.2	9.1	1.5
Net Sales	**44,686**	**43,478**	**41,255**	**34,814**	**14,317**	**46,055**	**53,914**	**53,219**	**1,64,233**	**1,67,505**	**51,772**
Growth (%)	7.1	(12.9)	(11.5)	(20.7)	(68.0)	5.9	30.7	52.9	(9.8)	2.0	48.7
RM (% of sales)	75.1	73.4	72.2	75.0	75.9	76.5	76.1	75.3	73.9	76.0	77.1
Emp cost (% of sales)	5.6	5.4	5.7	6.4	13.8	4.7	5.0	5.0	5.7	5.7	5.1
Other exp (% of sales)	11.3	12.5	13.3	11.6	13.8	9.5	9.4	9.5	12.2	9.8	9.2
EBITDA	**3,558**	**3,820**	**3,633**	**2,449**	**-488**	**4,301**	**5,111**	**5,361**	**13,459**	**14,286**	**4,443**
EBITDA Margin(%)	8.0	8.8	8.8	7.0	(3.4)	9.3	9.5	10.1	8.2	8.5	8.6
Interest	291	285	211	235	523	407	291	195	1,022	1,416	276
Depreciation	1,194	1,241	1,213	1,243	911	1,331	1,329	1,366	4,890	4,937	1,350
Other Income	12	49	9	251	26	111	124	69	321	330	103
PBT before EO Exp	**2,085**	**2,343**	**2,218**	**1,222**	**-1,896**	**2,674**	**3,615**	**3,869**	**7,867**	**8,262**	**2,921**
Total Tax	**662**	**553**	**247**	**160**	**-505**	**712**	**959**	**977**	**1622**	**2142**	**678**
Tax rate (%)	31.8	17.8	16.9	17.8	26.7	26.6	26.5	25.2	21.5	25.9	23.2
Reported PAT	**1,423**	**2,550**	**1,211**	**739**	**-1,391**	**1,963**	**2,656**	**2,892**	**5,922**	**6,120**	**2,243**
Adjusted PAT	**1,423**	**1,953**	**1,808**	**993**	**-1,391**	**1,963**	**2,656**	**2,892**	**6,176**	**6,120**	**2,243**
Growth (%)	(4.6)	(7.6)	1.3	(27.8)	(197.7)	0.5	46.9	191.4	(7.8)	(0.9)	126.0

Key performance indicator **(INR m)**

Y/E March (INR m)	FY20				FY21E				FY20	FY21	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Volumes ('000 units)	**923.2**	**885.8**	**821.5**	**632.9**	**266.9**	**867.8**	**989.5**	**927.6**	**3,263.5**	**3,051.8**	**927.6**
Growth (%)	-0.5	-18.6	-17.0	-30.2	-71.1	-2.0	20.4	46.5	-16.6	13.9	46.5
Dom. 2W Mkt Sh (%)	14.2	14.4	14.3	12.2	14.4	13.9	15.2	13.8	13.9	0.0	4.5
Net Realization	**48.4**	**49.1**	**50.2**	**55.0**	**53.6**	**53.1**	**54.5**	**57.4**	**50.3**	**54.9**	**55.8**
Growth YoY (%)	7.7	7.0	6.6	13.7	10.8	8.1	8.5	4.3	8.2	9.1	1.5
Cost Break-up											
RM Cost (% of sales)	75.1	73.4	72.2	75.0	75.9	76.5	76.1	75.3	73.9	76.0	77.1
Staff Cost (% of sales)	5.6	5.4	5.7	6.4	13.8	4.7	5.0	5.0	5.7	5.7	5.1
Other Cost (% of sales)	11.3	12.5	13.3	11.6	13.8	9.5	9.4	9.5	12.2	9.8	9.2
Gross Margins (%)	24.9	26.6	27.8	25.0	24.1	23.5	23.9	24.7	26.1	24.0	22.9
EBITDA Margins (%)	8.0	8.8	8.8	7.0	-3.4	9.3	9.5	10.1	8.2	8.5	8.6
EBIT Margins (%)	5.3	5.9	5.9	3.5	-9.8	6.4	7.0	7.5	5.2	5.6	6.0

E:MOFSL Estimates

27 April 2021

1QCY21 Results Update | Sector: Oil & Gas

Castrol (India)

