## ASIAMONEY Brokers Poll 2020 (India)


## Market snapshot

| Equities - India | Close | Chg .% | CYTD.% |
|---|---|---|---|
| Sensex | 49,734 | 1.6 | 4.2 |
| Nifty-50 | 14,865 | 1.4 | 6.3 |
| Nifty-M 100 | 24,314 | 1.1 | 16.7 |
| **Equities-Global** | **Close** | **Chg .%** | **CYTD.%** |
| S&P 500 | 4,183 | -0.1 | 11.4 |
| Nasdaq | 14,051 | -0.3 | 9.0 |
| FTSE 100 | 6,964 | 0.3 | 7.8 |
| DAX | 15,292 | 0.3 | 11.5 |
| Hang Seng | 11,015 | 0.3 | 2.6 |
| Nikkei 225 | 29,054 | 0.2 | 5.9 |
| **Commodities** | **Close** | **Chg .%** | **CYTD.%** |
| Brent (US$/Bbl) | 66 | 0.8 | 29.9 |
| Gold ($/OZ) | 1,782 | 0.3 | -6.1 |
| Cu (US$/MT) | 9,880 | 0.2 | 27.5 |
| Almn (US$/MT) | 2,395 | 0.2 | 21.3 |
| **Currency** | **Close** | **Chg .%** | **CYTD.%** |
| USD/INR | 74.4 | -0.4 | 1.8 |
| USD/EUR | 1.2 | 0.3 | -0.7 |
| USD/JPY | 108.6 | -0.1 | 5.2 |
| **YIELD (%)** | **Close** | **1MChg** | **CYTD chg** |
| 10 Yrs G-Sec | 6.1 | 0.00 | 0.2 |
| 10 Yrs AAA Corp | 6.7 | 0.00 | 0.2 |
| **Flows (USD b)** | **28-Apr** | **MTD** | **CY21** |
| FIIs | 0.10 | -1.28 | 7.33 |
| DIIs | 0.06 | 1.42 | -3.17 |
| **Volumes (INRb)** | **28-Apr** | **MTD*** | **YTD*** |
| Cash | 789 | 735 | 779 |
| F&O | 43,532 | 44,971 | 41,999 |

Note: *Average

## Today's top research idea

### ABB: Operating performance in line; Balance Sheet strength intact

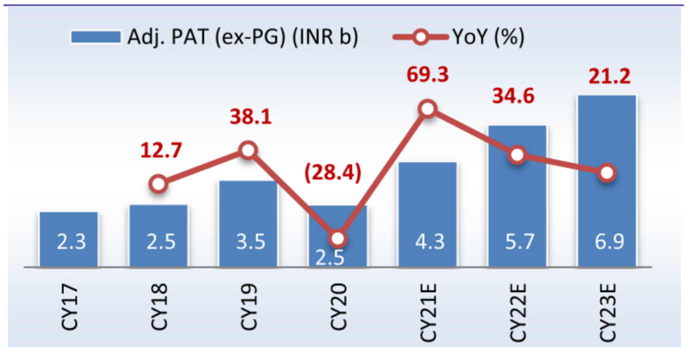
- **Balance Sheet strength improves further:** While operating performance in 1QCY21 was largely in line, the company demonstrated commendable control over cash flows and improved its Balance Sheet further. The cash balance now stands ~INR25b and constitutes ~65% of its net worth.
- **Pure play on products and services rather than direct play on capex:** After the demerger of the PWGR business, ABB's business is largely products and services oriented, with projects constituting ~9% of revenue in CY20. This makes it a pure play on the Digitalization and Automation theme.
- **Return ratios to improve:** We expect RoEs to improve to 13% by CY22E, following the aberration in CY20. ABB's RoEs are depressed due to a higher cash balance. The improvement in the business model is better captured in RoIC calculations. We expect RoIC to improve to ~38% by CY22E from ~21% in CY19.
- **Valuation and view:** While the recent statewide lockdowns remain a concern, we expect a quick recovery in short-cycle businesses. We maintain our Buy rating, with a TP of INR1,565 per share (55x Mar'23E EPS). We expect its near term premium valuations to sustain, given the growing opportunity in the Manufacturing space in India.

## Research covered

| Cos/Sector | Key Highlights |
|---|---|
| ABB | Operating performance in line; Balance Sheet strength intact |
| United Breweries | Demand outlook challenging; material costs rising |
| Biocon | Revenue lower than our estimate; lesser than expected R&D spend led to in line EBITDA |
| Tata Communications | Miss on both the revenue/EBITDA front |
| PNB Housing Finance | Business momentum remains slow; asset quality stable |
| SIS | Topline marginally ahead; miss on margins due to SG&A spend |
| Other Notes | Steel \| Economy (Brics) |

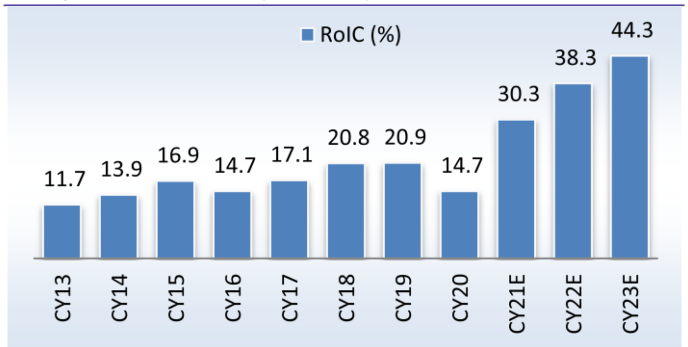
## Chart of the Day: ABB (Operating performance in line; Balance Sheet strength intact)

**Expect adjusted PAT CAGR of ~40% over CY20-23E, aided by the soft base of CY20**




Source: MOFSL, Company

**Rising RoIC trend to help sustain premium valuations**




Source: MOFSL, Company

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# In the news today

Kindly click on textbox for the detailed news link

1

## Maharashtra lockdown to be extended by 15 days beyond April 30: Rajesh Tope

The lockdown in Maharashtra will be extended by another 15 days beyond April 30, state Public Health Minister Rajesh Tope said on Wednesday. He said all members of the cabinet, who participated in a meeting chaired by Chief Minister Uddhav Thackeray, pitched for such…

2

## Fed strengthens view of economy while keeping rates near zero

Federal Reserve officials strengthened their assessment of the economy on Wednesday and signaled that risks have diminished while leaving their policy interest rate near zero and maintaining a $120 billion monthly pace of asset purchases. "Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened," the Federal Open Market Committee said in a statement following the conclusion of its two-day policy meeting. "The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors."

3

## Reliance, Saudi Aramco discuss cash and share stake deal: Report

Billionaire Mukesh Ambani's Reliance Industries is reported to have held talks with Saudi Aramco on a cash and share deal for sale of a 20 per cent stake in its oil refining and petrochemical arm. Ambani had in August 2019 announced talks for the sale of a 20 per cent stake in the oil-to-chemicals (O2C) business, which comprises its twin oil refineries…

4

## Tata Communications disputes Rs 1197.7 crore demand from DoT

Tata Communications has disputed the demand made by the Department of Telecommunications (DoT) for payment of dues worth Rs 1199.7 crore on grounds that the international and national long distance (ILD & NLD) licenses owned by the company do not fall under the purview of …

5

## HDFC Bank to upgrade its credit card business

HDFC Bank Ltd, India's biggest private sector lender, is looking to replace its legacy credit card system with a modern technology platform to make the processes more efficient and cost-effective, according to a person aware of the matter. The decision to upgrade the system of credit cards is also expected to give customers a better experience and more security, the person said on condition of anonymity.…

6

## India imposes anti-dumping duty on chemical from 4 regions

India has imposed anti-dumping duty on imports of a chemical used in foam making from four regions, including the EU and Saudi Arabia, for five years to guard domestic players from cheap shipments. The duty was imposed following recommendation of the commerce ministry's…

7

## 20% of CTC of fund managers, CEOs must be in units of schemes: Sebi to MFs

In order to make mutual fund houses and fund managers more accountable, the Securities and Exchange Board of India (Sebi) on Wednesday mandated that companies have to pay at least 20% of the compensation of fund managers and chief executive officers has to be paid in …

# ABB

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | ABB IN |
| Equity Shares (m) | 212 |
| M.Cap.(INRb)/(USDb) | 293 / 3.9 |
| 52-Week Range (INR) | 1700 / 722 |
| 1, 6, 12 Rel. Per (%) | -6/28/4 |
| 12M Avg Val (INR M) | 215 |

