



VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earnings calls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, and transcripts links of the respective conference calls.

This quarterly report contains

- Key takeaways from the post results management commentary for 154 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

Research & Quant Team (Gautam.Duggad@MotilalOswal.com)

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

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Contents

Summary	3
Sectors	9-161

Automobiles	9-21
Amara Raja	10
Ashok Leyland	10
Bajaj Auto	11
Bharat Forge	12
CEAT	12
Eicher Motors	13
Endurance Tech	14
Escorts	15
Hero MotoCorp	16
Mahindra & Mahindra	16
Mahindra CIE	18
Maruti Suzuki	19
Motherson Sumi	20
Tata Motors	20
TVS Motors	21
Capital Goods	22-30
ABB	23
Blue Star	24
Crompton Greaves CG	25
Cummins	26
Havells	27
KEC International	28
L&T	28
Volvas	29
Cement	31-41
Birla Corp	32
Dalmia Bharat	32
Grasim Inds	33
India Cements	35
JK Cements	36
JK Lakshmi Cements	37
Shree Cements	38
Ramco Cement	40
Ultratech Cement	40
Consumer	42-55
Asian Paints	43
Britannia Inds	44
Dabur India	45
Emami	46
Godrej Consumer	47
Hindustan Unilever	48
Jyothy Labs	49
Marico	50
Page Inds	51
Pidilite Inds	51
Tata Consumer Products	52
United Breweries	54
United Spirits	55
Financials- Banks	56-68
AU Small Fin.	57
Axis Bank	58
Bandhan Bank	59
Bank of Baroda	60
DCB Bank	60
Federal Bank	61
HDFC Bank	62
ICICI Bank	63
IndusInd Bank	64
Kotak Mahindra Bank	66
RBL Bank	67
State Bank of India	68
Financials – NBFC	69-84
Aditya Birla Capital	70
Bajaj Finance	70
Cholaman.Inv.&Fn	71
Equitas Holdings	72
HDFC Life	73
ICICI Pru Life	73
ICICI Securities	75
IIFL Wealth	76
L&T Finance	76
LIC Housing Fin	77
M&M Financial	78
Manappuram Fin	79
Muthoot Fin	80
PNB Housing	80
SBI Life Ins	81
Shriram City Union Finance	82
Shriram Transport Fin	83
Healthcare	85-95
Alembic Pharma	86
Alkem Labs	86
Aurobindo Pharma	87
Biocon	87
Cadila Healthcare	88

Cipla	88
Divis Lab	89
Dr Reddy's Labs	89
Glenmark	90
Granules India	90
IPCA Labs	91
Jubilant Life	91
Laurus Labs	92
Lupin	93
Strides Pharma	93
Sun Pharmaceuticals	94
Torrent Pharma	94
Media	96-100
PVR	96
Sun TV Network	98
Zee Entertainment	99
Metals	101-110
Hindustan Zinc	102
Hindalco Inds	102
Jindal Steel	104
JSW Steel	105
NMDC	107
SAIL	107
Tata Steel	108
Vedanta	109
Oil & Gas	111-113
BPCL	112
Reliance Inds	112
Retail	114-119
Aditya Birla Fashions	115
Jubilant Foodworks	115
Shoppers Stop	116
Titan	117
V-Mart	118
Technology	120-128
Cyient	121
HCL Technologies	121
Infosys	122
L&T Infotech	123
Mindtree	123
Mphasis	124
Coforge	124
Persistent Systems	125
TCS	125
Tech Mahindra	126
Wipro	126
Zensar Technologies	127
Telecom	129-134
Bharti Airtel	129
Bharti Infratel	131
Tata Comm	132
Vodafone Idea	133
Utilities	135-138
Indian Energy Exchange	135
JSW Energy	136
NTPC	136
Power Grid Corp	137
Tata Power	137
Torrent Power	138
Others	139-161
Brigade Entp.	139
BSE Ltd	139
Container Corp	140
Coromandel Intl	141
EPL Ltd	142
Godrej Agrovet	144
Indiamart InterMesh	146
Indian Hotels	146
Info Edge (India)	148
Kaveri Seeds	148
KNR Constructions	150
Lemon Tree Hotels	151
MCX	152
Oberoi Realty	153
Phoenix Mills	153
Piramal Entp	154
PI Inds	154
Quess Corp	155
SH Kelkar	156
SRF Ltd	157
Tata Chemicals	158
Team Lease	160
UPL	160

Note: All stock prices and indices are as on 20th November 2020, unless otherwise stated.



A blockbuster quarter; Outlook becomes brighter!

In this report, we present detailed takeaways from the 2QFY21 conference calls as we refine the essence of India Inc. - 'Voices'.

- The 2QFY21 corporate earnings season was a blockbuster one, with big earnings beats and upgrades for both Nifty and the MOFSL Universe. 63% of the companies in our MOFSL Coverage Universe beat estimates, while 18% reported below-est. results. Nifty sales declined 7% YoY (v/s est. decline of 5%), while EBITDA/PBT/PAT reported growth of 8%/14%/17% YoY. With an upgrade (>5%) to downgrade ratio (<-5%) of 4:1, this has by far been the best earnings season in many years. Our FY21/FY22E Nifty EPS estimates have been revised up 9%/4% to INR497/INR677 (prior: INR456/INR651). We now expect FY21 Nifty EPS to grow 7% YoY. Corporate commentaries across sectors suggest continued demand recovery in 3QFY21, underpinned by a healthy start to the festive season.
- Commentaries of banks suggest there was an improvement in growth and asset quality. The asset quality outlook is much better than initially feared as collection efficiency picked up sharply in 2QFY21. Collection efficiency in the Top 4 private banks was above 95% and for SBI it was 97%, excluding the Agri segment. NII growth too showed an uptick, aided by lower cost of funds and improvement in retail disbursements. Commentaries of NBFCs too suggested an improvement in disbursements across segments: Housing Finance (90%+ of YoY levels), Vehicle Finance (50-75% of YoY levels), and Gold Finance. More importantly, collection efficiency improved sequentially and is now only 500-800bps lower than run-rate levels. In terms of restructuring, most financiers would offer the same on a case-to-case basis and do not expect a meaningful impact on asset quality going forward.
- For the Consumer sector, rural demand continues to outperform urban demand. Some of the cost-saving measures implemented by companies during the lockdown are likely to sustain going forward. However, A&P spends are expected to return to normal in the near future. Most companies have also guided for topline improvement in 3QFY21, and few companies have announced significant capex plans, indicating management confidence regarding medium-term demand.
- In Auto, a preference for personal mobility, pent-up demand, and normalization of the supply chain have led to demand recovery. However, most companies mentioned being cautious due to uncertainty regarding demand sustainability post the festive season. Companies expect some margin pressure due to commodity cost inflation; however, they are confident of retaining a large portion of the decline in other expenses. CV OEMs are optimistic about demand recovery over the next two quarters.
- In IT, management commentaries indicated the pandemic has acted as a tailwind for the sector - as enterprises are undertaking cloud adoption at a faster pace and digital transformation at the workplace has accelerated. Companies have seen the deal pipeline improve further (v/s 1QFY21), with the pipeline now at pre-COVID levels. The pandemic has become a material catalyst in driving the adoption of hyper-scale cloud platforms by enterprises globally.
- The managements of cement companies have informed that cement prices have firmed up across regions in Oct'20 and were up by INR10/bag over Sep'20 on average - despite the quarter being a seasonally weak one. Demand recovery



has been strong in East/North India, while it remains tepid in South and West India due to the prolonged impact of COVID-19 and the monsoons. Moreover, fixed cost reduction achieved in 1HFY21 may not sustain in 2HFY21 as part of fixed costs such as admin expenses, repairs, and ad spends are likely to increase with an increase in operations.

- In Healthcare, despite the COVID-led impact on the Domestic Formulation (DF) segment, the intensity of YoY decline is gradually reducing in Acute therapies with an increase in patient-doctor-MR connect. Operational cost-saving benefits are expected to continue over the medium term due to 1) structural reasons such as the enhanced use of digital tools and 2) travelling/marketing/promotional expenses remaining at reduced levels. The API business has seen a mixed response, with sustained growth in some cases and increased inventory buildup by formulators in the remaining cases.

Autos

- Gradual unlocking and the normalization of supply chain issues for most OEMs led to volume recovery to meet underlying demand and inventory refilling. However, most companies mentioned being cautious due to uncertainty in demand sustainability post the festive season. Companies expect some margin pressure due to commodity cost inflation; they are confident of retaining a large portion of the decline in other expenses. Post the sharp increase in debt in 1QFY21 for some companies, we are seeing the reversal of these adverse factors viz an improvement in operating performance and the normalization of working capital. Most companies have postponed capex except for ongoing, strategically important projects. CV OEMs are optimistic about demand recovery over the next two quarters.



Capital Goods

- With the pace of recovery gradually picking up, managements across the board attributed to recovery in the Products business being faster v/s the Projects business. Most companies continue to focus on working capital over execution (with execution being slowed on purpose in some cases). ABB's management indicated continuous engagement with clients via the digital medium has demonstrated the benefits of digitalization at a lower cost. Cummins' management was cautious on demand recovery, mainly in exports, as a second lockdown across Europe poses a risk to ongoing recovery. Havells and Crompton's managements indicated market share gains across most categories – at the expense of unorganized players and smaller organized companies. For ACs, Voltas' management alluded to higher-than-normal inventory with the company; however, it expects the same to get normalized before end-2020.



Cement

- Managements informed that cement volumes saw recovery, led by strong demand in East and North. On the other hand, demand remained tepid in West and South due to the prolonged impact of COVID-19 and the monsoons. Demand recovery was attributable to strong rural and semi-urban demand and a pickup in government infra and road projects from September, while the Real Estate sector continues to suffer due to muted demand. Demand in October remained strong, and a pickup in construction activity post the festive season would further drive demand. Shree Cement's management guided for the strong volume growth seen in 2QFY21 to sustain in 2HFY21. Managements informed that cement prices have firmed up across regions in Oct'20 and are up by INR10/bag over Sep'20, on average. Due to sharp hikes in petcoke prices,



companies have increased the use of imported coal. UltraTech guided for a ~10% YoY inflation in power and fuel cost in 3QFY21. Moreover, the fixed cost reduction achieved in 1HFY21 may not sustain in 2HFY21 as part of fixed costs – such as admin expenses, repairs, and ad spends – are likely to increase with an increase in operations.

Consumer

- Rural demand continued to outperform urban in 2QFY21, enabling sequential recovery for most companies in the sector. Margin improvement was seen in the quarter as companies sharply cut unwanted costs. Some of these cost savings are likely to sustain going forward as well. Furthermore, largely benign raw material costs aided savings, and there has been no material change in their outlook going forward. While cuts in ad spends have also helped, most companies expect these costs to gradually return to normal levels in 2HFY21. Most companies have utilized the COVID opportunity to accelerate new launches, which are also seeing a higher contribution to the overall company topline. Better channel pipeline efficiency further underpins the confidence for topline recovery/growth in subsequent quarters. Secondary sales surpassed primary sales in 2Q as most companies pruned dealer inventory levels, thereby boosting channel ROIs. The e-commerce channel grew robustly in the quarter, leading to higher salience in the channel mix across companies. Most companies have guided for further topline improvement in 3QFY21, with many discretionary product companies guiding for near-normal levels by 4QFY21 as: (a) rural performance is likely to strengthen further in 2HFY21, (b) continued sequential recovery is expected in discretionary consumption, (c) demand would return in large urban clusters, and (d) there are early signs of a good winter season and festive demand. Additionally, some companies announcing significant capex plans indicates management confidence regarding medium-term prospects.



Financials

Banks

- Commentaries of banks suggest business trends are gradually picking up MoM and have reached pre-COVID levels. Thus, expect loan growth to improve over 2HFY21. Moreover, the gradual deployment of excess liquidity and improved cost of funds would continue to aid margin expansion. Furthermore, fee income trends are expected to improve, with the Retail business likely to be the key driver in the near term. On the asset quality front, banks reported better collection trends and indicated restructuring would remain in the low single digits. However, banks would continue to strengthen provision coverage and build additional COVID-related provisions to further strengthen the balance sheet. This addresses the key concerns around the business outlook and asset quality of the banks. Although slippages would increase over 2HFY21 post the SC order, expect normalizing trends from FY22.

NBFC

- Commentaries of NBFCs suggest improving macros across most business segments and the end of the moratorium have led to increased optimism for collection efficiency (CE) as well as growth across product segments. In terms of restructuring, most financiers would offer the same on a case-to-case basis and do not expect a meaningful impact on asset quality going forward. Improving liquidity and a higher risk appetite (on account of a better collection performance) have given companies the confidence to lift disbursements (albeit



at lower levels than pre-COVID levels). Most financiers have rolled out new initiatives on the digital front and expect such operational innovations to sustain going forward.

Healthcare

- In the Domestic Formulation (DF) segment, the intensity of YoY decline is gradually reducing in Acute therapies with an increase in patient–doctor–MR connect. Operational cost-saving benefits are expected to continue over the medium term due to 1) structural reasons such as the enhanced use of digital tools and 2) travelling/marketing/promotional expenses remaining at reduced levels. Healthy momentum in the pace of ANDA filings / new approvals is expected to continue over the medium term. While remediation measures by companies on the sites under regulatory issues are complete, feedback from the USFDA is still awaited due to restrictions on international travel. The API business has seen a mixed response, with sustained growth in some cases and increased inventory buildup by formulators in the remaining cases.



Media

- The gradual unlock process and a rise in consumer spending have led to an increase in advertisement spends by corporates – leading to sequential improvement in the ad revenues of broadcasters. The upcoming festive season has also seen a healthy recovery in ad volumes and ad rates. Subscription revenue is likely to remain steadily on track, and the threat from NTO 2.0 regulations is being pushed due to delays in court proceedings. SUNTV has guided that ad revenues have recovered to ~80% YoY, and subscription revenue is expected to grow in the double digits over the next 12 months. Z has guided for ad revenue recovery by 4QFY21. PVR's recovery would be slow and opex would be curtailed by a ~50% reduction in rentals and other expenses.



Metals

- Companies have highlighted that domestic steel demand has improved significantly in 3QFY21. With strong domestic demand, exports are likely to remain lower. While initial recovery has been seen in flats, long steel demand is also guided to pick up post-Diwali. Management has guided for volume growth in 2HFY21 on the back of higher utilization. Management informed that price hikes over Oct–Nov have been well absorbed by the market. Tata Steel has guided for improvement in realization by INR4,000–5,000/t in 3QFY21 on the back of repeated price hikes and an improved product mix. The benefit of lower coking coal prices is likely to continue in 3QFY21 as well; however, an increase in iron ore prices during the quarter may partly offset an increase in prices.



Oil & Gas

- OMCs stated that with the lifting of lockdown restrictions worldwide, demand is once again seeing an uptick. This should lower built up inventories and support poor GRM margins. OMCs reiterated that GRM trends and marketing margins over the long term would stand at normalized levels only. RIL further plans to streamline its O2C Integration business and focus on expanding its Fuel Marketing business. The company's strong growth path remains in its digital and retail businesses. IGL and MAHGL stated total volumes have recovered to ~90% of pre-COVID levels, while GUJGA's total volumes currently stand above pre-COVID levels. PLNG has guided for an increase in LNG imports as demand from



CGDs and other segments normalizes over 3Q–4QFY21. Post the completion of the Kochi-Mangalore pipeline (by end-Nov'20), PLNG expects utilization to increase to ~40% over the next 5–6 months. GAIL stated that gas transmission and petchem operations are back at pre-COVID levels. Growth guidance continues on the back of incremental volumes of 8–12mmscmd from the commencement of fertilizer plants, which should lower the risk on its US contracts.

Retail

- The Retail sector saw a gradual recovery in sales as economic activity continued to pick up, with 75–95% of retail stores operational in 2QFY21. Although footfall has been lower, conversion rates and bill sizes have improved. Retailers expect sales to be 70–80% in 3QFY21, driven by strong festive shopping. Retailers would continue to focus and invest in online channels and logistics for stronger sales and customer traction via the online medium. ABFRL/V-Mart/SHOP have guided for muted capex / store adds in FY21 until normalcy returns. Pantaloons has guided to add 25 stores in FY21, V-Mart opened 7 new stores in Oct'20, while SHOP has guided to shutdown 3–4 of its non-profitable stores in FY21.



Technology

- Supply-side issues were largely contained in 1QFY21, and demand normalization was seen across segments in 2QFY21. In terms of verticals, BFSI, Retail, Healthcare, Technology, and Telecom have seen good recovery. Energy and Utilities, Manufacturing (Aero and Defense), and Travel and Hospitality are expected to take longer to recover. Companies have seen the deal pipeline improve further (v/s 1QFY21), with the pipeline now at pre-COVID levels. The pandemic has become a material catalyst in driving the adoption of hyper-scale cloud platforms by enterprises globally. It has accelerated cloud adoption significantly, which was otherwise expected to be a three- to five-year cycle. Cloud migration, cyber-security, and IoT are coming up more frequently in client discussions. However, this opportunity is not limited to just 'cloud migration', but would also be extended to the 'use of cloud applications' – making the IT industry a key beneficiary in the long run. Expect 3QFY21 to be positive in terms of revenues and margins.



Telecom

- Telcos have reiterated their stance that ARPUS should reach INR200 in the near term and INR300 in the long term for the industry to be sustainable. Capex has remained higher this quarter on account of network upgrades owing to high data demand during the lockdown. However, capex would be lower in 2HFY21 as data demand is expected to normalize as the economy opens up. Bharti Infratel's management mentioned the energy margin would be in the range of 0–3%. However, the company is engaging with telecom operators to bring back customers to the fixed energy model that is expected to bring back margins to previous levels. TCOM is in the process of executing large international deals and expects high revenue / EBITDA revenue growth in the coming years. Furthermore, it seeks to monetize its land parcels and other assets.



Utilities

- PWGR noted it has been able to complete Pole-I of its Raigarh Pugalur project during the quarter, and another INR100b of works related to the project are yet to be commissioned. PWGR has maintained its FY21 capex and capitalization targets of INR105b and INR200–250b, respectively. NTPC expects 5.5GW of capacities to be commercialized in FY21. It expects its plants – Lara U-2, Gadarwara U-2, and Meja U-2 – to be commercialized by Dec’20. In terms of receivables, NTPC is hopeful of lowering its overall receivables to INR160–170b at end-FY21. However, the company has noted that this would depend on multiple factors, including bill discounting. NTPC has thus far realized INR67b from the PFC-REC led ‘Atmanirbhar’ scheme and hopes that further money from the scheme would help reduce the stretch in receivables.

Key takeaways from management commentary

AUTOMOBILES



- Gradual unlocking and the normalization of supply chain issues for most OEMs led to volume recovery to meet underlying demand and inventory refilling. However, most companies mentioned being cautious due to uncertainty in demand sustainability post the festive season. Companies expect some margin pressure due to commodity cost inflation; they are confident of retaining a large portion of the decline in other expenses. Post the sharp increase in debt in 1QFY21 for some companies, we are seeing the reversal of these adverse factors viz an improvement in operating performance and the normalization of working capital. Most companies have postponed capex except for ongoing, strategically important projects. CV OEMs are optimistic about demand recovery over the next two quarters.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Demand in Festive Season
Ashok Leyland	■ AL's new launches (in M&HCV, ICV, and LCV) are seeing positive traction. The modular platform is well-placed to cater to future industry requirements. ■ Net debt decreased to INR30.8b (v/s INR42.8b in 1QFY21), driven by FCF generation (post investment in subs) of INR12.1b. ICD is down INR1b to INR3b. ■ Hinduja Leyland Finance: 1HFY21 revenue stood at INR14.7b (flat YoY); PAT was INR1.45b. CV financing stood at 40–45% of AUM and NPA at 2.3%. ■ Capex target –INR7.5b (INR2.7b already spent up to Sep)	■ M&HCV demand and inquiries are slowly recovering as operators have started paying EMIs post moratorium, leading to the ease of financing. ■ Replacement demand would take some time.
Bajaj Auto	■ 2QFY21 was driven by a) premiumization of super-premium brands, b) success of Pulsar 125, and c) fair performance from exports. ■ Domestic margins were at 15- to 16-quarter highs, with higher Pulsar brand sales as well as the correcting prices and margins of the entry-level portfolio. ■ Domestic 3W is seeing QoQ recovery; there is no clarity on when normalcy would be restored. ■ Exports – It has increased market share in 30 of its 70 markets.	■ Domestic: First five days of Navratras were at similar levels on YoY basis (adj. for month-end boost last year). ■ Exports: Good recovery was seen in most markets (except ASEAN) at 90% of normal levels and 3W at 75–80%. Expect a monthly run-rate of 200k over Oct–Nov'20.
Eicher Motors	■ RE is seeing ramp-up in production every month as supply chain issues have been resolved. By the end of 2QFY21 production had recovered to pre-COVID levels – to capacity of ~1m units. By debottlenecking, production can be increased to ~1.2m units. ■ Meteor could attract customers from other OEM brands and also be an entry-level cruiser in the global market. ■ Make it Yours (MIY): Over 90% of bookings are on MIY. All future launches have been planned on MIY.	■ It has an order backlog of 125k units (incl. 8k+ Meteor bookings) with an average one-month waiting period.
Hero MotoCorp	■ Production is normal and at record high levels of ~30k units/day (~750k/month). ■ Inventory is on track for the festival season. The plan is to end the festival with four weeks of inventory. Discounts are lower YoY. ■ Harley Davidson Alliance enhances HMCL's premium segment strategy. Distribution and licensing agreements have been signed.	■ Retail during 32 days of festive season is down 2% YoY.
M&M	■ Capital allocation: It announced an exit for the Airplane business (Gippsaero), which incurred a loss of ~INR3–4b in FY20. It would continue with the Servicing business for outstanding obligations. SsangYong sale discussions are underway with a potential investor. ■ FES had a negative WC for the first time. The Tractor industry would grow by the low double digits in FY21.	■ Due to supply-side issues, it would focus on normalizing inventory post the festive season in both Auto and Tractors. ■ Thar has recd. a good response, with over 20k bookings. Over 55% of Thar customers are first-timers.
Maruti	■ Utilization was at 85–90%; Nov'20 will have fewer working days (4–5 days less) due to Diwali. ■ CNG models' share in total volumes increased to 11.2% in 2QFY21 (v/s 7.2% in 2QFY20).	■ Based on good Navratras and Dussehra demand, Diwali and Nov–Dec'20 are expected to be good. ■ First 10 days of the festival saw 27% growth in deliveries to 96.7k units and bookings of 85k.

Tata Motors

- Pre-owned car demand was very high and inquiries were up 40%, but supply was inadequate.
- Diesel vehicle share was at 17.8% in 1HFY21 and 17% in 2Q, while competition (India ex-MSIL) had 34% share of diesel models.
- In 2QFY21, a cost-savings program delivered savings of GBP0.3b at JLR and INR2.8b in standalone.
- TTMT has turned FCF positive in 2QFY21, led by the normalization of working capital, with JLRs at GBP463m (GBP528m working cap release) and S/A at INR23b (INR30.8b work. cap release).
- JLR's dealer inventory is down to ideal levels at 54 days (v/s 90 days in Jun'20).
- Defender 110 is doing well and Defender 90 is now on sale. Despite an increase in production, the Defender order book has increased.
- CV demand is gradually emerging in select segments; hopeful of end-FY21 recovery.
- Cost-cutting measures initiated two years ago are yielding results. Focus is on material cost and marketing cost (through digitization).
- Capex target is increased to INR5b for FY21 (v/s INR3b earlier). It will invest an additional INR0.9–1b in TVS Credit (~INR0.5b) and Norton. This is over and above INR1.5b invested in subsidiaries in 1HFY21.
- Retail sales grew marginally during Navratri and Dussehra, predominantly in premium products. With urban market retail reaching pre-COVID levels and rural positive, it is expecting good Diwali sales.

TVS Motors



Click below for
Results Update



ASHOK LEYLAND

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Results Update

Amara Raja Batteries

Neutral

Current Price INR 858

- Aftermarket saw strong pent-up demand; Industrial saw demand from the Telecom and Commercial UPS market segments on the back of enhanced priorities for keeping data network uptimes to near 100%. Home Inverter benefitted from pent-up demand as well as the benefit of 'work from home'. Exports saw an upsurge across geographies; however, capacity constraints led to slower growth at 3–4%.
- Other expenses – Provision of ~INR85m reversed as BSNL cleared its dues (provided for in 1QFY21).
- Employee cost – This was higher by 19% YoY (39% QoQ) as variable pay and increments, which were withheld in 1Q, were provided in 2Q for the entire 1H.
- Capex – This was at INR4.5–5b for FY21 (v/s earlier guidance of INR4b) as the company expanded 4W (2m units) and 2W (2–3m units) capacities.

Ashok Leyland

Buy

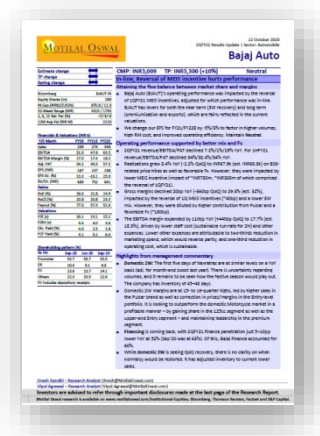
Current Price INR 91

- **Demand outlook:** M&HCV demand and inquiries have slowly started returning as operators have started paying EMIs post moratorium, eventually leading to the ease of financing. Replacement demand recovery would take some time and would increase utilization levels. AL's market share could grow in the remaining year owing to an expected increase in demand in the south region, which typically rises over Dec–Feb.
- **The Avatar range** in M&HCV, Boss series in ICV, and Bada Dost in LCV are seeing a positive response. AL's modular platform would get more traction in the future as the industry moves toward vehicles customized as per utilization needs. The Bus segment is yet to pick up as schools and corporates are yet to open.
- **Growth strategy:** 1) M&HCV – This segment offers best-in-class, total cost of ownership with the best fluid efficiency and customized solutions. 2) ICV and LCV – More products are being launched in these segments to fill in the gaps.

- **Hinduja Leyland Finance** – 1HFY21 revenue stood at INR14.7b (flat YoY) and PAT at INR1.45b (v/s INR1.41b). CV financing constituted 40–45% of the lending portfolio, and NPA was at 2–3%.
- AL may invest INR1–1.2b in the financing arm as growth capital.
- **Debt:** Net debt decreased to INR30.8b (v/s INR42.8b in 1QFY21), driven by FCF generation (post invest. in subs) of INR12.1b. ICD is down by INR1b to INR3b.
- **Digital initiatives:** The Leykart app, which sells spare parts online, saw a good surge in usage during the lockdown.
- **Export:** Demand is slowly returning as markets open up. Its CKD plants in Africa and the Middle East have been significantly ramped up since Mar'20. These plants would also cater to the neighboring markets. Bangladesh is slowly picking up; however, Sri Lanka would still take some time.
- **Capex:** FY21 target capex is INR7.5b (INR2.7b has already been spent up to September, most of which was toward the modular platform).



Click below for
Detailed Concall Transcript &
Results Update



Bajaj Auto

Neutral

Current Price INR 3,059

- **2QFY21 performance** was influenced by a) premiumization (highest ever volumes for super-premium brands), b) the success of Pulsar 125, and c) exports doing very well. Despite MEIS and a lower 3W mix, margins have improved YoY due to higher contribution from the premium segments and a favorable INR.
- MEIS incentives, comprising 2% of export sales, were withdrawn from Apr'20. It has passed on this loss through a price increase in the end markets. It has intensified competition with Japanese OEMs manufacturing in China.
- **Domestic 2W:** The first five days of Navratras are at similar levels on a YoY basis. There is uncertainty regarding volumes, and it remains to be seen how the festive season would play out. Beyond the metros, recovery is fairly even across the country. It has inventory of 45–48 days.
- Pulsar 125cc captured 16% share in the 125cc Motorcycles segment, which has not impacted the share of standard Pulsars. Among the 125cc disc brake motorcycles, Pulsar 125cc has 40% market share. It is focused on acquiring leadership in the 125cc segment.
- **Domestic 2W market strategy** – Domestic margins are at 15- to 16-quarter highs, driven by higher sales in the Pulsar brand as well as correction in prices/margins in the Entry-level portfolio. It is looking to outperform the domestic Motorcycle market in a profitable manner – by gaining share in the 125cc segment as well as the upper-end Entry segment – and maintaining leadership in the premium segment.
- **Financing** is coming back and was just 5–10pp lower in 2QFY21 v/s 2QFY20. 2QFY21 had finance penetration of 52%, of which Bajaj Finance accounted for 60%. Sep'20 financing penetration stood at 63%. It expects a further increase in financing penetration in the coming quarters.
- **For domestic 3W,** while there is QoQ recovery in volumes, there is no clarity on when normalcy would be restored. With passenger 3W having recovered only to 20% and cargo to 40% of pre-COVID levels, it has adjusted the stock to current lower sales. The company has now attained market leadership in the Cargo and Diesel segments as well.



BHARAT FORGE

Click below for
Results Update

The screenshot shows a detailed financial and operational update for Bharat Forge for the third quarter of FY21. It includes a table of key metrics such as Revenue, EBITDA, and Net Profit, along with a narrative summary of the company's performance. The summary highlights the company's focus on cost optimization and its strategic investments in various segments like Aerospace, Defense, and Marine.

CEAT

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Detailed Concall Transcript &
Results Update



- Expect some migration from 4W cargo to 3W cargo, with revival in demand due to the BS6 price hike in the 4W segment.
- **Exports** have seen good recovery, with most markets (except ASEAN) at 90% of normal levels and 3Ws at 75–80%. It has increased market share in 30 of the 70 markets where it has a presence (which account for 80% of Bajaj's export sales). It expects to sustain a monthly run-rate of 200k over Oct–Nov'20.
- Higher commodity prices would reflect in 3QFY21, and on a gross basis, would have an impact of 1–2pp. However, it would mitigate this through judicious price increases, mix management, and cost absorption.

Bharat Forge

Buy

Current Price INR 497

- **Outlook:** The outlook for India and US CV has improved. However, it has lowered its guidance for Aerospace as it expects this opportunity to play out over a longer period. Growth would be driven by the PV and Agri segments and ramp-up in the Renewable Energy and Marine segments.
- **Price hike and margins:** OEMs are unable to pass BS6-led cost to the end consumer; hence, the supply chain is stressed.
- **International business:** Revenue (ex-O&G) is gradually recovering; however, there is continued uncertainty surrounding a potential second wave of COVID 19. The Oil and Gas business outlook remains subdued as the rig count is down to <150 rigs (v/s the peak of 900 rigs). O&G revenue stood at USD3–4m in 2Q (v/s USD25m); growth would depend on government policies. The Aerospace sector is facing severe headwinds; however, it is expected to expand in future.
- **US Class-8 Trucks:** Production has recovered faster than expected. Demand is improving on the back of increased freight volumes, higher freight rates, and some pent-up replacement cycle demand.
- **Defense:** There is acute lack of cash for procurement in the system; however, the management expects some orders from the government.
- **Marine and Renewable:** This could be as big as or bigger than O&G. Currently, the business is ~INR500m p.a., but growth visibility would be 3x in the next years' time.
- **Cost-cutting:** BHFC incurred exceptional expense of INR29m for VRS (offered from Jul'20 at two plants).
- **Capex:** INR2.5b capex is targeted for FY21 (INR2b already spent in 1HFY21).

CEAT

Buy

Current Price INR 1,140

- **Demand:** Demand remains strong in Oct–Nov for OEMs as well as for replacement, though it leads to an adverse mix. Replacement grew 30% with farm segment showing highest growth of 17–18%. All others saw minimum double-digit growth. TBB saw higher demand as measure of cost cutting by truck operators. OEMs saw decline in single-digit while exports grew in single digit.
- Due to capacity constraints, CEAT would prioritize OEM supplies over replacement. Replacement market could see allocation problem due to capacity constraints and very low inventory.
- Gross margin improved due to lower commodity prices, favorable mix as replacement share was 70% during the quarter (v/s 60% in 2QFY20), and cost

CEAT

Key Highlights:

- Revenue:** ₹1,000.00
- Profit:** ₹100.00
- EPS:** ₹10.00
- Dividend:** ₹5.00
- P/E Ratio:** 10.00
- Dividend Yield:** 5.00%

Summary: The report provides a detailed analysis of CEAT's financial performance, including a breakdown of revenue and profit by segment. It also discusses the company's market position and future prospects.



Click below for
Results Update

Eicher Motors

Key Highlights:

- Revenue:** ₹1,000.00
- Profit:** ₹100.00
- EPS:** ₹10.00
- Dividend:** ₹5.00
- P/E Ratio:** 10.00
- Dividend Yield:** 5.00%

Summary: The report provides a detailed analysis of Eicher Motors' financial performance, including a breakdown of revenue and profit by segment. It also discusses the company's market position and future prospects.

controls. RM cost/kg came down by 5% QoQ and 9% YoY, mainly due to carbon black price reduction while price of other materials reduced by 5-10% YoY.

- Natural rubber prices have increased to ~INR150/kg (from INR118/kg in 1HFY21). This would result in 2-3% QoQ increase in 3QFY21 (as it has low cost inventory) and further increase in 4QFY21 (full reflection of current prices).
- Merger of CSTL: Accumulated losses accounted in 2QFY21, resulted in tax benefit of ~INR550m. It has absorbed all accumulated losses in 2QFY21.
- OTR business is operating at 85-90% utilization. There are plans to increase capacity from 30-35tpd now by 10-15tpd modules.
- Margin expansion was led by operating leverage. Advertisement expenses were up 20% YoY (3% of sales v/s ~2% in 2QFY20) due to signing Mr. Aamir Khan (actor) as brand ambassador and continued IPL screen time.
- Employee cost was higher YoY as cost in 2QFY20 was lower by INR210m due to write-backs. It is expected to remain high due to the ongoing ramp-up at Chennai, Halol and Nagpur plants.
- Capex for FY21 stands at INR6.5-7b for projects and INR1.5b for maintenance. The company has invested INR2.6b in 1HFY21.
- Working capital has reduced by ~INR1.9b in 1HFY21; however, it would increase by INR1b as finished goods inventory is very low currently.
- Net debt has reduced by ~INR1.9b QoQ. However, net debt is expected to increase as working capital normalizes and capex continues.

Eicher Motors

Buy

Current Price INR 2,591

Royal Enfield

- Demand Outlook – 2QFY21 saw healthy demand, which is improving with more urban centers opening up. More touch points and studio stores have contributed to increased sales.
- Bookings: It has an order backlog of 125k units (including 8k+ Meteor bookings) with a one-month average waiting period.
- Status of operations: RE is ramping up production every month as supply-chain issues have been largely resolved. By the end of 2QFY21, production recovered to pre-COVID levels, with capacity of ~1m units. This could be increased at 5% p.a. to 1.2m units, with debottlenecking, without much capex.
- Meteor: Meteor is expected to attract customers from other OEM brands. Other upcoming RE products are targeted toward upgraders within the RE family. International market: Meteor could also serve as an entry-level cruiser in the global market. For Meteor, developing markets such as LATAM and SE Asia would be important markets. For developed markets, Meteor could be a relevant product for in-city commute, and the navigation system adds great value.
- Make it Yours (MIY) platform: MIY was launched a month back for 650cc Twins. It is a huge step toward personalization – for eg., Thunderbird had 65 permutations, whereas Meteor has 500k.
- Booking and value addition by MIY platform: Over 90% of Meteor bookings are on MIY and all future launches would come on MIY. It has resulted in an increase in accessory sales and is helping RE capture value in customer spend on personalization, which customers would otherwise spend on aftersales.

- New stores: In India, RE added 25 exclusive stores and 133 RE studios, taking the total outlets to 1,717 stores (incl. 771 RE studio stores) in 1,400 cities. Internationally, it added six exclusive stores, taking the total to 85 exclusive stores. It entered new markets such as Cambodia and Costa Rica
- Online inquiries are higher by 700%; two out of three inquiries are online and the conversion of online is 12–13% (from 2–3% earlier).
- Cost pressures are visible in the form of precious metals and core commodities, which it is trying to dilute through value engineering.
- Marketing expense: This is expected to increase in international markets on increased operations and a low base. The spend would be toward experiential marketing rather than mass marketing.
- VECV added 38 touch points in 1HFY21 and would add another 100 in FY21. Export market – It has added five new export markets to the existing 35 markets. It is expanding in the new markets of LATAM and North Africa.
- Capex: RE's FY21 capex would be INR4–4.5b (1H at INR2b).



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Results Update

MOTILAL OSWAL
2020 Results Update
Endurance Technologies

Company Name: ENDURANCE TECHNOLOGIES LTD.
Stock Exchange: BSE
ISIN: INE000001000
Website: www.endurance-tech.com

Key Metrics:

Particulars	2020	2019
Revenue (INR Cr.)	1,100	1,000
EBITDA (INR Cr.)	150	140
EBIT (INR Cr.)	120	110
Net Profit (INR Cr.)	80	70
EPS (INR)	1.20	1.10

Key Highlights:

- Revenue growth of 10% YoY.
- EBITDA growth of 7% YoY.
- EBIT growth of 9% YoY.
- Net Profit growth of 14% YoY.
- EPS growth of 9% YoY.

Key Risks:

- Raw material price fluctuations.
- Competition in the market.
- Changes in government policies.

Endurance Technologies

Current Price INR 1,084

Buy

India Business

- The Maharashtra government has increased incentives by ~INR1b over a 7-year period, resulting in an increase in annual incentives by INR110-130m to ~INR600m.
- Growth was driven by HMSI (18.6% YoY), Yamaha (13.7% YoY), Suzuki (29% YoY) and TTMT (38.5% YoY). As a result, share of Bajaj (3pp YoY) and RE declined (90bp YoY).
- OEM schedules indicate robust 3QFY21, with ENDU's India revenues growing 34.5% to INR5.56b.
- New business wins in 1HFY21 stood at INR3.6b p.a (excl. BJAUT), with peak sales expected in FY22E. Also, it has INR12.3b RFQs on which it is working.
- It is putting up 0.6m p.a CBS brakes capacity at Pantnagar to service HMSI and TVSL, which would start by Jan'21. Also, it is putting up 0.72m p.a aluminum cylinder head capacity at Pantnagar with SOP in Mar'21.
- ENDU has offered VRS to 86 workers, which would entail one-time payout of INR112m and result in savings of ~INR49m p.a. Further, it has reduced fixed cost by INR25m/month (or 50-60bp).
- Aluminum casting plant at Vallam would start in Dec'20 for supplies to Hyundai and Kia.
- Over the next two years, it expects strong ramp-up with new OEMs via (a) HMSI (from INR6b in FY20 to INR9b in FY22), (b) HMCL (from INR2.16b to INR3.5b), (c) Yamaha (from INR2.1b to INR3.5b), (d) TVS (from near zero to INR1.65b), and (e) Hyundai and Kia (from <INR1b to INR3.1b).
- It is looking at tech-oriented growth opportunity on both organic and inorganic basis.

EU Business

- In 1HFY21, ENDU has won new business worth EUR10.8m from Audi, Maserati, and FCA (to start CY21 onwards).
- Consolidation of two plants into one has been done and would lead to savings of EURO.6m p.a.



ESCORTS

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[illegible]

- Adverse mix and inventory reduction had impacted gross margin. This should change in 3QFY21. Mix was impacted by new programs in EV components, which will normalize over the next 2-3 quarters as the new programs see improvement in efficiencies. On the other hand, EV components have longer life (10-12 years) as against diesel (4-5 years).
- It expects limited impact of second wave of COVID unless the lockdown becomes much stricter.

Escorts

Current Price INR 1,415

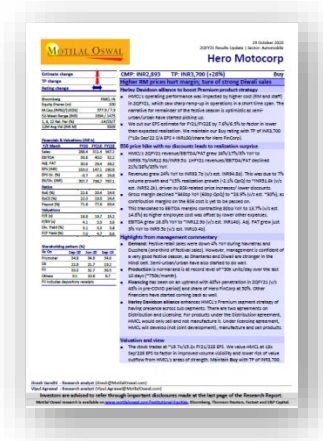
Neutral

Tractors

- **Supply chain constraints** – Supply chain remains a bottleneck for the Tractor segment as suppliers are stocked out for Nov’20 as well, and demand would outpace supply. While Dec would be seasonally weak, the industry would need to replenish systemic inventory and hence constraints would persist. Capacity constraints would ease from 4Q.
- **Market share loss:** Escorts lost market share due to supply-side constraints as it had lower inventory before the lockdown, and OEMs carrying inventory before the lockdown saw benefit in 1H. Its market share for FY21 as a whole would be lower than its FY20 market share.
- **Geography-wise performance:** It gained market share in the South India market, but lost in other geographies. South and West sales improved on good monsoons, good reservoir levels, and a low base.
- **Growth outlook:** It expects the domestic Tractor industry to grow at low double digit levels in FY21. Inventory is very low at both the company and industry levels.
- **Inventory:** Stocks at the dealer and depot levels are very low.
- **Tractor PBIT margins were driven by:** a) op lev (production at 100% level), b) a favorable mix (>40HP contribution at 66% v/s 45% in 2QFY20; highest margin segment) contributing 150bp, c) soft commodity prices, and d) low SG&A expenses on account of strong demand and the COVID impact.
- Tractor PBIT margins are sustainable at 17–18% (v/s 14% peak in FY19) as the benefit of structural reduction in material/other cost (part of Vision 2022) has now started to reflect. This is despite cost pressures on commodities (1.5–2pp) and mix normalization, as well as SG&A cost.
- Mix for >40HP has been stronger for the industry, and Escorts has gained share in this segment. Commercial applications, which utilize fewer HP tractors, were weak in the first five months of FY21, boosting the mix for the industry. However, this mix would reverse to some extent as demand in the Commercial segment improves.
- ESC manufactured more than 11k tractors/month in Sep/Oct’20 (v/s rated capacity of 10k/month) and is now earmarking an investment of ~INR1b to increase debottlenecking capacity to 12.5k/month.
- **Railways:** The business’ near-term outlook is weak due to the impact of COVID-19 on new orders – which are expected to start coming in from Dec–Jan. Its current order book of ~INR3.5b is also seeing some delays and deferment and would have an execution time of 6–8 months.