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	126.5 / 1.7
52-Week Range (INR)	140 / 104
1, 6, 12 Rel. Per (%)	4/-3/-49
12M Avg Val (INR M)	190

Financials & Valuations (INR b)

Y/E December	2020	2021E	2021E
Sales	30.0	38.1	39.6
EBITDA	8.1	11.6	11.7
Adj. PAT	5.8	8.4	8.4
Adj. EPS (INR)	5.9	8.5	8.5
EPS Gr. (%)	-29.6	44.8	-0.2
BV/Sh.(INR)	14.3	16.0	17.7
Ratios			
Net D:E	-0.9	-0.9	-0.9
RoE (%)	41.9	56.3	50.5
RoCE (%)	42.1	56.4	50.6
Payout (%)	93.3	80.0	80.0
Valuations			
P/E (x)	21.7	15.0	15.0
P/BV (x)	9.0	8.0	7.2
EV/EBITDA (x)	14.0	9.7	9.5
Div. Yield (%)	4.3	5.3	5.3
FCF Yield (%)	6.7	6.3	6.3

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	51.0	51.0	51.0
DII	16.7	17.3	18.3
FII	11.6	12.0	11.8
Others	20.7	19.7	18.8

FII Includes depository receipts

CMP: INR128 **TP: INR170 (+33%)** **Buy**

Pent up demand drives earnings in 1QCY21; COVID-19 likely to impact in 2Q

- CSTRL delivered a beat across all fronts, led by higher than estimated volumes of ~61m liters (up 62% YoY and 17% QoQ) – aided by pent up demand in Jan-Feb'21. Commercial and 2W segment performed well during 1QCY21, while demand from agriculture sector remains robust (led by higher Tractor sales). However, the management has guided that such volume growth won't be sustainable going forward.
- Realization stood in line with our estimate at INR186.7/liter due to price action taken by the company in Jan'21. It has further increased product prices in Apr'21 – in line with an increase in base oil prices.
- **Impact from the second COVID-19 wave:** The management said additional restrictions/lockdowns are resulting in a market slowdown in various parts of India, thus posing a challenge to its 2QCY21 volume outlook.
- Factoring in the above, we assume a sequential decline in volumes for 2QCY21E, while building in a sequential increase in realization.
- Long-term volumes guidance stands ~4% YoY. The management reiterated that it would continue to focus on its Personal Mobility business. Our CY22E estimate was already aligned with its guidance, and thus remain unchanged.
- We value the stock at 20x CY22E EPS to arrive at a TP of INR170/share.

Beat on volumes led by pent up demand, realization in line

- Net sales stood at INR11.4b (30% higher than our estimate, up 66% YoY) in 1QCY21. EBITDA came in at INR3.4b (+96% YoY), with EBITDA margin at 29.9% (v/s our expectation of 23.5%). PAT rose 95% YoY to INR2.4b, with the tax rate at 26.7%.
- The company generated net cash of INR2.7b during 1QCY21, resulting in a cash generation of 112.5% of PAT on robust working capital management and cost management initiatives.
- **Strategic development:** CSTRL entered into a strategic collaboration with ki Mobility Solutions to supply lubricant products to its workshops in India and will also be available on goBumpr, their digital platform.

Valuation and view

- Capex guidance for CY21 stands at INR800-1,000m.
- The management said competition remains intense and the industry is likely to grow in lower single-digits. CSTRL has always enjoyed brand equity in the market. It will be able to secure its profitability with better product mix, cost control, and launch of advanced products with better realization.
- Its products are now available in ~1,400 Jio-BP retail outlets (up from 1,350 in 4QCY20). Further expansion of Jio-BP retail outlets (to over 5,500 sites) in the next couple of years would help strengthen its network.