**Financials & Valuations (INR b)**

| Y/E Dec | 2020 | 2021E | 2022E |
|---|---|---|---|
| Sales | 58.2 | 70.4 | 84.5 |
| EBITDA | 3.7 | 5.7 | 7.5 |
| PAT | 2.5 | 4.3 | 5.7 |
| EBITDA (%) | 6.3 | 8.1 | 8.8 |
| EPS (INR) | 11.9 | 20.1 | 27.0 |
| EPS Gr. (%) | (28.4) | 69.3 | 34.6 |
| BV/Sh. (INR) | 170.2 | 186.5 | 205.4 |
| **Ratios** | | | |
| Net D/E | (0.6) | (0.7) | (0.7) |
| RoE (%) | 7.0 | 10.8 | 13.2 |
| RoCE (%) | 7.6 | 11.4 | 13.7 |
| Payout (%) | 40.4 | 30.0 | 30.0 |
| **Valuations** | | | |
| P/E (x) | 116.4 | 68.8 | 51.1 |
| P/BV (x) | 8.1 | 7.4 | 6.7 |
| EV/EBITDA (x) | 73.4 | 46.8 | 35.2 |
| Div Yield (%) | 0.3 | 0.4 | 0.6 |
| FCF Yield (%) | 0.7 | 1.9 | 1.7 |

**Shareholding pattern (%)**

| As On | Mar-21 | Dec-20 | Mar-20 |
|---|---|---|---|
| Promoter | 75.0 | 75.0 | 75.0 |
| DII | 7.3 | 7.0 | 11.6 |
| FII | 3.8 | 4.1 | 3.3 |
| Others | 13.9 | 14.0 | 10.1 |

FII Includes depository receipts

**CMP: INR1,383 TP: INR1,565 (+13%) Buy**

## Operating performance in line; Balance Sheet strength intact

### Outlook still cautious owing to the second wave of COVID-19

- Revenue growth stood at 7% YoY and was 10% below our expectation. EBITDA stood in line with our estimate, with margin coming in higher owing to increased localized offerings and favorable product mix. While the pace of recovery has been a tad slower than expected (exports continue to remain muted), certain segments like Data Centers, Renewables, and Electronics (led by the PLI scheme) have witnessed robust growth and now contribute ~80% to ABB's business.
- The management has demonstrated commendable control over cash flows and improved its Balance Sheet further. Its cash balance now stands at ~INR25b and forms ~65% of its net worth.
- ABB is a pure play on the long-term industrial automation and 'Make-in-India' theme, and stands to benefit from the ongoing PLI-driven increase in manufacturing across the country. We have largely maintained our CY21E/CY22E estimates. Post reopening of the economy after the first lockdown, order inflows steadily increased sequentially. Recent statewide lockdowns could lead to a short-term disruption with respect to execution. The short-cycle nature of the business implies that the recovery could be very swift if the economy continues to improve. We maintain our **Buy** rating, with a TP of INR1,565 per share (55x Mar'23E EPS). We expect its premium valuations to sustain in the near term, given the growing opportunity in the Manufacturing space in India.

### EBITDA in line; lower other income leads to earnings miss

- Revenue increased 7% YoY to INR17.3b and **was 10% below our estimate.** Gross margin stood at 33.3% (+120bp QoQ/-150bp YoY). EBITDA came in at INR1.3b and **was in line with our expectation**. EBITDA margin at 8.1% was better than our estimate of 7.2%.
- Other income declined 45% YoY to INR253m and was 37% below our estimate of INR400m. Adjusted PAT stood at INR947m and **was 8% below our expectation**.
- Loss from discontinued operations stood at INR93m, whereas exceptional gains from the sale of assets stood at INR745.3m (pretax). As a result of the exceptional gains, reported PAT came in at INR1.4b and was 37% ahead of our expectation.
- **Order inflow declined 7% YoY to INR18.3b. The order book stood at INR43.3b (-3% YoY).**
- **Segmental highlights: a) Robotics and Motion:** Revenue grew 11% YoY to INR6.8b. PBIT margin stood at 14%. **b) Electrification Products:** Revenue was flat at INR6.3b. PBIT margin stood at 11.8%. **c) Industrial Automation:** Revenue grew 11% to INR3.3b. PBIT margin stood at 8.8%.

## Key highlights from the management commentary

- Data Centers, Renewables, and Electronics are some of the key end-markets expected to see healthy growth in CY21, followed by Food and Beverage, Pharmaceuticals, and Railways.
- ABB has installed smart sensors and soft starters to reduce water usage in Shimla (HP). The company will use this template to implement Water projects across other geographies.
- Export orders constitute 11% of the total order book (v/s 13-14% earlier). While 15-20% of the orders are hedged for price variations, a large part of the remaining order book are short cycle orders, which have been recently won (factoring the recent surge in commodity costs).

## Valuation and view

ABB is a pure play on the long-term industrial automation and 'Make-in-India' theme, and stands to benefit from the ongoing PLI-driven increase in manufacturing across the country. We have largely maintained our CY21E/CY22E estimates. While the recent statewide lockdowns remain a concern, we expect a quick recovery in short-cycle businesses. We maintain our **Buy** rating, with a TP of INR1,565 per share (55x Mar'23E EPS). We expect its premium valuations to sustain in the near term, given the growing opportunity in the Manufacturing space in India.

**Quarterly performance** **(INR m)**

| Y/E December | CY20 | | | | CY21 | | | | CY20 | CY21E | 1Q | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | CY21E | (%) |
| **Sales** | **15,222** | **9,858** | **16,122** | **17,008** | **16,292** | **14,450** | **18,800** | **20,848** | **58,210** | **70,389** | **18,050** | -9.7 |
| Change (%) | -17.7 | -42.9 | -7.6 | -12.9 | 7.0 | 46.6 | 16.6 | 22.6 | -20.4 | 20.9 | 18.6 | |
| **EBITDA** | **145** | **234** | **1,214** | **1,956** | **1,323** | **912** | **1,414** | **2,038** | **3,689** | **5,687** | **1,298** | 1.9 |
| Change (%) | -90.0 | -81.1 | -1.6 | 41.3 | 812.1 | 289.1 | 16.5 | 4.2 | -30.5 | 54.2 | 795.0 | |
| As a percentage of sales | 1.0 | 2.4 | 7.5 | 11.5 | 8.1 | 6.3 | 7.5 | 9.8 | 6.3 | 8.1 | 7.2 | |
| Depreciation | 271 | 249 | 247 | 297 | 253 | 270 | 270 | 269 | 1,204 | 1,062 | 270 | -6.4 |
| Interest | 34 | 38 | 28 | 69 | 32 | 40 | 30 | 48 | 169 | 150 | 50 | -36.4 |
| Other Income | 458 | 266 | 201 | 144 | 253 | 280 | 320 | 361 | 1,069 | 1,214 | 400 | -36.9 |
| Extra-ordinary Income | 456 | 10 | (48) | (742) | 466 | - | - | - | (323) | 466 | - | |
| **PBT (Before exceptionals)** | **298** | **214** | **1,140** | **1,733** | **1,291** | **882** | **1,434** | **2,082** | **3,385** | **5,689** | **1,378** | -6.3 |
| Tax | 108 | 62 | 285 | 416 | 343 | 222 | 361 | 505 | 870 | 1,432 | 347 | -1.1 |
| Effective Tax Rate (%) | 36.3 | 28.8 | 25.0 | 24.0 | 26.6 | 25.2 | 25.2 | 24.2 | 25.7 | 25.2 | 25.2 | |
| **Reported PAT** | **646** | **163** | **807** | **576** | **1,413** | **660** | **1,073** | **1,577** | **2,192** | **4,723** | **1,031** | 37.1 |
| **Adjusted PAT** | **190** | **153** | **855** | **1,317** | **947** | **660** | **1,073** | **1,577** | **2,515** | **4,257** | **1,031** | -8.1 |
| Change (%) | -78.7 | -78.1 | 8.5 | 16.1 | 398.6 | 332.5 | 25.5 | 19.7 | -28.4 | 69.3 | 442.4 | |