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Results Update

- **Construction Equipment:** The CE business is seeing good recovery as the served industry grew 31% YoY in 2QFY21. The government is going ahead with the budgeted outlay of USD100b, 40% of which is already spent. It expects FY21 margins at similar levels as FY20 (~3.6%).
- Debtor levels decreased to 30 days (v/s 58 days last year).
- **Capex** for FY21 increased at INR2.5–2.6b as the company would invest ~INR1b toward additional capacity (debottlenecking).

Hero MotoCorp

Buy

Current Price INR 2,999

- **Demand:** Festive retail sales were down 4% YoY during Navratras and Dusshera (one-third of festival sales). However, management is confident of a very good festive season as Dhanteras and Diwali are strong in the Hindi belt. Semi-urban/urban has also started to do well.
- **Growth differential** between rural and urban has increased to 8% (v/s 4-6% during pre-COVID levels); however, it is expected to normalize.
- **Production is normal** and at record high level of ~30k units/day over the last 10 days (~750k/month).
- **Product portfolio:** Under BS6, 125cc portfolio is getting wider acceptance on pan-India basis as against being a 'select market' story earlier. Some HF deluxe customers have upgraded to Splendor plus. Initial response for the premium bike, Xtreme160R, is robust (South, West and East region). HMCL is on its way to double its premium segment market share.
- **Financing has been on an uptrend with 40%+** penetration in 2QFY21 (v/s 43% in pre-COVID) and share of Hero FinCorp at 50%. Other financiers have started coming back as well.
- **Discounts are lower YoY**, but still necessary to drive customer sentiment. Also, they are more targeted toward certain segments, which might need support (for e.g. replacement demand has been weak v/s first-time buyers).
- **Harley Davidson alliance enhances HMCL's Premium segment** strategy of having presence across sub segments. There are two agreements on Distribution and Licensing. For products under the Distribution agreement, HMCL would only sell and not manufacture it. Under licensing agreement, HMCL will develop (not joint development), manufacture and sell the products.
- **Inventory** is on track for the festive season. Plan is to end the festive season with 4 weeks.
- **Working Capital:** Receivables are lower YoY while payables are higher, which is a reflection of higher production (no change in credit terms).
- **EV strategy:** HMCL will also focus on mass EVs whereas Ather is focused on premium EVs (current stake in Ather is ~35%).

Mahindra & Mahindra

Buy

Current Price INR 716

Tractors

- MM expects the Tractor industry to grow in low double-digit in FY21.
- The company has witnessed a decline in WC for the first time in FES.
- Quarterly system stock was >45% lower than 2QFY20. 2QFY21 market share was impacted by supply-side issues due to (a) inadequate stock build-up in 1QFY21,

Motilal Oswal
24 November 2020
Mahindra & Mahindra

Key Points:

- Strong performance in the FES business, which is expected to continue in FY21.
- Focus on maintaining the company's DNA and brand position.
- Plans to build back inventory.

Financial Analysis:

Particulars	2019-20	2020-21	2021-22
Revenue	1,00,000	1,20,000	1,40,000
EBITDA	10,000	12,000	14,000
EBIT	8,000	10,000	12,000
Net Profit	6,000	8,000	10,000

(b) higher dependence on Maharashtra, and (c) labor shortage. Post the festive season, MM plans to build back inventory. The market share loss on wholesale basis is unlikely to normalize in FY21; however, this is not structural market share loss as demand for the brand is robust.

- International operations in the FES business reported positive PBIT in 2QFY21 at INR30m (v/s PBIT loss of INR560m in 2QFY20). This was driven by (a) North America retail volumes growing 41% (80bp market share gains), (b) Brazil retails growing 31%, and (c) turnaround in Turkey operations. MM expects North America Tractor business to remain in the positive zone as one-time correction of inventory is done (which took two years).
- MM saw strong Farm machine business growth of 90% in 1HFY21 and is seeing very broad-based growth across implements.

Autos

- Quarterly system stock in 2QFY21 was 58% lower YoY, which was impacted by (a) supply-side issues, (b) very high dependence on Maharashtra, and (c) labor shortage. MM expects to build up stock post the festive season.
- Thar has got very strong response with over 20k bookings. Over 55% of Thar customers are buying the MM brand for the first time. The automatic version of Thar forms 44% of total bookings (indicating demand is also from non-off roading customers).
- Based on its learning from the success of Thar as well as past failures, MM is reorienting its SUV business to focus on maintaining its DNA and brand position to garner share. Also, unlike the past, MM has launched all Thar variants upfront and this seems to be the right approach.

Capital Allocation and Investments

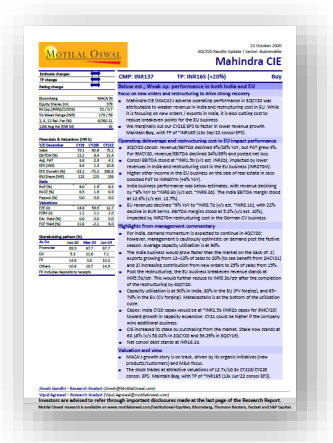
- Impairments are part of MM's efforts to take care of all issues related to its international subsidiaries. It started with tougher businesses, and hence, higher write-offs. The company has fully impaired its investment in all international loss-making businesses identified for exit.
- It has announced exit for the aeroplane business (Gippsaero), which made loss of INR3-4b in FY20. It would continue with the servicing business for outstanding obligations, which will get addressed in 2-3 years. The aero structures business will continue, as it has made good progress in this long-cycle business and is supplying to Boeing, Airbus and Tier-1 suppliers. This business doesn't need much cash.
- In 1HFY21, it invested INR28b in subsidiaries; of this, ~INR16b was invested in rights issue of MMFS. The balance INR12b was toward debt reduction in some international subs as well in operations in some subsidiaries.
- Ssangyong: Discussions are ongoing with a potential investor. It expects resolution of SYMC over the next few months.

Cost and margins

- Cost reduction seen in 1HFY21 is largely structural in nature, particularly in the Auto business. This was due to shift to digital marketing (including launches), travel related costs, etc.
- There are headwinds to margins in the form of (a) commodity cost inflation impact, (b) normalization of pricing power as supply-side normalizes, and (c) some costs coming back as the business normalizes.

Mahindra CIE

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Mahindra CIE

Current Price INR 154

Buy

India business

- Demand momentum is expected to continue in 4QCY20, and OEMs are confident of demand for the next six months; however, management is cautiously optimistic on demand post the festive season.
- CY19 sales levels are expected to recover by CY21; however, peak sales of CY18 (peak of the Auto sector) are expected to recover by CY23.
- MACA would grow faster than the market by: 1) growing exports from 12–13% to 20% (real benefit to be seen from 2HCY21 as it would take 12–18M to activate orders), 2) increasing its business with existing OEMs, 3) acquiring new OEMs as customers – such as Renault, Kia, etc., and 4) targeting Tier 1 suppliers for new and incremental business. Moreover, the company is seeing some shift in the business from EU operations to India. Management targets generating 25% of sales from new orders (v/s 15% currently).
- Average capacity utilization is at 90%, with different units ranging from 80–100% (Magnets at 100%).
- The China substitution may generate benefit of INR20–30m/month in Magnets and Gears.
- The India BEP is INR3.5b/qtr revenues.

Europe business

- The EU region is seeing a second wave of COVID-19 cases; however, this has not impacted production at any plant.
- A favorable currency exchange rate restricted EU sales decline to 12% in INR terms (v/s 22% in EUR terms).
- **Demand outlook:** Passenger Vehicle Forgings and Gears (Italy) have a positive outlook for the coming quarters, but Commercial Vehicle Forgings remains challenged.
- **Metalcastello's key customer** is Caterpillar, which is at the bottom end of the cycle in the US. Expect the market to revive post the US election in Nov'20.

Restructuring:

- MFE incurred restructuring cost of INR270m. This was partially offset by the sale of real estate property in Jeco (INR162m profit).
- Major restructuring has been completed, and some additional cost is expected for fine-tuning in 4QCY20. Margins would normalize toward the last month of the quarter.
- Metalcastello's restructuring activity has been completed and the business is seeing good margins.
- The MFE Germany CV business is seeing restructuring. Current volumes would remain stable for the remainder of CY20.
- The PV business does not need any restructuring.
- Post the restructuring; the EU business has a BEP of INR5.5b/qtr revenue. This would further reduce by INR200m/qtr.
- Capacity utilization: PV Forgings: 80%, Germany (CV): 65–70%
- The government grant was EUR4m in the EU in 2Q and <EUR1m in 3Q.

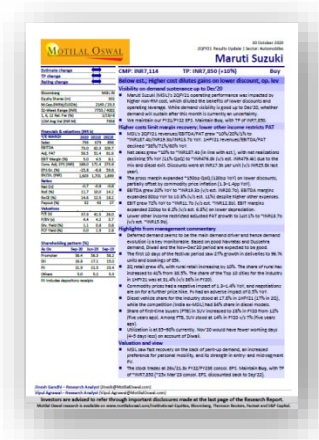
Others

- CIE took additional stake from the market to reach 60.18% (v/s 58.02% in 2QCY20 and 56.29% in 3QCY19).

- Capex: India CY20 capex would be at ~INR2.5b (9MCY20 capex at INR2b) toward growth in capacity expansion. CY21 could be higher if the company wins additional business.
- Net debt stands at INR16.1b, including a lease of INR2.5b as well as the impact of a weak INR (INR1b). Pure debt increased ~INR1.2b in Dec'19 due to an increase in working capital (India business debt: INR1b; EU is balance).
- EV risk to business: 25% of revenues (20% India and ~30% EU) are exposed to engine components. MFE Germany does not do engine forgings. In PV Forgings, crankshafts (25–30% of business) would not be relevant. The CV Forgings business would not be affected.



Click below for
Results Update



Maruti Suzuki

Buy

Current Price INR 6,966

Retail performance, customer, and model profile

- The festival period saw 27% growth in deliveries to 96.7k units and bookings of 85k (deliveries in FY20/FY19 were at 76k/75k units).
- 2Q retail grew 4%, with rural retail increasing by 10%. The share of rural increased to 41% from 38.5%. The share of the Top 10 cities for the industry was at 31.4% in 1HFY21 (v/s 36% in FY20).
- The share of FTB increased (by 5pp to 48%) on account of a growing preference for personal mobility and replacement decline (by ~7.6pp).
- Pre-owned car demand was very high as inquiries were up 40%, but there was no supply. Demand for pre-owned cars is at 1.4–1.5x that of new cars (reflecting weak replacement demand).
- Diesel vehicle share for the industry stood at 17.8% in 1HFY21 (17% in 2Q), while competition (India ex-MSIL) had 34% share in diesel models. For passenger cars, diesel share was just 1.5%, but mid-sized SUV had good demand for diesel vehicles.
- CNG model share in total volumes increased to 11.2% (v/s 7.2% in 2QFY20).
- Demand outlook: Growth was majorly driven by pent-up demand; hence, the sustenance of demand would be a key monitorable. Based on good Navratras and Dussehra demand, Diwali and the Nov–Dec'20 period are expected to be good.
- Commodity prices had a negative impact of 1.3–1.4% YoY (steep price hike on precious metals palladium and rhodium), and negotiations are on for a further price hike. Forex had an adverse impact of 0.5% YoY.
- Discounts were lower at INR17.3k per unit (v/s INR25.8k last year).
- Current utilization levels are at 85–90%. Nov'20 would have fewer working days (4–5 days less) due to Diwali.
- Share of FTB in SUV increased to 28% in FY20 from 12% (five years ago). Among FTB, SUV stood at 14% in FY20 from 7% (five years ago).
- New financing schemes have added 5–6% to volumes. Leasing schemes are being rolled out after pilot testing in four cities, and after good initial response, they would be extended to 20 new cities.

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Results Update**



MUTAFIL OSMAN

30 November 2021

Motemsur Suni

CMRP (H17) TP: H1701 [18%]

Buy

Abstract: CMRP on corporate governance, which links corporate governance to corporate performance, has been widely discussed in the literature. CMRP is a performance practice that is based on the company's business strategy and is a key factor in determining the company's performance. CMRP is a performance practice that is based on the company's business strategy and is a key factor in determining the company's performance. CMRP is a performance practice that is based on the company's business strategy and is a key factor in determining the company's performance.

Table 1: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 2: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 3: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 4: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 5: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 6: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 7: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 8: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 9: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 10: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12	0.03	0.05	0.20
Size	1.5	0.5	1.0	2.0
Age	10	5	5	15
Industry	1	0	0	1

Table 11: Summary of the data

Variable	Mean	Std. Dev.	Min.	Max.
CMRP	0.15	0.05	0.05	0.25
ROA	0.12			

TATA MOTORS

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MATERIAL OVERVIEW		2025/26 Budget (in \$ mil.)		2026/27 Budget (in \$ mil.)
TATA MOTORS		TATA MOTORS		TATA MOTORS
Business strategy	Key	CAGR 2025-26 EBITDA	EPS 2025-26 (in ₹)	Key
Our business strategy is to drive growth through innovation, digital transformation, and sustainable practices. We focus on expanding our market presence, improving operational efficiency, and enhancing customer experience. Our key initiatives include: Product Innovation: Developing new products and services to meet evolving market demands. Digital Transformation: Leveraging technology to optimize processes and improve productivity. Sustainability: Implementing green practices to reduce environmental impact and enhance brand reputation. Market Expansion: Exploring new geographical markets and diversifying our product portfolio.				
Key Metrics: - Revenue Growth: 10.5% - Operating Profit Margin: 15.2% - Customer Satisfaction: 85% - Employee Retention: 92%				
Financial Performance: - Revenue: ₹1,200,000 (2025/26) - Operating Profit: ₹180,000 (2025/26) - Net Profit: ₹120,000 (2025/26) - EBITDA: ₹200,000 (2025/26)				
Operational Efficiency: - Production Volume: 1,500,000 units (2025/26) - Quality Control: 98% pass rate - Logistics Efficiency: 95% on-time delivery				
Customer Engagement: - New Customer Acquisition: 15,000 (2025/26) - Customer Retention Rate: 90% - Feedback Score: 4.5/5				
Human Resources: - Employee Headcount: 10,000 (2025/26) - Training Hours: 5,000 (2025/26) - Employee Satisfaction: 88%				
Environmental Impact: - Carbon Footprint: 1,000 tons (2025/26) - Water Consumption: 50,000 liters (2025/26) - Waste Recycling: 95%				
Compliance & Governance: - ISO 9001 Certified - ISO 14001 Certified - GDPR Compliant				

Mother's Sumi

Buy

Current Price INR 140

- Status of operations: Neither plant shut down (due to lockdown), nor any changes in schedule by clients were reported. ~80% of plants are running at capacity of >75% as the situation normalizes.
- Demand: Strong demand has been cited for 3QFY21; management expects EU demand recovery to continue despite the second wave of lockdown.
- SMP: The green-field plants of SMP USA achieved EBITDA breakeven. Profitability would continue to improve with cost-saving initiatives and volume ramp-up. The management does not expect a further increase in expat cost or staff cost with an increase in volumes.
- PKC: Lower off-take was seen in this quarter – China was higher, but the US was down 40% YoY, Europe 30%, and Brazil 39%. However, demand is picking up on the back of an uptick in NA Class-8 orders.
- Net debt stood at INR75.2b v/s INR90.83b in 1QFY21. The exchange rate impact is ~INR1.2b.
- The capex target remains the same for FY21E at INR20b. This would be sufficient to cater to the current order book.

Tata Motors

Buy

Current Price INR 169

On 2QFY21 performance

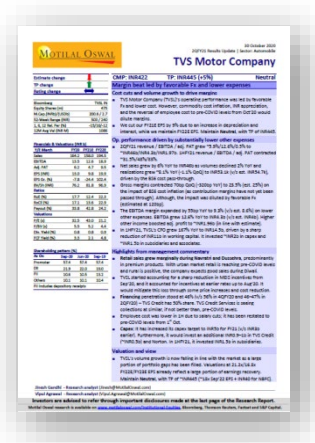
- FCF generation in 2QFY21 was positive, led by the normalization of working capital, with JLR at GBP463m (GBP528m working cap release) and S/A at INR233b (INR30.8b work. cap release).
- In 2QFY21, a cost savings program delivered GBP0.3b savings at JLR and INR2.8b in standalone.
- Net debt reduced from 1QFY21 levels, with net consol Auto debt at INR615b (v/s INR678b) and new standalone debt at INR233b (v/s INR257b).

JLR

- The EBIT margin beat was driven by a) a better mix (higher LR), b) lower VME, c) furlough benefit, and d) cost savings in 'Charge+'.
- VME was lower at 3.8% (v/s 5.9% last year), benefitting from the release of GBP64m of US residual, although underlying VME was at ~6%. VME is expected to be higher than 6% in 3Q and then come down from 4Q.
- Furlough benefit was at GBP55m in 2QFY21 (v/s GBP179m in 1QFY21). Furlough schemes are ending in 3Q (Oct).
- Dealer inventory was around ideal levels at 54 days. Going forward, wholesale would be in line with retail.
- Defender 110 is doing well and Defender 90 is now also on sale. Despite the increase in production, the order book for Defender has increased further. JLR expects Defender to clock ~5k/month.
- With more hybrid launches (currently 7 PHEVs and 9 MHEVs), it expects the contribution of hybrids & BEVs to increase, which would aid compliance with EU norms in CY21. For CY20, due to the COVID impact on sales and delay in hybrid launches, it has offered GBP90m in EU CO2 fines (expected to reduce with increase in PHEV/BEV share in 3Q). It needs to have a low-double-digit contribution from PHEVs to comply with EU norms in CY21.



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TVS Motors

Neutral

Current Price INR 478

- Festive performance and demand outlook: Retail sales grew marginally during Navratri and Dussehra, predominantly in premium products. With urban market retail reaching pre-COVID levels and rural positive, the company expects good sales during Diwali. TVS would perform better than the industry on the back of its portfolio.
- Financing: Penetration was at 46% (v/s 56% in 4QFY20 and 46% v/s 47% in 2QFY20). TVS Credit has 50% share. TVS Credit Services is seeing collections that are similar to, if not better than, pre-COVID levels. Capital adequacy is at 17%. In 2Q, it reported PBT of INR143m, after making provisions of INR250m.
- TVSL took a price increase of 1.5% in 2Q and 1% in Oct; 20.
- Cost-cutting measures initiated two years ago are yielding results. The focus has been on material cost, marketing cost (through digitalization), etc. Employee cost has been lower in 1H due to salary cuts; it has been restated to pre-COVID levels from 1st Oct.
- Export sales: TVS performed better than the industry as its export sales were down by only 29% (v/s industry decline of 40%) during the quarter.
- Export incentives: TVSL started accounting for sharp reduction in MEIS incentives from Sep-20 and accounted for incentives at earlier rates up to Aug-20 based on feedback from consultants. It would mitigate this loss through some price increases and cost reduction.
- The Indonesia subsidiary achieved PBT breakeven in 2Q (v/s USD1.03m loss in 2QFY20) based on 2W volume growth of 5.5% to 14.7k units.
- Capex: It has increased its capex target to INR5b for FY21 (v/s INR3b earlier). Furthermore, it would invest an additional INR0.9v1b in TVS Credit (~INR0.5b) and Norton. This is over and above the INR1.5b invested in subsidiaries in 1HFY21.

CAPITAL GOODS



- With the pace of recovery gradually picking up, managements across the board attributed to recovery in the Products business being faster v/s the Projects business. Most companies continue to focus on working capital over execution (with execution being slowed on purpose in some cases). ABB's management indicated continuous engagement with clients via the digital medium has demonstrated the benefits of digitalization at a lower cost. Cummins' management was cautious on demand recovery, mainly in exports, as a second lockdown across Europe poses a risk to ongoing recovery. Havells and Crompton's managements indicated market share gains across most categories – at the expense of unorganized players and smaller organized companies. For ACs, Voltas' management alluded to higher-than-normal inventory with the company; however, it expects the same to get normalized before end-2020.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Domestic Capex Cycle & Order Lineup
ABB	■ In the Motion business, continuous engagement via the digital medium aided order wins and led to revenue growth. ■ Such trends strongly indicate clients have experienced the benefits of digitalization from close quarters, with ABB using automation (such as remote monitoring) to service clients at lower costs.	■ Electronics Data Centres, Pharma, and Warehouse Logistics are some of the sectors that reported strong growth. ■ Demand is ~85% v/s last year. The company has aligned its cost and operations accordingly.
Cummins	■ Management has refrained from guiding for FY21 as it still assesses the impact of COVID-19. ■ Sales mix was favorable as products sales are yet to recover in the domestic market, thereby leading to gross margin expansion.	■ Telecom is one of the segments wherein the growth outlook is positive on the exports side, with investments in 5G across most Asian countries.
Havells	■ Lloyd's sales recovery is led by growth in AC sales. Ad spends and capex remained low in 2Q. ■ The festive season is turning out to be a good one, and the management expects to build on this momentum going forward.	■ B2C product categories grew in excess of 15% YoY, while B2B product categories declined ~14% YoY. However, demand for B2B products is gradually improving.
Larsen and Toubro	■ It is more challenging to mobilize labor to sites v/s bringing the workforce to the office. Labor availability is back at pre-COVID levels, but productivity is yet to recover. ■ Working capital as % of sales stood at 26.7%, similar to 1QFY21 levels, but higher than 2QFY20 levels of 23%. Management is hopeful of economic recovery enabling improvement in working capital in the seasonally strong 2HFY21.	■ L&T does not anticipate any major risk to ordering due to weak state finances. Borrowing limits have been raised both for center and state govts. Believe ordering to be strong in 2HFY21. ■ The company has bagged the High-Speed Rail order in 2QFY21 – a four-year project. There have been no significant order cancellations in the current quarter.
Voltas	■ Company-level inventory stood at ~110 days, slightly higher than normal, with the management confident of normalization by end-Dec'20. ■ In the EMPS segment, clients are still deferring payments; hence, management has taken ECL provisions. Voltas expects margins to gradually recover to 5–6% and they might remain under pressure in the near term.	■ Pace of execution was better in the Middle East in some projects due to the better availability of labor and government support. However, few legacy orders saw delays. ■ Volt-Bek is ramping-up production at the Sanand factory. Production of Frost-free Refs and Top-load WMs would also be undertaken in the near future.



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ABB

Buy

Current Price INR 1,122

Business update

- ABB is focused on costs and cash conversion.
- Demand is ~85% v/s last year. The company has aligned its cost and operations accordingly.
- The company inaugurated 'eMart' for electrification products, while doubling its capacity for the robotics facility.
- A favorable forex impact led to an increase in margins.
- Cash balance stood at INR16b in 9MCY20 (v/s INR13.4b 9MCY19).

Electrification

- Order inflow stood at INR4.9b, with order backlog at INR13.2b.
- Orders were seen from the Data Center, Metro Rail, Food & Beverage, and MV Distribution (repeat orders) segments.
- Revenue was led by a strong performance in exports, while the Services business-related constraints persist.
- Margins: Capacity uptick and cost rationalization aided margin accretion.

Motion

- Orders won stood at INR5.5b, with order backlog at INR16.5b.
- ABB focused on transportation, digitalization, and services. Continuous engagement with customers through digital means helped drive growth.
- Margin: A better volume with mix and cost reduction measures led to higher profitability.

Industrial Automation:

- Order inflow stood at INR2.7b, with order backlog at INR13.4b.
- Projects were deferred due to market uncertainties and delayed decision making.
- Opportunity exists in water projects, chemicals, and small and mid-sized plants.
- Revenue: Lower revenues due to prolonged slowdown in the Metal and Cement sectors led to orders from customers being deferred. Exports and capex-related project revenues were also subdued.
- Margin: Project mix and execution challenges (EPC & Conventional Power Generation segments), decline in services and export components, and an unfavorable forex impact led to margin decline in the quarter.
- Turbochargers: ABB India is a hub unit for Turbocharger. Exports were mainly across SAARC regions, with Bangladesh and Sri Lanka doing well. In India, Indian Railways is moving away from diesel to electric locomotive, thus reducing the usability of Turbocharger.
- This is the only segment that has exposure to projects. Two business units work only on projects, primarily from the O&G and Power sectors. With both the sectors facing headwinds, margins have been impacted.

Robotics and Discrete Automation

- Order inflow stood at INR330m, with order backlog at INR1.2b.
- Ordering was lower from auto OEMs and ancillaries, while opportunities are expected in the Consumer and Electronics segments going ahead.
- Revenue: Project revenues stood lower, while Services revenues were higher. Some customer sites are still not operational, which is restricting the movement of outsiders.
- Margins: Higher Services revenues led to margin improvement.

- Capex for the robotics facility is complete, and the facility is up and running.

Margin

- Other expenses on a normal basis stand at ~INR3.5b every quarter. They now stand at ~INR2.5b (owing to 80–85% of normal sales).
- Discretionary expenses would be incurred cautiously, while operational and business spends would continue.
- Discretionary spends form 20–25% of total other expenses.

Exports

- Order inflows were static in 3QCY20.
- Currently, exports account for just 12% of total orders despite ABB's expectation that the segment would compensate for the sluggishness in the domestic market.
- Within Electrification, the strong domestic business of the MV Switchgear division is being leveraged for exports.
- Management is of the view that for any business to scale its exports, it should first get firmly established in the domestic market.
- Others
- ABB has adequate land available in India and could double current capacity at the company level based on each business' requirement.



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Blue Star

Neutral

Current Price INR 745

EMP segment

- INR2.1b is the carry forward OB for Electro Mechanical Projects.
- **Commercial AC** – Orders from the Healthcare, Pharma, and Government sectors partially aided demand recovery.
- Major orders bagged were from greenfield electronic clusters in Hyderabad, Vijayanagar Institute in Bellary, Grand Hyatt, NMDC Chandigarh, etc.
- **International business** – Gradual revival was seen, with encouraging order inflow. The Qatar market recovered with an uptick in government projects.
- Management expected 4–4.5% margin for this segment in FY21.
- Margin improvement in 2QFY21 was owing to the execution of better quality projects and efficient cost management.
- There are some slow-moving projects in the Building and Real Estate sector.

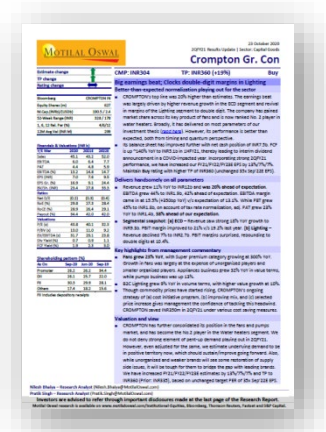
UCP segment

- **RAC** – With the opening up of retail counters and growth in the e-commerce channel, demand recovery exceeded management expectations. BLSTR maintained market share at 12.75%. Expect 2QFY21 momentum to continue in the next quarter as well. By December'20, management expects 100% recovery in the RAC business. Inventory has moderated from 1QFY21 levels.
- Channel inventory in RAC stood at 40–60 days, and the situation continues to improve.
- The RAC market is moving toward the mass premium range of products.
- BLSTR is enhancing its position in the northern market. Northern and southern region revenue share was around 30–35%, followed by the western and eastern regions (for RACs).
- Share of e-commerce in sales stood at 12% for BLSTR (v/s 16% for industry). The management is now focusing on BLSTR's e-commerce site.

- **Import ban:** BLSTR was the least affected as its manufacturing is supported by OEM manufacturers in India. The idea of the ban is to create a level playing field with regard to imports from FTA countries. This move would take 5–6 months to consolidate the RAC market. Blue Star manufactures ~100% IDUs in-house.
- **Commercial Refrigeration** – The Modular Cold Room and Medical Refrigeration business saw healthy orders from the Pharma segment. The company maintained market leadership across product categories. Major orders received during the quarter comprised a UP medical supply corporation, Dr Reddy's Lab, Thyrocare, etc. Market share in the Variable Refrigerant Flow (VRF) segment stood at 19–20% – BLSTR is the No 2 player in this category. Market share in Chillers stood at 25–30%.
- The e-commerce channel contributed major revenues for Water Purifier. BLSTR now has market share of 3% and is expected to achieve breakeven in FY21.
- Decline in RAC and Commercial Refrigeration was almost the same in 2QFY21.
- Some action was taken in 1QFY21 to rationalize procurement in RAC. As a result, while there is some reduction in inventory sequentially, it is still higher than it usually is at this time of the year.
- The company expects 7–7.5% margins from this segment in FY21. The full benefit of the significant impact of cost-cutting reduction measures undertaken would reflect by end-FY21.

Crompton

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Crompton Greaves Consumer Electronics

Buy

Current Price INR 304

Demand outlook and business ramp-up

- CROMPTON is now tracking 76% of secondary sales via the Tally app.
- Sales via rural channel have grown exponentially. The company has gained significant market share this quarter. Use of e-commerce channel has also aided growth.
- Growth is visible across all product lines and geographies. Only B2B Lighting sales are still subdued.
- Channel inventory is optimal at present. Company-level inventory is slightly lower as there are some challenges in labor availability and supply chain issues. Management is endeavoring to further ramp up inventory at the company level.

Electrical consumer durables:

- **Fans:** Revenue was up 23% YoY, both in terms of value and volume. Silent-pro fans were very well received by market. Super-premium fans grew 300% YoY. Overall, the end market data does not suggest that fans as a category is growing recently (beyond 7-8%). Hence, growth for CROMPTON has come from gaining market share at the cost of the unorganized sector as well as from small branded players.
- **Pumps:** Revenue grew 18% YoY in volume terms with residential pumps growing 24% YoY. Agri-pumps continued to face some challenges. Value growth in pumps segment was 13% YoY.
- **Appliances:** Revenues were up 32% YoY driven by Water heaters (+43% YoY). Management is of the view that the brand has reached No.2 position in water heaters now and is very close to the leader.

Lighting:

- B2C LED business is now witnessing value growth in line with volume growth, with the growth being in double digits.

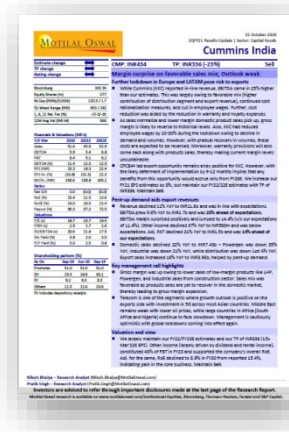
- Management is of the view that price erosion in LEDs has now bottomed out.
- B2B business is yet to recover, especially the B2G business. B2G business is down significantly and is expected to remain muted. B2B business (ex-B2G) has remained flat YoY.

Margins

- Cost rationalization initiatives have aided margins in 2QFY21. The company has started spending on advertisements now.
- Lighting margins came in double digits, owing to price erosion bottoming out.
- Gross margins have also improved in 2QFY21.
- Salary increases were on hold until recently, but the company have given salary hikes effective 1st Oct onwards. Hence, savings incurred due to deferral of hikes will be reversed now (~50bp).
- Some part of savings incurred from nil sales promotion during the pandemic is also expected to be reversed. However, other cost saving initiatives will continue.



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Cummins India

Sell

Current Price INR 508

Exports

- Pent-up demand aided export growth, with management cautiously optimistic on demand.
- Next six months are expected to be very turbulent.
- Over a period of 2-3 years, KKC aims to improve global market share, offer new products and add value to its customers.
- Impact of MEIS scheme withdrawal – KKC provided for INR130m in 2QFY21 on account of withdrawal of export benefit scheme. Management believes new incentive rules will be implemented from 1st Jan'21, which will help to negate this loss.
- Biggest growth in exports is led by the telecom sector related to 5G rollouts, especially in Asia.
- Europe and LATAM are witnessing a second wave of COVID cases, and hence, management is unsure of demand from these markets in the near future.

Domestic

- This segment is witnessing recovery across segments on MoM/QoQ basis.
- However, management is unable to provide for FY21 guidance as yet.
- Break-up of domestic revenue: Powergen declined 35% YoY and Industrial declined 21% YoY while distribution decline was lower at 4% YoY.
- Margins
- Mix had positive impact of ~2.5%, while cost rationalization of raw material yielded ~1% advantage.
- Other expenses stood lower owing to reduction in royalty, warranties, etc.
- Warranty expenses – If usage of product is lower, warranty costs go down. If usage goes up, warranties will also go up.
- Commodity prices are generally passed on to the customer, but in case of substantial rise, it may prove to be a risk.

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Havells India

Current Price INR 825

Neutral

Demand outlook

- The B2B business is still weak, but on the path to recovery; the B2C business is seeing strong growth.
- Lloyd's sales recovery is led by growth in AC sales.
- Ad spends and capex remained low during the quarter.
- The festive season is turning out to be a good one, and the management expects to build on this momentum going forward.

Margin

- Margin improvement is led by Lighting and ECD. Management expects to maintain margins, although there is some input cost pressure.
- Certain expenses were lower than normal. Costs for travel, promotions, and ads would be incurred gradually and would take time to return to normal levels. Also, it is possible these costs may not return to pre-COVID levels entirely.
- Havells did not undertake any salary cuts in 1HFY21. Hence, the current employee expense is sustainable.

Growth outlook

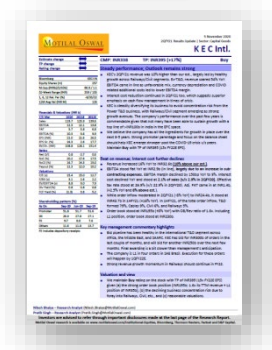
- Rebound in economy and market share gains are driving growth for Havells.
- The company has gained market share from unorganized as well as organized players.
- The rural channel is growing strongly (+140% YoY).
- There is some improvement in residential demand as well. The Wires segment saw 19% YoY growth.
- Consumer and Residential Products sales have grown by 15%+ YoY.
- Consumer lighting grew ~15% YoY.
- Inventory levels are lower than normal in the channel.
- It has been four months since the unlocking of the economy, and the management has not seen slowdown in demand. If current demand was only pent-up, it would have slowed later on post the lockdown.

Other takeaways

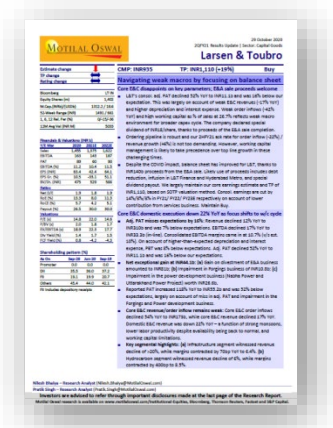
- Fans – Management believes Havells has grown faster than peers in the industry. Industry would have grown in the single digits during the quarter.
- Capex – INR3.3b would be incurred for FY21. Havells does not intend to invest in a new facility in FY22; it plans to increase capacity at existing facilities. However, the company may invest in new facilities if market sentiment improves.
- AC ban – Management believes it is the right move to promote Make-in-India. AC as a category is becoming more and more essential. With the development of a local manufacturing ecosystem, there is scope for exports as well.
- Lloyd's margins – There is scope for margin expansion as the company has its own plant under operation.
- Havells is focused on increasing market share, growing individual segments, and maintaining contribution margins.



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KEC International

Buy

Current Price INR 349

- Bid pipeline has been healthy in the international T&D segment across Africa, the Middle East, and SAARC. KEC has bid for INR300b of orders in the last couple of months, and will bid for another INR250b over the next few months. Final awarding is a bit slower than management's anticipation.
- The company is L1 in four orders in SAE Brazil. Execution for these orders will happen by 1QFY22E.
- Strong revenue growth momentum in Railways should continue in FY22.

Current order book provides decent medium-term revenue visibility

- Order book stood at INR195b (excluding L1 position) with OB/Rev ratio of 1.6x. Order inflows declined by 8% YoY to INR24.4b in 2QFY21. Order inflows were strong across Power T&D (INR20b v/s INR2.8b in 2QFY20). Of all segments, Railways' order book stood at ~INR51b, providing strong revenue visibility in FY21E. Order inflow from Railways is expected to pick up due to ordering activity picking up over the next few quarters.

Larsen & Toubro

Buy

Current Price INR 1,132

- **Macro environment:** Green shoots in economy are clearly visible with PMI, exports, traffic volume, GST, etc. having recovered. Bank credit is also in the positive territory.
- **Labor status:** It is more challenging to mobilize labor to sites compared to bringing workforce to the office. Labor availability is back to pre-COVID level, but productivity is yet to recover.
- **E&A sale update:** INR4b of retention amount was held back as some obligations were due. The consideration has now been received in Oct'20. Adjusted for working capital, debt and closure charges, net proceeds amounted to INR130b. Another INR50b were expensed toward tax (INR25b) and carrying value (INR25b). Hence, net profit from the sale stood at INR80b.
- On the cash proceeds of INR130b, INR20b is the tax outgo (lower than P&L tax due to tax credit available).
- **Rough usage of INR110b cash post tax:** INR50b will be used for debt repayment, INR20b toward investments in Finance Holdings and IT business, INR20b toward Hyderabad Metro and the remaining amount has been given as special dividend of INR18/share.
- **Divestment plans and Impairments:** 1) Hyderabad Metro – After recapitalizing and once traffic stabilizes, L&T will look to divest the asset. 2) Nabha Power – L&T is eyeing an exit. Currently, it does not have any potential suitor for the asset. However, as a starting point, it has re-evaluated the asset and took impairment of INR16b. Invested equity was INR27b, net worth was around INR38b. As per L&T's estimates, market value is INR22b. So, impairment taken is worth INR16b. 3) Uttarakhand plant – Impairment stood at INR10b. 4) Forging business – There are no steady order inflows in the nuclear forging business. L&T was keen to restructure debt into equity earlier, but has now taken impairment of carrying value at INR10b.

Other key takeaways

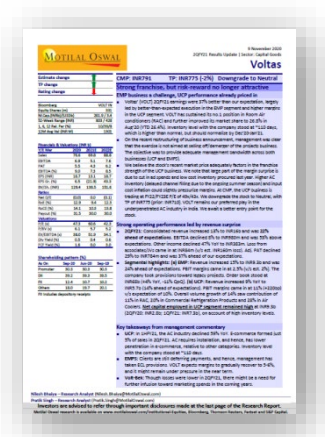
- **Working capital** – Management is ensuring that absolute working capital doesn't escalate.
- **Hyderabad Metro** – INR3.5-3.75b is the finance cost per quarter, with depreciation at INR750m/quarter.
- **Nabha power plant** has robust PLF of 92%.
- The company has bagged the High Speed Rail order in 2QFY21. It is a 4-year project.
- Provisions in Heavy engineering segment stood at INR1.2b.
- **Bid pipeline:** INR6.1t in total (Infra - INR3t, Power - INR1.2t, MMH - INR15k, Hydrocarbon - INR1.1t, Heavy Civil + defence + smart infra - INR1.0t).
- No significant order cancellations have happened in the current quarter.
- **Cash buffer:** L&T had raised INR120b during the pandemic as liquidity buffer, out of which, it has repaid INR40b. With further recovery and better collections, there is buffer to reduce debt.

Key segmental comments

- **Infrastructure:** Margins affected by productivity challenges and job mix.
- **Power:** Award deferments seen in 1HFY21. Opening order book was healthy on the back of large wins in FY20. Revenue increase in 2QFY21 was driven by large opening order book. Major part of order book yet to cross margin recognition threshold.
- **Heavy Engineering:** Muted order wins in pandemic environment. Better capacity utilization aided revenue recovery in 2QFY21. Margins were affected by a one-time warranty provision.
- **Defense:** Significant order wins in 2HFY21 led to replenishment of opening order book. Revenue declined owing to tapering of a large order.
- **Hydrocarbon:** Muted order inflow was due to lower capex/depressed oil prices.
- **Development projects:** Operations for the Hyderabad Metro were affected during large part of 2QFY21. Under-recovery of fixed costs impacted EBITDA.
- **Others:** Revenues were impacted largely due to lower handover in the Realty business.

VOLTAS

Click below for
Results Update



Voltas

Buy

Current Price INR 770

Unitary Cooling Products

- 1HFY21 AC industry sales declined 59%.
- 2QFY21 AC volumes grew 11% for VOLT, while inverter AC volumes grew 36%.
- Market share in ACs stood at 26.8% in Aug'20 (v/s 26.4% YTD).
- Lower material costs and sensible marketing spends led to margin expansion.
- Volume growth stood at 20% in Commercial Refrigeration Products and 28% in Air Coolers.
- E-commerce formed just 5% of sales in 2QFY21. AC requires installation, and hence, the lower penetration is relative to some other categories in ecommerce.
- Currently, VOLT has INR10b of inventory, translating to ~110 days.
- There were hardly any ad spends in 1HFY21 as there was no point in advertising in such a market where the COVID pandemic was rampant.