- CSTRL has already launched EV fluids globally (China and Europe). In CY20, it signed agreements with MG Motors and Tata Motors for supply of EV fluids in India. The management expects it would be another 15-20 years before a scalable EV fleet is seen on Indian roads.
- The company is looking at various revenue streams in the future. The deal with 3M is a reflection of its diversification plans into new avenues.
- CSTRL is a perfect value play candidate, with return ratios over 50% and dividend payout policy of over 80% (translating to a dividend yield of ~5%).
- On a one-year forward P/E basis, the stock trades at a discount of ~47% to its long-term P/E average of 27.1x. **Maintain BUY.**

Quarterly performance **(INR m)**

Y/E December	CY20				CY21				CY20	CY21	1Q CY21E	Variance (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Volume (m liters)	37.6	29.0	47.0	52.0	61.0	46.4	47.0	44.3	166	199	47.0	11
Realization	183	169	188	180	187	193	193	195	181	192	186	-4
Net Sales	6,880	4,906	8,831	9,352	11,387	8,955	9,071	8,707	29,969	38,121	8,761	30
YoY Change (%)	-29.5	-52.8	4.0	-7.6	65.5	82.5	2.7	-6.9	-22.7	27.2	27.3	
EBITDA	1,730	953	2,882	2,576	3,401	2,700	3,096	2,441	8,141	11,638	2,061	65
YoY Change (%)	-38.9	-66.5	17.9	-24.5	96.6	183.3	7.4	-5.2	-29.4	43.0	19.2	
Margin (%)	25.1	19.4	32.6	27.5	29.9	30.1	34.1	28.0	27.2	30.5	23.5	
Depreciation	222	206	215	223	215	231	241	285	866	973	249	-14
Interest	11	14	9	8	6	7	5	4	42	21	6	9
Other Income	198	152	117	153	143	156	120	218	620	637	190	-25
PBT	1,695	885	2,775	2,498	3,323	2,618	2,970	2,371	7,853	11,281	1,997	66
Rate (%)	26.1	26.1	26.3	24.9	26.7	25.2	25.2	23.1	25.8	25.2	25.2	
PAT	1,252	654	2,046	1,877	2,436	1,958	2,222	1,823	5,829	8,439	1,494	63
YoY Change (%)	-32.3	-64.2	8.6	-30.8	94.6	199.4	8.6	-2.9	-29.6	44.8	19.3	

27 April 2021
Company Update | Sector: Telecom

Bharti Airtel

BSE SENSEX	S&P CNX
48,944	14,341

airtel

Bloomberg	BHARTI IN
Equity Shares (m)	5,456
M.Cap.(INRb)/(USDb)	2934.4 / 39.3
52-Week Range (INR)	623 / 394
1, 6, 12 Rel. Per (%)	2/3/-46
12M Avg Val (INR M)	12118
Free float (%)	44.2

Financials & Valuations (INR b)

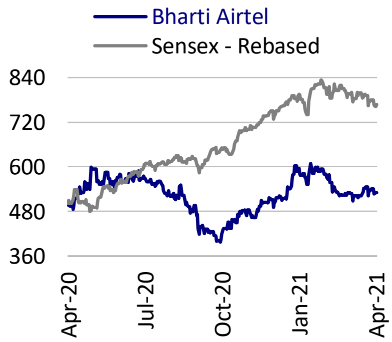
Y/E March	FY21E	FY22E	FY23E
Sales	1,018.6	1,143.8	1,271.8
EBITDA	461.7	557.0	639.0
Adj. PAT	4.6	24.7	42.9
EBITDA Margin. %	45.3	48.7	50.2
Adj. EPS (INR)	0.8	4.5	7.9
EPS Gr. (%)	-111.3	435.8	73.8
BV/Sh. (INR)	115.9	120.4	128.3
Ratios			
Net D:E	2.0	1.9	1.3
RoE (%)	0.7	3.8	6.3
RoCE (%)	13.6	6.8	8.8
Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	8.9	7.4	6.1
P/E (x)	NM	115.3	66.4
P/BV (x)	4.5	4.3	4.1
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	55.9	56.2	59.0
DII	20.4	21.8	15.8
FII	18.6	17.8	20.3
Others	5.2	4.2	4.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR534 TP: INR720 (+35%) Buy

Insulated from COVID woes

Expect steady growth irrespective of price hike

BHARTI has been an underperformer despite elevated expectations around business potential/growth. In this note, we highlight our key arguments as to why we believe it offers a good risk-reward equation

- **Despite the COVID woes, Bharti has delivered estimated EBITDA growth of 28% and the trend should continue in FY22E with estimated consol. EBITDA growth of 21%.**
- **This should be on the back of steady market share gains; we think, irrespective of a tariff hike, earnings growth should continue to be strong.**
- **FCF generation and deleveraging have been a concern for the past 4–6 quarters. However, we are now seeing a more focused approach to drive healthy INR233b FCF (in FY23E) and corresponding deleveraging benefits.**
- **The stock looks attractively valued at EV/EBITDA of 6x – as it does not capture the potential tariff hikes and garners 8% FCF yield on an FY23 basis. Maintain Buy, with TP of INR720.**