MOTILAL OSWAL | MORNING INDIA

28 April 2021

4QFY21 Results Update | Sector: Consumer

# United Breweries

| | |
|---|---|
| Estimate changes | ↓ |
| TP change | ↓ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | UBBL IN |
| Equity Shares (m) | 264 |
| M.Cap.(INRb)/(USDb) | 319.2 / 4.3 |
| 52-Week Range (INR) | 1328 / 860 |
| 1, 6, 12 Rel. Per (%) | -4/9/-25 |
| 12M Avg Val (INR M) | 782 |

**Financials & Valuations (INR b)**

| Y/E March | 2021 | 2022E | 2023E |
|---|---|---|---|
| Net Sales | 42.4 | 58.1 | 65.7 |
| Sales Gr. (%) | -34.8 | 37.0 | 13.0 |
| EBITDA | 3.8 | 7.8 | 10.6 |
| Margin (%) | 9.0 | 13.5 | 16.1 |
| Adj. PAT | 1.2 | 3.2 | 5.1 |
| Adj. EPS (INR) | 4.6 | 12.3 | 19.2 |
| EPS Gr. (%) | -71.8 | 169.2 | 55.9 |
| BV/Sh. (INR) | 135.5 | 143.1 | 154.1 |
| **Ratios** | | | |
| RoE (%) | 3.4 | 8.8 | 12.9 |
| RoCE (%) | 3.6 | 9.3 | 12.3 |
| **Valuations** | | | |
| P/E (x) | 264.4 | 98.2 | 63.0 |
| P/BV (x) | 8.9 | 8.4 | 7.8 |
| EV/EBITDA (x) | 82.8 | 38.8 | 30.1 |

**Shareholding pattern (%)**

| As On | Mar-21 | Dec-20 | Mar-20 |
|---|---|---|---|
| Promoter | 57.7 | 57.7 | 57.7 |
| DII | 26.3 | 25.9 | 25.6 |
| FII | 9.8 | 10.0 | 10.4 |
| Others | 6.2 | 6.4 | 6.3 |

FII Includes depository receipts

**CMP: INR1,207 TP: INR960 (-20% ) Sell**

## Demand outlook challenging; material costs rising

- United Breweries (UBBL) reported strong results over a lockdown impacted 4QFY21. Nevertheless, they came in below our expectations on all fronts – as the pace of sequential recovery was slower than that seen in 3QFY21.
- Considering a) some impact from the lockdown in Maharashtra, Delhi, and Karnataka for a month during the key season for beer and b) the possible write-offs of perishable raw materials, we have cut our FY22 EPS forecasts by ~20%. However, we have not factored in any further risks from lockdown extensions, other states imposing lockdowns, and the possible impact of rising barley costs, all of which could have a significant impact – as 1Q contributes 35–45% to the company's full-year EBITDA.
- Notably, the CCI hearings over the alleged price fixing by the top three beer players were held in Feb and Mar'21; post-hearing submissions were made by the company on 23rd Mar'21. This progress raises the specter of penalty to be paid by the top three players (last reported in news articles as USD250m). Such a development would further affect sentiment amid another likely weak year for UBBL. As we await the new initiatives defined by the new CEO (as highlighted in our corner office note), even if we were to assume recovery in FY23, EPS growth over FY19–23 is likely to be flattish and FY23 RoE would be just ~13%. Valuations, on the other hand, are expensive at 63x FY23E EPS. Maintain **Sell.**

### Performance exceeds expectations

- **Standalone net sales grew 8.4% YoY to INR15.4b** (v/s est. INR16.6b). EBITDA was up 97.6% YoY to INR2.6b (v/s est. INR3.2b). PBT grew 277.1% to INR2.1b (v/s est. INR2.5b). Adj. PAT was up 286% to INR1.6b (v/s est. INR2.0b).
- Overall volumes grew 9% YoY in 4QFY21, but declined 39% for the full-year FY21.
- **Gross margins expanded 110bp YoY to 52.0%**, but fell 190bp on a sequential basis.
- With lower employee costs / other expenses as a percentage of sales (down 30bp/620bp YoY), 4Q standalone EBITDA margins expanded 760bp YoY (off a very low base) to 16.9% (v/s est. 19.0%).
- UBBL recognized exceptional expenses worth INR622m in 4QFY21 on account of:
  - INR445m toward the impairment on property, plant, and equipment at their Bihar facility
  - INR178m toward impairment on investments in its subsidiary
- **FY21 results:** FY21 sales / EBITDA / adj. PAT declined 34.9%/54%/64.7% YoY to INR42.4b/INR4b/INR1.5b. EBITDA margins contracted 400bp to 9.5%.
- **Balance sheet and cash flows:** 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.

## Highlights from management commentary

- With beer and its raw materials being perishable, there could be some write-offs on account of the impact from lockdowns in 1QFY22 – in addition to the loss of sales.
- Barley prices have recently reported an inflationary trend (up 15% v/s last year's procurement levels), while glass costs remain benign.
- While there were no one-offs in 4QFY21 margins, advertising and promotion (A&P) expenses remain below the usual average even in 4QFY21.
- UBBL lost market share in the earlier part of the year, before returning to 52–53% levels (the same as the last 2–3 years) by the end of FY21.

## Valuation and view

- Changes to the model have resulted in a ~20%/~7% cut in FY22/FY23E EPS as a result of ongoing lockdowns in three key states. If the lockdowns are extended and/or implemented in other states, the impact could be much higher as 1Q (the summer season) has historically contributed 35–45% to the company's full-year EBITDA.
- Despite assuming recovery in FY23 and the second highest operating margins in the company's history, valuations are rich at ~63x FY23E EPS – despite flat EPS over FY19–23E and RoE in the early teens. Progress on CCI investigations spells another overhang at an already challenging time.
- Maintain **SELL**, with TP of INR960, calculated at 24x FY23E EV/EBITDA.

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

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21 | 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 | 2,054 | 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 | 22.9 | 19.5 | |
| **Adj PAT** | 1,645 | 1,151 | 1,070 | 412 | -1,143 | 40 | 1,024 | 1,590 | 4,279 | 1,584 | 1,977 | -19.6 |
| YoY Change (%) | -25.9 | -29.7 | -2.0 | -39.4 | -169.5 | -96.5 | -4.3 | 286.0 | -24.0 | -63.0 | 380.0 | |
| Margins (%) | 8.0 | 7.3 | 7.4 | 2.9 | -22.5 | 0.4 | 7.9 | 10.3 | 6.6 | 3.7 | 11.9 | |

E: MOFSL Estimates

# Biocon

| BSE SENSEX | S&P CNX |
|---|---|
| 49,734 | 14,865 |

**CMP: INR390** **TP: INR400(-3%)** **Neutral**

## Conference Call Details

**Date:** 29th Apr 2021
**Time:** 9:00am IST
**Dial-in details:**
Zoom link: [Click Here]

**Financials & Valuations (INR b)**

| Y/E MARCH | 2021 | 2022E | 2023E |
|---|---|---|---|
| Sales | 71.1 | 85.5 | 102.5 |
| EBITDA | 16.6 | 22.3 | 27.5 |
| Adj. PAT | 6.6 | 10.7 | 14.1 |
| EBIT Margin (%) | 13.2 | 16.8 | 18.3 |
| Cons. Adj. EPS (INR) | 5.5 | 8.9 | 11.8 |
| EPS Gr. (%) | -10.6 | 48.3 | 31.6 |
| BV/Sh. (INR) | 59.9 | 66.2 | 74.5 |
| **Ratios** | | | |
| Net D:E | 0.2 | 0.1 | 0.1 |
| RoE (%) | 9.9 | 14.2 | 16.7 |
| RoCE (%) | 7.4 | 10.5 | 12.8 |
| Payout (%) | 27.9 | 29.3 | 29.3 |
| **Valuations** | | | |
| P/E (x) | 70.7 | 43.6 | 33.2 |
| EV/EBITDA (x) | 29.3 | 21.8 | 17.6 |
| Div. Yield (%) | 0.4 | 0.6 | 0.8 |
| FCF Yield (%) | 0.0 | 1.3 | 2.1 |
| EV/Sales (x) | 6.7 | 5.7 | 4.7 |

## Revenue lower than our estimate; lesser than expected R&D spend led to in line EBITDA

- Revenue grew 18% YoY to INR18.4b (v/s our estimate of INR20.2b) in 4QFY21.
- Revenue growth was led by:
  a) Biosimilars (36% of sales) up 53% YoY to INR6.6b.
  b) Research services (36% sales) up 8% YoY to INR6.6b.
- However, revenue growth was dragged by Generic sales, up 3% YoY to INR5.8b (28% of sales).
- Gross margin (GM) expanded 360bp YoY to 65% due to superior product mix.
- Accordingly, EBITDA margin expanded 330bp YoY to 23.7% (v/s our estimate of 22.4%). As a percentage of sales, higher other expense (+170bp YoY) was offset by lower R&D/employee cost (-110bp/-20bp YoY).
- EBITDA grew 37% YoY to INR4.4b (v/s our expectation of INR4.5b) on a lower base.
- BIOS saw an exceptional gain of INR130m (net of insurance claim related to fire incident at Syngene and severance cost related to the exit of certain key personnel). Adjusting for the same, tax related to exceptional items, and gain of INR1.6b (fair valuation of investment in Bicara Therapeutics), PAT grew 30% to INR1.6b (v/s our estimate of INR1.9b).
- For FY21, sales/EBITDA grew 13%/3% YoY to INR71b/INR16.6b, while adjusted PAT declined 10.6% to INR6.6b.