Electromechanical Projects and Services

- The company took ECL related provisions in 2FY21, especially in the Middle East, which impacted profitability.

- Pace of execution was better in the Middle East in some projects due to better availability of labor and government support. However, few legacy orders saw delays.
- Management is witnessing deferment of payments by clients, and hence, ECL provisions were undertaken.
- Overall, order book stood at INR68.5b. Of this, international order book stood at INR23.2b.
- Management expects gradual margin recovery to 5-6%; however, it may remain under pressure in the near term.

Volt-Bek

- Seeing encouraging feedback on products launched.
- Ramping up production in Sanand factory.
- Production of Frost-free Refs and Top-loads WMs would also be undertaken in the near future.
- Have 6,000 touch points now.
- Lower losses in 2QFY21; however, there may be a need to infuse more marketing spends in the coming years as focus is on expanding market share.

Restructuring:

- Management has clarified that they do not plan to sell the B2B business as of now. This is an internal restructuring to focus more on the B2C business.
- This exercise should not be seen as a precursor to demerger. The company had options to demerge directly as well, if that had been the plan.
- There will be a project-specific management team looking at the B2B business now.

Other takeaways

- Other income declined owing to MTM.
- Ban on refrigerant ACs will impact fringe players and help in market consolidation. VOLT has reduced imports over the years; the company believes imports of components will be substituted over the next 2-3 years,. VOLT is an industry leader and strong anchor customer for suppliers.
- VOLT's imports: CBU imports are quite low and limited to select SKUs. IDU imports were at 70-80% a couple of years back, but have gradually reduced.
- Management is planning to set up an AC factory in South India.
- Festive season: The company has launched an attractive financing scheme (higher product warranties are being offered).

CEMENT



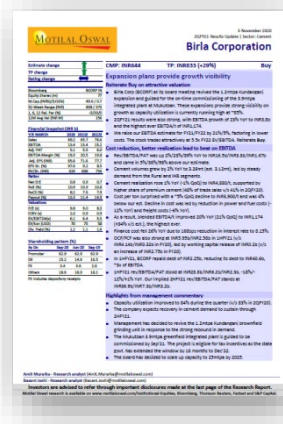
- Managements informed that cement volumes saw recovery, led by strong demand in East and North. On the other hand, demand remained tepid in West and South due to the prolonged impact of COVID-19 and the monsoons. Demand recovery was attributable to strong rural and semi-urban demand and a pickup in government infra and road projects from September, while the Real Estate sector continues to suffer due to muted demand. Demand in October remained strong, and a pickup in construction activity post the festive season would further drive demand. Shree Cement's management guided for the strong volume growth seen in 2QFY21 to sustain in 2HFY21. Managements informed that cement prices have firmed up across regions in Oct'20 and are up by INR10/bag over Sep'20, on average. Due to sharp hikes in petcoke prices, companies have increased the use of imported coal. UltraTech guided for a ~10% YoY inflation in power and fuel cost in 3QFY21. Moreover, the fixed cost reduction achieved in 1HFY21 may not sustain in 2HFY21 as part of fixed costs – such as admin expenses, repairs, and ad spends – are likely to increase with an increase in operations.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY21	Commentary on Capex Cycle
Dalmia Bharat	■ Lead distance stood at 290km and is likely to remain below 300km. ■ Petcoke price stands at USD95/t, and the company is set to increase the consumption of imported or domestic coal to reduce the impact of rising petcoke prices.	■ MIL Acquisition – Revival process with INR4.0b capex has been initiated. It is expected to be commissioned in 3QFY22E. ■ Trial run for Bengal GU & debottlenecking at Bokaro GU would start in Dec'20; Cuttack GU/ 30MW WHRS would be commissioned in Apr'21/4QFY22E. ■ Capex guidance of INR4.0b/INR5.0b for capex in East / cost improvements projects (including WHRS).
JK Cement	■ The company expects to achieve consolidated cost savings of INR100/t from 4QFY21 on account of cost efficiencies from newly commissioned capacities. ■ It has switched to imported coal due to petcoke availability issues, which has led to a rise in prices. Promotional expenses and all other essential overheads have been normalized. ■ The company has maintained market share in the White Cement and Wall Putty businesses and expects to achieve over 10% growth.	■ Panna expansion – Environmental clearance has been received and 90% of factory land has been acquired, with INR1.6b capex to date. ■ Mangrol expansion – INR2.3b would be spent for the balance items and INR1.5b saved out of the budgeted amount of INR20.0b. ■ Nimbahera Line 3 modernization – INR2.6b has been spent up to 2QFY21 out of the budgeted INR5.0b. INR2.0b is expected to be spent in 2HFY21.
Ultratech Cement	■ It achieved cost reduction of INR4.5b in 1HFY21, but a part of this would return in 2HFY21. ■ Power and fuel costs are expected to go up by 10% QoQ in 3QFY21 on account of higher petcoke prices. This is being partly mitigated by a switch to imported coal, currently cheaper than petcoke.	■ Capex for 1HFY21 stood at INR4.5b (2QFY21 – INR2.86b); FY21 guidance has been reduced to ~INR12b (from INR15b earlier). ■ Capacity commissioning has been delayed – Bara Phase 2 is expected to be commissioned in Mar'21, 1.2mt would be commissioned in East in 2QFY22, 2.2mt in Cuttack in 4QFY22, Super Dalla in 1QFY23, and Pali in 3QFY23.
Shree Cement	■ Lead distance was at 453km v/s 457km in 2QFY20 and is expected to reduce further with the commissioning of new grinding units. ■ Employee expenses are guided to remain at INR1.75b per quarter going forward. ■ Depreciation is expected to be at INR13.0b for FY21. Petcoke mix stands at 70% and is expected to reduce as the company would switch to thermal coal gradually, unless petcoke prices soften.	■ Raipur Third Clinker Line – The 10–12ktpd capacity is expected to be completed by 1QFY23 with capex of INR10.0b. ■ The Pune and Odisha grinding units are expected to be commissioned in Dec'20. ■ The company would announce plans for the Bengal grinding unit in 2HFY21.



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Results Update



Birla Corp

Buy

Current Price INR 749

Utilization

- Capacity utilization improved to 84% during the quarter (v/s 83% in 2QFY20).

Market mix

- Trade sales stood at 81% of the mix v/s 83% in 2QFY20.
- Premium cement sales increased to 48% of trade channel cement v/s 41% in 2QFY20.
- Blended cement share remained unchanged at 93% of volumes in 2QFY21.

Demand recovery to sustain in 2HFY21

- Steady demand from the Rural, Retail, and IHB segments boosted cement demand in the northern, central, and eastern markets in 2QFY21.
- Demand from the Infrastructure sector continues to improve steadily with the return of migrant labor.
- The company expects recovery in cement demand to sustain through 2HFY21.
- Pricing remained stable in 2QFY21, barring some seasonal disturbances due to the monsoons.

Cost: Rising fuel cost to put pressure on cost in 2HFY21

- The company reduced its freight cost by 1% in 2Q, despite an increase in diesel costs, through optimizing the market mix.
- It is undertaking measures to improve efficiency and rationalize costs through various means. The company has initiated digital transformation to achieve operational efficiencies in the administrative and support functions of the business.
- It expects costs to increase in 2HFY21 as rising costs of petcoke and other fuels are likely to put pressure on cost.

Project updates

- The Kundanganj brownfield grinding unit expansion by 1.2mtpa has been revived in response to the strong rebound in demand.
- The Mukutban 3.9mtpa green-field integrated plant is guided to be commissioned by Sep'21. The project is eligible for tax incentives as the state govt. has extended the window by 18 months to Dec'22.
- The debottlenecking of the Chanderia kiln capacity by ~0.4mtpa is nearly complete and would be hooked up by doing a planned shutdown of the plant.

Dalmia Bharat

Buy

Current Price INR 983

Operational Highlights

- Sales volume up 7% YoY to 4.8mt.
- Trade sales mix stood at 68%.
- 3.0mt Odisha clinker line started commercial production from 1st Oct'20 and is currently operating at 70% utilization.
- 7% of current power requirement is being catered to by captive solar and WHRS plants and the company is targeting to increase the mix to 35% by FY26E.
- Lead distance stood at 290km and is likely to remain below 300km despite the commissioning of new capacities.
- Petcoke price stands at USD95/t and the company is set to increase the consumption of imported or domestic coal to reduce the impact of rising petcoke prices.
- INR210m of incentive accrued in 2QFY21.

MOTILAL OSWAL
11 November 2020
Dalmia Bharat

Key Findings:

- Strong cost control drives EBITDA growth:** Dalmia Bharat (DBL) Q3FY21 results were a surprise and driven by cost reduction, which was supported by the company's strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.
- EBITDA growth 40% YoY:** DBL Q3FY21 EBITDA growth of 40% YoY was driven by strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.
- Revenue growth 10% YoY:** DBL Q3FY21 revenue growth of 10% YoY was driven by strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.
- Net Profit growth 10% YoY:** DBL Q3FY21 net profit growth of 10% YoY was driven by strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.

Highlights from management commentary:

- Strong cost control drives EBITDA growth:** Dalmia Bharat (DBL) Q3FY21 results were a surprise and driven by cost reduction, which was supported by the company's strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.
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- Net Profit growth 10% YoY:** DBL Q3FY21 net profit growth of 10% YoY was driven by strong cost control and efficient operations. The company's cost control measures resulted in a 12% increase in EBITDA margin.

Demand outlook

- Eastern region continued to outperform on account of strong rural demand and pickup in the government's infra projects.
- Demand in southern region was impacted in Jul-Aug'20 on account of heavy monsoons but has started picking up from Sep'20.
- Realizations declined sequentially due to seasonal weakness in cement prices in the eastern region.

MIL acquisition completed

- The company completed the acquisition of the MIL asset, which has an integrated capacity of 3.0mt and TPP of 50MW. This acquisition will expand its geographical presence to Maharashtra.
- Revival process will entail capex of INR4.0b and has been initiated. The plant is expected to be commissioned in 3QFY22E.
- The plant has ample limestone availability for the next 20 years and the state government incentive will be available for the next seven years.
- The plant will achieve the cost structure of the company in 4-6 quarters post commissioning.

Betting big on the East

- 2.25mt Bengal GU and 1.0mt debottlenecking at Bokaro GU will start trial run Dec'20 while 2.25mt Cuttack GU will be commissioned in Apr'21.
- 30MW WHRS is expected to be commissioned by 4QFY22E.
- Revocation of incentive in Odisha will not impact the profitability of newly commissioned clinker unit as the company has well established brand visibility and the lowest cost structure in the region.

Capex

- The company has guided for INR4.0b capex in the East and INR5.0b for cost improvement projects including WHRS.
- Cost of capacity expansion for recent organic and inorganic expansions stand at USD60/t, which is lower than the cost of USD84/t for current capacity.
- The company has ventured into retail segment as part of preliminary experimentation, which involves minimal capital.

Deleveraging in focus

- Net Debt/ EBITDA stands at 0.87.
- The company repaid INR2.5b/INR4.5b of debt in 2QFY21/1HFY21.
- It aims to be net debt free by 2HFY23E.
- Cost of debt stands at 7.0% p.a.

Other Highlights

- The company is targeting payback period of 4-5 years for cost improvement projects like WHRS.
- The company aims to be carbon negative by 2040 and is reducing power and fuel cost continuously through usage of WHRS and solar power.
- The company is yet to come up with divestment plan for IEX.



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Detailed Concall Transcript &
Results Update

Grasim Industries

Neutral

Current Price INR 858

Improving capacity utilization

- Viscose capacity utilization stood at 85% in 2QFY21 and ~100% in Oct-20.
- Caustic Soda capacity utilization increased to 80% in 2Q v/s 49% in 1QFY21.

Fertilizer business divestment



MOTILAL OSWAL		31 December 2020
Grasim		INR Lakhs
Particulars	2020	2019
Revenue	1,02,12,12,12	1,02,12,12,12
EBITDA	1,02,12,12,12	1,02,12,12,12
EBIT	1,02,12,12,12	1,02,12,12,12
Profit after tax	1,02,12,12,12	1,02,12,12,12
Dividend	1,02,12,12,12	1,02,12,12,12
Reserves	1,02,12,12,12	1,02,12,12,12
Capital	1,02,12,12,12	1,02,12,12,12
Debt	1,02,12,12,12	1,02,12,12,12
Equity	1,02,12,12,12	1,02,12,12,12
Minority interest	1,02,12,12,12	1,02,12,12,12
Other	1,02,12,12,12	1,02,12,12,12
Total	1,02,12,12,12	1,02,12,12,12

- The management announced sale of its Fertilizer business to Indorama for a cash consideration of INR26.5b, subject to working capital adjustments (basis Jun'20 quarter) at the time of the deal closure, or at 12x FY20 EV/EBITDA.
- The rationale behind the exit is to improve its focus on the core business. Moreover, higher working capital needs led to lower returns in the business.
- The Fertilizer business reported a revenue/EBITDA of INR26.7b/INR2.2b in FY20. In 1QFY21, it reported a revenue/EBITDA of INR6b/INR0.7b.
- Working capital stood around six months.
- The transaction is expected to complete in nine months.

Partners with Lubrizol for India's largest CPVC resin plant

- GRASIM has partnered with Lubrizol to manufacture and supply of CPVC resin.
- The project, which will be constructed in two phases by 2HFY23, would have a capacity of 100ktpa.
- Lubrizol will invest in the project, whereas GRASIM would provide the land, materials and utilities. While the costs would be pass-through, the latter would receive a fixed compensation for managing the commercial operations.

VSF business

- The performance of the VSF business continues to be impacted by weak pricing, which led to reduced margins. However, significant fixed cost savings (INR1.16b) offset the impact of weak pricing.
- VSF demand witnessed a strong recovery in demand sequentially.
- EBITDA declined 49% YoY to INR1.9b due to a 23% dip in VSF prices and lower volumes (131kt, -11% YoY).
- The share of VAP in total sales stood at 15%.
- Grey VSF prices were lower by ~23% YoY during the quarter v/s ~4% decline in cotton and ~28% in PSF. Sequentially, cotton prices have increased by 6% against a 3% decline in VSF prices.
- VSF inventory in China declined significantly to 16 days in Sep'20 compared to 45 days in Apr'20, despite improved capacity utilization in China. This has led to ~25% recovery in VSF prices in China to RMB10,700 over Sep-Nov'20.
- The management expects a structural recovery in VSF prices, led by demand recovery in China and sharp rise in cotton prices, leading to a widened discount between cotton and VSF prices.
- Price of key inputs like pulp and caustic weakened sequentially. Fixed cost optimization measures led to a savings of INR1.16b (down 28%) from its FY20 quarterly average.

Chemicals business

- Revenue from the Chemicals segment declined ~16% YoY to INR11.2b due to weakness in ECU realization (INR24,171/t; down 20% YoY).
- As a result, EBITDA declined ~32% YoY to INR1.87b.
- Caustic Soda sales recovered 71% QoQ (down ~2% YoY) to 236kt due to demand pick up from Textile and Paper segments.
- Caustic Soda prices (CFR) in Asia dipped below USD250 levels due to an oversupply situation, creating pressure on domestic prices.
- Chlorine realizations maintained its uptrend in 2QFY21 driven by demand from Organic Intermediates, Agrochemicals and CP segments.
- Chlorine consumption in VAPs stood at 30% in 2Q from 27% in 1QFY21.

Fertilizer business

- EBITDA improved by 21% YoY to INR600m on fixed cost reduction and better PURAK sales. The latter contributed ~31% to segmental EBITDA.

- Urea sales declined 7% YoY to 278kt.

Other businesses – Textile and Insulators

- Revenue for the Textile business declined 58% YoY to INR1.76b. Reported operating loss was INR220m v/s a profit of INR130m in 2QFY20 (loss of INR550m in 1QFY21).
- Revenue for the Insulators business declined ~7% YoY to INR900m. Reported EBITDA was INR90m v/s a loss of INR20m in 2QFY20.

Cement business (UTCEM)

- Volumes were lower by 5% YoY due to recovery in demand.
- India operations reported an EBITDA of INR27.8b and EBITDA/t of INR1,387 in 2QFY21, up 30% YoY.
- Consolidated net debt reduced by INR47b in 1HFY21 to INR121.3b. Net debt-to-EBITDA stood at 1.22x as of Sep'20.

Aditya Birla Capital (ABCAP)

- Revenue/net profit after minority interest stood at INR45.9b/INR2.6b in 2QFY21.
- Closing AUM (domestic) increased 11% QoQ to INR2,387b. Closing Equity AUM grew 13% to INR821.7b in Sep'20.
- In Life Insurance, individual first-year premiums (FYPs) grew 7% YoY to INR7.4b in 1HFY21.

Others

- Standalone net debt declined by INR6.4b in 1HFY21 to INR23.3b.
- FY21 capex guidance has been raised to INR18.5b from INR16.1b guided earlier. Capex spend in 1HFY21 stood at INR2.8b.



Click below for
Results Update

India Cement

Neutral

Current Price INR 148

Operational highlights

- Sales volumes were at 2.11mt (v/s 2.67mt in 2QFY20).
- Capacity utilization improved to 53% in 2QFY21 from 35% in 1QFY21.
- Share of trade sales in the volume mix stood at 54% and would go up to 58% in 3QFY21. The PPC mix stood at 63%.
- Revenue for shipping/windmill/RMC was at INR63m/INR65m/INR220m, and EBITDA was at INR29m/INR60m/INR56m.
- NPR fell to INR3,905/t in 2QFY21 from INR4,200/t in 1QFY21.

Cost insights

- Fixed cost stood at INR1.4b due to various cost optimization measures, while employee cost is guided to stabilize at INR750m per quarter.
- The company's focus on increasing the trade sales mix would improve the blending ratio and reduce cost.
- Power and fuel cost was lower on account of low-cost fuel inventory.
- The company aims to sell higher volumes in markets situated closer to its plants, thereby reducing freight cost.

Demand and pricing outlook

- In 1HFY21, industry in South saw 29% YoY decline in volumes on account of prolonged lockdowns and heavy monsoons. On the other hand, prices have been strong, and the company expects sustained pricing discipline in 2HFY21.
- In 2QFY21, Central, North, and East India reported YoY growth in volumes, while West India continued to suffer from COVID restrictions and labor issues. South India also saw a supply overhang.

- Govt. projects have started picking up in Andhra Pradesh (AP), led by the Polavaram irrigation project, PWD works, school renovations, and low-cost housing projects. AP government demand for cement currently stands at ~200kt/month v/s pre-COVID levels of 800kt/month.
- Demand in Tamil Nadu would be impacted by the Northeast monsoons in November, but would improve from December on account of government spending on infra projects.

Debt and capex

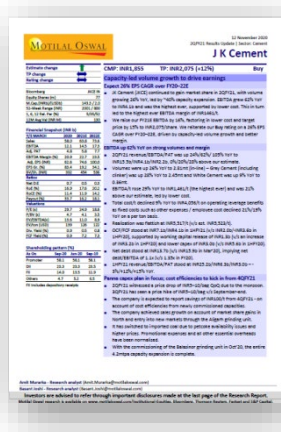
- The company repaid debt of INR1.18b in 1HFY21 and would repay INR3.0b in 2HFY21.
- Maintenance capex is guided to be INR1.0b in FY21. The company is also upgrading its cement mill at Sankar Nagar and setting up WHRS at Chilamkur.
- Chilamkur WHRS may be delayed if cashflow fails to support capex in FY21.

Other highlights

- The company would continue with cash-based sales and has been focusing on improving collection efficiency.
- It has a higher trade sales mix in Tamil Nadu and Kerala. It is also trying to improve its trade sales mix in Karnataka and focusing on reducing the trade/non-trade price differential.
- The company is focused on improving capacity utilization. Meanwhile, it continues to monitor the demand-supply situation in Central India and would accordingly take a call on the planned Damoh expansion.

JK Cement LTD.

Click below for
Results Update



JK Cement

Buy

Current Price INR 1,919

Operational highlights

- In 2QFY21, utilization in South was 60%, while for North it stood at 70%.
- Trade sales mix was 66% in 2Q v/s 75% in 1QFY21.
- Utilization for UAE operations was 90%.

Cost insights

- The Nimbahera Line 3 upgrade would enhance clinker capacity by 1,000t per day and reduce cost by INR100/t at this location.
- The company expects to achieve consolidated cost savings of INR100/t from 4QFY21 on account of cost efficiencies from newly commissioned capacities.
- Interest cost has remained flat YoY on account of repayment and renegotiation of interest rates.
- It has switched to imported coal due to petcoke availability issues, which has led to a rise in prices.
- There is no clarity on incentives for newly commissioned capacities at Balasinor and Mangrol.
- Promotional expenses and all other essential overheads have been normalized.
- The company is exploring opportunities for cost rationalization, including setting up a waste heat recovery system (WHRS) for capacities in South.

Demand and pricing outlook

- The company achieved growth in sales on account of market share gains in North and entry into new markets through the Aligarh grinding unit.
- 2QFY21 witnessed a price drop of INR5–10/bag QoQ due to the monsoon. 3QFY21 has seen a price hike of INR5–10/bag v/s September-end.
- The UAE operation is expected to be impacted due to concerns over a second wave of COVID-19 infections, and utilization levels of 90% achieved in 2QFY21

would be unsustainable going forward. The company is working on a turnaround plan.

Debt

- Standalone gross/net debt stands at INR27.4b/INR13.7b.
- Gross debt is expected to peak at INR30.0b in 4QFY21.
- Repayment of INR8.0b is scheduled up to FY23.
- The company expects net debt to remain below INR25.0b during the Panna expansion.

Capex

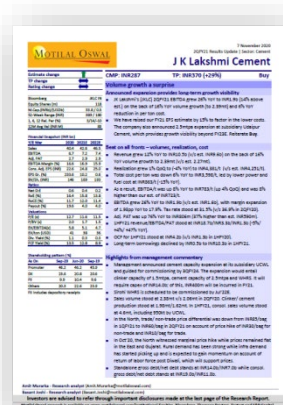
- Panna expansion – Environmental clearance has been received and 90% of factory land has been acquired with INR1.6b capex to date. Board approval would be sought in early FY22, and the project is expected to be completed within two years post the board approval. Panna would have 3.5–4.0mtpa capacity at USD90–100/t. If approved, it would entail capex of INR13b each in FY22 and FY23. The management has also identified a location for setting up a split grinding unit in Uttar Pradesh (UP).
- The Panna expansion would cater to entirely new markets; the new split grinding unit in UP would also cater to new areas of the state.
- Mangrol expansion – INR15.8b capex has been incurred up to 2QFY21 out of the budgeted INR20.0b. The company expects to spend another INR2.3b for the balance items and save INR1.5b out of the budgeted amount.
- Nimbahera Line 3 modernization – INR2.6b has been spent up to 2QFY21 out of the budgeted INR5.0b. INR2.0b is expected to be spent in 2HFY21, and another INR500m would be spent by 2QFY22 at project completion.

Other highlights

- The Panna plant would be set up under a 100% subsidiary with a mine lease.
- The company expects to gain market share in North without disturbing pricing.
- The company has no plans to enter into the Paints business for now.
- The company has maintained market share in the White Cement and Wall Putty businesses and expects to achieve over 10% growth.



Click below for
Results Update



JK Lakshmi Cement

Buy

Current Price INR 341

Operational highlights

- Sales volume stood at 2.38mt v/s 2.06mt in 2QFY20.
- Trade sales mix stood at 55% while blended cement mix stood at 62%.
- Premium product sales accounted for 21% of trade sales volumes.
- Clinker/ cement production for 2QFY21 stood at 1.98mt/1.62mt.
- In 1HFY21, consol. sales volume stood at 4.6mt including 950kt by UCWL.
- Non-cement revenue stood at INR700m (flat YoY).

Cost insights

- Petcoke mix stood at 68% on consol. basis with the North having a mix of 82% while Durg has mix of 46% due to its presence in a coal abundant region.
- Impact of higher petcoke prices will be visible from 4QFY21.
- WHRS accounts for 40% of power requirement for UCWL and the Durg unit while for Sirohi, it will go up to 40% post WHRS commissioning in Sep'21.
- The company targets to achieve INR15/t cost reduction through implementation of conveyor belt.
- Freight cost is expected to rise on account of improved demand-supply equation for trucks.

Demand and pricing

- In the North, trade/non-trade price differential was down from INR85/bag in 1QFY21 to INR60/bag in 2QFY21 on account of price hike of INR30/bag for non-trade and INR10/bag for trade.
- In 2QFY21, prices remained flat QoQ in Gujarat. In the East and Chattisgarh, prices were hiked by INR5/bag. Odisha saw a decline of INR30/bag on account of monsoons.
- In Oct'20, the North witnessed marginal price hike while prices remained flat in the East and Gujarat. Rural demand has been strong while infra demand has started picking up and is expected to gain momentum on account of return of labor force post Diwali, which will support prices.
- In 2QFY21, all operating geographies witnessed YoY growth in volume and the trend continued in Oct'20. However, Nov'20 sales volume will be impacted on account of Diwali.

UCWL capex

- 2.5mt GU will be commissioned in 3QFY23. It will have clinker capacity of 1.5mt and WHRS.
- It will entail capex of INR14.0b; of this, INR400m will be incurred in FY21.
- 30% of the capex will be financed through equity while 70% will be through debt.
- Debottlenecking of clinker capacity from 1.2mt to 1.5mt and GU from 1.6mt to 2.2mt is expected to be commissioned in 4QFY21.

Debt and capex

- Standalone gross debt/net debt stands at INR14.0b/INR7.0b while consol. Gross debt/net debt stands at INR19.0b/INR11.8b.
- The company's corporate guarantee for UCWL stands at INR6.0b, including INR5.5b for term loan and INR500m for working capital loans.
- Consol. net debt is guided to remain in the range of INR10-12b during the period of UCWL capex.
- Capex guidance for FY21 stands at INR1.5b on account of WHRS, apart from maintenance capex of INR300m.

Other highlights

- 20% of company's cement production in the East is sold in East Madhya Pradesh and Vidarbha.
- JKLC and UCWL merger is unlikely to happen in the immediate future as (a) UCWL is receiving tax incentives, and (b) UCWL has opted for the new tax regime while JKLC is continuing with the old regime.



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Shree Cement**Neutral****Current Price INR 23,949****Operational highlights**

- Sales volume was at 6.53mt v/s 5.72mt in 2QFY20 (4.93mt in 1QFY21).
- Clinker production for 1HFY21 was at 7.28mt.
- Utilization in South improved to 68% (v/s 50% in 1QFY21 and 35% in 2QFY20) on market share gains as the brand is gaining traction.

Sales mix

- Overall trade sales mix was at 76%, down from 80% in 1QFY21, on account of a pickup in govt. demand, driven by infra projects.
- The trade sales mix for North/South/East stands at 65%/85%/100%.
- Regional sales mix for North/East/South stands at 66%/26%/8%.
- The PPC/OPC/PSC mix stood at 73%/25%/2% v/s 75%/24%/1% in 2QFY20.

Shree Cement

Key Metrics Summary:

Metric	FY20	FY21	FY22
Revenue (INR bn)	1,100	1,200	1,300
EBITDA (INR bn)	250	280	300
EPS (INR)	15	18	20

Investment Case: The company is expected to benefit from the recovery in demand for cement in the coming years, supported by government infrastructure projects and the return of labor. The company's strong financial position and high-quality assets provide a solid foundation for growth.

Valuation: The company is currently trading at a P/E ratio of 15x, which is in line with the industry average. The company's strong growth prospects and high-quality assets provide a solid foundation for growth.

Risk Factors: The company faces several risks, including changes in government policy, fluctuations in raw material prices, and competition from other cement companies. However, the company's strong financial position and high-quality assets provide a solid foundation for growth.

Appendix: The appendix contains detailed financial data, including a full income statement, balance sheet, and cash flow statement, as well as a detailed analysis of the company's operations and market position.

- Premium sales accounted for 6.5% of sales volume v/s 4% in 2QFY20 (4.5% in 1QFY21) and reached 400kt in 2QFY21 from 250kt in 2QFY20.

Cost insights

- Lead distance was at 453km v/s 457km in 2QFY20 (475km in 1QFY21) and is expected to reduce further with the commissioning of new grinding units.
- Employee expenses are guided to remain at INR1.75b per quarter going forward. Employee count fell to 6,220 in Sep'20 from 6,330 in Sep'19.
- Depreciation is expected to be at INR13.0b for FY21.
- The petcoke mix stands at 70% and is expected to reduce as the company would switch to thermal coal gradually, unless petcoke prices soften. Currently, coal is 8–10% cheaper than petcoke.

Demand and pricing outlook

- Demand has picked strongly since Sep, led by rural and semi-urban areas, and pickup in government infra projects, supported by the return of labor.
- In 2QFY21, cement realization remained flat YoY at INR4,600/t (-2% QoQ), supported by better pricing in South.
- Urban real estate demand is yet to pick up, but the overall demand trend is expected to remain stable with around 7–8% growth in 2HFY21.
- Prices have firmed up in October and are expected to increase further post the festive season.
- In October, demand in Bihar was impacted on account of elections, but it is expected to pick up post the festive season.

Capex

- Raipur third clinker line – This is expected to be completed by 1QFY23. It would entail capex of INR10.0b. The company has got approval for 12,000tpd, but it would take a call on actual capacity (10,000–12,000tpd) by Dec'20.
- The Pune and Odisha grinding units are expected to be commissioned in Dec'20.
- The company has guided for capex of INR12.0–14.0b in FY21 and expects this to be at INR12.0b in FY22.
- The company would announce plans for the Bengal grinding unit in 2HFY21.
- It plans to double its grinding capacity to 80.0mt over the next six years with the target to reach 57.0mt over the next three years. This would be accomplished through expansions in North and East.
- The company has mining leases in Gujarat, Rajasthan, and Andhra Pradesh and would come up with expansion plans in the next 2–3 years.

Energy mix and outlook

- The company has 508MW/210MW/2MW/29MW capacity of Thermal Power/WHRS/Solar Power/Wind Power.
- Renewable energy sources account for 45% of power requirement, and the company aims to improve this to 50% by FY22.

UAE operations

- At the time of acquisition, UAE operations had ROCE of >10% in USD terms (>20% in INR terms), but post-acquisition, the entire Middle East economy suffered due to lower crude prices. It impacted cement demand in the region.
- Pricing remains weak in the region and is expected to improve in a few quarters.
- Clinker exports to other countries have been impacted on account of poor demand.
- The company has increased capacity from 10,000tpd to 14,000tpd post the acquisition.

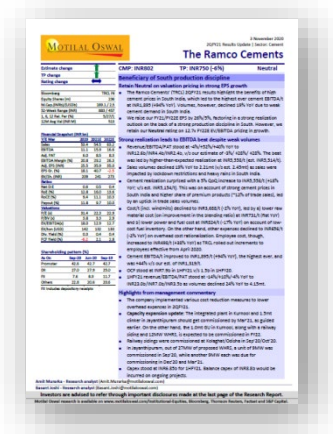
- It has set up WHRS with capex of INR32.0b and implemented various cost rationalization measures.

Other highlights

- The company expects to book incentive of INR2.2–2.5b in FY21, in line with trends of the last 3–4 years.
- Few state govt. have delayed incentive payments with a backlog of 2–3 years.
- Domestic capacity stands at 25.6mt/40.0mt for clinker/cement, while overseas capacity stands at 3.0mt/4.0mt.
- There would be no incentives for the Odisha and Pune grinding units while it has not been firmed up for the recently announced Raipur Line 3.0 clinker.
- Power sales have been negligible in the last three quarters on account of tepid demand and are expected to remain weak in 3QFY21.



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The Ramco Cements

Neutral

Current Price INR 852

- The company implemented various cost reduction measures to lower overhead expenses in 2QFY21.
- Capacity expansion update: The integrated plant in Kurnool and 1.5mt clinker in Jayanthipuram should get commissioned by Mar'21, as guided earlier. On the other hand, the 1.0mt GU in Kurnool, along with a railway siding and 12MW WHRS, is expected to be commissioned in FY22.
- Railway sidings were commissioned at Kolaghat/Odisha in Sep'20/Oct'20.
- In Jayanthipuram, out of 27MW of proposed WHRS, a unit of 9MW was commissioned in Sep'20, while another 9MW each was due for commissioning in Dec'20 and Mar'21.
- Capex stood at INR6.85b for 1HFY21. Balance capex of INR8.8b would be incurred on ongoing projects.
- Gross debt was down INR1.04b in 1HFY21 to INR29.20b as of Sep-20.
- Average cost of debt was down to 6.51% p.a. in 2QFY21 from 7.36% p.a. in 2QFY20.

Ultratech Cement

Buy

Current Price INR 4,863

Capacity utilization improves to 80% in October; rural demand stays strong

- The company operated at 66% capacity utilization in 2QFY21 and a higher rate of 74% in Sept. October utilization has further improved to ~80%.
- Rural demand has sustained on account of a good monsoon season and govt. support. These factors have improved rural cash flow, while urban demand has started picking up slowly amid phase-wise unlocking.
- Govt. spending on infra and road projects has picked up, while urban real estate is seeing slow recovery.
- In the western region, while demand has picked up in Gujarat, it remains tepid in Maharashtra (but is improving as infra projects have started to pick up).
- UTCEM has set up a regional office in North East and is penetrating into North Bengal and the North East market through the Sonar Bangla plant.
- Infra projects are driving demand in North, and Delhi NCR is seeing recovery in urban housing demand.
- South India demand has also started to see an uptick on account of infra and irrigation projects.

The image shows a screenshot of the Motilal Oswal UltraTech Cement Q2FY21 earnings report, specifically page 10. The page contains a table of financial data and a section titled 'Highlights from management commentary'. The table lists various financial metrics such as Revenue, Profit, and Earnings Per Share (EPS) for the quarter and year-to-date. The 'Highlights from management commentary' section provides a narrative overview of the company's performance, mentioning factors like lower petcoke costs, increased share of low-cost green power, and a 14% YoY decline in fixed costs. It also notes that revenue from White Cement / RMC was up 72%/187% QoQ to INR4.3b/INR4.3b, and White Cement volumes stood at 330kt. The company's incentives booked stood at INR30/t in 2QFY21.

- In 2QFY21, UTCEM witnessed pan-India YoY growth in volumes, barring in West. It expects industry volumes to grow in 2HFY21, supported by revival in non-trade demand and government road and infra projects.

2QFY21: Operational highlights

- Trade share in volumes was up 4ppt YoY to 71% (but down from 78% in 1QFY21). Blended cement sales were also up 3ppt YoY to 71%.
- UTCEM increased its penetration in the rural markets by 5% YoY. The number of UBS (UltraTech Building Solutions) outlets grew 4% QoQ to 2,300.
- Cost of production declined 7% YoY on account of lower petcoke costs, increased share of low-cost green power (WHRS, solar), and 14% YoY decline in fixed costs.
- During the quarter, the company booked a one-time expense of INR3.35b, largely due to the impairment of INR2.72b. This was attributable to lower realizable value of prior period loans offered by an acquired Binani asset to an erstwhile promoter entity (fiberglass) of Binani.
- Revenue from White Cement / RMC was up 72%/187% QoQ to INR4.3b/INR4.3b; White Cement volumes stood at 330kt.
- Incentives booked stood at INR30/t in 2QFY21.

Fixed cost reduction to continue

- Logistics cost was up 1% YoY / 2% QoQ at INR1,140/t. This was on account of higher diesel prices (14% YoY / 13% QoQ), partially offset by savings on sourcing realignment, geomix optimization, and synergy with acquired CTIL plants.
- It achieved 9% YoY cost reduction (up 3% QoQ) in power and fuel costs per ton on account of lower petcoke cost and higher petcoke usage. Average petcoke price was down 22% YoY to USD71/t, whereas pet coke usage stood at 75% (2QFY20: 64%). Petcoke spot prices were at USD100/t.
- The company achieved a consistent reduction in the consumption of fossil fuels through investments in green power (WHRS, solar, wind). Green power consumption rose to 13% (v/s 9% in 2QFY20) and should rise to 30% over the next three years.
- Raw material cost per ton was up 3% YoY / 6% QoQ on higher fly ash price (up 3% YoY / 8% QoQ). The clinker-to-cement conversion ratio improved by 2% YoY.
- Other expenditure per ton rose 11% QoQ (but was down 18% YoY) on higher maintenance cost and a 4% increase in packing cost. The company has guided for a sustainable reduction of 10% YoY in FY21 or INR5.0b in fixed overheads.
- UTCEM achieved cost reduction of INR4.5b in 1HFY21 in response to COVID-19, but a part of this, including ad spends, would return in 2HFY21.
- Power and fuel costs are expected to go up by 10% QoQ in 3QFY21 on account of higher petcoke prices. This is being partly mitigated by a switch to imported coal, which is currently cheaper than petcoke.



CONSUMER

- Rural demand continued to outperform urban in 2QFY21, enabling sequential recovery for most companies in the sector. Margin improvement was seen in the quarter as companies sharply cut unwanted costs. Some of these cost savings are likely to sustain going forward as well. Furthermore, largely benign raw material costs aided savings, and there has been no material change in their outlook going forward. While cuts in ad spends have also helped, most companies expect these costs to gradually return to normal levels in 2HFY21. Most companies have utilized the COVID opportunity to accelerate new launches, which are also seeing a higher contribution to the overall company topline. Better channel pipeline efficiency further underpins the confidence for topline recovery/growth in subsequent quarters. Secondary sales surpassed primary sales in 2Q as most companies pruned dealer inventory levels, thereby boosting channel ROIs. The e-commerce channel grew robustly in the quarter, leading to higher salience in the channel mix across companies. Most companies have guided for further topline improvement in 3QFY21, with many discretionary product companies guiding for near-normal levels by 4QFY21 as: (a) rural performance is likely to strengthen further in 2HFY21, (b) continued sequential recovery is expected in discretionary consumption, (c) demand would return in large urban clusters, and (d) there are early signs of a good winter season and festive demand. Additionally, some companies announcing significant capex plans indicates management confidence regarding medium-term prospects.

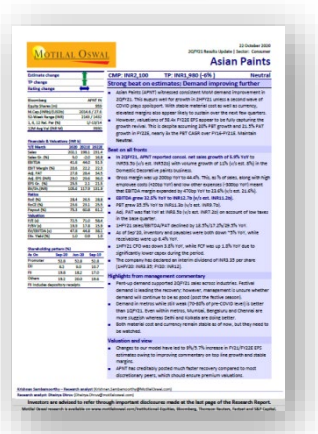
KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY21	Demand Environment post Lockdown
Asian Paints	- Festival demand is leading recovery; however, management is unsure of whether demand will continue to be as good (post the festive season). - Both material cost and currency remain stable as of now, but they need to be watched. - Since the company has a much wider distribution in smaller cities and rural areas, it believes that it is gaining share from other organized players and unorganized players that were struggling in 1HFY21.	- Pent-up demand supported 2QFY21 sales across industries. - Growth is led by Tier 2/3/4 markets (back at pre-COVID demand levels). - Demand in metros, while still weak (70–80% of pre-COVID levels), is better v/s 1QFY21.
Britannia	- Sales saw double-digit growth in July, but weak growth in August. Sales growth was back at healthy levels in September (high single digits). Management believes it is difficult to predict growth amid such volatility. - The outlook for RM is positive, but unlikely to be deflationary. - Ad spends are not at normal levels yet, but are rebounding gradually. - BRIT has plans for greenfield expansion in Tamil Nadu, Uttar Pradesh, and Bihar. It also has plans for brownfield expansion in Odisha and Ranjangaon in Maharashtra.	- Some downtrading is seen as macros continue to worsen. - Volume growth stood at ~9% for the quarter. Adjacencies are growing moderately faster than Biscuits. - Rural is growing at a much faster pace and now contributes 30% to sales.
Dabur	- Significant new customer additions were reported in the Healthcare business; thus, expect healthy growth despite the future base being less favorable against 1HFY21. - The company aims to bring channel inventory down to ~12 days from ~15 days seen in 2QFY21. - Material costs are now increasing v/s 2QFY21. - The medium-term expectation is for ad spends to grow from low historical levels. Accordingly, this should lead to largely stable margins as gains from cost savings and operating leverage would be used as ad spends and to drive sales growth.	- Business momentum was good in Oct'20 as well. - Sanitizer sales declined sequentially to only INR120m in 2QFY21 from INR800m in 1QFY21. Liquid soaps and soap usage is replacing sanitizer sales. - Most categories gained market share YoY in 2QFY21.
Godrej Cons.	- Better performance is expected in 3QFY21 in Household Insecticides (HI). - Sequential recovery in Hair Color is likely to continue in 3QFY21, driven by festive demand. Oct'20 saw positive growth.	- Regional lockdown of 21 days in Guwahati, where the HI manufacturing facilities are located, impacted business. - Rural grew ahead of urban in the domestic market.
Hindustan Unilever	- Management believes the worst is behind and is cautiously optimistic. - Purchases in the winter season by channel usually pick up in September, but have been delayed. However, management is not concerned about winter season demand.	- Rural demand is much better than urban. Metropolitan demand is still muted. - Big cities are seeing higher demand for larger packs, but less frequent buying. This is not the case in smaller cities and rural areas.