Limited COVID impact

In the past year, even as most businesses were severely impacted by the COVID-led lockdown, Bharti's consolidated revenue/EBITDA is estimated to have grown 17%/28% in FY21, with the India Wireless business revenue/EBITDA up ~21%/44%. Wireless EBITDA grew 3% QoQ even during the strict lockdown in 1QFY21, when telcos were offering free validity to low-ARPU subscribers – this underscores the inherent strength of the company. Thus, the company does not face any imminent risks from the ongoing second wave of COVID. The lack of physical recharges / new SIM card availability in the ongoing lockdown may have a minimal impact on the company as an increase in the number of online recharges (50% currently estimated) and data subscribers should offset the impact (as seen in the previous lockdown).

Steady market share gains; price hikes irrelevant

Although the Telecom industry awaits a price hike, since the previous one taken about five quarters ago, Bharti has delivered steady revenue/EBITDA growth (of 10%/35% YoY in 4QFY21E) in the Wireless business – on the back of healthy market share gains. Subscriber/revenue market share gains of 180bp/550bp (33.7%/35.3%) over 9MFY21 are commendable, with gross/active subscribers adds of 3%/4%. Wins in the 4G market have been a key factor in improving ARPU – it added 30.1m 4G subscribers of the total 56.8m industry adds, implying incremental market share of 53%. One of the key factors is its superior data experience, reflected in its data usage, which is just one-third that of RJio's despite the similar network capability. Thus, irrespective of a price hike, Bharti has the ability to deliver 2–3% ARPU growth on average and 1–2% subscriber adds quarterly, which should drive annual revenue growth of 12–13%. Assuming 65% incremental market share, EBITDA should grow at a 21% CAGR over FY21–23E.

FCF generation to improve

In the last six quarters, despite healthy EBITDA growth, Bharti has been unable to garner high FCF generation – which could be utilized to deleverage the balance sheet. The exponential data growth during the lockdown required intensification of the network, which kept FY21E capex high (similar to FY20 levels), contrary to the management guidance for a capex reduction. Additionally, Bharti spent a) INR28.8b for 4.94% additional stake in Indus, b) INR31b for the buyback of Warburg Pincus' 20% stake in the DTH business, and c) INR187b (INR70b in 4QFY21 as an upfront payment) on the spectrum auction. Furthermore, continued one-offs/extraordinary provisions of INR164b resulted in a net loss position in FY21. This has been a key dampener as the high EBITDA growth has not reflected in the form of FCF improvement or the return of net profit. However, going forward, capex should reduce as more spectrum acquisitions would reduce site additions. Moreover, with the management's focus on FCF and deleveraging, it should refrain from utilizing OCF in other avenues. Subsequently, we expect FCF (post-interest) at ~INR233b in FY23 (at EBITDA of INR639b).

RoCE turning relevant

Over the last 10 years, BHARTI's RoCE was barely in the mid-single digits due to a hyper-competitive landscape and its continued capex for technological advancements, spectrum renewals, and investments in Africa. Now with benign competition and the limited possibility of a new player's entry, ARPU could be determined to at least cover WACC. In our view, at EBITDA of INR639b in FY23E, BHARTI could garner pre-tax RoCE of ~12%.

Risk of capex intensity

We do not see any material investments in 5G to happen over the next 2–3 years as a) new use cases for 5G are few and far between and b) the incremental consumer benefit is limited – as data speed could be easily dealt with through 4G investments. Furthermore, unlike in the past – when 4G investments were inevitable due to the entry of a new player – we do not see any pressure on technology or spectrum investments.

Valuation and view

In the last year, the stock has given ~5% returns after much oscillation in its stock price – it slipped ~13% from the peak of INR602 as high capex hurt FCF and deleveraging expectations. With improving FCF potential, the stock would certainly command better multiples. Our estimates factor in the AGR liability of INR260b. However, they do not capture the corresponding potential upside for BHARTI from incremental ARPU growth or potential market share gains from the AGR liability being fulfilled. This could garner an incremental EBITDA opportunity of ~INR100b. Even without this, the valuation seems compelling at FY23E EBITDA of INR639b, implying 8% FCF yield (post-interest). We maintain our **Buy** rating, with SOTP-based TP of INR720, assigning 10x (to capture the incremental earnings upside) to the India Wireless EBITDA and 6x to Africa.