### Key highlights for 4QFY21

- The board has appointed Mr. Indranil Sen as CFO of BIOS, replacing Mr. Anupam Jindal, who resigned due to personal reasons. Mr. Sen was earlier the Vice President of Finance at BIOS.
- Biocon Biologics also appointed Mr. Susheel Umesh as Chief Commercial Officer for emerging markets.

**Quarterly performance (Consolidated)** (INR m)

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21E | 4Q | v/s our |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | FY21E | Estimate |
| **Net Sales** | **14,589** | **15,720** | **17,170** | **15,575** | **16,713** | **17,448** | **18,510** | **18,387** | **63,005** | **71,058** | **20,226** | **-9.1%** |
| YoY Change (%) | 29.8 | 19.0 | 11.4 | 1.9 | 14.6 | 11.0 | 7.8 | 18.1 | 14.3 | 12.8 | 29.9 | |
| Total Expenditure | 10,220 | 11,690 | 12,720 | 12,390 | 12,590 | 13,354 | 14,530 | 14,030 | 46,974 | 54,504 | 15,697 | |
| **EBITDA** | **4,369** | **4,030** | **4,450** | **3,185** | **4,123** | **4,094** | **3,980** | **4,357** | **16,031** | **16,554** | **4,529** | **-3.8%** |
| YoY Change (%) | 83.7 | 18.9 | 9.5 | -22.3 | -5.6 | 1.6 | -10.6 | 36.8 | 15.1 | 3.3 | 42.2 | |
| Depreciation | 1,242 | 1,320 | 1,440 | 1,524 | 1,668 | 1,777 | 1,860 | 1,840 | 5,522 | 7,145 | 1,888 | |
| **EBIT** | **3,127** | **2,710** | **3,010** | **1,661** | **2,455** | **2,317** | **2,120** | **2,517** | **10,509** | **9,409** | **2,641** | |
| YoY Change (%) | 125.5 | 19.4 | 4.0 | -42.8 | -21.5 | -14.5 | -29.6 | 51.5 | 11.1 | -10.5 | 59.0 | |
| Interest | 166 | 140 | 180 | 168 | 125 | 65 | 50 | 340 | 649 | 580 | 75 | |
| Other Income | 241 | 380 | 360 | 631 | 183 | 155 | 220 | 450 | 1,614 | 1,008 | 317 | |
| Extraordinary income | 0 | 675 | 0 | 0 | 0 | -180 | 60 | 1,030 | 675 | 910 | 0 | |
| **PBT** | **3,202** | **3,625** | **3,190** | **2,124** | **2,513** | **2,227** | **2,350** | **3,657** | **12,149** | **10,747** | **2,883** | **26.8%** |
| Tax | 852 | 1,000 | 850 | 450 | 809 | 223 | 490 | 700 | 3,151 | 2,222 | 702 | |
| Rate (%) | 26.6 | 27.6 | 26.6 | 21.2 | 32.2 | 10.0 | 20.9 | 19.1 | 25.9 | 20.7 | 24.3 | |
| Minority Interest | 210 | 347 | 310 | 360 | 180 | 261 | 180 | 430 | 1,227 | 1,051 | 298 | |
| **PAT** | **2,061** | **2,448** | **2,030** | **1,230** | **1,488** | **1,743** | **1,680** | **2,527** | **7,769** | **7,438** | **1,883** | **34.2%** |
| **Adjusted PAT** | **2,061** | **2,089** | **2,030** | **1,230** | **1,488** | **1,905** | **1,633** | **1,598** | **7,410** | **6,624** | **1,883** | **-15.1%** |
| YoY Change (%) | 72.7 | 14.2 | -10.6 | -42.7 | -27.8 | -8.8 | -19.6 | 29.9 | -0.4 | -10.6 | 53.1 | |
| Margin (%) | 14.1 | 15.6 | 11.8 | 7.9 | 8.9 | 10.0 | 9.1 | 13.7 | 12.3 | 10.5 | 9.3 | |

# Tata Communications

| BSE SENSEX | S&P CNX |
|---|---|
| 49,734 | 14,865 |

## Conference Call Details

**Date:** 29th April 2021
**Time:** 02:30pm IST

| INR million | FY21 | FY22E | FY23E |
|---|---|---|---|
| Net Sales | 171.0 | 171.0 | 184.1 |
| EBITDA | 42.6 | 44.3 | 49.3 |
| Adj. PAT | 13.3 | 14.4 | 17.0 |
| EBITDA Margin (%) | 24.9 | 25.9 | 26.8 |
| Adj. EPS (INR) | 46.5 | 50.6 | 59.8 |
| EPS Gr. (%) | 340.2 | 8.9 | 18.1 |
| BV/Sh. (INR) | NM | 49.7 | 109.5 |
| **Ratios** | | | |
| Net D:E | NM | 2.2 | 0.1 |
| RoE (%) | NM | 208.0 | 75.1 |
| RoCE (%) | 19.2 | 16.4 | 17.3 |
| Payout (%) | 10.6 | 9.2 | 7.8 |
| **Valuations** | | | |
| EV/EBITDA (x) | 9.2 | 8.5 | 7.0 |
| P/E (x) | 24.7 | 22.7 | 19.2 |
| P/BV (x) | NM | 23.1 | 10.5 |
| Div. Yield (%) | 0.3 | 0.3 | 0.3 |

## CMP: INR1,149 — Neutral

### Miss on both the revenue/EBITDA front

- Consolidated revenue dropped 3.5% QoQ to INR40.7b (5% miss) on the back of a decline in the Voice and Data segments. Revenue for the Voice segment fell 17.2% QoQ to INR5.6b. Data segment revenue declined 1% QoQ to INR35.2b on longer deal conversion and moderation in UCC traffic.
- EBITDA fell 3% QoQ to INR10.2b (8.3% miss), led by 4.6% decline in the Data segment to INR9.8b, which is partially offset by 80% growth in the Voice segment to INR360m. Voice EBITDA growth was due to a recovery in Voice margin to 6.4% v/s 2.9% QoQ. All EBITDA margin expanded 10bp to 24.9%.
- TCOM has reported an exceptional gain of INR12m in 4QFY21 – the gain was attributed to INR242.5m in insurance claims, which was partially offset by exceptional loss of INR41.6m towards interest for unpaid provisions of licensee fees and INR189.4m in staff optimization cost.
- Other income stood at INR577m in 4Q v/s INR82m in 3QFY21. TCOM's PAT decreased 3.2% QoQ to INR3b, whereas adjusted PAT (for exceptional items) stood at INR2.9b, down 7% (13% miss).
- Capex for 4Q stood at INR3.9b v/s INR3.4b in 3QFY21. FY21 capex fell 11% YoY to INR14.2b.
- Net debt reduced by INR1.9b QoQ to INR77.9b. It also made a payment of INR3.8b to DoT due to difference in the accounting of costs.