Marico	- Management expects 5–7% volume growth in the Coconut Oil segment over the next 8–10 years before growth tapers, similar to Bangladesh. - MRCO targets 8–10% volume growth in 2HFY21. - The e-commerce channel contributed 8% to total sales in 2QFY21 (+39% YoY); this level is expected to sustain over the medium-to-long term.	- Direct delivery coverage has been restored to pre-COVID levels. - The rural segment contributed 35% to total sales (+300bp YoY). Rural sales saw 22% YoY growth in 2QFY21.
Pidilite	- The company desires a 21–24% EBITDA range to operate within (27.3% in 2QFY21). - Less favorable material costs and normalization of ad spends (which dipped sharply YoY in 2QFY21) should lead to operating margins in the range of 21–24%. - Positioning of Araldite brands is yet to be decided and would evolve over the next few months.	- Rural and semi-urban demand recorded double-digit growth in 2QFY21. On the other hand, urban demand, while sequentially higher, is still weak YoY. - Standalone volume and mix growth stood at 3.6%, while volume and mix growth in C&B segment was 7.4%. - Plants are operating at 90% utilization levels.
UBL	- State mix, brand mix, and price increase led to sales decline of 43%, lower than volume decline of 48% YoY. State mix (higher sales from high-realization states) played the biggest part in driving above-realization growth. - Barley costs are 10% lower v/s last year. The outlook for the rest of the year is likely to be similar. Bottle costs are also not seeing any kind of inflationary trend. - Capex is estimated to be ~INR2b for the full year.	- Volume decline is slowing month on month. On-trade channel recovery has been very gradual. Online sales even in the 2–3 best states are only 5–10%. - No major closure of on-trade sales is seen yet.



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Asian Paints

Current Price INR 2,167

Neutral

Macro drivers and operating environment

- APNT had 11% volume growth in 2QFY21 with MoM improvement seen in the quarter.
- Pent-up demand supported 2QFY21 sales across industries.
- Festival demand is leading the recovery, but management is unsure whether demand will continue to be as good post the festive season.
- Since the company has a much wider distribution in smaller cities and rural areas, it believes that it is gaining share from other organized players and unorganized players that were struggling in 1HFY21.
- Although daily rise in COVID cases is lower than before, it is still at high levels. If a second round of lockdown is implemented, business could be affected.
- Growth is being led by Tier 2/3/4 markets (back to pre-COVID demand levels).
- IIP decline declining every successive month is a good sign for the industrial part of the business.
- Metro demand while still weak (70-80% of pre-COVID level) is better than 1QFY21. Within metros, Mumbai, Bengaluru and Chennai are more sluggish whereas Delhi and Kolkata are doing better.

Premium products and innovation

- Premium products are also doing well along with mass products.
- Innovation has been strong in terms of 'health and hygiene'.
- APNT also launched a paint that is claimed to be effective against Coronavirus.
- APNT launched sanitizers and disinfectants in 1HFY21. It also launched a sanitizing service called 'Sanisure'.

RM, currency and margins

- Both material cost and currency are stable now, but they need to be watched.
- There is inflation in some key raw materials.
- No price cuts were taken by the company despite low material costs.
- APNT has put in efforts to reduce fixed overheads, especially rentals.
- Travel costs have declined, which has helped margin growth.

International, industrial, kitchen and bathroom fixture businesses

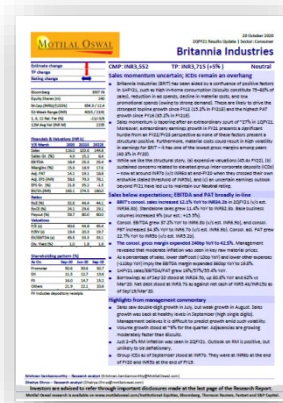
- International business volume growth was close to double-digit in 2QFY21 with 7.8%/44% sales/profit growth.
- Industrial paints: Two-wheeler business demand is recovering. Re-finish is still sluggish while OEM business has reported good growth after a muted 1QFY21.
- Kitchen equipment business revenues were flat YoY at INR610m in 2QFY21; 1HFY21 witnessed 26% decline to INR860m.
- Bath equipment business saw 4%/25% sales decline in 2QFY21/1HFY21.
- Management believes that home décor will be an integral part of their business growth in the future. The company has also launched sanitaryware recently. APNT's aim is to be an increasingly large player in products 'between the walls' as well.
- Wood Finish is also a category that the company could look at.

Other points

- INR3.35 per share interim dividend was declared in 2QFY21. Last year, the total dividend was INR12 per share.



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Britannia Inds

Neutral

Current Price INR 3,552

Operating environment

- Double-digit growth was seen in sales in July, but weak growth was reported in August. Sales growth was back at healthy levels in September (high single digits). Management believes it is difficult to predict growth amid such volatility.
- Volume growth stood at ~9% for the quarter. Adjacencies are growing moderately faster than Biscuits.
- The quarter presented a greater level playing field (v/s 1QFY21); players with high contract manufacturing and nimbleness were at an advantage.
- Some down-trading is seen as macros continue to worsen.
- Management does not believe it has lost market share to value players in the market.
- Ad spends are not at normal levels yet, but are rebounding gradually.
- Modern trade (10% of revenues) continues to be weak. Historically, it has been observed that MT contribution picks up a bit in January and August. The high base in August last year was one of the reasons for weakness in YoY August sales.
- Rural is growing at a much faster pace and now contributes 30% to sales.

Adjacent and international businesses

- New products contribute 4–4.5% to revenue.
- The Middle East business is facing challenges, but the rest of the international regions are growing in the double digits.
- Dairy: Cheese posted double-digit growth in the quarter, but Milkshakes has not improved as out-of-home consumption remains low. Benign milk prices and an improving product mix are aiding margins.
- Cakes: It launched a layer cake at INR5 during the quarter. The Cake business is not growing aggressively as it is dependent on MT and closet clusters such as the Railway sector.
- The non-biscuit portfolio contributes ~25% to sales.

Costs and inventory

- Just 2–3% RM inflation was seen in 2QFY21.
- The outlook for RM is positive, but unlikely to be deflationary.

- BRIT has 9–10 days on inventory, which was down to 4–5 days in 1QFY21.
- Distributor inventory was flat at 5–6 days.

Distribution

- The company now has direct reach through 2.23m outlets.
- It currently has a reach of 22,000 rural preferred distributors.

ICDs and balance sheet

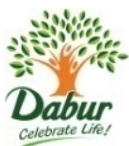
- Group ICDs as of September were INR7b. They were INR6b at the end of FY20 and INR5b at the end of FY19.

Expansion

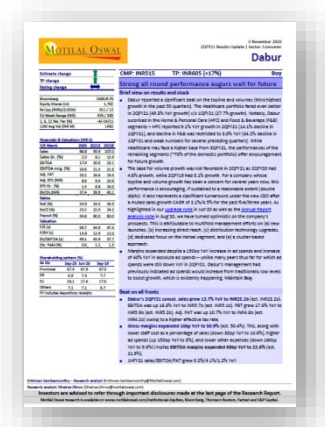
- BRIT has plans for green-field expansion in Tamil Nadu, Uttar Pradesh, and Bihar.
- Its plans for brownfield expansion are in Odisha and Ranjangaon in Maharashtra.
- The company has not specified the quantum of capex.

Sustainability efforts and targets

- 30% of laminates used in packaging are easily recyclable. 'Good Day' now uses completely recyclable laminates.
- The usage of plastic trays is reducing gradually.
- It has a 5% sugar reduction target by 2022. Work is underway for two large brands.
- It has a 5% sodium reduction by 2022. Work is underway for two large brands.
- Renewable energy would reach 45% by end-2021.



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Dabur

Buy

Current Price INR 508

Macros and outlook

- The COVID crisis is serving as a further catalyst for change for Dabur.
- No pipeline loading happened in 2QFY21. Secondary sales were actually higher than primary sales for the quarter.
- Channel inventory was 24 days in 2QFY20 and is now ~15 days. An improvement of ~2 days is seen sequentially, and the company aims is to bring channel inventory down to ~12 days.
- Business momentum was good in Oct'20 as well.

Segmental

- The Healthcare business (30% of domestic sales in FY20) grew 50% YoY: Health Supplements (Chyawanprash and Honey) – 70.8% YoY, Digestives – 2.5%, OTC – 56.1%, and Ethicals – 26.4%. Significant new customer additions were reported; thus, expect healthy growth although the future base is less favorable against 1HFY21.
- HPC (50% of the domestic business in FY20) grew 9.1%, led by a robust category leading growth rate of 24% in Oral Care. Hair Care declined 2.4% YoY on continued weak growth in Hair Oils. The Oral Care category is growing at 5%, with Naturals (25–30% of Oral Care category sales) growing at 8%. The revamped Meswak and Babool products are also doing well, contributing to growth. Dant Manjan has also started to do well. Additionally, the company launched a new brand Dant Rakshak in markets where Dabur Red is weaker than in the rest of the country (primarily North India).
- Foods and Beverages (20% of domestic sales in FY20) declined only 3.8% YoY, much lower than expected, with the Beverages segment declining 4.8% YoY. The

Beverages business (ex-Horeca) actually grew ~6%. Management believes that the F&B business, which was declining sharply in earlier quarters, has turned the corner. A continued shift is seen from carbonated beverages to juices and drinks. Dabur lost key summer season sales in 1QFY21; thus, the base would be highly favorable in FY22.

- Most categories gained market share YoY in 2QFY21.
- The International business grew 5.5% (CC growth of 3.5%). Geographical CC growth – MENA (-15%), Egypt (-3.3%), and Hobi (Turkey) – was up 31.3%; Namaste (US) grew 14.6%, Nepal 29.3%, and Bangladesh 31.8%. Management believes the Middle East business should return to recovery from 3QFY21. Barring Nigeria and sub-Saharan Africa, most geographies are likely to do well.
- Sanitizer sales declined sequentially to only INR120m in 2QFY21 from INR800m in 1QFY21. Liquid soaps and soap usage is replacing sanitizer sales.

Competition

- **Chyawanprash:** Even after the recent spurt in the current year, penetration is just ~4%; thus, category growth, partly led by competition, is welcome. The company believes there is a broader nutraceuticals play for Dabur through this category.
- **Honey:** In this category as well, penetration was low at the mid-20s levels v/s 50–60% in several other comparable countries. Hence, category growth and competition are welcome in this category.

Costs and margins

- The medium-term expectation is for ad spends to grow from low historical levels. Accordingly, this should lead to largely stable margins as gains from cost savings and operating leverage would be used as ad spends and to drive sales growth.
- The eventual target for ad spends (as a percentage of sales) over the next few years is 12% (from ~8% currently).
- India gross margins actually improved ~100bp YoY v/s 10bp growth at the consolidated level. Gross margin expansion was led by a favorable mix and some RM deflation. MENA is a profitable business, which declined YoY in 2QFY21.
- Material costs are now increasing v/s 2QFY21.



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Emami

Buy

Current Price INR 396

Macro and trends

- Overall demand trends are improving, particularly in rural.
- Primary sales were in-line with secondary sales for 2QFY21 and 1HFY21 secondary sales were higher than primary sales.
- Urban sales grew 8% and rural sales 20% for 2QFY21. Rural contributes to half of HMN's sales. Management expects HMN's rural growth to continue at this pace in the near term.
- Good sales continued in Healthcare (Balms, Hygiene Products, and Chyawanprash) in Oct'20 and over the first five days of Nov'20. This segment grew 53%/40% in 2QFY21/1HFY21. The products contributed to around 50% of sales for 2QFY21.

New launches boosting sales

- It launched 20 new products (40 SKUs), mainly in the Health and Hygiene space, which is aiding sales.

- These products' contribution to sales in 2QFY21 was healthy at around 4% of sales.
- While sanitizer sales have fallen significantly in recent months, other hygiene products continue to do well.

Good initial winter season response

- Demand for winter products has picked up in the last few days with the onset of winter in North India. HMN had a weak base of winter sales in 3QFY20.
- Chyawanprash constitutes less than 2% of sales as the company is a distant second largest player to Dabur.

Update on underperforming brands

- Fair and Handsome is on a sequential recovery trend, but still down YoY.
- Male Grooming remains weak.
- Kesh King has posted some recovery in recent months to earlier high levels as it regains market share from Kesh Kanti of Patanjali and, in some markets, from Indulekha of HUVR as well. While demand continued to be good in Oct'20 as well, management believes it is still premature to call out growth numbers.
- Some recovery has also been seen in Pancharistha in recent months. Capex and amortization
- Capacity utilization is currently around 70%, and sales have just started improving from 2QFY21. Management does not see the need for major capex for the next two years.
- Amortization of INR550m for Kesh King would be taken from 3QFY21 until Jun'22.

Other points

- EBITDA margins are likely to be around 30% going forward.
- Share of Modern Trade to the total is 8–9%.
- The pledge stands at 40% currently. They were earlier guiding for near-zero by March 2021, but this seems unlikely as asset sales are taking longer.



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Godrej Consumer

Neutral

Current Price INR 699

Home Insecticides (HI)

- Regional lockdown of 21 days in Guwahati where the HI manufacturing facilities are located impacted business.
- Accordingly, secondary sales growth came in low double-digits, which is higher than primary sales growth of 4% in 2QFY21.
- GCPL might have gained share in the electric segment, but it lost in aerosols and coils segments in 2QFY21, as per management.
- Non-mosquito segments like cockroach and rat are seeing good demand.
- Better performance is expected in 3QFY21 in HI.

Other businesses

- Sequential recovery in Hair Color is likely to continue in 3QFY21, driven by festive demand. Oct'20 saw positive growth.
- In soaps, secondary sales growth was marginally higher than primary sales.
- The company took some price hikes toward end-2QFY21 due to rising palm oil prices. PFAD prices are currently at USD750 levels, up 35-40% YoY.

International business

- Africa margins are down YoY due to higher salience on braids. The company is aiming to expand margins by 300-400bp in Africa over the next 2-3 years.

- Indonesia grew 3% in CC terms v/s FMCG peers in the country seeing decline. The geography was also impacted by stringent social distancing norms in Sep'20 and down-stocking by retailers. Management is optimistic on medium-term potential of the geography by market share gains, better penetration and new product launches.

Financials

- Used surplus cash from India to repay loans in the international markets, largely in Africa. GCPL has also prepaid some loans.
- WC days reduced by 12 days to 5 days due to lower receivable days.

Other points

- Rural grew ahead of urban in the domestic market.
- Digital spends continued rising over the years.



Hindustan Unilever Limited

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MOTILAL OSWAL
PRACTICE PROBLEMS

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Hindustan Unilever

Name _____
Roll No. _____
Branch _____

COMP. ID NO. _____
Section _____

Key _____

Q.1 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.2 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.3 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.4 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.5 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.6 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.7 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.8 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.9 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.10 The following data represent the monthly sales of a company in lakhs of rupees.

10	12	15	18	20	22	25	28	30	32	35	38	40	42	45	48	50	52	55	58	60	62	65	68	70	72	75	78	80	82	85	88	90	92	95	98	100
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Q.11 The following data represent the monthly sales of a company in lakhs of rupees.

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Hindustan Unilever

Buy

Current Price INR 2,120

Operating environment

- 80% of the portfolio (health, hygiene and nutrition) grew 10% while discretionary categories (15% of portfolio made up by skin care, cosmetics, deodorants) declined 25% while out-of-home (5% of sales) declined 25% YoY. These numbers in 1QFY21 were ~+6%, ~-45% and ~-70%, respectively.
- Particularly, given some pipeline filling in Jun'20 quarter v/s pipeline shedding in Mar'20, the Sep'20 quarter's sequential improvement is more impressive.
- Based on global experience, so far, recovery in the discretionary portfolio has been strong and depends on people stepping out more.
- In 70% of the portfolio, the company has increased category penetration compared to pre-COVID levels.
- In over 90% of the business, HUVR has gained market share. This is despite the fact that Modern Trade (MT) demand (where HUVR has an even higher market share compared to market share in General Trade) is still some way back from normal levels.
- Rural demand is much better than urban. Metropolitan demand is still muted.
- Big cities are seeing higher demand of larger packs but less frequency of buying. This is not the case in smaller cities and rural areas.
- Supply and service levels are now back to pre-COVID levels.
- HUVR launched 100+ SKUs over the last six months.
- Volume growth was 1% on like-to-like basis, excl. GSKCH.
- Management believes the worst is behind them and are cautiously optimistic.

Segmental information, Costs and Margins

- The 30bp margin expansion was driven by (a) 90bp gain as a result of merger of GSKCH, and (b) 60bp YoY decline in base business margins.
- Fabric wash: Price reduction was taken in some SKUs in certain markets. Some categories have declined as people are spending more time at home. Sequential recovery is good.
- Oral care saw double-digit growth after a long time.
- 'Glow and Lovely' and 'Glow and Handsome' have been launched to pleasing initial response.
- Nabha and Rajahmundry plants of GSKCH had temporary COVID issues. If not for these issues, sales would have been even better for the GSKCH portfolio. Secondary sales were not affected but primary sales were.

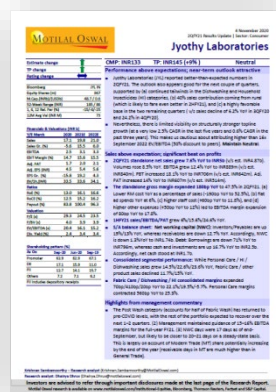
- Tea: HUVR has hiked prices because of the steep commodity cost inflation, but focus is on gaining from the unorganized segment.
- Purchases in winter season by the channel usually picks up in September, but has been delayed. However, management is not worried about winter season demand.
- Ad spends were down only 5% YoY in 2QFY21 (v/s 31% YoY decline in 1QFY21), which makes overall margin improvement even more worthy.

Other points

- Shikhar app for retailers is available in 270,000 stores. Partnership with SBI also enables credit to a retailer.
- E-commerce sales have doubled from pre-COVID levels.
- Domex has been taken from South India to the entire country as the household cleaning category is growing very well post-COVID.
- Indulekha has also been taken on a national level as the company is even more confident after GSKCH's efforts.



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Jyothy Labs

Neutral

Current Price INR 139

Positive sales growth in 2QFY21

- Consumer sentiment has improved in 2QFY21, but is yet to achieve complete normalcy.
- Positive growth was attributable to its (a) agility – focus on hygiene products, (b) flawless execution, and (c) financial prudence.
- Rural demand (contributing 40% to sales) remained strong, backed by strong monsoons and increased government support.
- Sales in General Trade (GT) and e-commerce continued to be robust, but remained weak for Modern Trade (MT) and Canteen Stores Department (CSD).

Key categories

- Post Wash (accounts for half of Fabric Wash) has returned to pre-COVID levels. The remaining portfolio is expected to recover over the next 1–2 quarters.
- HI and Dishwashing are doing very well and have a positive outlook.
- The T-Shine floor cleaner has received a good response.
- It is focusing on low-priced SKUs (INR5 and INR10 packs), which account for 25% of sales.

Costs, margins, and other financials

- It would increase media spend in 2HFY21.
- Higher ad spends in the HI category are leading to lower profitability; expect profitability to expand after a few quarters.
- Management maintained guidance of 15–16% EBITDA margins for the full-year FY21.
- Tax rates would be in the 17–18% range over the next two years.

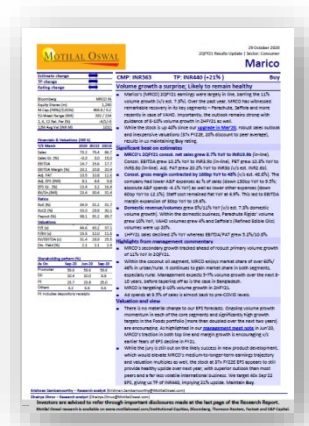
Balance sheet improvements

- Channel inventory was lower v/s last year.
- For the first time in many years, JYL is net cash on a standalone basis (INR300m) and marginally net debt at the consolidated level (INR400m).
- Working capital improvement was the key reason for the company being net cash.
- NWC days were 17 days as of end-September, but likely to be closer to 20–21 days on a steady-state basis. This is largely on account of MT share potentially

increasing by the end of the year (receivable days in MT are much higher v/s GT).



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Marico

Buy

Current Price INR 374

Broad environment

- MRCO's secondary growth tracked ahead of very healthy primary volume growth of 11% YoY in 2QFY21.
- Direct delivery coverage has been restored to pre-COVID levels.
- The rural segment contributed to 35% of total sales (+300bp YoY). Rural sales saw 22% YoY growth in 2QFY21.
- The E-commerce channel contributed to 8% of total sales in 2QFY21 (+39% YoY) and this level is expected to sustain over the medium-to-long term.

Segmental highlights

- **Parachute** saw an 8% volume growth, which was encouraging. Within the coconut oils segment, MRCO enjoys market share of over 60%/46% in urban/rural. It continues to gain market share in both segments, especially rural. Management expects 5-7% volume growth over the next 8-10 years before demand tapers off, as is the case in Bangladesh, where the brand's volume growth is now ~3% and growth is dependent on other product categories.
- **VAHO** has rebounded to positive growth rate (4% volume growth) after a sharp decline in 1QFY21. It has also gained 200bp market share over the last 2 years. Expanding to lower price products is aiding MRCO in the current environment.
- **Foods** – 62% of volume growth has come from increased household penetration, primarily new users. The share of healthy products in home snacking is increasing. Saffola has also gained share in the oats category. Therefore, unlike other snack categories like biscuits, there has been no slowdown in sales momentum.
- **Foods segment** sales are expected at INR3-3.5b in FY21 and INR4.5-5b by FY22E.
- Within a few months of its launch, Saffola Honey has already managed to capture 8% market share in Modern Trade.

Other points

- MRCO is targeting 8-10% volume growth in 2HFY21.
- In 2QFY21, the company recognized an exceptional item of INR330m on account of impairment to certain fixed assets.
- Ad spends at 9.5% of sales is almost back to pre-COVID levels.
- Management expects some softening of material costs in 4QFY21. Copra prices increased by high single-digits in 2QFY21 but witnessed softening in the last 10 days of the quarter.
- 20% plus EBITDA margins are expected for FY21.
- Cost savings of INR1.5b are targeted in FY21, most of which will be sustainable in nature.



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The screenshot shows a financial data table for Page Industries. Key figures include: Sales (INR 2,112.1 Cr), Profit (INR 211.2 Cr), and EPS (INR 21.12). The table also lists various financial ratios and metrics.

Page Inds

Neutral

Current Price INR 22,137

Performance and outlook

- In terms of sales growth, July was negative, while August was flat. However, September witnessed double-digit growth and thus far 3QFY21 has been maintaining positive momentum.
- The management expects a full recovery by 4QFY21.
- Volume decline was 13.6% YoY in 2QFY21. Faster Athleisure segment growth (higher realizations, but similar margins) due to people not venturing outdoors in 1HFY21 led to realization growth of ~9%.
- Management's target of a USD1b topline in five years remains intact.
- While secondary sales were, in fact, higher than primary sales in 2QFY21, the difference between them was minor.

Additional comments on costs and margins

- In 1QFY21, an INR107m provision was taken on slow-moving goods, which impacted gross margins. This quarter saw the reversal of these provisions boosting GM in 2QFY21.
- While the cost of yarn is rising, the availability of new crop at expected levels over December–January should result in the softening of prices, as per the management.
- Margins are likely to be in the 21–22% range.
- Lower other expenses were partially aided by savings on ad spends in 2QFY21 – expected to normalize in the coming quarters.
- The company did not undertake any material price increases in 1HFY21.

Other points

- Jockey is present in over 2,870 cities and towns through 3,850+ distributor accounts, with a retail network of 67,000+.
- A 4–5% increase in MBO outlets is targeted in the current year.
- Kids wear – PAG now has 15 exclusive junior outlets and kids wear is available in 8,000 outlets.
- E-commerce salience was ~3x normal levels in 1QFY21 (around 10%), but has now declined to 2–2.5x.
- The JDA implementation would aid demand forecasting.
- The company would proceed to set up the Odisha green-field facility first, which was delayed due to COVID-19.
- Capex of INR730m is likely in FY21. While capex for FY22 has not been decided, management expects it to be ~INR2b.

Pidilite Industries

Neutral

Current Price INR 1,560

Macro and outlook

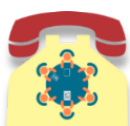
- Rural and semi-urban demand recorded double-digit growth.
- Urban demand while sequentially higher is still weak YoY.
- Plants are operating at 90% utilization levels.
- Standalone volume growth: Overall volume and mix growth stood at 3.6% while volume and mix growth in C&B segment was 7.4%.

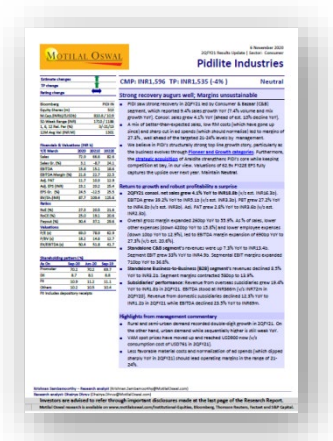
Costs and margins

- VAM spot prices have moved up and reached USD900 now as against consumption cost of USD761 in 2QFY21.



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MOTILAL OSWAL
Dilidite Industries

Strong recovery against weak margins unsustainable

Key highlights:

- Q2FY21 revenue grew 21% to INR 1,045.25 Cr. EBITDA grew 21% to INR 225.25 Cr. EBITDA margin improved to 21.6% from 19.8% in Q2FY20.
- Q2FY21 revenue grew 21% to INR 1,045.25 Cr. EBITDA grew 21% to INR 225.25 Cr. EBITDA margin improved to 21.6% from 19.8% in Q2FY20.
- Q2FY21 revenue grew 21% to INR 1,045.25 Cr. EBITDA grew 21% to INR 225.25 Cr. EBITDA margin improved to 21.6% from 19.8% in Q2FY20.

- There was a sudden abnormal drop in VAM prices when the COVID pandemic hit. However, VAM prices have normalized now and stand at USD900 (flat YoY).
- Lower ad spends was the key factor behind the sharp dip in other expenses in 2QFY21, which will normalize in subsequent quarters.
- The company desires 21-24% EBITDA range to operate in (27.3% in 2QFY21).

Huntsman acquisition

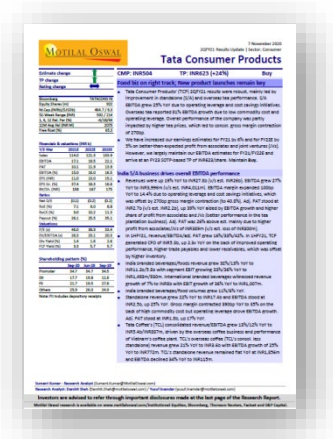
- Araldite has leadership position in the niche but high quality epoxy-adhesives used in marbles. Further, Araldite carpenter and Araseal (used as adhesives in carpentry) are also dominant products.
- This acquisition completes PIDI's portfolio in the adhesives space.
- Positioning of Araldite brands is yet to be decided and will evolve over the next few months.
- The acquired business in India and other emerging markets was INR4b of sales in CY19. The fixed assets of the company are miniscule as products were largely contract manufactured.
- Transaction does not require approval of the Competition Commission and has already been concluded earlier this week.
- Management stated that Araldite already has very healthy margins, and hence, focus is on growth. Araldite's EBITDA margins are comparable to those of PIDI.

Other points

- One-third of expected growth should come from new products.
- Capex will continue at 4-5% of revenue for some time.

TATA CONSUMER PRODUCTS

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MOTILAL OSWAL
Tata Consumer Products

Q2FY21 revenue grew 12% to INR 1,045.25 Cr. EBITDA grew 21% to INR 225.25 Cr. EBITDA margin improved to 21.6% from 19.8% in Q2FY20.

Tata Consumer Products

Buy

Current Price INR 519

India Beverages

- India Beverages business recorded volume and revenue growth of 12% and 29%, respectively. Robust revenue growth was recorded across portfolio, driven by higher volume and price realization. Further, TCP also managed to gain market share in both volume and value terms.
- Operating margins were stable on YoY basis, despite unprecedented inflation in raw tea prices.
- Tea price hike: Recent price hike in tea was in line with the increase in input cost. Tea prices are coming down but are still significantly higher as compared to last year.
- Market share: Currently, half of the Indian tea market is in loose tea packets. With increase in tea prices, many loose tea sellers are expected to face problems. As a result, the market share shift from unorganized to organized players is expected to happen at a faster pace. Going forward, TCP will focus on gaining market share, as the company gained volume and value share (in 2QFY21) from unorganized as well organized players.

India Food business

- India Food business recorded volume and revenue growth of 6% and 13%, respectively. This was due to double-digit revenue growth across the salt and Tata Sampann portfolio. Salt revenues grew 10% YoY in 2QFY21 and value-added salt portfolio has grown by ~100% YoY in 2QFY21. Pulses continue to deliver robust growth with revenues growing 35% YoY in 2QFY21.
- Tata Salt: During the quarter, salt business grew 7% YoY in volume and 10% YoY in value terms. TCP took 5% increase in salt prices (from Oct'20), which was

mainly due to increase in input cost. Operating cost was high due to excessive rainfall and labor availability issue. However, the price hike is in line with input cost for salt and tea business. The company managed to gain market share in both the segments.

- Poha – Among new launches, Poha is believed to be a mainstream mass category product, which the company aims to aggressively launch through its distribution network.
- Nutrimix – TCP will initially focus on improving its sales on the e-commerce platform and will later use the existing distribution and retail network to penetrate the market. Nutrimix branded market is growing at 20-25% every year and possesses huge potential.

NourishCo

- In 2QFY21, NourishCo business revenue returned to 87% of pre-COVID levels and recorded INR380m in revenue. This was due to sequential recovery sales (in both price and volume terms).
- Himalayan continues to face some headwinds with lockdown restrictions. However, TCP has seen gradual recovery in sales on month-on-month basis. Further, NourishCo recorded highest-ever volumes for Tata Water Plus in Sep'20.
- Tata Coffee (incl. Vietnam)
- Top line grew 17% YoY in 2QFY21 (15% in constant currency terms), primarily led by Vietnam.
- TCP also saw 6% volume and 26% value growth in the plantation business; whereas extractions business grew by 13% (+11% volume growth), led by Vietnam business. The company also registered significant growth in pepper volumes.

JV: Starbucks

- As on Sep'20, 86% of Starbucks stores are open across 12 cities. Starbucks' revenue is recovering on month-on-month basis and the company managed to return to ~71% of previous year's revenue levels (for the month of Sep'20).
- The company managed to save significantly through rental negotiations.
- During the quarter, Starbucks launched 11 new stores and added one new city (Lucknow) to its network. Currently, TCP has 196 Starbucks stores in India.

UK Business

- TCP recorded 4% YoY revenue growth (on constant currency basis) and 7% YoY volume growth in 2QFY21. The company managed to improve profitability on account of higher sales and improved gross margin.
- With the recent re-imposition of lockdown in Europe, out-of-home and wholesale channel consumption continues to face headwinds.

USA Business

- USA Coffee business recorded revenue growth of 4% YoY (on constant currency basis), while volumes slipped by 3%. Effect of panic buying and pantry re-stocking gradually subsided during the quarter in the US and across other international locations.
- Tea (excluding Empirical) registered strong revenue growth of 11% YoY as against volume growth of 8% YoY.

Canada business

- In Canada, underlying revenue growth stood at 1% YoY (on constant currency basis) against volume decline of 7%, which was due to decline in food service business and discontinuation of ethnic teas.
- Revenue growth in specialty tea stood at 25% YoY in 2QFY21. Post a surge in 1QFY21 demand in regular tea sales has seen a marginal downtick.

Synergy

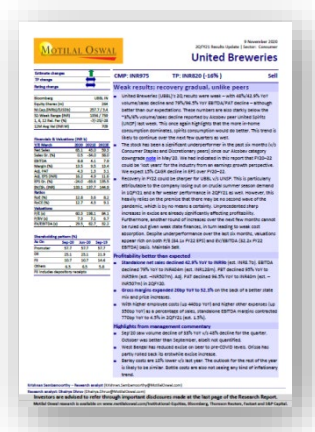
- Integration milestones: Integration across all businesses is expected to be completed by CY20, post which synergies should start flowing.
- TCP has managed to complete two stages (out of three stages) of distributor consolidation, wherein Phase 2 involved creating a single distribution point for most parts of the country. Stage 3, which involves rural and other consolidation, is expected to be completed by FY21. Post this, the company will double its distribution and retail reach.
- Synergy benefits: TCP expects to gain 2-3% (of sales) from synergy benefits (as previously guided) – half from revenue and half from cost synergy. Currently, TCP is focused on cost synergies; the structure of the organization is in place, which should aid in driving cost synergy. The company remains confident of delivering higher synergy benefits and delivering it before time when compared to its earlier guidance.

Others

- International tea business: Operating margins of international business were higher due to higher gross margin, which was due to lower commodity prices higher Tea production in Kenya. Also, better product mix (increase in sale of premium products) and control of discretionary cost, aided growth of operating margin.
- International business: In Poland, TCP moved from direct operations to distributor operations, which yielded good results. Going forward, TCP will monitor international portfolio and exit non-performing business, like it did in China, Russia, etc.
- Revenue contribution from e-commerce increased 2x in 2QFY21 v/s last year.
- Improved performance in the plantation business in North India led to higher profit from associates and JVs.



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Results Update



United Breweries

Sell

Current Price INR 1,094

Outlook and performance highlights

- Volume decline is slowing month on month.
- Sep'20 witnessed volume decline of 33% YoY v/s 48% decline for the quarter. October was better than September, albeit not quantified.
- State mix, brand mix, and price increases led to sales decline of 43%, lower than volume decline of 48% YoY. State mix (higher sales from high-realization states) played the biggest part in driving above-realization growth.
- West Bengal has reduced excise on beer to pre-COVID levels. Odisha has partly rolled back its erstwhile excise increase.
- If Bihar witnesses a change in the political regime – possibly leading to the abolishment of prohibition in the state – the company believes it could resume supply within the state within 2–3 months once an announcement is made.
- On-trade channel recovery has been very gradual.



UNITED SPIRITS

Click below for
Detailed Concall Transcript &
Results Update



UNITED SPIRITS	
Quarterly Results - Q3 FY21	
Particulars	Q3 FY21
Revenue	1,000.00
Operating Profit	150.00
Profit Before Tax	140.00
Profit After Tax	100.00
EPS	10.00
Dividend	5.00
Net Debt	500.00
Working Capital	200.00
Capital Expenditure	50.00
Free Cash Flow	100.00

Channel details

- Online sales even in the 2–3 best states are only 5–10%.
- No major closure of on-trade sales is seen yet.

Clarifications on financial items

- Barley costs are 10% lower than last year. The outlook for the rest of the year is likely to be similar. Bottle costs are also not seeing any kind of inflationary trend.
- Other income saw a one-off increase due to the reversal of provisions for doubtful debts.
- Capex is estimated to be ~INR2b for the full year.

United Spirits

Neutral

Current Price INR 571

Operations and Outlook

- Progressive improvement in demand witnessed as economy re-opened.
- Off-trade demand in many states were in line or ahead of pre-COVID levels while on-trade sales were down because bars, pubs and restaurants remained closed for a large part of the quarter.
- Primary sales to trade were more than secondary sales for the quarter ahead of the festive season. Channel inventory was higher because trade wanted to stock more, particularly in metropolitan India, given the uncertainties in supply chain due to the frequent lockdowns imposed.
- On-trade footfalls are still low even as seating capacities are limited to ~50%. There is still uncertainty about the number of customers that will be convinced to step out into bars and restaurants. Management has said that they do not know when socializing will come back to earlier levels.
- Since off-trade sales are high and on trade recovery will be very gradual, spirits are likely to do better than beer.

Costs and margins

- Material cost remained benign but mix deteriorated as lower Prestige grew faster within Premium & Above (P&A), affecting gross margin (GM). Large Andhra Pradesh franchise business weakness also affected in GM YoY. Although bottled in India, scotch has higher gross profit per case; as it is not as high as the rest of the P&A portfolio, it also affected gross margin.
- The recently announced ethanol blending policy may lead to some increase in ENA costs in 2HFY21.
- Pricing increase in free markets and hope of price increase from more state governments may provide some support to gross margin. Karnataka has not seen a price increase for several years now.
- McDowell No. 1 and Royal Challenge were renovated during the quarter. Consequently, ad spends grew QoQ in 2QFY21 to support the initiative.

Balance sheet

- Debt repayment continued like in the past.
- Working capital was under control. State governments are paying on time as of now and there have been some savings in other components.

FINANCIALS/BANKS



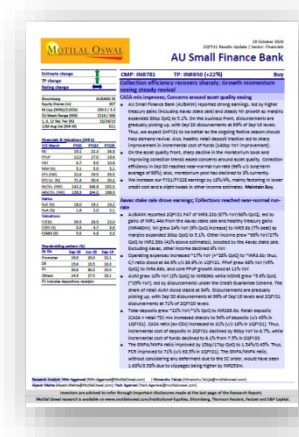
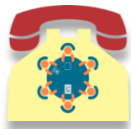
- Commentaries of banks suggest business trends are gradually picking up MoM and have reached pre-COVID levels. Thus, expect loan growth to improve over 2HFY21. Moreover, the gradual deployment of excess liquidity and improved cost of funds would continue to aid margin expansion. Furthermore, fee income trends are expected to improve, with the Retail business likely to be the key driver in the near term. On the asset quality front, banks reported better collection trends and indicated restructuring would remain in the low single digits. However, banks would continue to strengthen provision coverage and build additional COVID-related provisions to further strengthen the balance sheet. This addresses the key concerns around the business outlook and asset quality of the banks. Although slippages would increase over 2HFY21 post the SC order, expect normalizing trends from FY22.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Asset Quality & Moratorium
Axis Bank	■ Certain fee income lines in retail businesses have improved sharply and are performing better than pre-COVID levels. Thus, expect fee income traction to remain strong.	■ Demand resolution stands at 94% as of Sep'20 (currently at 97%). ■ Overall, the potential restructuring pool is likely to account for 1.6% of customer assets (Retail and Corporate).
ICICI Bank	■ Growth trends are picking faster in certain retail lending segments and business activity in rural is growing faster. ■ ICICIBC does not have any loan growth targets, and the focus will be on growing profits in a risk-calibrated manner. ■ It expects the gradual deployment of excess liquidity and thus margins to further improve.	■ Collection trends across most segments are near pre-COVID levels or better than anticipated, while demand resolution under the CV portfolio remains lower. Overall, demand resolution in the retail business is at ~97% of pre-COVID levels. ■ Restructuring in the corporate portfolio is likely to be less than 1% of total loans. ■ Further expect more downgrades in the BB & Below pool in the coming quarters.
IndusInd Bank	■ Retail fee income is showing revival trends. In the near term, the bank expects the retail business to be a key driver. ■ NIMs are expected to remain range-bound between 4.15–4.25%. ■ Loan mix to be toward retail segments. Overall asset growth is expected to improve in the coming quarters.	■ Overall collection efficiency stood at 94.7% as of Sep'20. This has further improved to 95.5–96% in Oct'20. ■ Overall, expect restructuring to be in the low single digits. ■ PCR is likely to remain above 70% levels.
Kotak Mahindra	■ Focus remains on garnering deposits, particularly CASA and retail deposits. ■ The bank would now start focusing on incrementally increasing customer acquisitions on the asset side and seeking growth opportunities. Thus, expect loan growth to pick up in the coming quarters.	■ Collection efficiencies have been improving across segments, but unsecured loans need to catch up. Overall, collection efficiency for the bank would be in the ~mid-90 levels. ■ Asset quality in the MSME business seems under control.
SBI	■ Lending activity is improving MoM across business segments. ■ The deployment of excess liquidity on the balance sheet would support the margin trajectory.	■ Collection efficiency (CE) improved to >97% in Oct'20 (97% in Sep'20). ■ SBIN expects to recover INR70b over the next two quarters from the resolution of stressed assets. ■ Also, expect restructuring up to 1% of loans, with total asset quality impact of INR600b (2.6% of loans) due to the pandemic.



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AU Small Finance Bank

Buy

Current Price INR 878

Opening remarks

- Shops and small businesses are returning back to normalcy in rural areas. Further, rural sentiment is buoyed by record Kharif sowing.
- Core segments like Agri and Dairy related businesses have returned to normalcy.
- Overall, expect 2HFY21 to be better, led by the ongoing festive season, which should boost demand.
- The bank accelerated its digital adoption such as video-banking, virtual meetings, UPI, etc. It also started digitalized personal loan lending with integration of 48 APIs.
- The bank is digitally live with Maruti for personal car lending. It has also tied up with Amazon for the current festive season.
- The bank is engaged with e-commerce players such as Amazon, Myntra, Big Basket, etc. and with local city-based merchants to provide offers on debit cards.

Deposit franchise

- CASA momentum has picked up well as CASA ratio improved to 21%. Further, strong CASA accretion has helped in shedding bulk deposits of INR20b in 2QFY21.
- The bank has added 16 branches across 11 new locations such as Agra, Jammu and Kanpur.
- Higher focus remains on customer activation through digital channels and strong offers on debit card usage. Overall, ~1.2 lac customers have been activated over 1HFY21.
- Over 2 lac customers are doing >4 transactions per month.
- Continuous focus remains on optimizing cost of funds with incremental cost of funds improving by ~140bp YoY.