Jindal Steel and Power

BSE SENSEX	S&P CNX
48,944	14,653

Bloomberg	JSP IN
Equity Shares (m)	1,020
M.Cap.(INRb)/(USDb)	458.8 / 6.1
52-Week Range (INR)	456 / 80
1, 6, 12 Rel. Per (%)	39/112/392
12M Avg Val (INR M)	3077

Financials & Valuations (INR b)

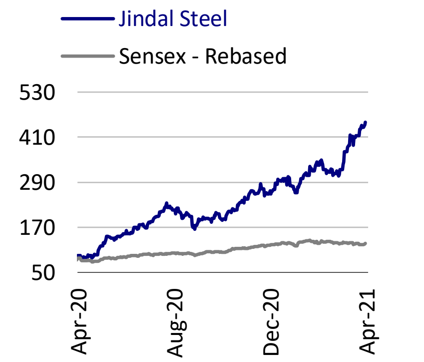
Y/E March	2021	2022E	2023E
Sales	385.5	413.9	414.7
EBITDA	147.2	130.6	117.7
Adj. PAT	58.3	48.0	44.1
Adj. EPS (INR)	57.1	47.1	43.2
EPS Gr. (%)	-836	-18	-8
BV/Sh. (INR)	303	351	394
RoE (%)	18.5	14.4	11.6
RoCE (%)	16.8	15.3	12.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	7.9	9.6	10.4
P/BV	1.5	1.3	1.1
EV/EBITDA (x)	4.8	4.9	4.9
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As on	Mar-21	Dec-20	Mar-20
Promoter	60.5	60.5	60.5
DII	16.9	15.4	12.4
FII	11.0	11.5	13.4
Others	11.6	12.6	13.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR450 TP: INR539 (+20%) Buy

Power divestment to help expand Steel capacities

JPL deal valued ~3.7x FY23E EV/EBITDA

We have mixed feelings about the proposed sale of Jindal Power (JPL) by JSP. While we find the enterprise value (EV) of ~INR95b, implying ~3.7x FY23E EV/EBITDA, for the asset a bit underwhelming, it does improve the growth outlook for the Steel business by freeing up both the Balance Sheet and management bandwidth. JSPL has already announced its intent to double capacity at Angul to 12mtpa. Moreover, by hiving off thermal Power plants and reducing its carbon footprint, access to global capital should improve for JSP. The deal should also aid in better value discovery for the Steel business, which is still under-valued at 4.5x FY22E EV/EBITDA. Reiterate BUY.

Details of the deal

JSPL has entered into a share purchase agreement (SPA) with WorldOne, a group entity, to transfer its entire equity holding (~96% stake) in JPL at an EV of ~INR95b and equity value of ~INR30b, of which the cash consideration is INR30b. The deal is valued ~3.7x FY23E EV/EBITDA and ~INR28m/MWH capacity, which is at a discount of ~17% to recently concluded deals. The deal would reduce JSP's net debt by ~INR51b. The deal is likely to be completed over 12 months.

- **Details about JPL:** The company has 3,400MW capacity, of which 870MW (26%) capacity is tied with long-term PPAs. In Dec'20, JPL was allocated 6mtpa Gare Palma IV/1 block at an agreed premium of ~25%. Currently, it is operating ~50% PLF. JPL has a net debt of INR65b at the end of Dec'20. We expect JPL to achieve an EBITDA of INR25.8b in FY23E, supported by ramp-up of production in Gare Palma IV/1.
- **Inter-company transactions:** JSP owes INR43.8b to JPL, which were taken as loans (~INR15b) and advances (~INR29b) for transfer of the Power plant from JPL to JSP. The same has been converted into an unsecured loan, which will be repaid in three installments from the fifth to the seventh year. In addition to this, JSPL holds 5% non-convertible redeemable preference shares of INR70.5b in JPL, issued in 3QFY21, of which INR40.5b is cumulative. The preference shares are redeemable after 15 years and within 20 years.
- Taking into account the net present value of preference shares and inter-company debt, the EV of the deal works out to ~INR95b. This works out to ~3.7x FY23E EV/EBITDA and INR28m/MWH capacity.