### Segmental details

- Revenue/EBITDA for the Data segment declined by 1%/4.6% QoQ to INR35.2b/INR9.8b (contributing 96% of total EBITDA), with margin at 27.9%. Revenue was lower due to COVID-19 related slower deal conversions and moderation in UCC traffic, which had surged during the lockdown in 4QFY20.
- The decline in Data EBITDA margin can be attributed to a fall in revenue, coupled with higher R&M expenses and one-time catch up costs in Growth services.
- Traditional segment (constituting around two-third of Data revenue) declined 0.5% QoQ to INR22.8b. EBITDA fell 1.1% to INR9.7b and EBITDA margin shrank 30bp QoQ to 42.6%.
- Revenue/EBITDA for the Growth segment declined by 4%/28.4% to INR7.7b/INR650m on slower deal conversion due to COVID-19 and moderation in UCC traffic. EBITDA margin shrank 720bp to 8.4%.
- Revenue for the Innovation segment rose 15.6% QoQ to INR370m and EBITDA loss increased to INR1.07b (v/s a loss of INR1.03b in 3QFY21).
- Transformation segment saw a QoQ revenue growth of 5.9% at INR3.4b. It turned EBITDA positive at INR170m (v/s an EBITDA loss of INR90m in 3QFY21). TCOM has started to see a recovery in this business and has a good international order book for FY22.
- Revenue for the Voice segment declined 17.2% QoQ to INR5.6b. EBITDA grew 80% to INR360m.
- Revenue/EBITDA for the Payments Solution segment rose 12%/482% QoQ to INR661m/INR291m.

**Consolidated quarterly earnings model** (INR m)

| Y/E March | FY20 | | | | FY21E | | | | FY20 | FY21E | 4Q | Est |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | FY21E | Var (%) |
| **Revenue** | **41,686** | **42,728** | **42,287** | **43,979** | **44,029** | **44,011** | **42,228** | **40,733** | **1,70,680** | **1,71,001** | **42,896** | -5 |
| YoY Change (%) | 5.7 | 5.0 | -1.0 | 3.6 | 5.6 | 3.0 | -0.1 | -7.4 | 3.3 | 0.2 | 1.4 | |
| Total Expenditure | 33,430 | 34,391 | 34,679 | 35,291 | 33,612 | 32,436 | 31,767 | 30,581 | 1,37,790 | 1,28,395 | 31,825 | -4 |
| **EBITDA** | **8,256** | **8,337** | **7,608** | **8,688** | **10,418** | **11,575** | **10,461** | **10,152** | **32,890** | **42,606** | **11,070** | -8 |
| YoY Change (%) | 40.7 | 32.3 | -9.7 | 26.8 | 26.2 | 38.8 | 37.5 | 16.8 | 19.8 | 29.5 | 27.4 | -1057bps |
| Depreciation | 5,522 | 5,583 | 5,605 | 6,867 | 5,899 | 5,719 | 5,570 | 5,950 | 23,577 | 23,139 | 5,833 | 2 |
| Interest | 1,157 | 1,157 | 1,161 | 1,232 | 1,163 | 1,064 | 1,044 | 931 | 4,707 | 4,202 | 1,007 | -8 |
| Other Income | 88 | 95 | 140 | 373 | 147 | 761 | 82 | 577 | 697 | 1,568 | 357 | 62 |
| **PBT before EO expense** | **1,666** | **1,692** | **981** | **963** | **3,503** | **5,553** | **3,929** | **3,848** | **5,302** | **16,833** | **4,587** | -16 |
| Exceptional (gain)/loss | 65 | 59 | 0 | 3,781 | 105 | 540 | 114 | -12 | 3,905 | 747 | 0 | |
| **PBT** | **1,601** | **1,632** | **981** | **-2,818** | **3,398** | **5,013** | **3,815** | **3,859** | **1,397** | **16,085** | **4,587** | -16 |
| Tax | 852 | 1,107 | 406 | -98 | 812 | 1,153 | 711 | 872 | 2,267 | 3,549 | 1,193 | |
| Rate (%) | 53.2 | 67.8 | 41.3 | 3.5 | 23.9 | 23.0 | 18.6 | 22.6 | 162.3 | 22.1 | 26.0 | |
| MI and P/L of Asso. Cos. | -18 | -14 | -9 | 30 | 8 | 15 | 12 | -5 | -11 | 30 | 46 | |
| **Reported PAT** | **766** | **539** | **585** | **-2,750** | **2,578** | **3,845** | **3,092** | **2,992** | **-860** | **12,505** | **3,440** | -13 |
| **Adjusted PAT** | **796** | **598** | **585** | **1,031** | **2,683** | **4,384** | **3,206** | **2,980** | **3,011** | **13,253** | **3,440** | -13 |
| YoY Change (%) | NM | NM | NM | -479.8 | 236.9 | 632.8 | 447.6 | 189.1 | -582.2 | 340.2 | 487.6 | |

E: MOFSL estimates

28 April 2021
4QFY21 Results Update | Sector: Financials

# PNB Housing Finance

| | |
|---|---|
| Estimate change | ↑ |
| TP change | ↔ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | PNBHOUSI IN |
| Equity Shares (m) | 167 |
| M.Cap.(INRb)/(USDb) | 63.6 / 0.9 |
| 52-Week Range (INR) | 475 / 165 |
| 1, 6, 12 Rel. Per (%) | 0/-17/32 |
| 12M Avg Val (INR M) | 188 |
| Free float (%) | 67.4 |

**Financials & Valuations (INR b)**

| Y/E March | 2021 | 2022E | 2023E |
|---|---|---|---|
| NII | 20.9 | 21.5 | 21.9 |
| PPP | 20.7 | 23.0 | 23.4 |
| PAT | 9.3 | 14.0 | 15.0 |
| EPS (INR) | 55.3 | 83.0 | 89.2 |
| EPS Gr. (%) | 44 | 50 | 8 |
| BV/Sh. (INR) | 530 | 598 | 671 |
| **Ratios** | | | |
| NIM (%) | 3.3 | 3.4 | 3.2 |
| C/I ratio (%) | 18.0 | 18.9 | 20.7 |
| RoAA (%) | 1.2 | 1.9 | 1.9 |
| RoE (%) | 11.0 | 14.7 | 14.1 |
| **Valuations** | | | |
| P/E (x) | 6.8 | 4.6 | 4.2 |
| P/BV (x) | 0.7 | 0.6 | 0.6 |
| Div. Yield (%) | 2.9 | 3.3 | 3.5 |

**Shareholding pattern (%)**

| As On | Mar-21 | Dec-20 | Mar-20 |
|---|---|---|---|
| Promoter | 32.6 | 32.7 | 32.7 |
| DII | 3.3 | 3.5 | 6.3 |
| FII | 24.5 | 24.6 | 21.8 |
| Others | 39.6 | 39.3 | 39.2 |

FII Includes depository receipts

**CMP: INR378 TP: INR400 (+6%) Neutral**

## Business momentum remains slow; asset quality stable

- PNB Housing Finance (PNBHOUSI) reported 4QFY21 PAT of INR1.3b (v/s net loss of INR2.4b YoY; 54% miss). The miss was attributable to higher-than-expected credit costs / opex of INR3.5b/INR1.4b (73%/38% above our est). FY21 PPoP was largely flat, while PAT was up 44% YoY to INR9.3b.
- We upgrade our EPS estimates for FY22E on account of lower credit costs – as we believe the bulk of the provisioning has already been upfronted. Maintain Neutral, with TP of INR400/share (0.6x FY23E BVPS).

### AUM down 11% YoY; incremental CoF maintained sub of 7%

- Disbursements are up ~28%/45% on a sequential/YoY basis to INR41b. Note that the base itself was weak. **AUM declined 4% QoQ / 11% YoY to INR74b. The AUM decline was partially due to higher repayments (rate up by 390bp QoQ / 785bp YoY to 35%).**
- During the quarter, it recognized upfront assignment income of INR353m (flat QoQ).
- **Calc. spreads improved ~7bp QoQ to 3.1%. The company is originating home loans at ~8.9% incrementally. Incremental CoF stands at 6.8%.**

### Proforma GNPL stable at 4.4%; stage 1/2 provisions at 2.2%

- Proforma GNPL was largely stable sequentially at 4.44%. The company wrote off INR500m in 4QFY21 (INR830m in FY21).
- Restructuring of INR13.86b/INR3.37b was undertaken in the retail/corporate lending book, of which INR2.5b/INR1.0b is classified under Stage 2 (the balance under Stage 1).
- **Stage 1 and 2 PCR increased 40bp ~to 2.2% QoQ and YoY; Stage 3 PCR increased ~600bp QoQ / 900bp YoY to 45%. Note that PNBHOUSI's Stage 1 and 2 PCR is among the best in the industry.** The total provision buffer is up ~3x from pre-COVID levels to INR25b.
- The company resolved some corporate accounts and received INR18.8b in net receipts. Around **83% of the corporate book is current (i.e., 0dpd). Its exposure to the top 20 developers stood at INR82b.**

### Highlights from management commentary

- It targets RoA of 1.5–1.7% and RoE of ~15% over the next 1–2 years.
- 50–60% growth is expected in disbursements and single-digit growth in AUM in FY22. AUM growth would pick up in FY23.