Asset side

- Recovery trends have improved across business segments. Some demand pickup has been seen in car loans, home loans, gold loans, etc.
- Disbursement trend is improving MoM while ongoing festive season would help in boosting demand. However, there remains some disruption due to COVID.
- The bank has disbursed INR3.76b under the ECLGS scheme as on 30th Sep'20.

Asset quality

- Collection efficiency in Sep'20 reached near-normal run-rate of 96% (v/s normal rate of 98%). ECLG scheme has helped in the revival of MSMEs.
- As on 31st Aug'20, the moratorium pool had reduced to 5.5%, which further declined to 3.0% in Sep-Oct'20. On the provisioning front, the bank is carrying additional provisions at ~1% of loans.
- Under the normal course, customer activation rate remains ~80% (for full EMI) and 5% (for partial EMI). At present, this stands at 78% (for full EMI) and 4% (for partial EMI), and thus, is returning close to normalcy.
- Key impacted segments include school, travel and tourism, and hospitality.
- The bank has seen Nil restructuring as on date.

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Axis Bank

Buy

Current Price INR 608

Opening remarks

- Many manufacturing sectors are back at pre-COVID levels.
- Overall, the bank has built a total aggregate additional provision of INR108b. Furthermore, including standard asset provisions, total provisions stood at INR124.5b (2.2% of loans).

Balance sheet and P&L related

- Certain fee income lines in retail businesses have improved sharply and are performing better than pre-COVID levels. Strong traction was seen in transaction banking fees, and third-party distribution fees grew 38% YoY.
- The new current account customer acquisition trend remains robust.
- Credit and debit card spends were up 49% QoQ. The share of digital channels in sourcing FDs and personal loans stood at 73% and 58%, respectively, in 1HFY21.
- Non-retail term deposits declined 26% YoY.
- 77% of the bank's credit card and 93% of its personal loan originations are from its existing customer base.
- Retail disbursements have reached 95% of last year's levels. Disbursements in secured segments such as HL, LAP, and Auto have reverted to 85–95% of 2QFY20 levels.
- 38% of the corporate book has maturity of less than a year.
- Real Estate exposure stands at INR160b (LRD portfolio of INR89.8b).

Asset quality related

- **Corporate:** The book has undergone significant change over the last 18 months, with 82% of the portfolio rated A- and above. Furthermore, ~95% of incremental disbursements were toward high-rated corporates.
- **SME:** The bank remains cautious in lending to this portfolio. ~85% of the book is rated SME-3 and above. The book is spread across 35 sectors and diversified over 120 locations, with an avg. ticket size of INR33m. The bank disbursed INR60b under the ECLGS scheme. The utilization limit stands 4–5% lower against pre-COVID levels.
- **Retail:** The focus remains on the secured book – 80% in the Mortgages, Wheels, and Rural segments. The unsecured book forms ~11% of the total book, with the higher focus being on salaried customers. ~66% of the credit card book is toward salaried customers.
- **Collections:** The check bounce rate is still higher v/s pre-COVID levels. 30+ overdue loans stand at 2.3%. Demand resolutions stood at 94% as of Sep'20 (currently 97%). Collections in mortgage have reached pre-COVID levels, while credit cards would take longer to achieve normalcy.
- As per the stress test analysis done by the management, a 25% reduction is seen in stress v/s April'20 estimates.
- **Restructured:** Overall, the potential restructuring pool is likely to account for 1.6% of customer assets (Retail and Corporate).
- 75% of downgrades in the BB & below pool during the quarter were mainly from the potential restructuring pool.

Others

- **Axis AMC:** AUM grew 48% YoY, and market share improved to 5.7% (v/s 4.1%).



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Results Update

The screenshot shows the Motilal Oswal Bandhan Bank financial results for Q3 FY2020. The table includes various financial metrics such as Total Assets, Total Liabilities, Capital, and Profit. The data is presented in a structured format with columns for the metric and its corresponding value.

- **Axis Finance:** NNPA stands at 2.1% and has a C/I ratio of 25.6%. Capital adequacy remains strong.

Bandhan Bank

Current Price INR 350

Buy

Balance sheet and P&L related

- Next five years' advances mix strategy: The focus is on increasing the Mortgage and Commercial Banking businesses to reach ~30% each of total AUM by FY25. Also, the Retail business would increase to 10% of total AUM.
- It has guided to open 574 new banking outlets outside the eastern and north eastern regions over next few quarters.
- ~2.1m new loans were disbursed during the quarter, including both fresh loans and top-up loans. Overall, 7.6% of the portfolio has taken top-up loans. In terms of customers, 12.3% of borrowers have taken top-up loans.
- The avg. ticket size of individual EEB borrowers is between INR160–175k
- In Commercial Banking, borrowers of small enterprise loans (SEL) have an average ticket size of INR0.35m, while smaller SMEs have avg. ticket sizes of INR3.0m.
- The avg. ticket size of top-up loans is INR35k.
- Term deposit rates have reduced by ~150bp over the last six months.
- 63% of savings bank deposits maintain more than INR100k.
- 76% of MFI borrowers paid full EMIs, while 19% made part EMI payments. In Oct'20, the proportion of fully paid EMIs increased >80%.
- State-wise AUM breakup: 47% of the portfolio is concentrated in West Bengal, 15% in Assam, ~9% in Bihar, and less than 3% in Maharashtra.

Asset quality

- Over the next 90 days, collection trends are likely to revert to pre-COVID levels.
- Collection trends at the overall bank level reached ~93%, with 96% of the customers having started to make payments.
- State-wise collection trends: (a) West Bengal iV Collection trends by value improved to 90%, with 96% of customers making payments. (b) Assam- Collection trends by value improved to 87%, with 88iV89% customers making payments. (c) Bihar-99% of customers started making payments, with collection efficiency reaching 97%.
- Overall, expect credit cost of 350bp due to COVID, of which 280bp has already been provided.
- Collection efficiency in individual emerging entrepreneurs is at 99% levels.
- Assam continues to face challenges due to extended lockdown, impact from floods, etc.
- Restructuring: It has received an insignificant number of restructuring requests from borrowers thus far.



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Results Update

Bank of Baroda

Q3 FY2020

Key Metrics:

- Revenue: ₹1,100.00 Crore
- Profit After Tax: ₹150.00 Crore
- Net Interest Income: ₹750.00 Crore
- Operating Profit: ₹250.00 Crore
- Provision for Credit Losses: ₹100.00 Crore
- Dividend: ₹10.00 Crore

Balance Sheet (₹ Crore):

Particulars	Q3 FY2020	Q3 FY2019
Assets		
Net Bank Assets	1,10,000	1,05,000
Net Non-Bank Assets	5,000	4,000
Total Assets	1,15,000	1,09,000
Liabilities		
Net Bank Liabilities	1,05,000	1,00,000
Net Non-Bank Liabilities	4,000	3,000
Total Liabilities	1,09,000	1,03,000

Bank of Baroda

Neutral

Current Price INR 48

P&L & balance sheet related

- Both CASA and Retail TD picked up momentum. Overall, retail franchise is building well. Among retail assets, focus is on home/auto loans.
- The bank is looking to raise INR135b of capital, which includes INR45b through AT-1 bonds and the rest through equity raise. Currently, the bank raised INR17b through AT-1 bonds.
- Cost of deposits declined sharply and will sustain in the medium term.
- Treasury gains will be lower in comparison to the current quarter trend.
- ECLGS: The bank has sanctioned MSME loans of INR85b and disbursed INR73b under the Credit Guarantee Scheme.
- It has suggested loan and deposit growth at 7% YoY for FY21E. However, in the near term it remains cautious of the corporate segment. Higher focus would be on retail growth.

Asset quality

- Overall, collection efficiency reached ~91% with 94% in the non-moratorium pool and 87% in the moratorium pool.
- SMA 1 and SMA 2 stood at 5.46% of loans.
- Restructuring: So far, not many accounts have come for restructuring; more clarity would emerge by Dec'20.
- Internal earnings accruals would be sufficient to manage credit cost in the near term.
- Recovered INR2b from the NCLT accounts and INR3b through asset sale, etc.
- Asset quality in the NBFC portfolio remains stable as very small proportion is in the BB & below pool.
- Outlook on the international portfolio: Normalized credit cost in this portfolio is significantly lower compared to domestic portfolio.

DCB BANK

Neutral

DCB Bank

Current Price INR 93

Balance sheet & P&L related

- The cost to avg. assets is coming down steadily and would reach 2.15–2.2% over the next two years.
- It shifted its focus to gold loans from May'20. Overall, near-term focus would be on mortgages, gold loans, KCC, the Tractors business, etc. It expects the gold loan mix to increase to 10–12% of the total portfolio over the medium term.
- ECLGS: INR20b in loans was sanctioned, while it disbursed INR3b under this scheme.
- Approval rates are yet to pick up and remain below pre-COVID levels. Overall, it expects the business to return to normal by Mar/Apr'21.
- Branch guidance: It would continue to add 15–20 branches every year.
- On the liability side, the focus would be on increasing retail term deposits, while the CASA ratio would remain at 20–22%.
- It does not plan to raise capital in the near term.
- Overall, it remains cautious on giving top-up loans to the MFI segment.

Asset quality related

- CE is at 91% in Home Loans, 87.5% in Business Loans, and 77% in CV.

DCB Bank

Q3 FY2020

Key Metrics:

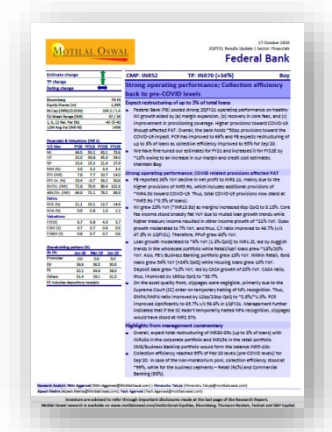
- Revenue: ₹1,100.00 Crore
- Profit After Tax: ₹150.00 Crore
- Net Interest Income: ₹750.00 Crore
- Operating Profit: ₹250.00 Crore
- Provision for Credit Losses: ₹100.00 Crore
- Dividend: ₹10.00 Crore

Balance Sheet (₹ Crore):

Particulars	Q3 FY2020	Q3 FY2019
Assets		
Net Bank Assets	1,10,000	1,05,000
Net Non-Bank Assets	5,000	4,000
Total Assets	1,15,000	1,09,000
Liabilities		
Net Bank Liabilities	1,05,000	1,00,000
Net Non-Bank Liabilities	4,000	3,000
Total Liabilities	1,09,000	1,03,000



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- In MFI Loans, 93% of the customers have paid at least one installment.
- Overall, expect 3–5% of the total portfolio to seek some form of restructuring.
- It continues to face challenges in the CV portfolio. Overall, expect higher slippages from this portfolio in the near term.
- Customers that have not paid any installments stood at 7.4% in the LAP portfolio, 11% in Vehicle, 5.4% in Home Loans as of Oct'20.
- Normalized credit cost would be around 55bp, while over the next four quarters, credit cost trends would remain high.

Federal Bank

Buy

Current Price INR 58

Asset quality related

- If the SC had not temporarily halted NPA recognition, slippages would have increased by INR2.37b. The bank has provided for 15% of slippages as per IRAC norms. Further, interest reversal of INR300m on the same has been adjusted from Net Interest Income during the quarter.
- Restructuring: Overall, expect total restructuring of ~INR35b (up to 3% of loans).
- Collection efficiency has reached 95% of Feb'20 levels (pre-COVID levels) for Sep'20. In case of non-moratorium pool, collection efficiency is ~99%, while for the business segments – Retail (91%) and commercial banking (93%).
- Asset classification benefit has been extended on loans worth INR7.64b.
- As a prudent measure, the bank has increased its PCR over the past one year by more than 1,900bp to ~66%. Overall, PCR will remain in the range of ~60-65%.
- LGD before COVID was below 40% as the bank did not have much unsecured portfolio.
- Under normal scenario, slippages range between ~INR3.3-3.5b. Can expect this to increase by 30-40%. Overall, expect higher slippages during 3QFY21.
- Restructuring for Non-MSME portfolio is eligible for SMA-0 borrowers only while the MSME restructuring is eligible for borrowers in MA-0 and SMA-1.
- FB does not have much exposure to Hotels, Restaurants, Movie Theatres, etc.
- There is no exposure toward builder portfolios while exposure toward LRD is with MNCs and bigger corporates.
- NBFC exposure is toward well-rated entities. On the HFC exposure, one large account has repaid fully, which has resulted in a reduction in HFC exposure.

Balance sheet related

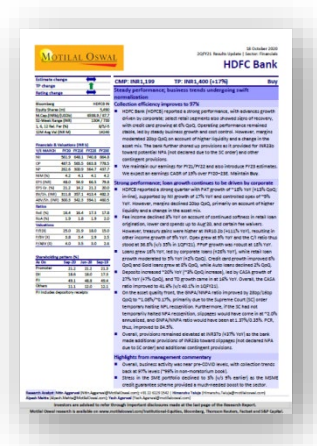
- Liability franchise is one of the best amongst peers. CASA momentum remains strong. Further, NRE deposit trend also remains healthy.
- The bank is enhancing its relationship with CA customers. It would be early to say whether any trends on CA account accretion was due to the RBI circular.
- The bank is focusing aggressively on the Gold loans portfolio. Average LTV is ~80% and has 6-8 variants. The pricing under Gold loan is much superior v/s NBFC peers.
- Target is to reach an overall advances mix of 55:45 for retail: wholesale.
- No additional capital requirement during FY21. It may look to raise capital over FY22.
- Expects loan growth of ~8-10%.

P&L related

- The bank posted another strong quarter of treasury gains.



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- FB has made provisions of INR9.7b toward waiver of interest on interest.
- The bank received full recovery of INR530m from one written-off account.
- The bank expects C/I ratio trajectory to be ~48%.

HDFC Bank

Buy

Current Price INR 1,404

Opening remarks

- Rural economy is buoyant, with higher traction in gold loan financing, tractors, 2-wheelers, etc.
- ~1.8m new liability relationship accounts were opened during the quarter.
- The Card business showed signs of revival, with 3QFY21 likely to be far better. Also, it launched Festival treat 2.0 with higher reach v/s last year.
- The wholesale book was once again a key loan growth driver during the quarter.

P&L and balance sheet related

- Some portion of treasury gains were utilized and booked during the quarter.
- Margin decline was mainly due to maintaining higher liquidity. Overall, margins are likely to remain at 4.1–4.4% levels.
- HDB Financial: Advances growth has slowed; however, new product launches would result in a demand uptick.
- Demand trends are encouraging in both the Retail and Wholesale books. Retail & SME growth would see some uptick going forward.
- Current Account RBI guidelines: The bank may see gains as well as losses. Overall, it expects a marginally positive net impact.

Business growth trends across segments

Corporate/Wholesale Banking portfolio

- Collections in 2QFY21 were higher v/s last year's quarter, with Sep'20 collections up by 14.5% YoY v/s last year and showing improving trends MoM.
- 70%+ of disbursements during the quarter were toward loans with maturity of less than one year.
- NIMs in the Wholesale portfolio improved during the quarter.

Retail portfolio

- Lead indicators suggest credit inquiries in Auto and Home loans are almost back at pre-COVID levels.
- Better trends were seen in the semi-urban regions for both secured and unsecured businesses.
- LAP and working capital loans are also back at pre-COVID levels.
- Maintain caution in the MFI portfolio and expect revival over the next 90 days.
- Tractor sales are at an all-time high. 2-Wheeler sales are also showing better traction.
- The bank is launching a completely digitalized version of Auto loans over the next few months. This could be a game-changer for the bank.

Asset quality

- The annualized slippage ratio for the quarter was at 0.8%, and annualized slippages as per proforma asset quality were at 2.0%.
- The credit guarantee scheme has helped reduce stress in the MSME/Business Banking portfolio.
- Trends are encouraging in check bounce rate; thus, demand resolution is near pre-COVID levels.

- Additional provisions: The bank has sufficient cushion to cover stress due to COVID-19.
- Overall, net stress in the SME portfolio has declined to 3% (v/s 9%, as indicated earlier). Some restructuring can be expected within the remaining stress.

Asset quality trends across segments

Corporate Banking

- The bank has achieved growth without any dilution in credit standards.
- The avg. borrower's grade stands at ~4.4%. This essentially means the AA-rated borrower grade is considered a safe average borrower grade.
- As per external grade rating, ~75% of borrowers are rated either AAA or AA, while ~93% of borrowers are rated A+.
- On unsecured exposure, the average borrower grade stands at 3.5%. Overall, the unsecured portfolio has a 55% lower probability of defaulting v/s the overall book.

SME & Business Banking portfolio

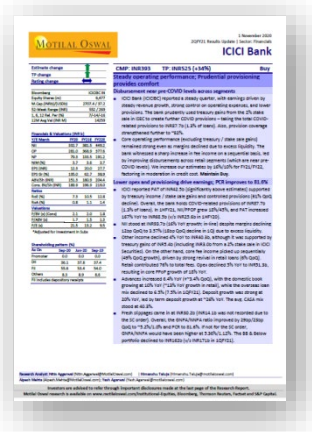
- ~9% of the SME portfolio was under stress during the last quarter, which has declined to 3%. This stress portfolio is very well collateralized. Some of the exposures may require restructuring.
- Overall, the portfolio is well-diversified with a slightly higher mix toward the Agrisegment.

Retail portfolio

- Demand resolution (collection trends) for the moratorium book is back at 97% levels, while it is 99% for the non-moratorium book. Overall, demand resolution in the Retail portfolio is at 97%. Trends are similar for the overall book.
- Personal loans: The bank largely deals with salaried customers.



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ICICI Bank

Buy

Current Price INR 480

Moratorium update

- Several high-frequency indicators, such as toll collection and power generation, suggest revival in economic activity. The Manufacturing index also reflects improvement; the recent auto registration reflects volumes of both Cars and 2-Wheelers have picked up.
- Cost of deposits has continued to be the lowest in the system.
- ICICIBank is seeing MoM improvement in disbursements across certain retail segments, with Mortgage, Rural, and Vehicles back at pre-COVID levels.

Balance sheet and P&L related

- **Disbursements** in the CV portfolio are still below pre-COVID levels.
- **MSME:** The bank disbursed INR106b under the credit guarantee scheme, while total loans sanctioned were INR160. This is likely to be disbursed toward CV, SME, and Business Banking borrowers.
- **Overseas portfolio:** The bank is progressively exiting exposures not linked to India in a phased manner.
- Retail asset growth during the quarter was supported by the credit guarantee scheme, secured business loans, and the Mortgage business. Overall, disbursements in Sep'20 were higher than pre-COVID levels.
- **Flexi loans:** This is a credit line against an asset (similar to business loans).
- From Dec'20, the bank expects some decline in excess liquidity.

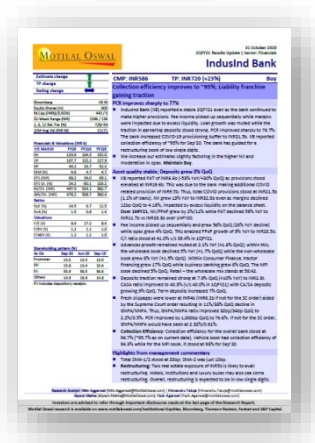
- The bank does not expect any further rate cuts in retail deposits unless the RBI opts for a repo cut.

Asset quality

- Collection trends across most segments are near pre-COVID levels or better than anticipated, while demand resolution under the CV portfolio remains lower. Overall, demand resolution in the retail business was at ~97% of pre-COVID levels.
- **Restructuring:** The bank has received a restructuring application of INR20b. Restructuring in the corporate portfolio is likely to be less than 1% of total loans. The application includes borrowers from the BBB and BB & Below rated portfolios.
- **SMA/Overdue across portfolio:** The overdue books for retail and credit cards were 4% higher than pre-COVID levels. The rural portfolio overdue was 1% higher than pre-COVID levels, while the SME overdue is back at pre-COVID levels. Domestic and international corporate overdue is less than 3% of total loans.
- The bank expects further downgrades in the BB & Below pool over the next few quarters.
- Overall, the bank expects a large portion of the COVID-related stress to decline in 2HFY21. Furthermore, the bank believes the current COVID-related provisions to be sufficient to manage the current stress. Thus, expect credit cost to normalize from FY22.
- The bank did not sell any NPA during the quarter.
- ~12% of the builder portfolio is either rated BB & Below or as a part of the NPA category.
- The proportion of the NBFC and HFC books rated BB and below is ~1%.
- 85% of personal loans are toward salaried customers, of which 99% continues to receive full salary credits.



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IndusInd Bank

Buy

Current Price INR 811

Operating Performance

- Retail fee income is showing revival trends. In the near term, the bank expects retail business to be a key driver.
- Margins: There was an impact of 10bp due to excess liquidity. Overall, NIMs are expected to remain range-bound between 4.15-4.25%. Pickup in asset growth over 2HFY21 will also likely aid margins.
- The bank disbursed INR16b under the Credit Guarantee Scheme.
- Fee income: Insurance business is seeing faster revival, and thus, fee contribution from this business will continue to improve. Retail fees will be a key driver.

Balance sheet and P&L related

- The bank garnered record high retail deposits in a single quarter (2QFY21). The bank would likely go for a rate cut from 3QFY21.
- ~90% of the CASA and retail FD is sourced through digital channels.
- Cost of funds has declined sharply despite offering higher rates. Further, borrowing through SIDBI and NABARD remains very cheap and provides long-term stable funds.

- The bank is increasing focus toward NRI deposits. Total liabilities from the NRI business is ~INR210b with ~INR40b sourced during 2QFY21.
- The bank is currently carrying an excess liquidity of ~INR400b.
- The bank is further increasing focus on the merchant acquiring business.
- The Credit Guarantee Scheme has been a big boost in the revival of MSMEs.
- Loan mix target: Retail – Corporate expected at 60%: 40%.
- Telecom exposure: The bank has funded exposure of INR10b and non-fund exposure of INR24b toward Vodafone. It has some exposure toward Jio and Bharti as well.
- Asset growth is likely to pick up from 2HFY21.

Key business segments

MFI business

- MFI business is likely to reflect cyclical recovery over 2HFY21.
- Collection efficiency stands at ~93%.
- Disbursements have reached to ~85% of the pre-COVID levels, which got impacted due to localized lockdowns in couple of states.
- The bank has built higher COVID related provisions for this portfolio.

Vehicle

- Tractors, 2W, Cars, LCVs and CE are showing faster revival and are back to pre-COVID levels. On the CV business front, LCVs are shaping up well with the bank gaining market share. However, MH&CVs are still facing some challenges. However, recovery trends were better in Sep'20 v/s earlier months.
- Overall, collection efficiency in the vehicle portfolio stood at 94.3%.

Other retail assets

- Collections in secured assets are close to mid-90% levels (~95%) while collections in the unsecured assets (such as credit cards and personal loans) are still at lower levels.
- Overall, collection trends remain at ~90% in other retail assets.

Large corporate portfolio

- The focus remains toward high rated and short-tenor working capital loans.
- Collection efficiency stands at ~100% in the corporate portfolio.

Gems and Jewelry portfolio

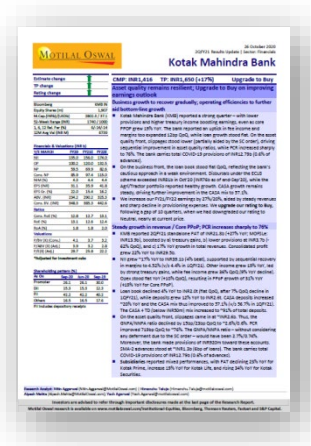
- The bank has nil delinquencies in this portfolio. The exposure toward domestic jewelers is very small.

Asset Quality

- Overall collection efficiency stood at 94.7% as at Sep'20. This has further improved to 95.5-96% in Oct'20.
- Total SMA-1/2 stands at 33bp with SMA-2 being just 10bp.
- RBI penalty: It is largely related to procedural and interpretation issues between the bank and the RBI. The same was not related to governance issues.
- Restructuring: Two real estate exposure of INR5b is likely to avail restructuring. Hotels, institutions and luxury buses may also see some restructuring. Overall, expect restructuring to be in low single digits.
- PCR is likely to remain above 70% levels.



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Kotak Mahindra Bank

Buy

Current Price INR 1,889

Macro-related

- The economic situation has improved from Apr–May levels. The focus remains on maintaining resilience.
- Excess liquidity has comforted and created stability in the financial system.
- While risk is an important lever for earnings growth; it is not the only lever. Sustainable earnings are more relevant in the long term.
- The business model's sustainability is crucial to the overall success of the financial system.

Balance sheet-related

- The bank would now incrementally start focusing on increasing customer acquisition on the asset side as well, after witnessing strong traction on the liability side.
- The non-urban sector has been growing much better than urban and seeing recovery in multiple segments.
- The Unsecured Loan segment is still far away from being at normal levels, but other segments, especially Secured/Retail, are recovering well.
- MSME: Cash flows have improved and the utilization of limits has increased. On the other hand, the ECLG scheme also supported the MSME sector, and the bank actively participated in the scheme.
- LAP: Demand returned for LAP during the quarter. It would grow the business in the coming quarters.
- CV/CE: Sales have been much better, consequently improving disbursements. Fleet utilization stands at 80–85%.
- Passenger Transport: The segment is severely impacted and likely to take time to reach normal levels.
- CE: Utilization has been improving and is closer to normal levels.
- Agri: Collection efficiency has reached normal levels, and demand is improving.
- Tractor: Disbursements have grown and are expected to fare better over the next two quarters.
- Corporate Banking: The focus remains on risk-adjusted returns. Profitability in the book and its overall quality improved during the quarter.
- ECLG Scheme: Sanctions under the scheme were toward ~65% of eligible borrowers, with almost 80% of the sanctioned amount being disbursed.

P&L related

- Sharp reduction in cost of deposits aided margin expansion, along with some support from capital raise.
- Some recoveries from the resolution of stressed assets also aided other income.
- There is room to further cut the deposit rate; however, the bank would take a call on this at an appropriate time and is not looking to cut rates further in the near term.

Asset quality-related

- The stock of provisions stands at 177% of net NPA. This not only appears adequate but also conservative given the current scenario.
- Collection efficiency has improved across segments.
- Bounce rates are back at pre-COVID levels for home loans.
- Positive movement is seen in collection efficiency. Bounce rates for secured loans have reached pre-COVID levels. For unsecured loans, the bank remains cautious over the next few months.
- Asset quality in the MSME business seems under control.

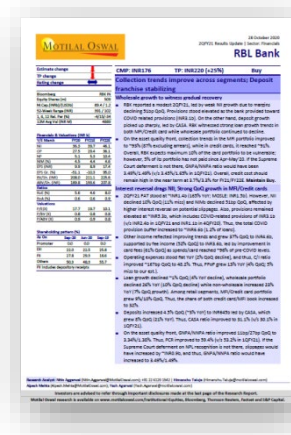
- The bank appears to be fairly comfortable with its NBFC and HFC exposures.
- CV collection efficiency is improving to normal levels, while for CE, it has reached normal levels.
- Collection efficiency for the overall book would be at the mid-90 levels.

Others

- On news of the merger, the bank highlighted that it had nothing to report at the present time. In case any such decisions were taken, the bank would disclose them as per listing regulations.



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RBL Bank

Buy

Current Price INR 212

P&L and balance sheet related

- RBL remains conservative on loan growth strategy and is cautiously growing in its chosen businesses. The bank does not have any loan growth target in the near term. However, loan growth is likely to improve going forward.
- Liquidity position remains strong with LCR at 171%.
- Cost of deposits is currently at a 10-year low.
- The bank didn't recognize interest income on potential NPAs, which resulted in NIMs declining by 51bp QoQ.
- The bank has received capital raise approval of INR15.66b, which will improve the CET-I ratio to 17.44%.
- ~INR4.5b was disbursed under the Credit Guarantee Scheme.
- ~100k credit cards were issued in Sep'20. The bank further launched two new credit cards during the quarter.
- Retail spends per active credit card increased to INR20k.
- **Wholesale portfolio:** The bank remains cautious with focus on high-rated corporates. It has reduced its exposure in the BBB & below rated portfolio. Further, it has added 60 new corporates, providing cash management services
- **Non-Wholesale portfolio:** While it will continue to grow its MFI/Credit card portfolio over the next few years, the focus will also be on affordable housing.
- RBL has not cut its deposit rates aggressively, and thus, can expect a rate cut over the next 12 months. As a result, funding cost is likely to improve.
- The bank will continue to focus on branch expansion. However, C/I ratio is expected to remain at current levels.

Asset quality related

- If not for the Supreme Court order, slippages would have been higher by INR0.9b on which the bank has made provisions.
- ~9.4% of the credit card portfolio stands under moratorium as on Sep'20, which has reduced to 8.6% now. ~5% of the credit card portfolio had not paid any EMIs since Apr-May'20.
- Collection efficiency in credit card has reached to 94% of the pre-COVID levels. However, total collections for Sep'20 came in at 90.6%, and thus, a maximum risk of ~10% in the credit card portfolio is expected.
- Collection efficiency (including arrears) in the MFI portfolio increased to 93.3%. There were some issues witnessed in Assam/West Bengal regions while few districts of Maharashtra were also facing issues. Collection efficiency (excluding arrears) increased to 87%.
- Credit cost for FY21E is likely to be similar to last year's levels with ~two-thirds of it coming from the retail portfolio. The balance would be from the wholesale book.



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State Bank of India

Current Price INR 243

Buy

Balance sheet related

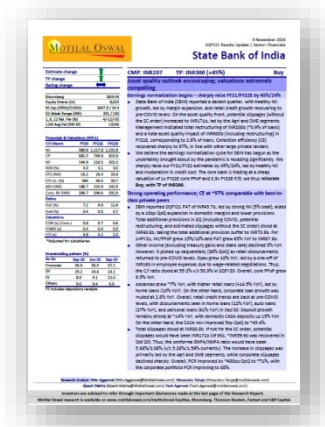
- Upward movement is seen in economic activity, with activity levels at 70–80% of pre-COVID levels.
- The spike in operating expenses was due to the renegotiation of salary hikes to 15% (v/s 10% earlier) and related hikes in long-term benefits.
- A run-rate increase of INR2b would be seen on a monthly basis in salary bills on an ongoing basis.
- Interest reversal for potential slippages stands at INR8.68b on NII, which will have an impact of 5bp on margins. Post the pullback in October, this would reduce by ~50%.
- Total sanctions under the ECLG scheme stood at INR350b, with disbursements of INR320b.
- The loan book of PSU banks is expected to pick up over the next two quarters. Corporate demand is also seeing some uptick.
- More than two-thirds of the personal loan book (~70%) is toward government employees and penetration is ~19%. See an opportunity of INR300b over the next two quarters.
- 94% of the express credit book is toward government and defense employees, while 100% of the book is toward salaried customers.
- The bank is undertaking steps to increasing the productivity of employees and increase revenue per employee. 17–20% of employees have been transferred from administration loans to customer-facing loans.

Asset quality related

- CE for October improved to 97.5%.
- Of the potential slippages of INR144b, ~INR60b was pulled back in October.
- ~INR30b slippages from the SME book were pulled back in October, while ~INR11b were pulled back from Agri book. For corporate, the same was INR8b.
- Much of the increase in the Agri/SME book was due to the restricted movement of collection agents, which is likely to improve in the coming quarters.
- CE in home loans was slightly lower v/s unsecured personal loans as much of the unsecured personal loans are toward corporate salaried employees.
- PCR on the corporate book stands at ~88%; thus, the legacy book has been well provided.
- Restructuring: It received a restructuring request of INR25b on the retail book and INR40b on the corporate book. Thus, total requests stand at ~INR65b.
- Recoveries/Resolution saw an uptick in 2Q. Expect the NCLT resolution to pick up post-Dec. The bank expects to double recoveries (INR60–70b) over 2HFY21, excluding the steel account and the HFC account.
- 70% of home loans are toward salaried customers, with ~50% being PSU employees and ~20% being employees of well-rated private entities. Furthermore, most of the borrowers are first-time home owners.

Guidance/Others

- The bank has channelized loans of INR250b and deposits of INR600b through YONO and is registering ~6k customers on a daily basis.
- At some stage, the bank would consider unlocking value through YONO.
- The bank is confident of achieving growth opportunities through its internal accrual and is not looking for a capital raise in the near term.



FINANCIALS/NBFC



- Commentaries of NBFCs suggest improving macros across most business segments and the end of the moratorium have led to increased optimism for collection efficiency (CE) as well as growth across product segments. In terms of restructuring, most financiers would offer the same on a case-to-case basis and do not expect a meaningful impact on asset quality going forward. Improving liquidity and a higher risk appetite (on account of a better collection performance) have given companies the confidence to lift disbursements (albeit at lower levels than pre-COVID levels). Most financiers have rolled out new initiatives on the digital front and expect such operational innovations to sustain going forward.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Asset Quality & Moratorium
Bajaj Fin	■ It is working on a business transformation project that would be completed by Jul'21. This should meaningfully reduce opex – C/I ratio could decline to sub-30% post the implementation. ■ Expect to reach pre-COVID volume levels by Mar/Apr'21.	■ It would frontload loan losses in FY21. ■ Stage 2 loans at 8% are equivalent to the Morat 2.0 number of 16%. ■ Mortgage customers and 3W customers are the most likely to undergo restructuring.
LIC Housing	■ 22%/38% YoY disbursement growth in Sep/Oct. Expect 9–10% loan growth for the year. ■ Launched a new project on digitization, on which Boston Consulting Group is assisting the company. ■ It plans to raise capital, but the timeline and quantum are yet to be decided.	■ 96% of overall customers (moratorium + non-moratorium) paid EMIs in Sep'20. This includes individual and builder loans. ■ 3–3.5% of customers (Retail: INR24b, Developer: INR46b) have approached the company for restructuring. ■ Expect 20bp credit costs for the year. Expect 2–3 big-ticket resolutions in the coming quarters.
L&T Fin.	■ Expect the uptick in the rural economy to be structural. ■ In builder loans, the company would not do any incremental underwriting this year. It would just continue to support existing relationships. Hence, the book would taper over the next few quarters. ■ It may look to raise the share of CPs in the borrowing mix.	■ Bounce rate in HL is in the early 20s v/s 15–16% pre-COVID. LAP is moderately worse than HL. ■ 8% of MFI customers had not paid a single installment up to Sep. However, 37% of them made payments in October. ■ Morat as of Aug '20 was as follows: MFI – 35%, Farm – 10%, 2W – 20%, HL + LAP – 20% ■ Real estate – 75% of portfolios whose repayments were due are back at 75% of pre-COVID levels. It is seeing some pre-payment.
Mahindra Finance	■ While demand in the festive season is picking up, sales should be largely flat YoY. ■ Expect to maintain market share going forward. ■ Overall disbursements in 2HFY21 would be largely flattish YoY. ■ AUM growth of 8–10% YoY is expected in FY21.	■ 70% of customers who opted for moratorium serviced their loans. ■ Do not expect more than 100–150k customers (of 2m totally) to request restructuring (~INR60b). ■ Collection efficiency (CE) for Sep stood at 82% (87–88% normally). 250–275k customers who availed moratorium did not pay in September.
Muthoot Fin.	■ Reiterate loan growth guidance of 15%+ YoY for FY21 despite greater competition. ■ Expect cost of funds to decline 3QFY21 onwards. ■ Expect expense ratio is 4–4.5%; not much gain is expected on this front from hereon. ■ MFI – Started fresh lending; expect an INR5b YoY increase in the loan book in FY21.	■ HFC – It is focusing more on collections rather than growth. Loan book should be flat YoY in FY21. Collection efficiency (CE) was 84% in Sep'20. ■ MFI – CE was 86% in Sep'20. ■ CE in Sep'20 was 93% in Personal Loans and 82% in Vehicle Finance. ■ Minimal auctions have been done this quarter.



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Aditya Birla Capital

Buy

Current Price INR 81

NBFC segment

- Expect a growth uptick to 5% in 2HFY21 and further in FY22.
- Reduced ATS was reported across products. It would continue to focus on the granularity of the book.
- It would reduce credit costs to 1.2–1.3% in 2HFY21. It would also work on the resolution of 50% of GNPLs.
- Restructuring would be restricted to 1–2% of the loan book.
- CE was 90%/92% in NBFC/HFC in Sep. Similar CE was seen in the unsecured book too. Pre-COVID CE was 95–97%.
- Retail segment CE in Oct stood at 89–90%.
- It may restructure one or two builder accounts in the HFC segment.
- Should see improvement in yield in the NBFC segment.
- INR7.5b disbursements were reported in ECLGS in the NBFC segment.

Other segments

- CR in the Health Insurance business would decline to sub-110% by 4QFY21. It reiterated the target to achieve breakeven in this business in 4QFY22.
- It launched two new products in Life Insurance, which contributed 20% to FYP. Target 45% of Non-PAR business for the year.
- Furthermore, a reduction is possible in the C/I ratio in the AMC segment.

Others

- 80% of business loans (unsecured) are guaranteed by some scheme of SIDBI.
- It would look at structured finance more opportunistically.
- In project finance, the company does not enter at an early stage.
- Life insurance – There is more contribution to growth from the metro cities v/s Tier 2 and 3 locations.
- COVID provisions of INR1.3b/0.3b for the NBFC/HFC segment are cumulative numbers.



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Bajaj Finance

Neutral

Current Price INR 4,716

Business updates

- It is witnessing month-on-month improvement in volumes across segments. Expect to reach pre-COVID volume levels by Mar/Apr'21.
- Roughly half the YoY decline in opex is structural and the other half is cyclical.
- Outstanding flexi loans amount to INR430b. Expect to do INR5–6b worth of flexi conversions on a quarterly basis going forward.
- It is working on a business transformation project that would be completed by Jul'21. The objective of the project is to enable a customer to buy any product from BAF within three clicks. This should meaningfully reduce opex – C/I ratio could decline to sub-30% post the implementation. Fee income and cross-sell should also grow with this execution.
- RBL Bank's credit card spends were back at 75% of pre-COVID levels. It may look for further tie-ups as it wants to be among the Top 5 credit card players.
- Flexi loans – It blocked INR55–60b worth of lines for some flexi customers in the peak of COVID. It has also restored some lines over the past few months. Less

than 25% of flexi loans would probably be on principal moratorium (management guess).

Asset quality

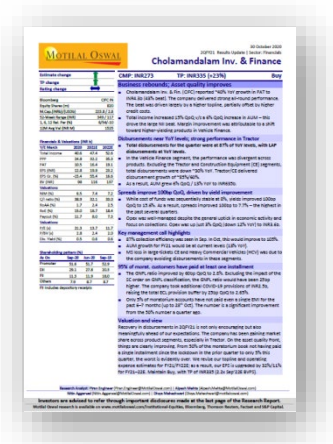
- It would frontload loan losses in FY21.
- Stage 2 loans at 8% are equivalent to the Morat 2.0 number of 16%.
- Mortgage customers and 3W customers are the most likely to undergo restructuring.

Others

- BAF accounted for 70% of the CD OEM financing share. This fell to 62–63% in 2Q. However, it would return to earlier levels in 3Q.
- Earlier, 40% of EMI card loans were at 100% LTV. Now, the max is 70%.
- 75% of customers have bureau scores.
- Online CD financing – relationships with Amazon and Flipkart.
- BAF was doing ~1m personal loans pre-COVID every year.
- Collections in CD financing would revert to normal levels by Mar'21.
- Flexi loans aren't given to Consumer B2B customers.
- INR20b CP is outstanding.



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Cholamandam Inv. & Finance

Buy

Current Price INR 339

Business updates

- MS loss in large-tickets CE and HCV was due to the company avoiding disbursements in these segments.
- In Home Loans (HL), the company has the capacity for INR2b monthly disbursements, while it is currently doing INR1.4b disbursements. This should reach INR2b by 3Q or 4Q.
- Margin improvement was attributable to a shift toward higher-yielding products in Vehicle Finance.
- Freight rates have improved to offset the rise in diesel prices.
- LAP – Benefit of INR3.9b ECLGS disbursements was seen in 2Q. Yield on these customers is at the same level as regular loans. Market is still slow at the moment and would t. Yet, expect the expense ratio to be 2.3–2.4% (v/s 3% earlier) as the company has undertaken initiatives to manage cost.
- Expect AUM growth for FY21 to be at current levels (13% YoY).
- It is working on its technology for better predictive analysis.
- Decline in disbursements in Jul, Aug, and Sep has been similar. Disbursements in 2HFY21 would be higher YoY.

Asset quality / Moratorium

- Restructuring would be minimal and given only to customers for whom recovery would take a long time (e.g., school bus operators). Currently, the company has identified less than 1% of the portfolio that would require restructuring. This number may increase over time, but is unlikely to exceed 5%.
- It would take a call on provisioning (whether to reverse it or not) only in 4Q or in FY22.
- 87% collection efficiency was seen in Sep. In Oct, this would improve to 105%.
- CE in LAP (90%) and HL is better than in Vehicle Finance.
- Vehicle finance – Underwriting tweaks have been done depending on various parameters, such as OEM, product, geography, etc.
- Stage 2 and Stage 3 declined meaningfully up to 31st Aug.

- Normalization and rollback (NRRB) has reached near Feb levels. For the 1–2 bucket, it stood at 11% in Feb, 25% in Jul, and 6% in Sep.
- Roll forward from the 1st to the 2nd bucket was 7% in Sep.