Valuation and view

- Valuation of INR28m/MWH and the EV of INR95b is at a discount to our SoTP value of INR117b. The divestment should enhance focus on its Steel operations and should help in better value discovery for the business.
- We estimate JSP's net debt to reduce by INR130b over FY21E-23E to INR112b, driven by strong cash flows. We have not factored in JPL's divestment in our estimates.
- At the CMP, the stock trades at an attractive 4.5x FY22E EV/EBITDA for the Steel business, which is a significant discount to peers (TATA and JSTL).
- We expect JSP to re-rate and value the stock at 5.5x FY22E EV/EBITDA (earlier 5x) to arrive at a TP of INR539/share.

Tech Mahindra: Expects deal wins to continue; will manage double-digit growth on back of deal wins; CP Gurnani (MD & CEO) and Milind Kulkarni (CFO)

- Would consider getting into FY22 with a tailwind
- Order book split is healthy 50:50 between telecom & enterprise
- Think we are delivering on our promises, we never gave a guidance
- Won a deal in 5G network services deal in Q4FY21
- have started improving our operational efficiencies from last year
- Expect operational efficiency gains to continue on back of factors like offshoring
- Offshoring, low sub-contracting, automation to drive margin expansion in FY22
- Expect enterprise business growth to be stronger than communication growth
- Expect a similar quarter of deal wins; will manage a double-digit growth on back of deal wins
- Have started hiring from month of March 2021
- Have a very high exposure to manufacturing; most exposure in manufacturing is in Auto & Aerospace
- See manufacturing slowdown to be cyclical
- Should have 1-2 deals on 5G every quarter hereon
- Created some large centres of excellence on cloud and AI

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HDFC Life: Aiming FY22 VNB growth above 20-21%; Vibha Padalkar, MD & CEO

- Optimistic on business in Q1FY22
- Advantage of technology to carry out various aspect of business
- Have delivered as smooth growth curve in the last 5 years
- Value of new business grew by 52% in Q4; expect similar VNB margin growth in FY22
- We are little more curious about VNB growth for FY22; anything above 20-21% should be a good VNB growth figure for FY22
- Embedded value will be a fallout of VNB & VNB margin growth
- COVID claims of Rs. 165 crore for FY22 should be adequate; reserved provision of Rs. 165 crore for FY22
- Reinsurance price hike was done around April-May 2020; passed on reinsurance price hike to individuals with high risk profile
- Reinsurance should hike prices if COVID impact on mortality is adverse in long term
- COVID death claims at 23% in Sep-Oct; had come down to 11-12%
- Spike in COVID death claims again going back to peak levels seen last year
- Mortality in 2nd COVID wave is half of the mortality in 1st wave

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SBI Cards: Stress on balance sheet slowly coming down; RMR Amara, MD & CEO

- Asset quality has been the main consideration
- Portfolio of Rs. 777 crore was due for 30+ days in Q3FY21
- Provision coverage on 30+ days book stands at 65.6%
- Intend to continue strengthening the balance sheet
- Stress in the book is slowly coming down
- Too early to comment on forward numbers, hope vaccination will aid demand

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Snowman Logistics: Vaccine transportation will take place mid-May onwards; Sunil Nair, CEO

- Company is at 85% capacity utilisation
- Have 15% capacity available for vaccine transportation
- Vaccine transportation will take place mid-May onwards
- Hopeful that a lot of volumes come in once next phase of vaccination opens up
- e-commerce contributes around 10% to the revenue
- Expect 20-25% revenue growth in FY22
- Rise in fuel costs is a key concern as it's difficult to pass on fully to customers
- Margin in vaccine transportations will be similar to current margin

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Delta Corp: There is a lot of potential in gaming business ; Hardik Dhebar, Group CFO

- Online gaming business contributes 20-30% to total business
- 'Rummy Online' is contributing Rs. 1 crore a month to total revenue
- Believe there is a lot of potential in gaming business
- Once the things return to near normal, business bounce backs very strongly
- Debt-free company; sitting around Rs. 500 crore cash
- Have a negative working capital business; won't be any pressure on cash flows

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NOTES

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