### Valuation and view

Over the past year, the company has consciously slowed its loan growth and focused on higher down-selling to address the issue of high leverage. Leverage has now fallen to levels of ~7x and the decline is likely to continue. From FY23, the company would be in a position to grow its loan book by 9–11% YoY. It has front-loaded most of the asset quality-related pains. Hence, we increase our FY22E EPS estimates by 17% to factor in lower provisions. The company should deliver 14–15% RoE in FY22E/FY23E; however, asset quality risks from the second wave of the pandemic persist. Maintain Neutral, with TP of INR400/share (0.6x FY23E BVPS).

**PNBHF: Quarterly performance** (INR m)

| | FY20 | | | | FY21 | | | | FY20 | FY21 | 4QFY21E | v/s Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 19,794 | 20,159 | 18,904 | 18,026 | 18,015 | 19,603 | 17,579 | 16,701 | 76,882 | 71,898 | 16,862 | -1 |
| Interest Expenses | 15,127 | 15,213 | 14,610 | 13,800 | 13,635 | 13,397 | 12,462 | 11,504 | 58,750 | 50,998 | 11,880 | -3 |
| **Net Interest Income** | **4,667** | **4,946** | **4,293** | **4,226** | **4,380** | **6,206** | **5,116** | **5,198** | **18,133** | **20,901** | **4,982** | **4** |
| YoY Growth (%) | 10.1 | 29.1 | 21.3 | -9.2 | -6.2 | 25.5 | 19.2 | 23.0 | 11.5 | 15.3 | 17.9 | |
| Other income | 2,532 | 2,145 | 1,844 | 1,493 | 708 | 612 | 1,385 | 1,638 | 8,013 | 4,343 | 1,533 | 7 |
| **Total Income** | **7,199** | **7,091** | **6,138** | **5,719** | **5,088** | **6,818** | **6,501** | **6,835** | **26,146** | **25,243** | **6,515** | **5** |
| YoY Growth (%) | 31.2 | 22.4 | -8.1 | -20.6 | -29.3 | -3.8 | 5.9 | 19.5 | 3.9 | -3.5 | 13.9 | |
| Operating Expenses | 1,417 | 1,315 | 1,347 | 1,443 | 1,042 | 1,067 | 996 | 1,448 | 5,522 | 4,554 | 1,046 | 38 |
| YoY Growth (%) | 9.6 | -7.5 | -13.9 | -12.8 | -26.4 | -18.9 | -26.0 | 0.4 | -7.0 | -17.5 | -27.5 | |
| **Operating Profits** | **5,782** | **5,776** | **4,790** | **4,276** | **4,046** | **5,751** | **5,505** | **5,387** | **20,624** | **20,689** | **5,469** | **-1** |
| YoY Growth (%) | 37.9 | 32.1 | -6.4 | -23.0 | -30.0 | -0.4 | 14.9 | 26.0 | 7.2 | 0.3 | 27.9 | |
| Provisions | 1,642 | 1,516 | 1,808 | 7,548 | 751 | 1,796 | 2,567 | 3,506 | 12,514 | 8,619 | 2,025 | 73 |
| **Profit before Tax** | **4,140** | **4,260** | **2,983** | **-3,272** | **3,295** | **3,956** | **2,938** | **1,881** | **8,110** | **12,070** | **3,444** | **-45** |
| Tax Provisions | 1,296 | 592 | 612 | -852 | 723 | 823 | 614 | 611 | 1,648 | 2,771 | 703 | -13 |
| **Profit after tax** | **2,845** | **3,668** | **2,370** | **-2,421** | **2,572** | **3,133** | **2,324** | **1,270** | **6,462** | **9,299** | **2,741** | **-54** |
| YoY Growth (%) | 11.2 | 45.0 | -21.8 | -163.7 | -9.6 | -14.6 | -2.0 | -152.5 | -45.8 | 43.9 | -213.3 | |
| **Key Operating Parameters (%)** | | | | | | | | | | | | |
| Rep. Yield on loans | 10.84 | 10.95 | 10.74 | 10.26 | 10.32 | 11.30 | 10.62 | 10.39 | | | | |
| Rep. Cost of funds | 8.31 | 8.34 | 8.21 | 8.03 | 8.13 | 8.01 | 7.72 | 7.60 | | | | |
| Spreads | 2.53 | 2.61 | 2.53 | 2.23 | 2.19 | 3.29 | 2.90 | 2.79 | | | | |
| Net Interest Margins | 3.14 | 3.19 | 2.98 | 2.61 | 2.66 | 3.52 | 3.18 | 3.29 | | | | |
| Cost to Income Ratio | 19.7 | 18.5 | 21.9 | 25.2 | 20.5 | 15.7 | 15.3 | 21.2 | 21.1 | 18.0 | 16.1 | 589 BPS |
| Credit Cost | 0.88 | 0.81 | 1.01 | 4.42 | 0.44 | 1.06 | 1.56 | 2.21 | 1.78 | 1.10 | 0.65 | 35.93 |
| Tax Rate | 31.3 | 13.9 | 20.5 | 26.0 | 21.9 | 20.8 | 20.9 | 32.5 | 20.3 | 23.0 | 21.5 | -97 BPS |
| **Balance Sheet Parameters** | | | | | | | | | | | | |
| Loans (INR B) | 759 | 744 | 691 | 676 | 680 | 670 | 646 | 623 | 666 | 606 | 736 | -6.12 |
| Change YoY (%) | 18.8 | 11.3 | -2.2 | -8.7 | -10.4 | -10.0 | -6.6 | -7.9 | -10.3 | -9.0 | 4.1 | |
| AUM (INR B) | 883 | 895 | 863 | 833 | 835 | 812 | 777 | 745 | 833 | 770 | 904 | -4.50 |
| Change YoY (%) | 28.8 | 21.8 | 8.2 | -1.6 | -5.5 | -9.2 | -10.0 | -10.7 | -1.6 | -7.6 | 13.3 | |
| Borrowings (Ex Assignment) (INR B) | 722 | 715 | 706 | 682 | 673 | 662 | 641 | 599 | 677 | 594 | 707 | -0.20 |
| Change YoY (%) | 19.5 | 12.3 | 2.0 | -5.7 | -6.8 | -7.3 | -9.1 | -12.1 | -5.7 | -12.3 | 2.2 | |
| Loans /Borrowings (%) | 105.1 | 104.1 | 98.0 | 99.1 | 101.1 | 101.1 | 100.7 | 103.9 | 98.4 | 102.1 | 104.2 | |
| Off BS loans/AUM (%) | 14.0 | 16.9 | 19.9 | 18.9 | 18.5 | 17.6 | 16.9 | 16.4 | 20.1 | 21.3 | 18.5 | |
| Debt/Equity (x) | 9.2 | 8.9 | 8.5 | 8.5 | 8.2 | 7.8 | 7.9 | 6.7 | 8.5 | 6.7 | 8.7 | |
| **Asset Quality Parameters (%)** | | | | | | | | | | | | |
| GS 3 (INR m) | 6,454 | 6,246 | 12,099 | 18,582 | 18,770 | 17,340 | 17,050 | 27,392 | 18,582 | 18,582 | | |
| Gross Stage 3 (% on loans) | 0.85 | 0.84 | 1.75 | 2.75 | 2.76 | 2.59 | 2.64 | 4.40 | 2.75 | 2.75 | | |
| NS 3 (INR m) | 5,088 | 4,833 | 9,956 | 11,825 | 11,358 | 9,775 | 9,106 | 14,941 | 11,825 | 11,825 | | |
| Net Stage 3 (% on loans) | 0.67 | 0.65 | 1.44 | 1.75 | 1.67 | 1.46 | 1.41 | 2.40 | 1.75 | 1.75 | | |
| PCR (%) | 21.2 | 22.6 | 17.7 | 36.4 | 39.5 | 43.6 | 46.6 | 45.5 | 36.4 | 36.4 | | |

# SIS

| BSE SENSEX | S&P CNX |
|---|---|
| 49,734 | 14,865 |

## Conference Call Details

**Date:** 3rd May 2021
**Time:** 17:00 IST
**Dial-in details:**
+91-22-6280 1457

**Financials & Valuations (INR b)**

| Y/E Mar | 2021 | 2022E | 2023E |
|---|---|---|---|
| Net Sales | 91.3 | 104.6 | 117.5 |
| EBITDA | 5.2 | 6.2 | 7.3 |
| EBIT | 4.1 | 5.0 | 5.9 |
| Adj. NP | 3.6 | 3.3 | 4.1 |
| EPS (INR) | 23.7 | 22.0 | 27.8 |
| EPS Gr. (%) | -1.7 | -6.0 | 26.5 |
| BV/Sh. (INR) | 267.8 | 316.1 | 376.8 |
| RoE (%) | 22.3 | 16.5 | 17.5 |
| RoCE (%) | 16.3 | 13.4 | 14.2 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| Div. Yield | 0.0 | 0.0 | 0.0 |

## CMP: INR360

## Topline marginally ahead; miss on margins due to SG&A spend

### Headline numbers

- Revenue increased 10.7% YoY to INR24.4 b (v/s est. 9.6% growth), while EBITDA declined 10.9% YoY to INR1.2b (v/s est. +6.5% YoY). Adj. PAT also declined 13.2% YoY to INR932m (v/s est. -28% YoY).
- For FY21, revenue increased 7.6% YoY, EBITDA remained flat YoY, and PAT declined 5% YoY.