Others

- In 1H, disbursements to existing customers reduced significantly as most customers were given moratorium. It is usually 25–30%.
- Small improvement was seen in assignment spreads due to lower bank MCLR.
- 60–65% fleet capacity utilization was reported for vehicles in agri transportation.



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Results Update

The screenshot shows the Equitas Holdings financial results for Q3 FY21. The table includes various financial metrics such as Total Assets, Total Liabilities, Total Equity, and various income statement items. The results are presented in a structured format with columns for the quarter and year-over-year comparisons.

Equitas Holdings

Buy

Current Price INR 53

Balance sheet related

- The bank has launched two new products - Gold loans and finance for Used Vehicles during the quarter
- The focus is on acquisition of mass customers through digital and HNI customers through the RM model. Overall, it is acquiring 50-60k liability customers per month.
- The bank has acquired and on-boarded ~81k+ Savings Account customers through digital channels during the quarter. Total corporate salary accounts acquired stood at 3,740.
- The bank has negligible disbursements under the Credit Guarantee Scheme as interest rates offered under this scheme is very low and the bank cannot compete at such low interest rates.
- AUM growth in the medium-to-long term is likely to be ~30-40%.
- Total deposits from mass affluent customer base (Elite and Wings) stands at ~INR35b. Average SA balance from Wings category customers stands at INR90k.

Operating metrics

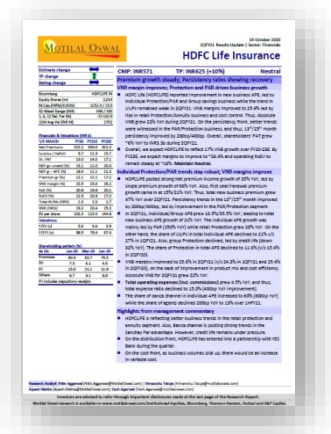
- ROA guidance: Target to reach ROA of 2.25% in the coming quarters.
- The yield improvement was mainly aided by change in the product mix.

Asset Quality

- Total restructuring request received so far is up to 0.5-0.6% of loans. It expects total restructuring to be between 1-1.5% of loans.
- MFI state-wise CE trends: Punjab (34%), Tamil Nadu (95%), Karnataka (90%), Maharashtra (84%), Haryana (98%) and Gujarat (92%).
- Overall, the collection trends in the MFI portfolio is still below pre-COVID levels while in most other business segments, collection trends are close to pre-COVID levels. Overall, 7-8% MFI customers have not paid one EMI while 3-4% customers have not paid two EMIs post the moratorium period.
- Over Sep-Oct'20, the bank was focused on collections. Thus, CE improved to 94%.
- The additional COVID provision (~1% of gross advances) is likely to be sufficient to manage credit cost. Thus, it expects controlled provisions over the next two quarters.
- The bank expects most of the stress due to the pandemic to slip during 3QFY21. Overall, expect credit cost for FY21E at ~2%.
- ~89% of advances are in the 0 DPD categories. Further, CE in the 0 DPD portfolios is ~98.8% in small business loans and 89% in vehicle finance loans.
- Overall, recovery realization in vehicle loans is ~65-70%.



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HDFC Life

Neutral

Current Price INR 664

Business mix

- Total COVID claims raised include 418 claims in the individual business and 50 claims in the group segment.
- Credit life business continued to witness pressure. On the other hand, Annuity business is gaining traction. There is strong structural demand for the Annuity and retail Protection product
- Overall, the company has witnessed fair amount of recovery in ULIP persistency in comparison to pre-COVID levels.
- Among product segments, Sanchay Par is doing very well due to its unique features. The product is pushed strongly by the Banca partners currently.
- Limited Pay has higher interest rate sensitivity compared to Regular Pay products. Further, various hedging techniques are used to manage the sensitivity.
- Persistency in the non-PAR segment has also improved.

Operating metrics

- INR410m additional reserves have been built in, mainly from a perspective of exercising caution in the current COVID environment.
- The economic variance has declined during 1HFY21 (v/s 1QFY21), mainly because of the change in slope in the interest rate curve.
- ULIPs have been replaced by PAR currently in the product mix. Thus, overall it is not dilutive to margins.
- **VNB Margins:** PAR is replacing ULIPs, Annuity growth is picking up and share of retail Protection share is increasing. Thus, all these factors are contributing to margin improvement.
- The company much in the Protection business, thus, contributing higher to the new business strain. PAR has less new business strain.
- **Opex growth:** Overall, operating expenses have come down. As growth revives, operating expenses should reflect upward trend.

Distribution channel

- In terms of banca mix, currently 60-70% of the total Banca premium comes from HDFC Bank only.
- Entered into banca partnership with YES Bank. Bandhan is also another Banca partner.
- The rest of its banca partners (excluding HDFC Bank) are also showing improving trends.

ICICI Prudential Life

Buy

Current Price INR 454

Business mix

- IPRU Life is the market leader among the private sector life insurers in terms of new business sum assured, with market share of 12.5%.
- The company has increased its focus on the Pension and Annuity businesses.
- Overall, ~10% of total APE in 1HFY21 came from the Non-PAR Guaranteed segment.
- The Credit Life business declined 35% YoY in 1HFY21.

ICICI Prudential Life Insurance

Q3 FY2021 Financial Results

Particulars	Q3 FY2021	Q3 FY2020	Q3 FY2019
Premium Income	1,17,17,17,17	1,17,17,17,17	1,17,17,17,17
Claims Paid	1,17,17,17,17	1,17,17,17,17	1,17,17,17,17
Profit After Tax	1,17,17,17,17	1,17,17,17,17	1,17,17,17,17

(Note: The above table is a simplified representation of the data shown in the image. The actual values are in Lakhs of Rupees.)

- ULIP showed strong sequential improvement in 2QFY21. Overall, expect ULIP to recover in 2HFY21. Generally, demand for ULIP happens with a lag of ~6 months in response to equity market performance.
- Expect Jan'20 to be the turning point for business growth revival as the higher base of ULIP would diminish. Therefore, expect better trends from 4QFY21.
- Margins in the limited pay category are lower v/s regular pay policies.
- IPRU Life does not have any product mix target and would continue to focus on all business segments.

Operating metrics

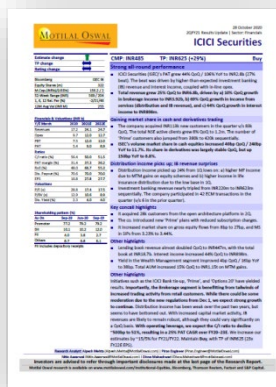
- Non-PAR Guaranteed return book: IPRU has ~0.6% of liabilities and thus has a minimal ALM mismatch.
- Only 0.7% of the Fixed Income portfolio is toward the below AA rated category; it has reported zero NPAs since inception.
- Deaths due to COVID are in line with the company's assumptions.
- Cost ratios in the Savings business have improved sharply.
- The entire re-insurance hike in the Protection business has been passed on to the customer, leading to an increase in pricing. On the other hand, certain other players are yet to pass the re-insurance hike. This impacted growth in Retail Protection during the quarter, while VNB margins still improved sharply. Overall, the objective is to protect margins in this business segment.
- Expect persistency to revert to normal levels in 2HFY21: ULIP persistency is also showing a revival trend (but is still lower v/s last year). Protection persistency, on the other hand, has improved sharply over the last year.
- Cost improvement appears sustainable: Discretionary cost has come down; while other expenses (such as rental negotiations) would also sustain, variable cost is likely to increase as the growth momentum picks up.
- Improvement in Embedded Value (EV) was largely aided by positive Economic variance. A large portion of the Economic variance that was affected in FY20 has been recovered in 1HFY21, led by improved equity market performance.
- Over FY18–20, the Protection business was the key lever for margin expansion. On the other hand, margins were driven by the higher Non-PAR business in 1HFY21.
- Various hedging techniques are being used in the Non-PAR business, such as partly paid bonds and long-duration govt. bonds, to match future cash flows and forward rate agreements. Furthermore, from an interest rate sensitivity perspective, both pay term and maturity period are important.

Distribution channel

- The focus is on expanding its partnership with other banca partners. IPRU entered into a partnership with IndusInd Bank during the quarter. It also partnered with NSDL Payments Bank (which has ~3.5m customers).
- IPRU is pushing Non-PAR and PAR products through other banca/agent partners as ICICI Bank is not comfortable with pushing traditional products. Overall, ICICIB's focus remains on ULIP and Protection policies.
- In 1HFY21, ~7.5k new agents were added in the agency channel.
- Overall, contribution from the web aggregator to the total APE is very small.



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Results Update



ICICI Securities

Current Price INR 440

Buy

Business updates

- 80% of customer sourcing is done from the website or the app. It acquired 28k customers in 2Q from the digital sourcing platform.
- Non-ICICI Bank accounts contributed 35% to new customer adds in the quarter.
- ICICI Bank sourced 55% of new clients in the quarter v/s 80% in FY20.
- It introduced a commodity trading product during the quarter.
- 42 ECM transactions of INR1.09t were done. 24 IB deals were signed in the quarter. It has seven deals in the pipeline (amounting to INR85b).
- It reintroduced a new Prime offering a few days ago as well as modified old plans. Details follow –
- The quality of customers acquired from the open architecture model is largely similar to that of ICICI Bank customers.
- Opex has increased QoQ as variable cost due to strong company performance has been factored in.
- Yields improved in Wealth Management due to a) good growth in equity delivery volumes and b) higher interest income from ESOP and MTF.
- Incremental cost of funds is near the repo rate. Hence, NIM is 4–5%.

Distribution segment

- Market share increased on gross equity flows from 8bp to 27bp. MS in SIPs improved from 3.23% to 3.44%.
- INR3b loans were distributed v/s INR2.4b YoY.
- It is working on an app from MF distribution. This would be rolled out in a few weeks.

Industry

- 13% decline was seen in trading volumes in Sep due to operational factors post the new regulations from Sep 1.
- Regulations coming in from Dec 1 would impact volumes and revenues for the entire industry in the short term.

Others

- Some competitors have acquired customers at much higher acquisition cost.
- Generated leads equal 8–10x the number of customers acquired. The co. needs to step up its conversion rate.
- 75% of new ICICI Bank customers are Prime customers.
- It has tied up with a US-based broker in institutional equities to get empaneled with new FII clients. It seeks tie-ups with other brokers for Taiwan, Korea, and the UK.
- 97% of customer orders are done by the customers themselves.
- “Receivables” on BS comprise receivables from exchanges, etc., as of the prior two days.
- INR70–100m capex is incurred on technology every year. But, this year, the company wants to more than double this.



Click below for
Results Update

The screenshot shows the IIFL Wealth financial results for Q3 FY21. It includes a table with financial metrics and a summary of key highlights. The table lists various financial metrics such as Total Assets, Total Liabilities, and Total Equity, along with their respective values and percentages. The summary highlights the company's performance, including its focus on fixed income and its efforts to improve its cost structure.



Click below for
Results Update

IIFL Wealth

Buy

Current Price INR 990

Business Updates

- IIFL ONE's yield improved from 37bp to 40bp QoQ.
- 60-65% of new flows are going into fixed income, that too, in safer fixed income products.
- In larger mandates (INR150m+), typically the same 2-3 large wealth management players compete for clients.
- In the company's guidance of INR2t AUM for FY22, it has assumed only 3-4% MTM gains while the rest of the increase is from flows.
- Cost of funds of its borrowing book is down from 9% earlier to 7-7.25% now. However, the yield on loans would come down only marginally.
- Expect 3-5bp improvement in IIFL ONE's yields over the next six months as idle AUM starts earning money.
- Targeting INR300b AUM for IIFL ONE by end-FY21.
- 80-90% of the idle AUM lying in TBR assets where the company earned upfront commission earlier (but earning nothing now) would mature in the next 12-24 months.
- Targeting 52-53% C/I ratio in FY22 and 50% over the next 2-3 years.

Others

- There were 7-8 M&A transactions in 2QFY21. IIFLWAM should benefit from the subsequent monetization.
- By end-FY21, 75-80% of funds where the company earned transactional revenues will now move into the ARR bucket.
- 500+ relevant families added in 1HFY21.
- Margins in the distribution segment would be under pressure. Over FY15-20, margins have declined from 50-60bp to 17-18bp now.
- 60-65% of opex is not linked to AUM. There are few cost cutting initiatives left but 60-70% of cost optimization is done.
- Will continue to work on optimization of net worth. Will pay 75-80% of profit as dividend post optimization of capital.
- 2-3 banks, 2-3 non-banks and few multi-family offices are the most active wealth managers in India
- In 60-70% of large deals, IIFLWAM is usually one of the 2-3 players.
- Non-metro cities should gain market share. They should comprise 30% of total flows over the next few years v/s 10% a decade ago.

L&T Finance Holdings

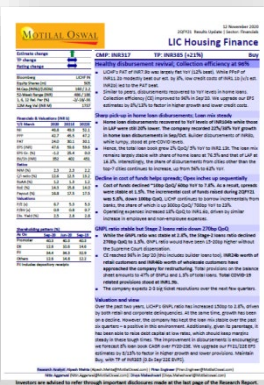
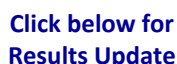
Buy

Current Price INR 71

Business updates

- It is confident that 3Q and 4Q would be better than 2Q.
- Farm and renewables financing have picked up well. LTFH has been leading the market in farm financing for the past four months (with 15% market share). Expect the uptick in the rural economy to be structural.
- Toll collections are back at pre-COVID levels.
- It would do INR15-20b worth of sell-downs every quarter going forward.
- In builder loans, the company would not do any incremental underwriting this year. It would just continue to support existing relationships. Hence, the book would taper over the next few quarters.

- Kharif sowing is 5% above normal levels (which is a huge number).
- In Tractors, LTFH caters to larger farmers. It gives lower LTVs and charges lower yield.
- Typically, only 40–45% of MFI customers are renewed for the next cycle.
- Honda is LTFH's largest 2W OEM (37% of disbursements), followed by HERO, which contributes 24% to LTFH's disbursements.
- 50% of LTFH's tractor disbursements are to M&M vehicles. Another 18% is to Sonalika.



77

Asset Quality

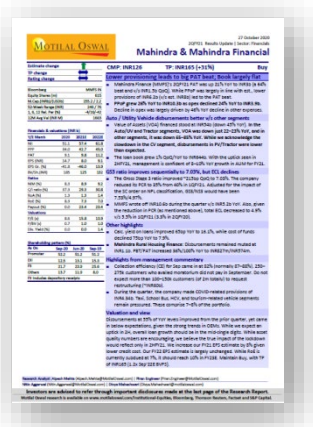
- 96% of overall customers (moratorium + non-moratorium) paid EMIs in Sep'20. This includes individual and builder loans.
- 3-3.5% of customers (Retail: INR24b, Developer: INR46b) have approached the company for restructuring.
- Additional INR3-4b worth of loans received NPL classification benefit due to the Supreme Court order.
- GNPL ratio: Individual (incl. LAP) – 1.72% v/s 1.74% QoQ; Developer – 16.52% v/s 17.64% QoQ.
- Expect 20bp credit costs for the year.
- Expect 2-3 big ticket resolutions in the coming quarters.

Others

- 65-70% of the LRD book is in office spaces. No issues in loan repayment. Some clients had availed the moratorium.
- Launched a new product for pensioners (up to the age of 65 years). Repayment is up to the age of 80 years. Already disbursed INR10b under this scheme.
- Top-up loans will be 3-4% of disbursements.
- Tier I ratio is ~12%.
- Less than 5% of disbursements are from balance transfers.
- Other opex stands at INR550m; of this, INR310m is for CSR.



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M&M Financials

Buy

Current Price INR 155

Business updates

- While demand in the festive season is picking up, sales should be largely flat YoY.
- Farm cash flows are expected to be strong. Infra activity is seeing an uptick, but not to levels expected by the management.
- Taxi, School Bus, HCV, and tourism-related vehicle segments remain pressured. These comprise 7–8% of the portfolio.
- Expect to maintain market share going forward. Overall disbursements in 2HFY21 would be largely flattish YoY. AUM growth of 8–10% YoY is expected in FY21.
- Demand in the Tractor segment has thus far been reported from farms rather than infra projects.
- Supply-side issues are observed in pre-owned vehicles.
- Yields are holding up well. But, higher liquidity has put ~50bp pressure on margins.

Asset quality

- 70% of customers who opted for moratorium serviced their loans.
- Restructuring for customers has not commenced yet. Do not expect more than 100–150k customers (of 2m totally) to request restructuring (~INR60b). Moreover, the company does not plan to offer any additional money in restructuring – it would only increase the loan tenure or tweak EMI payments.
- Do not foresee an NPL spike from hereon.
- Collection efficiency (CE) for Sep stood at 82% (87–88% normally). 250–275k customers who availed moratorium did not pay in September.
- No NPL accounts were given moratorium.

Funding

- Cost of funds should be largely stable hereafter.
- This would bring down the liquidity on the BS.

Others

- It has rationalized its regional offices, leading to decline in the branch count. The company has not let go of any of its employees.
- Competitors are crowding up in the non-Mahindra Tractor space.
- Banks such as SBI are adopting an aggressive approach in the Car Loans space by offering longer tenures and lower interest rates.
- Once growth picks up, the expense ratio would also pick up due to higher variable costs. However, due to COVID, the company has saved 50bp of expenses permanently.



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Manappuram Finance
Q3 FY21 Financial Results

Key Metrics:

- Revenue: ₹1,000.00 Crores
- Profit After Tax: ₹150.00 Crores
- EPS: ₹15.00
- Dividend: ₹5.00

Management Commentary:

The Q3 FY21 performance was strong, with revenue growth of 10% and profit growth of 15% compared to the same quarter last year. The company has successfully managed its expenses and improved its operational efficiency. The management expects continued growth in the coming quarters.

Manappuram Finance

Buy

Current Price INR 162

Gold Finance

- It reported INR934b in disbursements in 2Q (INR683b QoQ in 1QFY21 and INR503b YoY 2QFY20).
- Average incremental loan stands at INR2,869/gm (i.e., 61% LTV). Hence, there is room to increase LTV.
- Expect gold loan traction to be healthy in 2H as well.

Asirvad MFI

- Some uneven lockdowns in WB impacted collection efficiency. In Karnataka, CE declined to 94% in Oct from 99% in Sep due to some local issues.
- The INR660m provision taken in the quarter is entirely toward COVID-19. Some more incremental provisions may be needed, but the bulk of the provisioning is now behind.
- Borrowing mix – TL: 60%; NCD – 12%; Securitization: 25%
- Post-COVID, one field person now handles 500 customers (v/s 750 customers earlier).
- Capital infusion is not needed.
- CE without arrears was as follows: Jul – 68%, Aug – 71%, Sep – 82%, and Oct – 82%.
- Pre-COVID, CE was 97–100%.

Other segments

- Housing Finance – 95% of CE in Sep includes overdue collections of 8%. Pre-COVID, CE was 94–96%. Some issues were seen in Kerala due to a spike in COVID cases.
- Vehicle Finance – CE without arrears was as follows: Jul – 69%, Aug – 74%, Sep – 77%, and Oct – 81%. Arrear collections stood as follows: Jul – 15%, Aug – 17%, Sep – 19%, and Oct – 24%. Pre-COVID, CE was 92–94%. Expect CE to reach pre-COVID levels in 4QFY21. Provisions stand at INR 780m.

Others

- The company's customers typically get their financing from money lenders.


Muthoot Finance

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Results Update

Muthoot Finance

Neutral
Current Price INR 1,183

Business Updates

- 50% QoQ growth in mobile app transactions in the quarter.
- Reiterated loan growth guidance of 15%+ YoY for FY21.
- 61% outstanding LTV as of end-Sep'20.
- Will open 100-150 branches per year.
- Penal interest amount in the quarter is minimal.
- Competitive intensity from banks has increased post-COVID. However, this has helped expand the overall market size.
- Incremental LTV is 70%.
- Expect expense ratio of 4-4.5%. Not much gains expected on this front hereon.

Subsidiaries

- HFC – Focusing more on collections rather than growth. Loan book should be flat YoY in FY21. Collection efficiency (CE) was 84% in Sep'20.
- MFI – Started fresh lending. Expect INR5b YoY increase in loan book in FY21. CE was 86% in Sep'20.
- CE in Sep'20: 93% in personal loans and 82% in vehicle finance.

Funding

- INR20b public NCD issue has been subscribed fully. Average interest rate was 7.6%.
- Receiving new credit lines from banks.
- CoF should decline 3QFY21 onwards.
- Raised INR41.33b fresh funding in 2QFY21, excluding roll-overs and CP issuances.

Others

- HNI loans above INR1m have grown 230% QoQ. INR1b 'Loan at Home' disbursed in 2QFY21.
- Minimal auctions have been done this quarter.
- Opex is up QoQ as the company got rental waivers in Apr'20.
- As mentioned in MUTH's presentation, 'inactive' customers are those that had a loan earlier but were not current customers at start of the quarter.
- In hedge accounting, all MTM gains/losses are kept outside the P&L and appear in assets/liabilities. Fair value on investments is accounted for in OCI.
- The largest branches would have INR250-300m loans outstanding.
- Interest rate in online loans is the same as offline loans. However, they waive some small fees/charges.



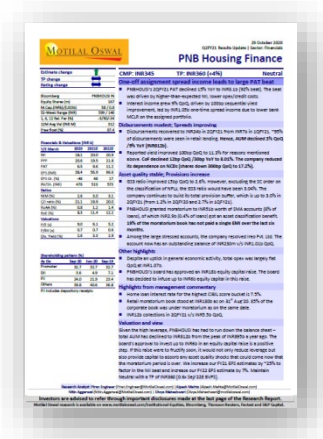
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Results Update

PNB Housing Finance

Neutral
Current Price INR 383

Business Updates

- Will continue to reduce the corporate book over the next two quarters.
- Yields improve 100bp due to rate increases taken in 1QFY21 and impact on increase in spreads on the securitization portfolio (INR1.05b impact of the latter).
- Home loan interest rate for the highest CIBIL score bucket is 7.5%.
- Some branches were rationalized due to lower profitability. This will be an ongoing exercise.



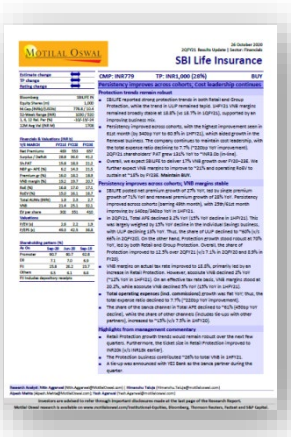
- Waiting for regulatory approvals post which equity capital raise will happen quickly.
- ### **Asset Quality**
- Average collection efficiency of 95% in the retail book in the quarter (excluding prepayments, balance transfers, etc.).
 - 19% of the moratorium book in Phase 2 has not paid a single EMI over the past six months.
 - INR12b collections in 2QFY21 v/s INR5.5b QoQ.
 - INR180b retail moratorium book as on 31st Aug'20. 85% of the corporate book was under moratorium as on the same date.
 - HFCs are not eligible for DCCO extension. This is only for banks and NBFCs. However, NHB allows a one-time rescheduling of repayments by HFCs.
 - Auctions done during the quarter have been good.

Others

- Confident that housing sales will surge in the festival season. Top-10 markets are doing very well.
- First HFC to start video KYC.
- 19% of portfolio is under construction.
- Will sell down INR4-5b corporate loans per quarter going forward.
- Have liquidity on the BS to last 90 days.
- SWAMIH has identified 7-8 projects of the company for last-mile funding.



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Results Update**



SBI Life Insurance

Buy

Current Price INR 845

Business mix

- The ticket size of the protection policy issued through the YONO App is much lower v/s policies issued through other distribution channels.
- Returns offered in the Non-PAR fixed-guarantee plan were very attractive in 1QFY21; however, the company moderately re-priced the product in 2QFY21, which affected growth trends. Overall, it would continue to focus on this segment. Furthermore, various hedging techniques are used, such as partly paid bonds, forward rate agreement, etc. to minimize balance sheet risk.
- Credit Life is also seeing revival trends; the total premium from this business stood at ~INR4.8b in 1HFY21, while it was INR1b for GTI (Group Term Insurance).
- The ULIP segment is seeing an uptick in sales, and the business' proportion in the Total APE mix would remain higher. Overall, it would continue to focus on a balanced product mix strategy.
- Retail Protection trends would remain robust over 2HFY21 as well. Furthermore, the ticket size in Retail Protection increased to INR20k from INR18k.

Operating metrics

- It would continue to focus on improving cost ratios.
- In VNB margins, decline in operating assumptions was largely due to COVID related provisions. However, no other operating assumptions changed during the quarter.
- The improvement in VNB margins was primarily led by an increase in the Retail Protection mix.

- Also, an increase in the solvency ratio during the quarter was largely driven by better capital market performance.
- Pricing of Protection product: It filed the product to the IRDA and awaits approvals for the same. Also, the new term plan has higher pricing v/s the current policy and would further support margins.
- Overall, the total Protection business contributed ~26% to the total VNB in 1HFY21.

Distribution channel

- A tie-up was announced with YES Bank as the new banca partner during the quarter.
- The agency channel also enhanced its focus on the Protection product.
- The agent network was increased to 154k from 123k. However, avg. productivity declined during the quarter as many agent partners were unable to operate due to COVID. Overall, it is witnessing recovery trends MoM.



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Results Update



Shriram City Union Finance
Q3 FY21 Financial Results

Particulars	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,234.56	1,123.45	1,012.34
Profit	234.56	212.34	198.76
Assets	12,345.67	11,234.56	10,123.45
Liabilities	11,234.56	10,123.45	9,012.34

Shriram City Union Finance

Buy

Current Price INR 1,009

Business Updates

- MSME disbursements should pick up (INR2.5b in Oct'20 v/s INR7.5b in 2QFY21). 2W disbursements in the festival season is expected to be good (Dushera season witnessed 100k 2Ws being funded).
- Number of employees is down by ~2,000. However, may add another 500-600 employees.
- No branch expansion needed. Opened 100 rural centers to service 2W and MSME customers. These rural centers could be converted to branches in the future.
- Will add 10 branches in the HFC subsidiary over the next two quarters.
- Expect flattish AUM on YoY basis in FY21.
- Pre-owned 2W segment – ATS is INR30-40k. 60-70% customers are self-employed. Vehicle vintage is up to 3 years, typically. Working with pre-owned 2W dealers. This segment could have INR30-40b annual disbursements. Yields are 300-400bp higher than new 2Ws.
- ECLGS scheme – Disbursements of INR400-500m and sanctions of INR1.5b.

Asset Quality

- Sub-1% of the book could be restructured (hotels, hospitals, schools, garment retailers, real estate, etc.).
- Shriram Housing Finance – CE of 94% in Sep'20.
- Collection efficiency (CE): SME - 65% in Aug'20 and 93% in Sep'20. 2W – stable at 93% in Aug-Sep'20. Pre-COVID, CE was 95%.
- 180k customers (1.5% of AUM) did not pay a single EMI during the moratorium period. Of this, 122k paid in Sep'20.
- Stage 2 loans: 4-5% in 1Q-2QFY21.
- May not need any incremental provisioning. Credit costs should stabilize at 2.8-3% over the next few quarters.

Funding

- INR31.47b fresh funding was raised in the quarter.
- Launched recurring deposit facility for public deposit holders. Expect INR250-300m new recurring deposits on a monthly basis.

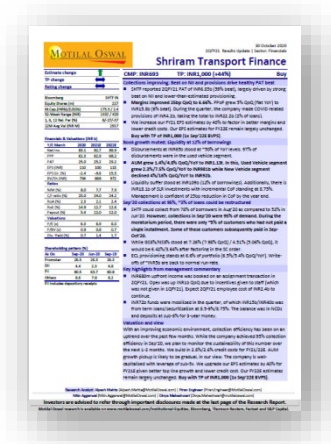
- Did one securitization transaction in 2QFY21. Will do 2-3 securitization transactions worth INR10b per quarter, going forward.
- Overall liquidity situation is improving across borrowing sources. Incremental CoF is 9%.

Others

- Started a new online platform for 2W loans. Disbursed 5k 2Ws via this platform.
- Transactions done on digital platform up from 1.8m to 2.2m QoQ. This should help reduce collection cost.
- Yields in the HFC subsidiary have spiked due to one-off assignment income. Average yields are 13.5-14%.
- Gold loans – Doing it in five states (AP, TL, TN, KN, MH). But recently opened 20 branches in the north. Tenure of 5-6 months. 60% LTV on book (70% incremental).



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Shriram Transport Finance

Buy

Current Price INR 934

Business Updates

- Expect disbursements to revert to prior year levels (INR120b per quarter) over the next two quarters. This would result in 5-6% YoY AUM growth in FY21.
- Will add 100 branches and 1,000 employees over the next two quarters.
- INR680m upfront income booked on an assignment transaction in the quarter. Opex was up INR1b QoQ due to incentives given to staff (which was not given in 1QFY21). Expect 2QFY21 employee cost of INR2.4b to continue.
- INR5.7b ECLGS (GOI scheme) has been disbursed so far. May disburse another INR1b by Dec'20.
- Of the portfolio, 20% is in passenger vehicles (11% in private and balance is public). Of the public share, ~2% is with cab/taxi aggregators, 2% with school buses and balance is with rural transportation.

Asset Quality

- In Sep'20, collection efficiency was 95%. This includes overdue customers. The trend in Oct'20 is similar too. Collection efficiency (value wise) stood at 50%/53%/59% in Jun/Jul/Aug'20.
- During the six-month moratorium period, 4.5% of customers had not paid a single EMI (1% of loans). Some of these people paid in Sep-Oct'20.
- Expect Stage 2 to remain largely stable (11-13%).
- Resale value of LCVs is higher than pre-COVID levels. Not many HCV transactions are happening in order to make a judgment.

Funding

- INR72b funds were mobilized in the quarter; of this, INR15b was from term loans (at 8.5-9%) and INR40b from securitization and assignments (at 8.75%). Rest are in NCDs and deposits (at sub-8% for three-year money)
- Raised adequate money from government schemes. Received INR20b from CG scheme from 4 banks, INR3.5b from SIDBI and INR2b from TLTRO
- Incremental CoF is 8.75%.
- INR2.5b net accretion in deposits on a monthly basis (100% retail with average three-year money). Target to increase share from 13% to 20%.
- By Mar'21, expect CoF to decline 25bp.
- Expect the securitization market to pick up going forward.

- Have started raising money via market-linked debentures in a small way from the capital markets. NIMs would take a few quarters before reverting to pre-COVID levels.

Others

- Rural branches are in those places with less than 100k population.
- Hedge accounting routed through OCI.

HEALTHCARE



- In the Domestic Formulation (DF) segment, the intensity of YoY decline is gradually reducing in acute therapies with an increase in patient–doctor–MR connect. Operational cost-saving benefits are expected to continue over the medium term due to 1) structural reasons such as the enhanced use of digital tools and 2) travelling/marketing/promotional expenses remaining at reduced levels. Healthy momentum in the pace of ANDA filings / new approvals is expected to continue over the medium term. While remediation measures by companies on the sites under regulatory issues are complete, feedback from the USFDA is still awaited due to restrictions on international travel. The API business has seen a mixed response, with sustained growth in some cases and increased inventory buildup by formulators in the remaining cases.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Commentary on COVID-19 & Update on Vaccine Development
Aurobindo Pharma	■ Five products in biosimilar trials: three product filings in Europe in FY21 and two product filings in the US in FY21 ■ R&D expense would remain at 5–5.5% of sales as clinical trials for potential products would start from the coming quarters.	■ Vaccine facility setup would be completed by Mar–Apr’21. ARBP has the capability to meet the fill-finish, but drug substance manufacturing would depend on partner requirements. ■ Not seeing any decline in Anti-Retroviral sales due to COVID
Cipla	■ Cipla’s Albuterol market share gains would be subject to production sustainability considering the complexity of manufacturing. ■ Growth in Acute therapies in 1HFY21 would offset some moderation expected in trade generics.	■ Cipla expects overall opex savings to be higher than previous guidance of INR4–5b in FY21. ■ COVID products such as Remdesivir accounted for <5% of the total revenues in 2QFY21.
Cadila	■ R&D expense would be 7–8%, ex that for Saroglitazar trials. CDH expects to file 30–35 ANDAs in FY21 and 40–45 ANDAs in FY22. ■ On track to show good growth in DF in 2HFY21, with recovery in Acute therapies and important first-in-India launches in Chronic lined up.	■ CDH plans to initiate Phase III trials of its COVID vaccine candidate by Dec’20 and would be able to have data for the same by Mar’21. CDH is also developing another vaccine candidate. ■ CDH is also trying to collaborate with MNCs to make vaccines available in India (manufacturing and/or distribution).
Lupin	■ EBITDA margins would improve going forward to ~18.5% in 4QFY21. ■ LPC expects 10%+ YoY overall revenue growth in 2HFY21.	■ USFDA is not conducting desktop audits for facilities, and resolution of plants under sanctions will be delayed. ■ Manpower costs would be higher in 3Q and 4Q. Manpower costs are ~18% of sales; expect this to sustain going forward.
Divi’s	■ In addition to major capex programs (INR18b) executed over the past couple of years, Divi’s will undertake new capex (INR4b) for the CRAMS business – to be executed over 6–9M. ■ The Nutraceuticals biz would grow at 15–18% YoY going forward with geographic expansion. Expect INR6b sales in FY21.	■ Negligible income from COVID products. ■ Remdesivir APIs were developed to ensure there are no shortages. Since efficacy is in doubt, Divi’s has not made further batches of Remdesivir.
Sun Pharma	■ Specialty sales have recovered from the dip in 1QFY21. Specialty portfolio would improve with increased doctor-patient connect. ■ Field force expansion in DF is now complete. Recovery in Acute portfolio to improve DF sales in 2HFY21.	■ Marketing/Promotional expense on specialty products in the US would gradually increase, with more doctors’ offices / hospitals opening up. ■ Acute therapies de-grew due to fewer infections and many doctors’ clinics still remaining closed.



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Motilal Oswal Research Report
Alembic Pharma
Current Price: INR 970
Buy

Key Metrics:

Parameter	2020-21	2021-22	2022-23
Revenue (INR Cr)	1,000	1,200	1,400
EBITDA (INR Cr)	150	200	250
Net Profit (INR Cr)	100	150	200
EPS (INR)	100	150	200

Key Highlights:

- Strong growth in the US market, driven by the launch of new products.
- Robust pipeline with several products in late-stage clinical trials.
- Strategic partnerships with global pharmaceutical companies.



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Motilal Oswal Research Report
Alkem Labs
Current Price: INR 2,679
Buy

Key Metrics:

Parameter	2020-21	2021-22	2022-23
Revenue (INR Cr)	1,000	1,200	1,400
EBITDA (INR Cr)	150	200	250
Net Profit (INR Cr)	100	150	200
EPS (INR)	100	150	200

Key Highlights:

- Strong growth in the US market, driven by the launch of new products.
- Robust pipeline with several products in late-stage clinical trials.
- Strategic partnerships with global pharmaceutical companies.

Alembic Pharma

Neutral

Current Price INR 970

- APLM guided for EPS of INR60 for FY21. Considering additional operating expense of INR4.5b, ALPM guided for EPS of INR50 in FY22.
- The proceeds from a recent qualified institutional placement (QIP) were utilized to reduce gross debt to INR6b (from INR14b QoQ).
- ALPM guided for 5–6 ANDA launches in 3QFY21. R&D spend was INR1.8b in 2QFY21 (12.7% of sales) v/s 14% YoY and 10.6% QoQ as a percentage of sales.
- The financial assistance to Aleor (JV) stood at INR400m/INR650m for 2QFY21/1HFY21.
- ALPM received six ANDAs (incl. four tentative approvals) in 2QFY21.
- It launched three products during the quarter and would launch additional 10–15 products in 2HFY21. ALPM is expected to maintain a similar to higher launch momentum in the next year.
- MR activity saw an uptick in 2Q and is a fair representation of near-normal levels.
- Growth improved MoM in DF for ALPM; it witnessed double-digit growth in Sep'20.
- ALPM has launched new DPP4 inhibitors and is all geared up to launch all SGLT2 inhibitors.
- API segment growth was partly attributable to the higher off-take of the Azithromycin API on account of COVID-19.
- ALPM's current API business is constrained by capacity. The company is in the process of investing in expanding its capacities.

Alkem Labs

Buy

Current Price INR 2,679

- Branded generics (Rx) and trade generics (Gx) composition was ~73:27 in the DF segment for 1HFY21.
- ALKEM has ~100% field force back on the ground. Doctor coverage has reached 80-85% of pre-COVID level. With improving outlook, ALKEM has guided for double-digit growth in Rx segment of DF for 2HFY21.
- ALKEM has annual opex to the tune of INR800m for its biosimilar segment.
- The company plans to launch its key biosimilars/biotech in India in 4QFY21. Two of the three products are peptides and one is a monoclonal antibody.
- ETR is expected at ~13-14% for FY21 and at 14-15% for FY22E.
- US business grew 12% YoY in CC terms for the quarter led by new launches and market share gain in existing products.
- US sales were down 6% sequentially because of lesser number of launches in 2QFY21 compared to previous quarters.
- ALKEM filed 1 ANDA and received 4 approvals in 2QFY21. It has launched 6-7 products in 1HFY21 and maintains its stance of launching 10-12 ANDAs in FY21.
- Asset utilization for the US business is ~75-77% (excluding expanded capacity of Indore and Daman). ALKEM can go without any more expansion for 3-4 years.
- ALKEM has invested heavily in capex and opex for its biologics segment. It plans to enter the US and Europe for biosimilars by FY25E.
- R&D expense stood at INR1.38b and formed 6% of sales.



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MATERIALS
OWSAL

Aurobindo Pharma
12 November 2016

Chemical Name	IMP	IMP1	IMP2	IMP3	IMP4	IMP5	IMP6	IMP7	IMP8	IMP9	IMP10	IMP11	IMP12	IMP13	IMP14	IMP15	IMP16	IMP17	IMP18	IMP19	IMP20	IMP21	IMP22	IMP23	IMP24	IMP25	IMP26	IMP27	IMP28	IMP29	IMP30	IMP31	IMP32	IMP33	IMP34	IMP35	IMP36	IMP37	IMP38	IMP39	IMP40	IMP41	IMP42	IMP43	IMP44	IMP45	IMP46	IMP47	IMP48	IMP49	IMP50	IMP51	IMP52	IMP53	IMP54	IMP55	IMP56	IMP57	IMP58	IMP59	IMP60	IMP61	IMP62	IMP63	IMP64	IMP65	IMP66	IMP67	IMP68	IMP69	IMP70	IMP71	IMP72	IMP73	IMP74	IMP75	IMP76	IMP77	IMP78	IMP79	IMP80	IMP81	IMP82	IMP83	IMP84	IMP85	IMP86	IMP87	IMP88	IMP89	IMP90	IMP91	IMP92	IMP93	IMP94	IMP95	IMP96	IMP97	IMP98	IMP99	IMP100	IMP101	IMP102	IMP103	IMP104	IMP105	IMP106	IMP107	IMP108	IMP109	IMP110	IMP111	IMP112	IMP113	IMP114	IMP115	IMP116	IMP117	IMP118	IMP119	IMP120	IMP121	IMP122	IMP123	IMP124	IMP125	IMP126	IMP127	IMP128	IMP129	IMP130	IMP131	IMP132	IMP133	IMP134	IMP135	IMP136	IMP137	IMP138	IMP139	IMP140	IMP141	IMP142	IMP143	IMP144	IMP145	IMP146	IMP147	IMP148	IMP149	IMP150	IMP151	IMP152	IMP153	IMP154	IMP155	IMP156	IMP157	IMP158	IMP159	IMP160	IMP161	IMP162	IMP163	IMP164	IMP165	IMP166	IMP167	IMP168	IMP169	IMP170	IMP171	IMP172	IMP173	IMP174	IMP175	IMP176	IMP177	IMP178	IMP179	IMP180	IMP181	IMP182	IMP183	IMP184	IMP185	IMP186	IMP187	IMP188	IMP189	IMP190	IMP191	IMP192	IMP193	IMP194	IMP195	IMP196	IMP197	IMP198	IMP199	IMP200	IMP201	IMP202	IMP203	IMP204	IMP205	IMP206	IMP207	IMP208	IMP209	IMP210	IMP211	IMP212	IMP213	IMP214	IMP215	IMP216	IMP217	IMP218	IMP219	IMP220	IMP221	IMP222	IMP223	IMP224	IMP225	IMP226	IMP227	IMP228	IMP229	IMP230	IMP231	IMP232	IMP233	IMP234	IMP235	IMP236	IMP237	IMP238	IMP239	IMP240	IMP241	IMP242	IMP243	IMP244	IMP245	IMP246	IMP247	IMP248	IMP249	IMP250	IMP251	IMP252	IMP253	IMP254	IMP255	IMP256	IMP257	IMP258	IMP259	IMP260	IMP261	IMP262	IMP263	IMP264	IMP265	IMP266	IMP267	IMP268	IMP269	IMP270	IMP271	IMP272	IMP273	IMP274	IMP275	IMP276	IMP277	IMP278	IMP279	IMP280	IMP281	IMP282	IMP283	IMP284	IMP285	IMP286	IMP287	IMP288	IMP289	IMP290	IMP291	IMP292	IMP293	IMP294	IMP295	IMP296	IMP297	IMP298	IMP299	IMP300	IMP301	IMP302	IMP303	IMP304	IMP305	IMP306	IMP307	IMP308	IMP309	IMP310	IMP311	IMP312	IMP313	IMP314	IMP315	IMP316	IMP317	IMP318	IMP319	IMP320	IMP321	IMP322	IMP323	IMP324	IMP325	IMP326	IMP327	IMP328	IMP329	IMP330	IMP331	IMP332	IMP333	IMP334	IMP335	IMP336	IMP337	IMP338	IMP339	IMP340	IMP341	IMP342	IMP343	IMP344	IMP345	IMP346	IMP347	IMP348	IMP349	IMP350	IMP351	IMP352	IMP353	IMP354	IMP355	IMP356	IMP357	IMP358	IMP359	IMP360	IMP361	IMP362	IMP363	IMP364	IMP365	IMP366	IMP367	IMP368	IMP369	IMP370	IMP371	IMP372	IMP373	IMP374	IMP375	IMP376	IMP377	IMP378	IMP379	IMP380	IMP381	IMP382	IMP383	IMP384	IMP385	IMP386	IMP387	IMP388	IMP389	IMP390	IMP391	IMP392	IMP393	IMP394	IMP395	IMP396	IMP397	IMP398	IMP399	IMP400	IMP401	IMP402	IMP403	IMP404	IMP405	IMP406	IMP407	IMP408	IMP409	IMP410	IMP411	IMP412	IMP413	IMP414	IMP415	IMP416	IMP417	IMP418	IMP419	IMP420	IMP421	IMP422	IMP423	IMP424	IMP425	IMP426	IMP427	IMP428	IMP429	IMP430	IMP431	IMP432	IMP433	IMP434	IMP435	IMP436	IMP437	IMP438	IMP439	IMP440	IMP441	IMP442	IMP443	IMP444	IMP445	IMP446	IMP447	IMP448	IMP449	IMP450	IMP451	IMP452	IMP453	IMP454	IMP455	IMP456	IMP457	IMP458	IMP459	IMP460	IMP461	IMP462	IMP463	IMP464	IMP465	IMP466	IMP467	IMP468	IMP469	IMP470	IMP471	IMP472	IMP473	IMP474	IMP475	IMP476	IMP477	IMP478	IMP479	IMP480	IMP481	IMP482	IMP483	IMP484	IMP485	IMP486	IMP487	IMP488	IMP489	IMP490	IMP491	IMP492	IMP493	IMP494	IMP495	IMP496	IMP497	IMP498	IMP499	IMP500	IMP501	IMP502	IMP503	IMP504	IMP505	IMP506	IMP507	IMP508	IMP509	IMP510	IMP511	IMP512	IMP513	IMP514	IMP515	IMP516	IMP517	IMP518	IMP519	IMP520	IMP521	IMP522	IMP523	IMP524	IMP525	IMP526	IMP527	IMP528	IMP529	IMP530	IMP531	IMP532	IMP533	IMP534	IMP535	IMP536	IMP537	IMP538	IMP539	IMP540	IMP541	IMP542	IMP543	IMP544	IMP545	IMP546	IMP547	IMP548	IMP549	IMP550	IMP551	IMP552	IMP553	IMP554	IMP555	IMP556	IMP557	IMP558	IMP559	IMP560	IMP561	IMP562	IMP563	IMP564	IMP565	IMP566	IMP567	IMP568	IMP569	IMP570	IMP571	IMP572	IMP573	IMP574	IMP575	IMP576	IMP577	IMP578	IMP579	IMP580	IMP581	IMP582	IMP583	IMP584	IMP585	IMP586	IMP587	IMP588	IMP589	IMP590	IMP591	IMP592	IMP593	IMP594	IMP595	IMP596	IMP597	IMP598	IMP599	IMP600	IMP601	IMP602	IMP603	IMP604	IMP605	IMP606	IMP607	IMP608	IMP609	IMP610	IMP611	IMP612	IMP613	IMP614	IMP615	IMP616	IMP617	IMP618	IMP619	IMP620	IMP621	IMP622	IMP623	IMP624	IMP625	IMP626	IMP627	IMP628	IMP629	IMP630	IMP631	IMP632	IMP633	IMP634	IMP635	IMP636	IMP637	IMP638	IMP639	IMP640	IMP641	IMP642	IMP643	IMP644	IMP645	IMP646	IMP647	IMP648	IMP649	IMP650	IMP651	IMP652	IMP653	IMP654	IMP655	IMP656	IMP657	IMP658	IMP659	IMP660	IMP661	IMP662	IMP663	IMP664	IMP665	IMP666	IMP667	IMP668	IMP669	IMP670	IMP671	IMP672	IMP673	IMP674	IMP675	IMP676	IMP677	IMP678	IMP679	IMP680	IMP681	IMP682	IMP683	IMP684	IMP685	IMP686	IMP687	IMP688	IMP689	IMP690	IMP691	IMP692	IMP693	IMP694	IMP695	IMP696	IMP697	IMP698	IMP699	IMP700	IMP701	IMP702	IMP703	IMP704	IMP705	IMP706	IMP707	IMP708	IMP709	IMP710	IMP711	IMP712	IMP713	IMP714	IMP715	IMP716	IMP717	IMP718	IMP719	IMP720	IMP721	IMP722	IMP723	IMP724	IMP725	IMP726	IMP727	IMP728	IMP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- Capex to the tune of INR3.25-3.5b is expected for FY21.

Aurobindo Pharma

Buy

Current Price INR 833

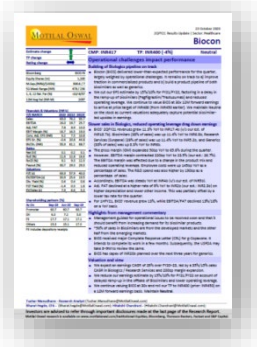
- While the gross margin stood at 61% for 2QFY21, the sustainable gross margin is expected to be 58–59% (excluding forex benefit).
- Injectables sales are expected to reach USD650–700m over the next three years from the current annual run-rate of USD380m.
- ARBP would have the vaccine manufacturing setup completed by Mar–Apr'21. It has the capability to meet the fill-finish part of the manufacturing. Drug substance manufacturing would depend on partner requirement.
- ARBP guided for annual capex of USD180–200m over the next 2–3 years. The capex is largely toward a) setting up an injectables facility for the US/EU market at Vizag, b) setting up capacity for inhaler/derma, c) API capacity expansion, and d) debottlenecking/maintenance.
- ARBP filed 24 ANDAs (including 10 injectables) and launched 17 (including six injectables) in 2QFY21.
- Some recovery is seen in elective surgeries, which is driving the Injectables business for ARBP.
- ARBP has achieved double-digit profitability in the EU segment.
- The sales momentum in ARV could sustain, with annual demand from TLD expected to reach 14–15m tablets over the medium term from 8–9m tablets currently.
- ARBP has ~20% market share in the ARV space.
- ARBP is developing 13 biosimilars. It has completed phase I trials for one of the products and would submit a licensure to enable phase III trials in the EU. ARBP would commence phase III for another product from FY22.
- It expects to file 3–4 products in the Topicals segment in FY21.
- It expects to file products in the Inhaler, Transdermal, Nasal, Oncology, and Depot Injections segments over the next 3–4 years.
- ARBP expects R&D spend to be 5.5–6% of sales in FY21.
- The USFDA completed CAPA at Unit 1/9/11 and awaits feedback from the administration.

Biocon

Neutral

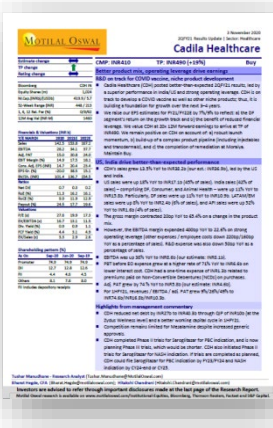
Current Price INR 420

- Management guided for operational issues to be resolved soon and that it should benefit from increasing demand for its biosimilar products.
- ~50% of sales in Biosimilars are from the developed markets and the other half from the emerging markets.
- BIOS received major Complete Response Letter (CRL) for g-Copaxone. It intends to complete its work in a few months. Subsequently, the USFDA may take 8-9M to review the same.
- BIOS has capex of INR20b planned over the next three years for generics.
- Biocon has submitted a Biologics License Application (BLA) for biosimilars Insulin Aspart under the 351(k) pathway.



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Cipla
Caring for life

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- BIOS-Mylan gained 15% market share in the Pre-Filled Syringe market in 2QFY21.
- Syngene has begun manufacturing Remdesivir at its Bengaluru facility.
- BIOS-Mylan launched Semglee (biosimilar Insulin Glargine) in Spain as well, after launching it in Germany and France.
- BIOS indicated the Malaysia facility has achieved breakeven at current levels of production.
- BIOS guided for R&D spend to be 13–15% of sales for FY21.

Cadila Healthcare

Buy

Current Price INR 426

- R&D is expected to be at 7–8% of sales for FY21, excluding higher spend expected on Saroglitazar trials.
- CDH is expected to have data readout for the COVID vaccine Phase II trials by Nov-end and Phase III trials by Mar/Apr'21.
- CDH is developing another COVID vaccine candidate and also developing COVID therapeutic treatments that are at different phases of trials.
- CDH is in talks with MNC vaccine developers for manufacturing and distribution rights for their COVID vaccine candidates.
- CDH is also building three more Mesalamine-based products.
- It received 10 ANDA approvals and filed five ANDAs in 2QFY21.
- CDH has now filed three injectable products, which were site-transferred from Moraiya to Liva. CDH re-launched one injectable from Liva, post the site transfer from Moraiya.
- CDH reduced net debt by INR27b to INR40.3b through QIP of INR10b (at the Zydus Wellness level) and a better working capital cycle in 1HFY21.
- Competition remains limited for Mesalamine despite increased generic approvals.
- CDH completed Phase II trials for Saroglitazar for PBC indication, and is now planning Phase III trials, which would be shorter. CDH also initiated Phase II trials for Saroglitazar for NASH indication. If trials are completed as planned, CDH could file Saroglitazar for PBC indication by FY23/FY24 and NASH indication by CY24-end or CY25.

Cipla

Neutral

Current Price INR 740

- CIPLA has TRx share of 84% in the Proventil market currently. It has 8% TRx share considering all brands of Albuterol Sulfate.
- US business was at company-level profitability in 1HFY21.
- CIPLA submitted last response to the USFDA on Goa remediation measures.
- It expects cost savings to be higher than the earlier guidance of INR4-5b for FY21.
- COVID led product sales form ~5% of total sales now.
- Within SAGA, South Africa private market business grew 9% YoY in local currency rate and tender market grew 28% YoY.
- Review of G-Advair by the USFDA is progressing well.



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Dr.Reddy's

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- DF prescription segment grew 14% YoY, led by COVID portfolio, better traction in Acute therapies with some recovery in the hospital segment. Chronic therapy grew 9% YoY.
- Some moderation is expected in trade generics segment due to bunching-up of orders in 2QFY21.
- EU operations grew 24% YoY due to market share gain in focus markets.
- Effective tax rate (ETR) is expected at ~28.5% for FY21.

Divi's Lab

Buy

Current Price INR 3,469

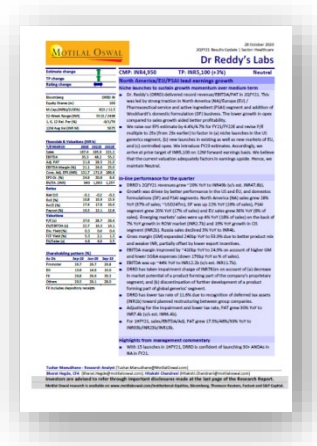
- DIVI announced new capex of INR4b for the CS business, in addition to previously announced capex of INR18b. It would be completed over the next 6–9M.
- DIVI hopes to commence construction activity at Kakinada by Dec'20. The company would invest INR6b at this site over the next 2–3 years.
- Nutraceuticals revenues stood at INR1.6b in 2Q, and are expected to be ~INR6b for FY21. DIVI guided for 10–15% YoY growth in FY22 in this segment, led by expansion in newer geographies.
- Revenues from COVID-related products remained negligible for the quarter.
- At the DC-SEZ and DCV-SEZ units, several debottlenecking projects have been completed, and the remaining (INR5b in CWIP) would be completed in FY21.
- Gross margin expansion was driven by product mix and the implementation of new technology, aided by backward integration on some of the products.
- Post the completion of the Kakinada capex, it would begin work at the Nellore site. It has 200 acres of land and awaits government clearances.
- Given that the existing facility at Unit 2 is USFDA-compliant, DIVI can supply already-approved products from the new block at Unit 2 using the same technology, without waiting for a USFDA inspection.
- 90% of APIs are produced on a batch production basis. It is working on some technologies to increase continuous production, at least for some phases.
- The PLI scheme is not beneficial to the company as the majority of the products under the scheme are for antibiotics and do not apply to the products offered by DIVI.

Dr. Reddy's Labs

Neutral

Current Price INR 4,671

- With 15 launches in 1HFY21, DRRD is confident of launching 30+ ANDAs in NA in FY21.
- The company will launch g-Vascepa/g-Remodulin in the coming quarters.
- PSAI demand was elevated due to higher stocking up by customers and is expected to normalize in coming quarters.
- DRRD launched three products in Germany and one each in Italy, the UK, Spain and Austria in the current quarter.
- Sputnik V vaccine's availability is expected in Mar'21. DRRD has license to supply 100m doses and is in the process of identifying capacities for the same.



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- DRRD is conducting additional trials for Favipiravir in Kuwait/UAE as well as in the US for additional data and indications. It intends to apply for Emergency Use Authorization (EUA) in the US if the results are positive.
- R&D cost is expected to increase for the rest of the year due to COVID vaccine trials and investments on other COVID products in India and other markets.
- Phase III trials for Rituximab is progressing well. DRRD is working on other biosimilars as well.
- SG&A costs are expected to structurally reduce in the long run with use of digital tools for promotion.
- India MR count stands at ~6,500.
- Overall, DRRD launched 28 products across key geographies in EMs. Business in China is also doing well and the company is continuing to file products.

Glenmark Pharma

Neutral

Current Price INR 482

- GNP guided for double-digit growth in DF going forward.
- While DF grew 17% YoY in 2QFY21, 7–8% YoY growth was led by Fabiflu (COVID medicine).
- Ichnos' (drug development arm of GNP) capital raise – Series B funding rounded is expected to be closed by Dec'20.
- GNP plans to file 15–20 ANDAs and expects 10–12 approvals in FY21.
- GNP expects investments in Monroe to start seeing returns from FY22/FY23.
- API sales growth is broad-based and not led by select products.
- The LATAM business has been impacted by lockdown and currency headwinds.
- Ryaltris was launched in Australia and South Africa and has received a positive response.
- GNP seeks partners to start Phase 2B for the Rheumatoid Arthritis indication with regard to the ISB 830 molecule.
- Net debt stood at INR37.8b at the end of 2QFY21.

Granules India

Buy

Current Price INR 374

- The share of core molecules stood at 70% of total sales in 2QFY21. Management indicated this would further reduce to 50% over the next 3–5 years.
- GRAN's multi-API facility at Vizag would be fully operational by next year.
- Working capital increased by INR1b for the quarter. Cash tax outflow was INR620m. Considering these factors, cash flow from operations was INR1b on EBITDA of INR2.5b.
- Free cash flow for the company stood at INR520m at the end of the quarter.
- Management is confident of maintaining a 30% earnings CAGR over the next 2–3 years.

MUPS (Multi-unit Pellet System): Technological advancement led efficiency to play out over medium term

- GRAN intends to invest in the MUPS technology to produce pellets. Pellets are produced for oral controlled release dosages having gastro-resistant or

Granules India

Q3 FY2021 (INR Lakhs)

Particulars	Q3 FY2021	Q3 FY2020	Q3 FY2019
Revenue	1,12,14,000	1,08,14,000	1,08,14,000
EBITDA	1,12,14,000	1,08,14,000	1,08,14,000
EBIT	1,12,14,000	1,08,14,000	1,08,14,000
Profit before tax	1,12,14,000	1,08,14,000	1,08,14,000
Profit after tax	1,12,14,000	1,08,14,000	1,08,14,000



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IPCA Laboratories

Q3 FY2021 (INR Lakhs)

Particulars	Q3 FY2021	Q3 FY2020	Q3 FY2019
Revenue	1,12,14,000	1,08,14,000	1,08,14,000
EBITDA	1,12,14,000	1,08,14,000	1,08,14,000
EBIT	1,12,14,000	1,08,14,000	1,08,14,000
Profit before tax	1,12,14,000	1,08,14,000	1,08,14,000
Profit after tax	1,12,14,000	1,08,14,000	1,08,14,000



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sustained release properties. GRAN would invest INR2.4b in the technology over FY21–22, which would be integrated with the multi-API block (Unit 5) in Vizag. The MUPS block would have the capacity to manufacture 2.5–5b FDs per annum and would turn operational by 3QFY22. The company intends to file 13 products using the MUPS technology.

Multiple API pipeline in progress from Units 4 and 5

- GRAN intends to expand the basket of eight APIs from Units 4 and 5 to 28 by FY23.
- This would comprise Onco as well as non-Onco APIs. GRAN has hinted at a pipeline of around 13 Onco APIs and 15 non-Onco APIs by FY23. Furthermore, 42% of its APIs would be forward-integrated to create formulations as well.

IPCA Labs

Buy

Current Price INR 2,139

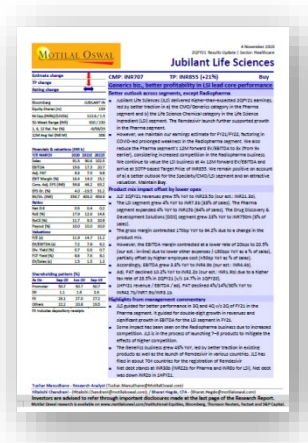
- IPCA guided for 10–12% YoY growth in overall sales for 2HFY21. Particularly, DF / API / Branded Exports Formulation sales would grow 10%/18–20%/10–11% YoY in 2HFY21.
- Ipca would incur capex worth INR2b for FY21 and INR3–3.5b for FY22.
- EBITDA margins are expected to be 25–27% for FY22.
- Lower crude oil prices would keep raw material prices in check.
- Export incentive benefits of INR120–130m are not included in this quarter due to uncertainty over the scheme.
- In DF, the Pain therapy (>50% of DF) grew 10% YoY in 2QFY21. The Cardiac segment grew 6% YoY during the quarter.
- Cough-Cold, Anti-Bacterial, and Anti-Malarial continue to witness YoY decline, but at a slower rate v/s 1QFY21.
- The UK business suffered due to issues with distributors. With issues resolved, the outlook is expected to improve in the coming quarters.
- Ipca has launched a project at the Aurangabad plant to manufacture intermediates for Sartans. The equipment installation is expected to be complete by Dec'20.
- International freight cost remains at elevated levels.
- Capex of ~INR1b is being undertaken at Ratlam for debottlenecking, and the process would commence by Mar'21. This is expected to expand the facility by 10–15% in the API segment.
- After environmental clearance, civil work has begun at the Dewas site. IPCA has guided for completing the construction within 15M.

Jubilant Life Sciences

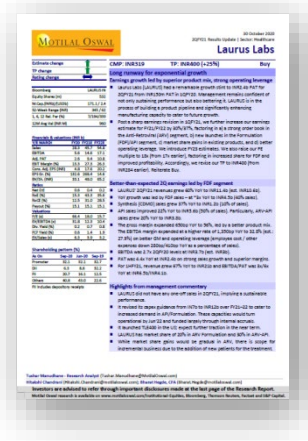
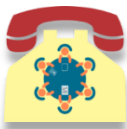
Buy

Current Price INR 697

- JLS guided for better performance in 3Q and 4Q v/s 2Q of FY21 in the Pharma segment. It guided for double-digit growth in revenues and significant growth in EBITDA for the LSI segment in FY21.
- Some impact has been seen on the Radiopharma business due to increased competition. JLS is in the process of launching 7–8 products to mitigate the effects of higher competition.



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- The Generics business grew 43% YoY, led by better traction in existing products as well as the launch of Remdesivir in various countries. JLS has filed in about 70+ countries for the registration of Remdesivir
- Net debt stands at INR30b (INR22b for Pharma and INR8b for LSI). Net debt was down INR2b in 1HFY21.
- JLS invested USD25m for 25% equity in Sofie Biosciences. Sofie's business is highly synergistic to the Radiopharma business of JLS.
- Demand for nutritional products is normalizing as customers have started destocking in geographies where the lockdown is easing.
- Demand in the Specialty Intermediates business was flat YoY due to lower demand in the Agrochemical segment.
- Depreciation in the Pharma segment would be INR500m, and it would be INR450m in the PSI segment.
- Capex of INR1.1b was incurred during the quarter. JLS has budgeted INR5b capex for FY21.
- The R&D budget for the proprietary novel drugs pipeline is estimated to be USD15m going forward. It would be funded through the monetization/outlicensing of molecules.

Laurus Labs

Buy

Current Price INR 283

- LAURUS did not have any one-off sales in 2QFY21, implying a sustainable performance.
- It revised its capex guidance from IN7b to INR12b over FY21–22 to cater to increased demand in API/Formulation. These capacities would turn operational by Jun'22 and funded largely through internal accruals.
- It launched TLE400 in the US; expect further traction in the near term.
- LAURUS has market share of 20% in ARV Formulation and 30% in ARV-API.
- While market share gains would be gradual in ARV, there is scope for incremental business due to the addition of new patients for the treatment.
- FDF sales growth was led by higher LMIC (low- and middle-income countries) business from Global Fund/PEPFAR, better volume offtake in the US, and contract manufacturing opportunities from European customers.
- LAURUS has filed a total of 26 ANDAs with the USFDA and has 16 ANDA approvals (incl. eight tentative approvals). The ANDA-led US business would see a meaningful uptick from next year.
- In Molecules, higher offtake of Tenofovir/Lamivudine/Dolutegravir (TLD) would drive growth over the near-to-medium term in the ARV-API segment.
- It has hinted at having a strong order book, which offers growth visibility in API sales.
- In the Synthesis segment, LAURUS has 50 active projects, of which 4 are already commercialized.
- Capex guidance of INR12b includes a greenfield project in the CDMO segment for manufacturing steroids, hormones, and large-volume products.
- Of the total planned capex, 40% would be for API, 40% would be for FDF, and 20% would be toward the Synthesis division.



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Key Highlights:

- LPC guided for 10% YoY growth in overall sales for 2HFY21. It is guided to reach an 18.5% EBITDA margin in 4QFY21. This would be led by ramp-up in niche products (Albuterol/Levothyroxine) as well as benefit from increased demand in flu products. The normalization of freight cost would support better profitability.
- LPC guided for 6–8% YoY growth in DF in 2HFY21 (v/s flat YoY in 1HFY21).
- The USFDA inspection is ongoing at the Somerset facility and is taking longer than usual due to the COVID cases at the site.
- Inhalation products would be the growth drivers for the US business over the next 1–2 years. This would be followed by injectable products as well as biosimilars.
- LPC expects to file a peptide product in FY21. It is also working on iron colloids, depot injectables, and liposomal products, which would see commercial benefit FY24 onward.
- LPC would file Pegfilgrastim in 2HFY21.
- LPC's application related to Spiriva is on track for review by the USFDA. The product launch would not happen until Jun'22. No other company has made any significant development on the product.
- It witnessed stable pricing QoQ in the US Generics segment in 2QFY21.
- LPC filed an ANDA in 2QFY21 and received four approvals during the quarter. It launched seven products in 2Q.
- LPC expects Acute therapies to exhibit a better performance in the latter part of FY21.
- Capex was INR1.9b for the quarter. Net debt at the end of 2QFY21 stood at INR16.3b.
- R&D expense for the quarter stood at INR3.8b, i.e., 10% of sales.
- Effective tax rate would be ~30% in FY21.



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Key Highlights:

- STR experienced price erosion in base products for the first time. STR guided for USD230m US sales over FY21 (USD104m for 1HFY21), led by market share gains and new launches. STR has guided for 8+ ANDA launches for FY21.
- Growth prospects in OTR remain promising on the back of enhanced product offerings as well as reach.
- Net debt was INR13b at the end of 2QFY21.
- Strides Pharma has invested USD31m in Stelis to date, of its USD41m commitment.
- For the Stelis facility, 4/5 suits are fully commercialized and validated. It would take 15–18 months before revenues start to pick up.
- STR is building a vaccine facility that is expected to be completed by Jan'21. The facility is expected to have 500m doses of vaccine and 300m doses of lyophilized vaccine capacity. It is in discussion with vaccine developers in the advanced stages of trials for licensing.
- STR filed one ANDA and received approval for five new ANDAs in the US market.
- STR filed eight products and is expected to file 10+ products in 2HFY21 in Other Regulated Markets.

Lupin

Buy

Current Price INR 879

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Strides Pharma

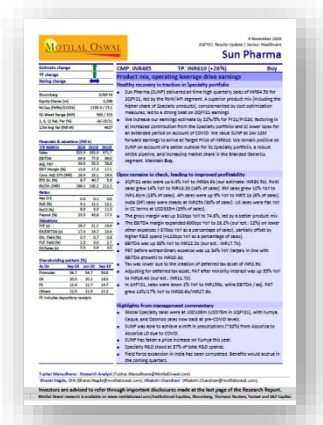
Buy

Current Price INR 710

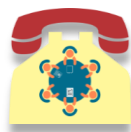
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- STR filed Meropenem in the EU and expects approval by May'21.
- R&D spend was at INR280m for the quarter and formed 3.5% of sales for the quarter.
- The ETR expectation for FY21 is 10–12%
- STR incurred capex of INR1.1b YTD, largely toward maintenance and on expansion at the West Palm Beach facility.

Sun Pharma

Buy

Current Price INR 503

- Global Specialty sales were at USD108m (USD78m in 1QFY21), with Ilumya, Cequa, and Odomzo sales now back at pre-COVID levels.
- SUNP was able to achieve a shift in prescriptions (~20%) from Absorica to Absorica LD due to COVID.
- SUNP has taken a price increase on Ilumya this year.
- Specialty R&D stood at 37% of total R&D spends.
- Field force expansion in India has been completed. Benefits would accrue in the coming quarters.
- SUNP recently launched Ilumya in Japan and would now work on building access through inclusion into formularies for hospitals. The Psoriasis market size in Japan is ~USD500m.
- The generic pipeline includes 92 ANDAs / 6 NDAs on which approvals are pending from the USFDA.
- CAPA (Corrective and Preventive Action) at the Halol plant has been completed, and SUNP awaits the USFDA's directives on the next steps.
- Travelling and promotional expenses in the DF segment are yet to return to normal levels.
- SUNP launched 22 products in India in 2QFY21. Field force expansion in India has also been completed.
- Chronic/Sub-chronic/Acute growth for 2QFY21 came in at the High single digits / low single digits / -ve YoY despite recovery from 1Q.
- API is primarily for internal consumption, but owing to the portfolio breadth, there are opportunities to grow the business. API volumes have doubled in the last four years, but are primarily consumed internally.

Torrent Pharma

Neutral

Current Price INR 2,610

- DF is showing strong recovery. In fact, September activity in terms of connect between the MR, doctor, and patient is at ~90% of pre-COVID levels. TRP expects 95% normalcy in MR activity in 3QFY21.
- TRP is confident of achieving PCPM (per capita per month sale) of INR1m over the next 2–3 years from INR0.8m currently.
- With regard to the US business, TRP is commissioning an exclusive manufacturing line as part of its regulatory risk mitigation strategy.
- R&D spend stood at INR1.2b and formed 6% of sales.
- One ANDA was filed during the quarter, taking the cumulative ANDAs pending approval to 47; six tentative approvals have been received.
- CAPA (Corrective and Preventive Action) has been submitted for Indrad and Dahej, and TRP awaits further directions from the USFDA for desktop audits.

Key Findings:

- Torrent Pharma TRP volumes in the Q3FY21 results reflect the impact of the COVID-19 pandemic, which led to a significant decline in sales.
- The company's revenue growth was 5% in Q3FY21, and it expects to launch two products in 3QFY21.
- The gross margin was lower for 2QFY21 due to higher inventory provisioning.
- TRP has built up its API inventory to 12M v/s 7M in the normal course of time.
- TRP's market share in Germany stands at 6.9%.

- ~75% of doctors in Brazil have started working either on-site or through tele-consultations. TRP expects to outperform the Brazil market, which is expected to grow 3–6% in CY20 (as per IQVIA).
- In constant-currency, Brazil revenues grew by 5% to BRL91m.
- TRP would launch two products in 3QFY21.
- It expects to do away with the Tender business completely in Brazil by Sep'21.
- The gross margin was lower for 2QFY21 due to higher inventory provisioning.
- TRP has built up its API inventory to 12M v/s 7M in the normal course of time.
- TRP's market share in Germany stands at 6.9%.

MEDIA



- The gradual unlock process and a rise in consumer spending have led to an increase in advertisement spends by corporates – leading to sequential improvement in the ad revenues of broadcasters. The upcoming festive season has also seen a healthy recovery in ad volumes and ad rates. Subscription revenue is likely to remain steadily on track, and the threat from NTO 2.0 regulations is being pushed due to delays in court proceedings. SUNTV has guided that ad revenues have recovered to ~80% YoY, and subscription revenue is expected to grow in the double digits over the next 12 months. Z has guided for ad revenue recovery by 4QFY21. PVR's recovery would be slow and opex would be curtailed by a ~50% reduction in rentals and other expenses.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Impact on Ad Revenues & Subscriptions
PVR	■ Revenue recovery, which may take another six months, would be supported by a) cinema re-openings in Maharashtra and b) new movie releases. ■ The focus on reducing cost by ~70% – with a 50% drop in rentals and even higher decline in employee and other expenses in FY21E – would curb cash burn. ■ Cinema additions and inorganic opportunities have stalled until normalcy returns. Nonetheless, expect 30 screen adds (for which 90% of work has been completed), with INR1b capex in FY21.	■ Revenues from cinemas remain nil as cinemas remain closed. ■ The existing >INR5.5b liquidity, including ~INR3.5b cash, should cater to the next 6–8 months of cash burn.
SUN TV	■ Ad revenue decline is expected in FY21 given weak recovery from regional customers. ■ Subscription revenue should grow in the double digits even excluding contribution from OTT subscriptions. ■ The current focus remains on the pipeline of eight blockbusters (INR3–4b cost), scheduled to be released over the next 12 months. ■ Target is to annually invest INR2b in OTT from FY22.	■ Advertisement revenue picked up to 80% of pre-COVID levels in Oct'20. ■ IPL profit should be significantly lower YoY due to a change in the title sponsor, lost ticket revenue, and higher operational expense.
Zee Entp	■ Subscription growth in FY21 is expected to fall short v/s higher expectancy by the management earlier. ■ Margin trajectory may return to normal by FY22E, and ZEE5 is expected to achieve breakeven by FY24E. ■ ZEE's investment in SugarBox would depend on the upcoming contract from the Railways, to be received by SugarBox. ■ Inventory and advance deposits dropped to INR60b in Sep'20 from INR64b in Mar'20.	■ Ad revenues should normalize by 3QFY21 and may grow from 4QFY21. ■ ZEE5's revenue grew 4% QoQ as a tie-up with one of the telcos ended in Aug'20.



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PVR

Buy

Current Price INR 1,228

Key takeaways

- Revenue recovery is slow and would take another six months; however, a) cinema re-openings in Maharashtra and b) new movie releases should drive footfall.
- The focus on reducing cost by ~70% – with a 50% drop in rentals and a sharp reduction in employee and other expenses in FY21E – would curb cash burn.
- The existing >INR5.5b liquidity, including ~INR3.5b cash, should cater to the next 6–8 months of cash burn. Beyond this, if required, the prospect of an additional capital raise would be explored.

The image shows a screenshot of a financial report from Motilal Oswal, dated 15 November 2020. The report is titled 'PVR' and includes a table of contents. The main body of the report contains a detailed analysis of the company's financial performance, including a table of financial data for the period ending 30 September 2020. The table includes various metrics such as Revenue, Earnings Before Interest and Taxes (EBIT), Earnings Before Tax (EBT), and Earnings After Tax (EAT). The report also includes a section on the company's business strategy and a conclusion.

- Fresh capex is stalled, including new cinema additions and inorganic opportunities, until normalcy returns. Nonetheless, there could be 30 screen adds, for which 90% of the work has been completed, with INR1b capex in FY21.

Revenue growth visibility

- Cinemas restarting gradually; Maharashtra also reopening
- Cinemas remained shut for most of the quarter, hence driving losses due to the fixed cost nature of the business.
- Unlock 5 guidelines include the resumption of cinema operations. 575+ cinema screens have received permission to reopen.
- Relaxation on the current limit of 50% seating is unlikely to come in 3QFY21; hopeful of some relaxation in 4QFY21.
- The Maharashtra government, too, has permitted cinemas to reopen.

Consumer traction

- It is offering discounts on ticket prices and F&B at screens that have reopened in Bengal and Assam to improve utilization.
- Considering the traction seen in hotels and restaurants and fully packed malls on the weekends, consumers are cautious, yet keen to step out.
- ATP at much lower rate: Given the promotion ticket rates of INR99, ATP rates are running very low (below INR150), but getting healthier. ATP increase would be a function of new content flow once Mumbai and some other key markets open up.
- Advertisement: This would take a couple of months, in the event of some big ticket movie release.

Content outlook

Content pipeline

- Films slated for Diwali include Surat Mangal Bhari, whose star cast includes Daljit Singh and Manoj Bajpai.
- Most producers are comfortable with 50% capacity at movie releases.
- Local content remains moderate in Bengal, barring two mid-budget films that saw good traction for a week. Expect some more releases in Nov- Dec'20 to improve utilization. Screens in Sri Lanka have been shut due to the lockdown.
- The content pipeline of producers is very strong, even during lockdown, as the creative talent wants to do more work. Hence, do not expect any impact on the no of projects/movies. Also, considering the cash flow situation thus far, liquidity does not seem to be a problem for larger producers.

Content cost negotiation

- As there is a capacity cap in properties, there could be a minor change in commercial arrangements with producers, but the longer term commercials would remain intact.

OTT threat

- The flow of OTT content has been reset after the aggressive content release during the lockdown as it is not a viable win-win for the producers, OTT players, and other stakeholders in the value chain.
- Do not expect a direct-to-digital content launch to sustain beyond the next 3–6 months. However, many streaming platforms would continue to directly launch their captive original content on their OTT platforms.

Cost-efficiency initiatives

- It continues to focus on reducing cost, which is down 70%. Management is actively vying for a reduction in rent and CAM charges, for which over 60% of

negotiations are complete. Balance negotiations are in progress and would conclude once the cinemas have been reopened.

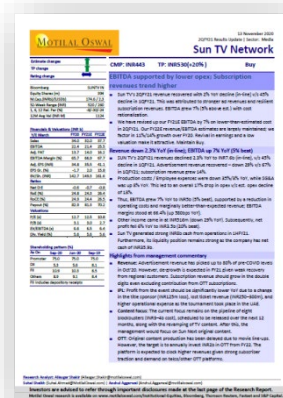
- Rent reduction/waivers are for the current financial year; negotiations have not happened for the long term. Negotiations are mostly toward revenue-share arrangements or discounts on minimum guarantees for FY21, and should reflect a 50% discount on full-year rent.
- Employee cost would be variable in the near term. It has reduced the no of employees sharply and hopes to maintain this level until the reopening and until utilization levels rise. Even after operations have resumed at cinemas, employee cost would increase, but be significantly lower v/s last year, at least in FY21.
- It would look at reducing cost structurally once the cinemas have been restarted.
- Capex and new screen adds grow ☑ Store closures: It ended leases for 14 properties (which expired during the quarter) as these were not profitable and past their life cycle; it has better properties available in the vicinity.
- Inorganic opportunity stalled: Industry consolidation would grow in the coming quarters. But, PVR would increase capital commitment toward any inorganic opportunity only once the business rebounds to normal levels.
- Strength in new store pipeline: The pipeline of new properties remains strong as developers are now keen to work with large players.
- Capex is largely toward pending creditors for properties that are 70% complete; this would continue in 2HFY21, apart from maintenance capex.
- No more than 4–5 properties in the portfolio are loss-making.

Liquidity and leverage position Liquidity:

- Cash burn would go up in 3QFY21 as employee and other fixed costs would increase as cinemas resume operations. But, with the increase in utilization rates, operating leverage would kick in and thus improve profitability.
- Healthy liquidity: PVR is sitting on liquidity of >INR5.5b, which should allow it to tide over the next 6–8 months. Also, if required, an additional capital raise would be explored. It holds net debt of INR10b since the end of the quarter.
- No bad debt: Receivables are attributed to retail advertisers, but a large portion of the amount is received v/s March'21. The rest should also be received, with no bad debt expectation.



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Sun TV Network

Buy

Current Price INR 429

OTT and content

- **Current focus on blockbuster pipeline:** The current focus remains on the pipeline of eight blockbusters, scheduled to be released over the next 12 months. Furthermore, there are two upcoming releases on Diwali, of which one is a low-budget project. After the scheduled releases have happened, the management would focus on Sun Next original content.
- **TV shows pipeline:** It is revamping three shows to drive viewership in the Tamil market, which should bring back viewership to 45–50%. Furthermore, it has a strong pipeline of shows in all of its markets, so non-performing shows could be replaced. Only 20% of Tamil content is a private production, while the rest was produced in-house.
- **Content rights:** Management sells content rights to cover production cost and gain slight margins, while it retains digital and broadcasting rights to attain healthy RoCE on investment.

- **Capex:** It is looking at the current run-rate of OTT revenue; management is confident of investing INR2b in OTT annually, without seeing any impact on profitability. However, this cost should go up when the company completely transitions to digital. Furthermore, management should spend INR3–4b on eight blockbuster movies over the next 12 months.
- **OTT revenue outlook:** OTT is one of the fastest revenue drivers. Management is looking to move from a flat fee structure to per subscriber with telcos.
- **Original content:** Sun TV is looking to make 40–50 movies for OTT, post which it would focus on web series. Management expects to launch the first original web series by 1Q/2QFY22.
- **OTT subscription:** Currently, Sun Next has 18m active users; the majority of these are from tie-ups with other players. Hence, organic users account for a fraction of the total. Subscription charges are INR50/month in India and much higher in Singapore/Malaysia. In the long run, the management is looking to make OTT a pure-play subscription model.

Subscription business

- **Revenue:** DTH revenue declined QoQ due to the monetization of the digital rights of movies in the last quarter. Cable revenue is not expected to grow, but DTH should show double-digit growth within the next one year. Overall, subscription revenue should grow in the double digits, excluding OTT subscription revenue.
- **NTO 2.0 impact:** Sun TV would see marginal impact if NTO 2.0 is implemented.

Advertisement

- **Revenue outlook:** Advertisement revenue has seen sharp recovery, with 80% of pre-COVID levels achieved in Oct'20. However, the management expects de-growth in FY21.
- **Segmental breakup:** Of the total advertisement revenue, national/regional advertisers contributed 95%/5% in 2QFY21 (historically, regional advertisers have contributed 33%); FMCG forms 65% of the national advertisers.

IPL

- Profit from the event should be significantly lower YoY due to a change in the title sponsor (INR125m loss), lost ticket revenue (INR250–300m), and higher operating expenses as the tournament took place in the UAE.

Others

- **Amortization guidance:** This should be INR3b for FY21; however, it could increase if a blockbuster releases around Pongal.
- **Receivables:** To maintain its conservative approach, Sun TV has recognized provision of INR90m for receivables. However, there is no issue with the quality of receivables (there were issues with some DTH players, but the company received the entire dues).
- **Revenue split:** Advertisement and Broadcasting / International / DTH / Cable / IPL / Film revenue for 2QFY21 stood at INR2,450m/INR370m/INR2,320m/INR1,950m/INR450m/INR20m.



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Results Update



Zee Entertainment

Neutral

Current Price INR 186

Key summary

- Subscription growth in FY21 is expected to fall short v/s higher expectancy by the management earlier, while ad revenues should normalize by 3QFY21 and may grow from 4QFY21.
- Margin trajectory may return to normal by FY22E and ZEE5 is expected to achieve breakeven by FY24E.

MOTILAL OSWAL
Zee Entertainment

Balance Sheet as at 30th September 2020

Particulars	2020	2019
Fixed Assets	1,234.56	1,123.45
Current Assets	567.89	678.90
Total Assets	1,802.45	1,802.35
Equity and Liabilities	1,802.45	1,802.35
Equity	1,234.56	1,123.45
Liabilities	567.89	678.90

Profit and Loss Statement for the quarter ended 30th September 2020

Particulars	2020	2019
Revenue	1,234.56	1,123.45
Expenses	(567.89)	(678.90)
Profit	666.67	444.55

- ZEE's investment in SugarBox would depend on the upcoming contract from the Railways, to be received by SugarBox.
- Inventory and advance deposits dropped to INR60b in Sep'20 from INR64b in Mar'20.