### Revenue marginally ahead of estimates

- Revenue increased 10.7% YoY and 3.7% QoQ to INR24.4b (1% beat).
- Revenue growth was led by 5.3% QoQ growth in the international business (led by seasonality) and 4.5% growth in the FM business (above expectations).
- The India Security business grew 1.3% sequentially; however, it is still down 2% YoY.

### Sequential drop in margins across businesses

- The EBITDA margin at 5% reported a drop of 120bp QoQ and 130bp YoY (below expectations), partially due to higher SG&A spend in India in anticipation of demand recovery.
- Margin decline was seen across businesses, with the highest drop reported in the FM business (EBITDA margin of 1.9% v/s 4.3% in 3QFY21) – due to higher SG&A investments in March.
- International business margins fell 120bps sequentially, weighed by the tapering down of short-term government contracts (related to COVID-19), which were high-margin in nature
- Margins in India Security also declined 80bps on one-time expenses related to PPE kits and higher SG&A spend in anticipation of a growth uptick.
- Consolidated PAT for 4QFY21 stood at INR932m, implying YoY decline of 13%. This was due to lower operating income and higher ETR, partially offset by higher other income. PAT came in ahead of estimates due to higher other income.

### Others

- Net debt stood at INR3.75b (against INR4.9b in 3QFY21), implying net debt/EBITDA of 0.7 (against 0.92 in the previous quarter).
- The company was able to refinance its earlier NCD of INR1.5b to fresh issuances of INR1.9b at a coupon rate of 7.9% (v/s the earlier coupon rate of 9.2%).
- Net debt in the India business stood at INR3.5b (against INR6.3b in 4QFY20); net debt in the International business stood at INR0.2b (against INR0.77b in 4QFY20).
- OCF/EBITDA for FY21 stood at 123%. The company generated total OCF of INR6.4b. This implies an over 3x increase from OCF for FY20. OCF/EBITDA for 4QFY21 stood at 88.5%.
- ROCE for FY21 stood at 19% and ROE at 22.8%.

### Valuation

- We await management commentary before taking a relook at our estimates. The growth outlook on macro and various key operating segments would be key monitorables.

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

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21 | Est. | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 4Q | (%/bp) |
| **Gross Sales** | **20,084** | **20,889** | **21,782** | **22,097** | **21,667** | **21,579** | **23,575** | **24,452** | **84,852** | **91,273** | **24,211** | **1.0** |
| YoY Change (%) | 24.6 | 23.6 | 18.6 | 13.0 | 7.9 | 3.3 | 8.2 | 10.7 | 19.6 | 7.6 | 9.6 | **110bp** |
| Total Expenditure | 18,837 | 19,652 | 20,447 | 20,713 | 20,459 | 20,282 | 22,106 | 23,219 | 79,648 | 86,065 | 22,736 | 2.1 |
| **EBITDA** | **1,247** | **1,237** | **1,335** | **1,385** | **1,209** | **1,297** | **1,469** | **1,233** | **5,204** | **5,208** | **1,475** | **-16.4** |
| Margins (%) | 6.2 | 5.9 | 6.1 | 6.3 | 5.6 | 6.0 | 6.2 | 5.0 | 6.1 | 5.7 | 6.1 | -100bp |
| Depreciation | 294 | 326 | 333 | 331 | 285 | 283 | 277 | 285 | 1,283 | 1,130 | 286 | -0.3 |
| Interest | 371 | 378 | 382 | 386 | 373 | 333 | 286 | 282 | 1,517 | 1,273 | 381 | -26.1 |
| Other Income | 2 | -21 | 47 | 504 | 231 | 665 | 384 | 646 | 531 | 1,926 | 166 | 289.2 |
| **PBT** | **584** | **512** | **667** | **1,172** | **782** | **1,346** | **1,291** | **1,312** | **2,935** | **4,731** | **974** | **34.8** |
| Tax | -188 | -249 | -112 | 73 | 200 | 268 | 299 | 387 | -477 | 1,154 | 195 | 98.7 |
| Rate (%) | -32.3 | -48.6 | -16.9 | 6.2 | 25.6 | 19.9 | 23.2 | 29.5 | -16.2 | 24.4 | 20.0 | 950bp |
| Minority Interest & P/L of Asso. Cos. | -23 | 0 | 4 | -25 | -3 | 3 | -2 | 7 | -44 | 5 | -4 | -285 |
| **Adjusted PAT** | **749** | **762** | **783** | **1,074** | **579** | **1,081** | **990** | **932** | **3,368** | **3,583** | **775** | **20.3** |
| YoY Change (%) | 89.7 | 74.0 | 32.5 | 48.5 | -22.7 | 42.0 | 26.5 | -13.2 | 39.3 | 6.4 | | |
| Margins (%) | 3.7 | 3.6 | 3.6 | 4.9 | 2.7 | 5.0 | 4.2 | 3.8 | 4.0 | 3.9 | 3.2 | 60bp |

# Steel

## China duty revision to support steel prices

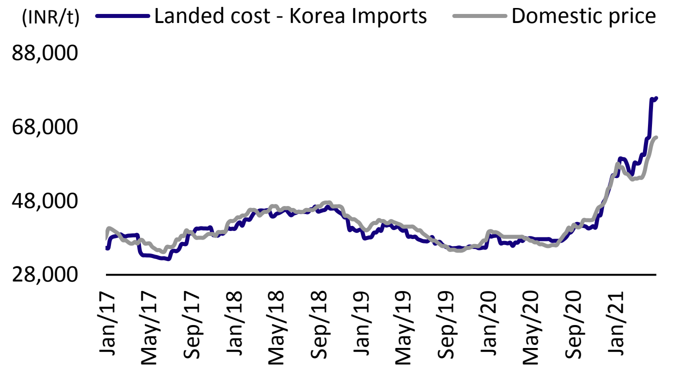
### China removes import duty on semi-finished steel as well as rebates on exports

- China has removed tariffs on imports of pig iron, semi-finished steel, high-quality scrap, and ferrochrome. On the other hand, the country has also removed export tax rebates on exports of pig iron, flat-rolled steel products of carbon/stainless steel, iron rods/wires, etc.
- We see this move as a measure to a) reduce carbon emissions by limiting the production of crude steel, b) balance domestic demand-supply by incentivizing imports and discouraging exports, and c) control the cost of raw materials such as iron ore and coking coal.
- We expect this policy to have a positive impact on steel prices as lower Chinese exports (if this happens) would lead to further tightness in regional demand-supply. Moreover, the removal of export rebates would lead to an increase in Chinese export prices, which have generally been at a discount to Korean/Japanese prices.
- The removal of export rebates would reduce China's net steel exports – which rose 26% YoY (73% QoQ) to 14.0mt in 1QCY21, the highest in the past nine quarters. China's steel exports at 7.5mt in Mar'21 were the highest in the last four years.

### Regional HRC prices remain strong

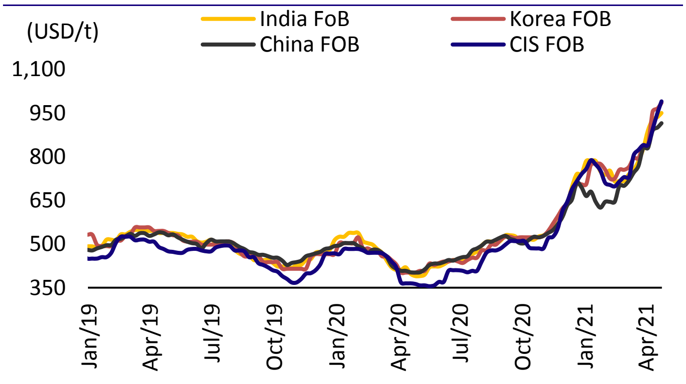
- Regional steel prices have inched up further in the last fortnight in response to the tightness in steel demand-supply and the continuing global demand surge.
- China domestic HRC prices (incl. VAT) have increased 4% WoW to USD885/t; export prices have also increased 3% WoW to USD915/t.
- Korea export FOB prices have edged up 2% WoW to USD985/t (CFR India – USD1,010/t). **Domestic HRC prices at INR65,125/t at traders markets trade at a discount of INR10,620/t to the landed cost of imports from Korea**. Domestic mills' listed HRC prices are still at INR62–63k/t. Thus, we expect domestic mills to take further hike prices in May'21.
- We expect India's steel exports to remain elevated in May'21 on lucrative export realization and weakness in domestic demand (due to local lockdowns). HRC export FoB India prices increased 2% over the last two weeks to USD950/t – INR8,000/t higher v/s domestic realization.

**Domestic HRC prices trade at INR10,600/t discount to landed cost of imports**



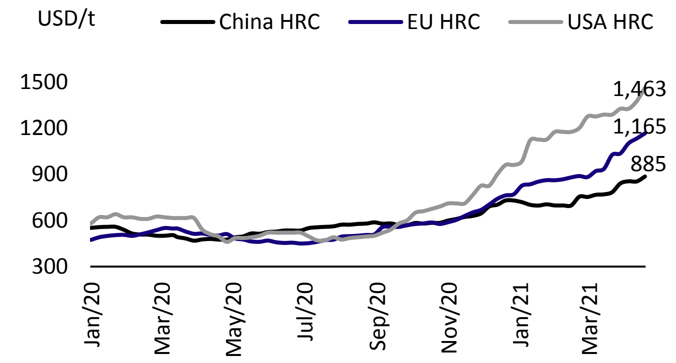

Source: Steelmint, MOFSL

**Regional HRC export price inches up further**



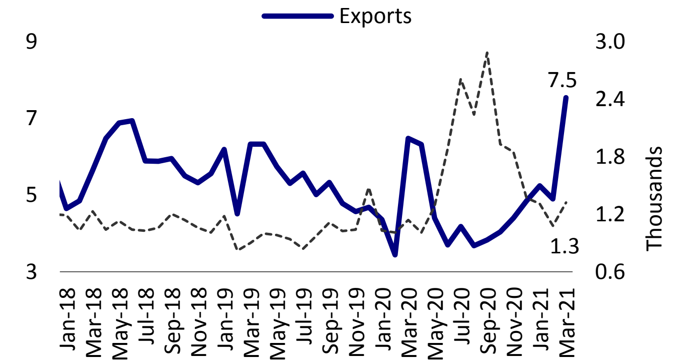

Source: Steelmint, MOFSL

**US/Europe HRC prices trading at huge premium to China prices due to tight supply situation**




Source: Steelmint, MOFSL

**China steel exports up 16% YoY in Mar'21 – highest in four years**




Source: Steelmint, MOFSL

## BRICS+ | 1QCY21: India vis-à-vis other emerging markets (EMs)


### 1QCY21: India vis-à-vis other emerging markets (EMs)

- With many nations witnessing renewed COVID-wave, the macroeconomic situation has worsened once again. Equity markets have been flat in Apr'21, bond yields have risen in YTD21 and most currencies covered in this analysis have weakened against USD. Brazil and Russia have hiked policy interest rates, as their headline inflation moved towards 6%. Indonesia is the only nation, which has cut interest rates in CY21. Except South Africa, Central Banks have expanded their balance sheets in almost all other nations. Further, fiscal deficit had widened in all countries, except Malaysia, in CY20. Lastly, base effect helped merchandise exports to post strong growth in all but Russia and Thailand in YTD21, which are the only nations to have seen deterioration in their external vulnerability index in 4QCY20.
- This quarterly publication provides a comparative analysis of the macroeconomic conditions in the world's 10 major EMs. Quite often, these economies are clubbed together as a basket, especially in terms of portfolio allocation.

**The 10 EMs included in this publication are:**

- 1. Brazil (BR), 2. China (CN), 3. India (IN), 4. Indonesia (ID), 5. South Korea (KR*), 6. Malaysia (MY), 7. Russia (RU), 8. South Africa (SA), 9. Taiwan (TW*), 10. Thailand (TH).

* South Korea (KR) and Taiwan (TW) are classified as 'Advanced nations' by the International Monetary Fund (IMF). For convenience sake, we call this PPT as "India vis-à-vis other Emerging markets (EMs)

### 1QCY21: Key highlights

**Equity**
- TW the only nation to have seen improvement in CY20
- Debt-to-GDP ratio: All EMs added debt in 3QCY20
- Real GDP: IN/SA posted worst fall, while CN/TW continued to grow in CY20
- Bank credit continues to grow in all EMs except Indonesia

**Bonds**
- Policy rates: Hiked in RU/BR, cut in ID only in 2021
- Retail inflation has eased in 1QCY21 for most EMs
- Central Bank balance sheet continues to expand in most nations
- Fiscal balance deteriorated everywhere except MY in CY20

**Currency**
- External Vulnerability has improved in al except RU and TH in 4QCY20
- Exports rise in all nations in YTD21, except RU and TH

## Hindustan Zinc: Zinc prices should stabilize between $2800-2900/tonne; Arun Misra, CEO

- Have not seen any slowdown as of now. Input costs have gone up across the board
- Optimistic that cost of production will be much lower than guided $1000/t
- Silver volume factors in base effect of March inventory last year. May surpass FY22 silver volume guidance of 720 t
- Q1FY22 holds the key for us to revise guidance of mined metal production
- Have a project capex of around $100 m
- Maintenance capex should be $200-250 m. Total capex should be about $300-350 m
- Expect global zinc market demand to grow 3% per annum till FY23
- Waiting for court discussion to conclude for Government divestment

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## Britannia: Could see sustainable demand coming back; Varun Berry, MD

- Definitely seeing a surge in demand; demand situation is going to improve
- People are more organised in the 2nd COVID wave
- Usually, second half of the year is fairly slow
- Situation is going to be better slowly and steadily
- Could see sustainable demand coming back

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## Tata Elxsi: Confident of good year despite COVID second wave uncertainty; Manoj Raghavan, MD & CEO

- Company has showed steady growth in the last 3 quarters, aided by deal wins
- See some uncertainty in FY22 due to 2nd wave, though we expect a good year
- Margin is high due to high offshoring, long-term projects, lower costs
- Unreasonable to expect this margin will be sustainable once travel resumes
- There is no doubt of a 'war for talent' and we are gearing up for that. Will give average wage hikes of over 8% for FY22
- Have given a 1-month bonus to our employees. Total wage hike for FY22 with bonus stands at 16%
- Media communication and healthcare drove growth in FY21; medical business was up over 50% in FY21

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## Hatsun Agro: Ice cream sales a worry; milk, curd doing well; RG Chandramogan, Chairman

- Results grow over last year on a favourable basis. April 2021 has been better YoY
- Company has managed to save costs on advertising spends and travel expenses
- Will see incremental capacity aiding revenue last year
- Higher sales from our own retail outlets and lower tax will further aid business
- Ice cream business has suffered compared to 2019 but is much better than 2020
- Milk and curd doing extremely well for company

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## Symphony: Recovery is not derailed; consumer sentiment was very strong before COVID 2; Nrupesh Shah, ED

- Recovery might be delayed but is not derailed
- Consumer sentiment was very strong before COVID 2
- Australian subsidiary saw a turnaround in March quarter
- Gross margin in the March quarter was impacted due to rising input costs; expect to improve

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## Morepen Labs: Have 5 ANDAs in pipeline; Sushil Suri, Chairman

- There will be a total investment of $100m, $32.5 m will go the company
- India is a big market for healthcare
- Have announced expansion of our API segment
- Company has five ANDAs in the pipeline currently
- Promoter holding in the company is not that high

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