Operational highlights

- One-offs and related parties: The company has collected receivables from Siti Networks accrued in 1HFY21. But, Siti Networks may fail over earlier receivables and hence the company has taken one-time provisions of INR812m. Dish TV is paying its dues regularly as per agreements, and its credit ratings have been upgraded by rating agencies (reflecting a strong financial condition). Dish TV's total outstanding amount is INR4.98b.
- Margins: Adjusted EBITDA for the quarter (excluding one-offs) stood at INR3.9b – EBITDA margin of 22.9%.
- TV viewership: TV viewership share was at 19% in 2QFY21, with recovery in channel ratings and the launch of two new channels. South genre channels have seen strong traction.
- ZeePlex: It launched ZeePlex as a part of the 'pay per movie' model and launched two movies in 2QFY21. ZEE Music added 7m subscribers.
- ZEE5: ZEE5's revenue grew 4% QoQ as a tie-up with one of the telcos ended in Aug'20. The company does not plan to renew this and would acquire customers by the B2C model.
- NTO 2.0: The NTO 2.0 court has reserved its verdict, and no update is expected in the short term.
- Inventory: Inventory and advance deposits dropped to INR60b in Sep'20 from INR64b in Mar'20.
- Liquidity: ZEE has cash of INR3.8b in banks, INR2.9b in FDs, INR7.2m in mutual funds, and INR511m in NCDs.

Business outlook

- Subscription growth: Subscription growth in FY21 is expected to fall short v/s earlier higher expectancy by the management.
- Ad revenues: Ad revenues are expected to normalize by 3QFY21 and may grow from 4QFY21.
- SugarBox: ZEE's investment in SugarBox will depend on the upcoming contract from the Railways, to be received by SugarBox.
- Margin: Margin trajectory may return to normal by FY22E.
- ZEE5: It is expected to achieve breakeven by FY24E.
- Funds receivables: An amount of USD25.5m is pending, to be received against the sale of foreign investments.
- Movie content: Zee would ramp up its movie content as the Exhibition industry picks up.
- Viewership: It is confident of regaining lost viewership market share, which was lost in some regional channels.

METALS



- Companies have highlighted that domestic steel demand has improved significantly in 3QFY21. With strong domestic demand, exports are likely to remain lower. While initial recovery has been seen in flats, long steel demand is also guided to pick up post-Diwali. Management has guided for volume growth in 2HFY21 on the back of higher utilization. Management informed that price hikes over Oct–Nov have been well absorbed by the market. Tata Steel has guided for improvement in realization by INR4,000–5,000/t in 3QFY21 on the back of repeated price hikes and an improved product mix. The benefit of lower coking coal prices is likely to continue in 3QFY21 as well; however, an increase in iron ore prices during the quarter may partly offset an increase in prices.

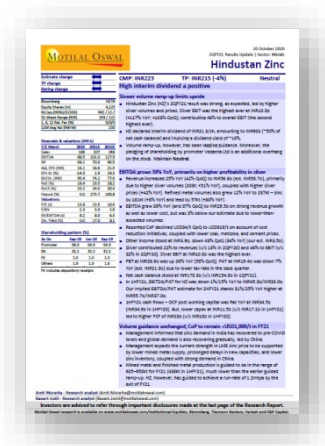
KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Other Highlights
Hindalco	■ Integrated aluminum CoP was flattish QoQ. Management has guided for aluminum CoP to be largely flattish QoQ in 3QFY21. Aluminum CoP is likely to increase ~2% in 4QFY21 as coal and furnace oil costs are expected to increase. ■ Hindalco has hedged ~59% of its aluminum volumes for 2HFY21 at USD1,716/t and hedged the INR at 76.45. As a result, Hindalco would be able to benefit from LME gains only for the un-hedged portion. ■ Management has increased its guidance for sustainable EBITDA/t at Novelis to USD480–500 from earlier guidance of USD450–475/t. ■ Management now expects higher synergy of USD180m from the Aleris acquisition v/s USD150m targeted earlier. Of this, it has already achieved a synergy benefit run-rate of USD35m.	■ Novelis divested Aleris' Duffel facility in 2Q. However, it has received only EUR200m v/s the agreed consideration of EUR310m, with the differential being under arbitration. While Novelis is confident of realizing the full consideration, the arbitration proceedings may take >2 years. ■ Hindalco has signed an agreement for the divestment of the Lewisport facility for a cash consideration of USD171m, valuing the facility at an EV of USD330m. The deal valuation was unfavorable due to the mandated divestment by the Department of Justice.
Tata Steel	■ Management has guided for an INR4,000–5,000/t QoQ increase in India realization on the back of price hikes and a better product mix. ■ Steel spreads in Europe have improved significantly, with the full benefit of the same expected to be realized in 4QFY21. ■ Net debt declined INR82b in 2QFY21 to INR988b on strong FCF generation, led by working capital release.	■ TSE has initiated the process of separating Tata Steel Netherlands (TSN) and Tata Steel UK (TSUK). It has initiated talks with SSAB Sweden for the potential divestment of TSN. However, it would continue to own and operate the loss-making TSUK and seeks the support of the UK government for the same. Divestment proceeds, if any, would be used for deleveraging.
JSW Steel	■ It has reiterated its guidance for full-year sales volumes of 15.0mt (flattish YoY). ■ Costs are likely to remain flattish in 3QFY21. ■ Half-yearly and quarterly pricing contracts should see upward revision.	■ NCLT has approved JSW Coated's (wholly-owned subsidiary) bid of INR15b for the acquisition of the 1.0mtpa plant of Asian Color Coated Ispat Ltd (ACCIL). Post the ongoing expansion and ACCIL acquisition, JSW Coated's capacity would increase to 4.6mtpa from current levels of 1.7mtpa.
JSPL	■ The company reiterated its sales guidance (incl. pig iron sales) of 7.3mt in FY21, implying 3.8mt in 2HFY21. Furthermore, it guided for sales of 8.0mt in FY22. It has completed its first tranche of the Oman divestment by transfer of a 48.99% stake. It expects to complete the divestment in 3QFY21.	■ There is no significant progress on 420MW PPAs under the PFC Pilot Scheme II, and management is not too hopeful of signing PPAs for the same.



HINDUSTAN ZINC

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Hindustan Zinc

Neutral

Current Price INR 222

Domestic zinc demand improves in 2QFY21

- Management informed that zinc demand in India has recovered to pre-COVID levels and global demand is also recovering gradually, led by China. It expects global zinc demand to contract by 5–6% in CY20.
- Management expects the current strength in LME zinc price to be supported by lower mined metal supply, prolonged delays in new capacities, and lower zinc inventory, coupled with strong demand in China.

Operational highlights

- Mined metal production increased to 238kt (+18% QoQ; +9% YoY) on higher ore production.
- Refined zinc production stood at 180kt, up 8% YoY, whereas lead production stood at 57kt, up 30% YoY. Silver production was up 50% YoY / 73% QoQ on higher lead production, higher concentrate inventory, and better silver grades.
- Zinc sales were up 8% YoY (11% QoQ) to 181kt and lead sales were up 30% YoY (27% QoQ) to 57kt. Silver sales, up 51% YoY (39% QoQ), stood at 203t.

Guidance unchanged: Expect FY21 exit run-rate of 1.2mtpa

- Guidance for mined metal and finished metal production is in the range of 925–950kt for FY21 (438kt in 1HFY21).
- Saleable silver production guidance for FY21 is unchanged at 650t (320t in 1HFY21) despite sales of 203t achieved in 2Q. Silver production was higher in 2Q due to higher lead production and higher concentrate inventory.
- FY21 growth capex is expected at USD100–140m. Total capex for FY21 is expected to remain at around USD300m.

Project update

- HZ has signed a non-binding MoU with the govt. of Gujarat to set up a coastal zinc-smelter involving a likely investment of INR100b. Management informed the project is under the evaluation stage; it would seek board approval post the feasibility study.
- HZ has received environmental clearance (EC) for the expansion of the Zawar mine from 4.0mtpa to 4.8mtpa.
- HZ has finalized a location for setting up a greenfield fertilizer plant and awaits regulatory clearances. The company would take board approval for the same post the clearances.
- Backfill plants at Zawar are under the commissioning stage, and operations are expected to commence in Oct'20. Commissioning of the fumer plant has been delayed further due to the lack of OEM support. This, in turn, is attributable to visa and travel restrictions.

Hindalco Inds

Buy

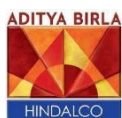
Current Price INR 216

Global Aluminum market update

3QCY20 consumption trend

- In 3QCY20, global consumption declined 3% YoY to 15.7mt, against a 2% YoY increase in production to 16.2mt.
- Global consumption ex. China declined 10% YoY to 6.2mt, whereas consumption in China grew 3% YoY to 9.5mt.
- The Aluminum market remained in surplus of 3.2mt in YTD CY20.

FRP market outlook



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Results Update



Hindalco
Q3 FY21 Results (USD in Lakhs)

	Q3 FY21	Q3 FY20	Q3 FY21 (est.)
Revenue	1,04,400	1,04,400	1,04,400
EBITDA	1,04,400	1,04,400	1,04,400
EBIT	1,04,400	1,04,400	1,04,400
PAT	1,04,400	1,04,400	1,04,400
Cash Flow	1,04,400	1,04,400	1,04,400

Operational performance: Hindalco's Q3 FY21 performance was strong, with revenue growth of 8% YoY. The company's EBITDA margin improved to 10.1% from 9.8% in Q3 FY20. The company's EBIT margin improved to 10.1% from 9.8% in Q3 FY20. The company's PAT margin improved to 10.1% from 9.8% in Q3 FY20. The company's Cash Flow margin improved to 10.1% from 9.8% in Q3 FY20.

Management's outlook: Management expects Q4 FY21 performance to be strong, with revenue growth of 8% YoY. The company's EBITDA margin is expected to improve to 10.1% from 9.8% in Q3 FY20. The company's EBIT margin is expected to improve to 10.1% from 9.8% in Q3 FY20. The company's PAT margin is expected to improve to 10.1% from 9.8% in Q3 FY20. The company's Cash Flow margin is expected to improve to 10.1% from 9.8% in Q3 FY20.

- Flat-rolled product (FRP) demand is expected to decline 7% YoY in CY20; on the other hand, growth of 8% is expected in CY21 on recovery and the base effect.
- Beverage can demand remained resilient in Asia and Europe, with marginal impact of reduced tourism, and is on an improving trend in North and South America on account of higher in-home consumption.
- FRP demand for Automotive is strong in the US as most of the auto OEMs are operating at full capacity and are building inventories, while Europe witnessed sharp recovery. Auto sheet demand has picked up in Asia.

Global Copper market update

- Global refined copper consumption declined 2% YoY to 5.8mt in 3QCY20. Growth came from China, where demand grew by 6% YoY; ex-China, demand declined 10% YoY.
- Concentrate production is expected to decline in CY20 on account of continued disruption at major mines due to COVID-19. As a result, spot Tc/Rc remained tight in 3QCY20.
- Benchmark Tc/Rc for CY20 is settled at 15.9cents/lb – 23% lower than CY19.

Domestic market

- Aluminum demand: Domestic demand for aluminum declined 25% YoY to 721kt; however, Sep'20 demand was at 90% of pre-COVID levels.
- Domestic FRP demand contracted by 23% YoY in 2QFY21. Domestic demand remains strong in Packaging and Industrial Machinery. Automotive demand is also seeing revival. Demand from the Building and Construction and Electrical sectors remained subdued in 2QFY21; however, it is expected to reach pre-COVID levels by 4QFY21.
- Copper demand: The domestic Copper market size declined by 23% YoY to 147kt in 2QFY21. The market share of imports decreased to 25% in 2QFY21 (v/s 48% in 2QFY20).

2QFY21 operational highlights

- Aluminum sales stood flat QoQ at 303kt, but declined 8% YoY.
- Aluminum sales could have been higher by ~6.5kt, i.e., at 310kt, had it not been for a shipment that could not sail at Sep-end.
- Aluminum production continues to be impacted, due to lower labor availability for pot relining, and declined 7% YoY to 303kt – although it was up 5% QoQ. Management expects production to reach normal run-rate in 4QFY21.
- Aluminum VAP sales (excluding wire rods) were down 19% YoY to 63kt, but improved 80% QoQ. Share of VAP sales stood at 21% v/s 24% in 2QFY20; however, it improved significantly from 12% in 1QFY21 on the back of improved domestic demand.
- Alumina production increased 6% YoY to 705kt on the back of record production of 441kt at the Utkal refinery.
- Copper cathode production declined by 13% YoY to 73kt and sales by 9% QoQ to 75kt. CC rod sales were up 2% YoY to 64kt (+106% QoQ). DAP sales, however, rose 144% YoY to 127kt on the back of high demand due to a good monsoon.

2QFY21 insights and outlook

- Integrated aluminum CoP was flattish QoQ. However, derived aluminum CoP stood at USD1,642/t, up 5% QoQ on an increase in VAP sales.
- Management has guided for aluminum CoP to be largely flattish QoQ in 3QFY21. Aluminum CoP is likely to increase ~2% in 4QFY21 as coal and furnace oil costs are likely to increase.

- Hindalco has hedged ~59% of aluminum volumes for 2HFY21 at USD1,716/t and hedged the INR at 76.45.
- For FY22, it has hedged 20% volumes at USD1,812/t and the INR at 78.45.
- Aluminum realization would be impacted due to the withdrawal of the MEIS benefit of 2% on export value. The Govt of India has introduced the RoDTEP scheme to replace the MEIS scheme, which is likely to come into effect from 1st Jan 2021. Under the RoDTEP scheme, the govt aims to reimburse local taxes, coal cess electricity duties, and fuel used for transportation – which are not exempted or refunded under any other existing scheme.

Other highlights

- Hindalco has emerged as the highest bidder for the Chakla coal block for agreed revenue sharing of 14.5%. The coal block has a capacity of 4.5mtpa and has reserves of 76mt. Operations are likely to commence in FY25.
- Hindalco has impaired its investments, amounting to INR1.2b, in the Utkal IV/coal block as it plans to surrender the block to the govt due to its operational non-viability. We have classified the same under exceptional items.
- The company recognized gains of INR1.0b in 2Q toward its future Renewal Power Obligation (RPO). The same has been classified under exceptional items.
- Post the completion of the 500ktpa Utkal refinery expansion in 4QFY21, Hindalco plans to retire its high-cost Renukoot refinery. CoP at Renukoot stands at ~USD270/t.

Novelis

- Novelis divested its stake in the Duffel facility for a consideration of EUR310m to AVLANCE in 2QFY21. However, it has received only EUR210m (INR26.8b) against the same. The balance consideration of EUR100m (INR8.6b) is under arbitration in Germany.
- Hindalco has entered into an agreement with American Industrial Partners, a private equity firm, for the sale of the Lewis port facility for a cash consideration of USD171m, against EV of USD330m. Cash proceeds are net of unfunded pension liabilities and retirement liabilities. Novelis has recognized loss of INR14.1b (net of taxes) on the sale of Lewis port. The sale has been made under the recommendation of the Department of Justice (DOJ) at lower valuations as DOJ has not allowed for more time for the divestment.



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Jindal Steel & Power

Buy

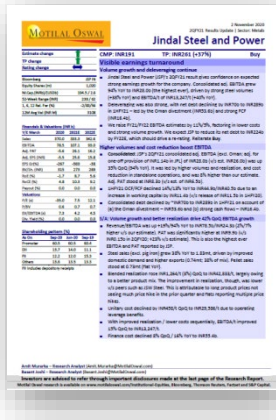
Current Price INR 237

India Steel operations – volume growth, cost tailwinds to continue

- During the quarter, the company exported 740kt of steel (~38% of volumes). The company informed that it has stopped the export of semi-finished products and currently exports high-grade plates, angles, and rails to Europe, Southeast Asia, and the Middle East.
- It has guided for lowering exports to 20% in Nov'20 from 32% in Oct'20. Exports are likely to continue at 20% for the remaining part of FY21.
- The company reiterated its sales guidance of 7.3mt in FY21, implying sales of 3.8mt in 2HFY21. Furthermore, it expects to achieve sales of 8.0mt in FY22.
- JSP has lifted ~5mt of inventory out of ~12mt of iron ore inventory lying at the SMPL mines. It expects to lift the remaining inventory by FY21-end.

It expects dispatch from SMPL mines from 2nd Nov 2020.

- The company is likely to benefit from lower coking coal costs up to Feb'21 as the company has booked its requirement up to Feb'21 at lower coal prices.



MOTILAL OSWAL
Q3 FY2021
Jindal Steel and Power

Key highlights:

- Revenue:** ₹1,00,000 crore (vs ₹95,000 crore in Q3 FY20)
- Profit before tax:** ₹15,000 crore (vs ₹12,000 crore in Q3 FY20)
- Net profit:** ₹10,000 crore (vs ₹8,000 crore in Q3 FY20)
- Operating leverage:** 1.2x
- Debt to equity ratio:** 0.8x
- Dividend yield:** 5%

Management commentary:

The company has achieved a strong performance in Q3 FY2021, driven by higher steel prices and improved operational efficiency. The management expects continued growth in the coming quarters, supported by strong demand and stable input costs.

- JSP has approached the Odisha govt. for a resolution on differences in the marked area and physically mined area at Guali iron ore mine – which it had won in the iron ore auctions. It believes the Odisha govt. would have to put the mine to auction once again.
- JSP's Angul DRI plant operates at 4000tpd. It expects to achieve a run-rate of 6000tpd. Furthermore, it highlighted that CoP at its DRI plant is ~5% cheaper v/conventional sponge iron plants.

JPL: 420MW PPA unlikely to come

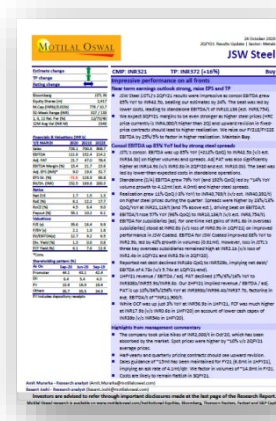
- Management informed that there is no significant progress on 420MW PPAs under the PFC Pilot Scheme II, and the management is not too hopeful of signing PPAs for the same.
- Lower coal and higher realization offset the impact of lower cost in 2QFY21.

Debt position

- The company's interest fell below 10% in 2QFY21 (from 10%+ in 1QFY21). It expects to reduce debt cost further as it expects improved credit ratings.
- It repaid debt of USD200m in its Mauritius and Australian subsidiaries in 1HFY21. This was met through cash flows from standalone operations. Furthermore, it remains confident of meeting its obligation of USD230m, due Mar'21, through re-financing.
- Consolidated net debt declined by INR57.0b QoQ to INR289.1b (USD3.9b) at 2QFY21-end. This includes a reduction of INR53.6b on account of the Oman divestment.
- The company expects to close the Oman divestment deal in 3QFY21.
- It availed moratorium on debt in 1HFY21. As a result, interest payment of INR0.71b has been converted to debt.
- The company is pursuing the divestment of its overseas assets to cut debt of USD800m in overseas subsidiaries.



Click below for
Detailed Concall Transcript &
Results Update

MOTILAL OSWAL
Q3 FY2021
JSW Steel

Key highlights:

- Revenue:** ₹1,00,000 crore (vs ₹95,000 crore in Q3 FY20)
- Profit before tax:** ₹15,000 crore (vs ₹12,000 crore in Q3 FY20)
- Net profit:** ₹10,000 crore (vs ₹8,000 crore in Q3 FY20)
- Operating leverage:** 1.2x
- Debt to equity ratio:** 0.8x
- Dividend yield:** 5%

Management commentary:

The company has achieved a strong performance in Q3 FY2021, driven by higher steel prices and improved operational efficiency. The management expects continued growth in the coming quarters, supported by strong demand and stable input costs.

JSW Steel

Current Price INR 336

Buy

Commentary on demand and pricing

- Domestic steel demand has recovered during the quarter, with Sep'20 demand down just 5% YoY.
- The company took price hikes of INR2,000/t in Oct'20, which has been absorbed by the market. Post the hike, domestic prices are trading at par with import prices.
- Strong steel demand in China has led to a demand-supply gap in the country, leading to higher prices. While prices might see some correction, they are likely to remain range-bound.
- Half-yearly and quarterly pricing contracts should see upward revision in Oct'20. ~20% of JSW's sales are generated through fixed pricing contracts.
- Domestic steel inventory remains at healthy levels, with 1.84mt decline seen in 1HFY21.

2QFY21 insights

- The company operated at 86% capacity utilization in 2QFY21 v/s 66% utilization in 1QFY21 (85% in 2QFY20).
- It achieved production of 3.85mt, flat YoY. Production growth was constrained by the lower availability of iron ore from Odisha and Chhattisgarh.
- Steel sales volumes rose 16% YoY to 4.12mt on the back of strong rebound in domestic volumes.

- Domestic sales improved 22% YoY to 3.0mt. The share of exports declined to 28% v/s 57% in 1QFY21.
- Automotive steel sales increased by 33% YoY to 0.39mt (~9% of volumes), despite overall decline in domestic automotive production by 7%.
- Lower coking coal cost (USD20–25/t) offset higher iron ore prices during the quarter.

Subsidiaries' performances

- EBITDA for JSW Coated improved 88% YoY to INR2.9b, led by 42% growth in volumes (0.61mt). It recorded EBITDA/t of INR4,721 (+33% YoY).
- Indian subsidiaries (incl. JSW Coated) contributed INR2.9b EBITDA (v/s INR1.7b QoQ).
- Key overseas subsidiaries reported EBITDA loss (adj. of one-off gains of INR1.6b) of INR2.1b (v/s INR2.4b QoQ).

Guidance

- The company expects raw material costs to remain flattish in 3QFY21.
- NSR is guided to improve in 3QFY21 as spot steel prices are ~10% higher than 2QFY21.
- The company is confident of achieving its sales guidance of ~15.0mt in FY21; however, production may be marginally lower than 16.0mt.

Update on iron ore mines

- The company met ~27% of its iron ore requirements from its captive mines.
- The company operationalized all four mines in Odisha in Jul'20 post the finalization of MDOs and transporters. The mines have commenced supplies to Dolvi and Salem.
- The company is confident of producing ~80% of the last two years' average production (~21mt) over the 12 months starting from Jul'20.

Capex and project update

- With better availability of labor at project sites, it is confident of commissioning its Dolvi capacity by Mar'21.
- The 1.2mtpa wire-rod mill at Vijayanagar was commissioned in 2QFY21 and is under a trial-run.
- The 8mtpa pellet plant is expected to be commissioned in 3QFY21.
- In 1HF21, the company spent INR39.0b, against planned capex of INR90b for FY21.
- The CRM1 complex capacity expansion at Vijayanagar to 1.80MTPA from 0.85MTPA is expected to be commissioned in 2HFY21.

Liquidity position

- The company has paid upfront fees of INR12.9b toward mines in Odisha, which would get offset the premiums payable on iron ore extraction. It has also paid INR8.17b in registration fees, stamp charges, and other costs toward leases; the same has been capitalized as intangible assets.
- Reported net debt decreased by INR16b in 2QFY21 to INR529b (INR545b at 1QFY21-end), aided by better profitability and a favorable forex impact.

Update on BPSL and Asian Color Coated acquisitions

- The BPSL matter is listed for final hearing on 3rd Nov 2020.
- Management has informed that the BPSL transaction would not be consolidated with standalone operations and would be accounted for under 'Equity Method'.
- JSW Coated's resolution plan for Asian Color Coated Ispat Ltd was accepted by NCLT on 19th Oct. The company awaits a written order from NCLT for the same. JSW Coated would acquire the 1.0mtpa plant for a consideration of ~INR15b.

Post the acquisition of ACCIL (1mt) and completion of ongoing projects (1.9), JSW Coated's capacity would increase to 4.6mtpa from current levels of 1.7mtpa.



Click below for
Results Update



Click below for
Results Update

NMDC

Buy

Current Price INR 93

Operational highlights and outlook

- Production increased 13% YoY to 5.6mt while sales increased 14% YoY to 6.6mt.
- Reported realization (excl. royalty) declined 13% YoY/QoQ to INR2,516/t (+16% QoQ).
- Export sales stood at 0.43mt, down 16% YoY.
- Operating cost (excl. royalty) was down 7% YoY to INR1,241/t, due to higher volumes.
- Management expects FY21 production to remain at FY20 levels (31.5mt).

Update on Demerger and Steel plant

- In its last board meeting, NMDC has approved the demerger of its 3mtpa Nagarnar steel plant.
- Preliminary work for de-merger of the Nagarnar steel plant has begun. The demerger is likely to get completed over next 8-9 months.
- The company has spent cumulative capex of INR170b on the steel plant out of the total planned capex of ~INR220b.
- It aims to raise debt of INR50b in phases to meet further capex and working capital requirement for the steel plant. Debt raised would be transferred to the demerged entity. Interest on debt would be capitalized till the time of commissioning.
- It expects to commission the steel plant by Jun'21. However, we remain skeptical on commissioning of the same in FY22.

Donimalai mine lease renewal

- Management informed that the State Govt of Karnataka in discussion with Union Minister of Coal and Mines decided to extend the Mining Lease of Donimalai iron ore mine with a payment of additional premium (temporarily fixed at ~22.5%) on average sale price published by IBM. The company is awaiting final orders before they can start operating the mine. The premium paid by NMDC would not be a pass-through to customers.
- Management informed that Central Govt, through amendment of MMDR Act, is likely to provide for payment of premium on sale value for all mines allocated to PSUs post 2015. This puts at risk earnings for NMDC from all mines including those in Chhattisgarh renewed last year.

SAIL

Neutral

Current Price INR 41

- In 2QFY21, SAIL sold 4.2mt of steel, of which exports stood at ~0.7mt. SAIL registered volume growth of 21% YoY to 1.34mt in Oct'20, and its saleable steel production also increased by 14% YoY to 1.35mt.
- Avg. NSR for longs and flats in 2QFY21 stood at INR38,059/t. NSR for flats stood at ~INR36,052/t and longs NSR stood at INR40,704 (incl. Rails).
- While realization improved sequentially, blended realization was marginally lower due to a higher proportion of Rails in 1QFY21 – the highest realization in the product mix.

SAIL

Operating leverage shows EBITDA recovery

Key data (2020) remains disappointing as it is

Lower realization leads to rise in QoQ

Management guided for further improvement in profitability



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Tata Steel

Operating leverage shows EBITDA recovery

Key data (2020) remains disappointing as it is

Lower realization leads to rise in QoQ

Management guided for further improvement in profitability

- SAIL expects to achieve volumes of 15.5mt in FY21, implying an ask rate of 1.55mt/month over Nov–Mar. Management is confident of achieving the same on the premise of expected improvement in longs steel demand on an uptick in construction activity post-Diwali.
- SAIL liquidated finished steel inventories by 0.5mt during the quarter to 1.1mt.
- Management informed average NSR for Oct'20 is higher by INR2,000/t over the 2QFY21 average.
- SAIL's receivables from the Railways remain elevated at ~INR60b. It expects to realize this partly by end-FY21. Realization of Railways debtors would further lead to decline in debt.
- SAIL maintained its capex guidance for FY21 at INR40.0b. Of this, it spent INR14.7b in 1HFY21.
- SAIL's gross debt declined by INR3.8b QoQ to INR506b at 2QFY21-end, led by release in working capital. It guided for reduction of INR30b in 2HFY21 on the back of strong cash flows. Receivables from the Railways remain in excess of INR60b (INR55b at FY20-end). SAIL expects receivables from the Railways to remain elevated due to budgetary constraints at the latter's end.
- SAIL has sold 500kt of iron ore (high-grade) from its mines in 2QFY21 (100kt in 1QFY21). During the quarter, iron ore sales contributed INR1.0b to EBITDA.
- It further sold 500kt of iron ore in Oct'20. It expects to receive clearance for sub-grade ore from the Odisha govt. in 3QFY21, which would lead to additional cash flows. It still awaits clearances from the state govts of Odisha, Chhattisgarh, and Jharkhand for the sale of 42mt of sub-grade iron ore lying in its iron ore mines.

Tata Steel

Neutral

Current Price INR 533

Operational highlights and outlook

- India domestic steel demand recovered to ~96% of average FY20 consumption in Sep'20. However, demand recovery was higher in flats steel owing to demand revival from the Auto segment.
- Domestic demand recovery, coupled with higher exports (1.2mt v/s 0.64mt in 2QFY20), resulted in a rise in Tata Steel India's sales volumes by 22% YoY to 5.05mt. Crude steel production increased 2% YoY to 4.59mt.
- Automotive steel demand picked up in 2QFY21 and continues to rise in 3QFY21 on strong demand driven by the festive season. Tata Steel's volumes to auto customers rose ~12% YoY to 0.47mt.
- Domestic steel inventories have declined to normal levels, which bodes well for domestic prices.
- Management guided for a QoQ improvement of INR4,000–5,000/t in realization in 3QFY21, led by price hikes and an improved product mix.
- A steel price increase on the back of demand recovery and higher China steel prices have improved EU spot spreads.
- While TSE's EBITDA is expected to improve in 3QFY21, the full impact of higher spot spreads is expected to flow in only in 4QFY21.

Other financial highlights

- Tata Steel BSL (TSBSL) reported EBITDA of INR11.1b v/s INR1.5b in 1QFY21. Sales volumes increased +84% QoQ / 23% YoY to 1.28mt. Domestic volumes stood at 0.86mt (+150% QoQ / 11% YoY). Realization improved 11% QoQ (INR4,260/t) to INR43,120/t on higher steel prices and a better product mix. EBITDA/t came in at INR8,643/t (v/s INR2,190/t in 1QFY21).

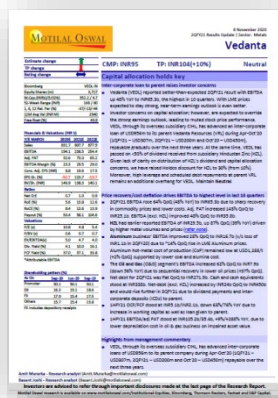
- Tata Steel Long Product (TSLP) on Oct 13 reported strong margins for 2QFY21, which resulted in EBITDA of INR1.8b v/s loss of INR74m in 1QFY21.
- Europe EBITDA included carbon credit cost of USD58m (USD27/t).
- Management informed that Europe operations saw no cash support from Tata Steel India despite a challenging environment.
- Consolidated FCF generation stood at INR78.3b in 2Q.
- Capex stood at INR13.6b in 2Q and was largely incurred on maintenance and safety projects. Capex stood at INR32b in 1HFY21.
- Net debt declined by INR82b QoQ (INR83b in 1HFY21) to INR988b. The company repaid gross debt of INR45.5b in 2QFY21. Net debt came in below FY19 levels.
- Debt maturities for FY21/FY22E stood lower at ~USD250m for each year.

Strategy on Europe

- Tata Steel is in talks with SSAB Sweden regarding the potential acquisition of its Netherlands operations (capacity of 7.0mt). It may take 6–9 months to close the deal, if finalized. The company does not expect any regulatory issues during the transaction.
- However, it would continue to own and operate the UK business (~3mt capacity) and is in talks with the UK govt. to make the business self-sustainable.
- TSE has debt of ~EUR1.7b (excl. working capital debt), and the proceeds of the divestment (if any) would be used to reduce this debt.
- Tata Steel Netherlands generates average EBITDA of ~USD450–500m (capacity 7mt) in a normal year, while UK operations incur EBITDA loss (capacity ~3mt).



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Vedanta

Neutral

Current Price INR 111

Zinc

- Mined metal and finished metal production at HZL is guided to be in the range of 925–950kt for FY21 (438kt in 1HFY21). However, HZL has guided to achieve a run-rate of 1.2mtpa by end-FY21.
- Saleable silver production guidance for FY21 is unchanged at 650t (320t in 1HFY21). Silver production was higher in 2QFY21 on account of higher lead production and higher concentrate inventory.
- FY21 growth capex is guided to range between USD100–140m.
- CoP is likely to remain below USD1,000/t in FY21 (USD965/t in 1HFY21). CoP should increase in 2HFY21 on account of higher mine development costs.
- Zinc International: Production at Gamsberg is guided at 150–160kt for FY21 with CoP at USD1,200/t. CoP excl. Gamsberg is guided at USD1,300/t.

Aluminum

- Hot Metal CoP increased 2% QoQ to USD1,288/t.
- Management informed that the company has booked coal at lower cost till Dec'20. However, increase in international alumina prices and other commodities may lead to increased CoP in 2HFY21. It has guided for FY21 hot metal CoP to range between USD1,300–1,350/t (v/s average of ~USD1,278/t in 1HFY21), thus, implying increased CoP by USD100/t in 2HFY21.
- Alumina production at Lanjigarh increased by 13% YoY to 462kt. Captive alumina CoP increased by 4% QoQ to USD227/t.

Oil & Gas

- Operating cost at RJ Block stood at USD7.0/boe v/s USD6.9/boe in 1QFY21. Management has guided for opex of USD7.5/boe for FY21, implying opex of USD8.0/boe in 2HFY21.

- The company expects incremental sales of 100mmscfd from 3QFY21. It further expects completion of two projects in 3QFY21 – (a) Bhagyam and Aishwariya Polymer project, and (b) ILiquid handling capacity increase at MPT by 30% to 1.4m barrels of fluid per day.
- The company received extension till 31st Jan'21 for signing Production Sharing Contract for RJ Block. It expects to receive the extension of 10 years with original terms of profit sharing i.e. 40%. However, we believe that profit sharing as per new agreement would be at 50%.
- One of the conditions for extension of Block relates to payment of amounts arising out of certain audit exceptions. One of the audit exception raised for FY16-17 requires the company to pay INR27.2b (VEDL's share). However, the company has disputed the same and the matter is under arbitration. No provision has been created against the same.

Other highlights

- Management has informed that the company has complied with its dividend policy despite not entirely passing on HZL's dividend. This is because the dividend policy provides for deviation in case of calamity, sharp decline in commodity prices, etc.
- Management has assured that the company would not further advance Inter-corporate loans and is confident of the Parent company's ability to repay debt through a mixture of refinancing and non-core asset disposal.
- Guidance for FY21 growth capex is USD0.7b. Of this, USD0.2b has been spent in 1HFY21.



OIL & GAS

- OMCs stated that with the lifting of lockdown restrictions worldwide, demand is once again seeing an uptick. This should lower built up inventories and support poor GRM margins. OMCs reiterated that GRM trends and marketing margins over the long term would stand at normalized levels only. RIL further plans to streamline its O2C Integration business and focus on expanding its Fuel Marketing business. The company's strong growth path remains in its digital and retail businesses. IGL and MAHGL stated total volumes have recovered to ~90% of pre-COVID levels, while GUJGA's total volumes currently stand above pre-COVID levels. PLNG has guided for an increase in LNG imports as demand from CGDs and other segments normalizes over 3Q–4QFY21. Post the completion of the Kochi-Mangalore pipeline (by end-Nov'20), PLNG expects utilization to increase to ~40% over the next 5–6 months. GAIL stated that gas transmission and petchem operations are back at pre-COVID levels. Growth guidance continues on the back of incremental volumes of 8–12mmscmd from the commencement of fertilizer plants, which should lower the risk on its US contracts.

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil and Gas	Outlook for FY21	Snapshot of the quarter
GAIL	■ With some delay, the Kochi-Mangalore pipeline is expected to be completed by end-Nov'20 and gas sales of ~0.7mmscmd would start immediately. ■ Pre-commissioning of the Ramagundam fertilizer plant has resumed (expected volumes of ~1.5mmscmd by end-Dec'20). Pre-commissioning of the Gorakhpur fertilizer plants is ongoing, with Sindri and Barauni pre-commissioning to start by FY21-end. ■ Commissioning of all three plants by 2021-end along with refineries (connected to Urjan-Ganga pipeline) would increase gas sales by ~11mmscmd, thus de-risking US HH contracts.	■ GAIL's gas transmission volumes stood at 106mmscmd in 2QFY21 (flat YoY). ■ The management expects a further increase in transmission and trading volumes in the coming quarters. ■ GAIL reported lower-than-estimated EBITDA, led by poor performance in gas trading, while other businesses performed well. ■ Capex guidance stands at INR45–50b for FY21 and INR80–90b for FY22E.
OMCs (IOC/BPCL/HPCL)	■ With the lifting of lockdown restrictions worldwide, demand is once again seeing an uptick. OMCs reiterated that marketing margins and GRM trends over the long term would stand at normalized levels only. ■ IOCL continues its strong capex of INR260b annually, while HPCL has guided for capex of INR115b in FY21. BPCL has revised down its capex to INR80b for FY21. ■ Debt reduced for both BPCL and IOCL, while HPCL rewarded shareholders with share buyback.	■ In 2QFY21, Singapore GRM increased marginally to –USD0.1/bbl (v/s –USD0.9/bbl in 1Q) due to improvement in Gasoline cracks. ■ OMCs clocked huge inventory gains (USD2.4–9.6/bbl) owing to benefits of lower priced crude oil stored in previous quarter, resulting in core GRM of –USD1-2.7/bbl. ■ Implied gross marketing margins came in better than our estimate at INR5.9–6.6/liter.
ONGC	■ Currently, OPEC+ production cuts stand at 7.7mnobpd (pertaining to Aug'20). The group is scheduled to meet on 30th Nov'20 and 1st Dec'20 to decide on easing cuts by an additional 2mnobpd from Jan'21. ■ Despite the delay, ONGC is expected to grow its gas production in FY22, with efforts to arrest the decline in oil production from age-old fields (accounting for 60–70% of total oil production).	■ Oil and Gas sales and net realization stood in line with estimates. ■ ONGC recorded an impairment of INR12.4b. ■ We have built-in oil/gas production at 23.3mmt/24.8bcm for FY21, as per the management's earlier guidance. ■ No subsidy sharing was witnessed for ONGC and OINL in 1QFY21.
Petronet LNG	■ The company believes utilization levels at the Dahej terminal could be at current levels even 4–5 years down the line due to back-to-back tie-ups despite competition coming in. Threat to the Dahej terminal is the least as it is connected by four pipelines and offers competitive tariffs. ■ The board has declared a special interim dividend of INR8/share (v/s INR12.5/share in FY20), and the company suggests it would keep rewarding investors until there is further clarity/affirmation on capex plans.	■ PLNG continues to outperform volume estimates. Dahej utilization was better than est. at 110% (v/s 109% in 2QFY20). ■ Beat on EBITDA was primarily due to inventory gains, owing to a sharp increase in spot prices during the quarter. ■ Capex in 1HFY21 stood at INR150m and INR1b is expected for 2HFY21. ■ Dahej re-gas charges are expected to rise by 5% from 2021.
Reliance Inds	■ RIL expects revival in demand to absorb the excess inventory and support margin recovery. Travel and mobility demand is gradually increasing, with China already at pre-COVID levels. The US and India, on the	■ RIL reported GRM of USD5.7/bbl (the lowest ever) due to the shrinking of product cracks and Light-Heavy crude differential. ■ The premium over Singapore GRM stood at

other hand, are expected to normalize by early 2021.

- Petchem demand growth is likely to continue for the next two quarters as well, led by a strong demand outlook for the PVC and Non-Woven segments (Health and Hygiene sectors). Revival in the downstream sector with the lifting of lockdown, improving labor availability, and demand revival would support margins.

USD5.8/bbl as RIL used flexibility in its refining configuration to manage yields.

- Standalone EBITDA was down 44% YoY due to lower GRMs and refining throughput.
- PBT (SA) stood at INR47.6b (-61% YoY). Reported PAT stood at INR65.5b (-33% YoY), higher than PBT on account of a tax write-back.



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Bharat Petroleum

Neutral

Current Price INR 383

- Debt for the company (pre Ind-AS 116) decreased to INR339b in 2QFY21 (v/s INR406b in 1QFY21 and INR478b at end-FY20). Adjusting for lease liability, debt stood at INR278b (v/s INR419b at end-FY20).
- Receivables from the government stand at ~INR41.5b (v/s INR48b at end-1QFY21 and INR62b at end-Mar'20). There are no under recoveries currently on PDS and subsidy of LPG, led by benign global crude prices.
- Capex plan for FY21 stands at INR80b (moderated from INR125b guided in FY20). There is no impact of reduction in capex on major ongoing projects.
- The company will continue executing the already approved projects:
 - Ongoing petchem project at Kochi,
 - Mozambique investment of USD2.5b for two LNG trains (gas in 2024), and
 - Investment in the gas sector (CGD).
- While capex has been delayed for:
 - Mumbai refinery residue FCC project (which would give extra propylene) – this has huge capex requirement, and
 - BORL – refinery expansion to 15mmt and a petchem complex.

Reliance Industries

Buy

Current Price INR 1,900

RJio analyst meet takeaways

- Digital ecosystem: AI-based speech and language recognition software providers, education platforms, fleet management companies, and various other start-ups form the digital ecosystem. RJio is building horizontal capabilities at scale, and following successful execution in India, these products may be leveraged outside of India.
- 5G: RJio is pioneering 5G in India in partnership with Qualcomm.
- JioMeet: JioMeet is secure, free, and without a time or participant barrier, unlike other platforms. RJio looks to extend the service to the enterprise market with JioMeet Pro; virtual classroom, market place, and other areas could be targeted via JioMeet.
- JioUPI: JioUPI and MyJio are widely used applications; they offer features such as online payments, bill payments, and QR code scanning.
- Jio STB: Jio STB has emerged as a one-stop destination, comprising gaming, education, media, and wellness applications.
- Jio Fiber: The Jio Fiber rollout continues strongly. 90% of subscribers are opting to continue their subscriptions post the 30-day free-of-cost service. RJio is bundling up all its popular OTTs for free, while offering the same speed, without fair usage price (FUP).
- JioPostPaid Plus – his features additions such as entertainment, inflight services, roaming services (US and the Middle East), and family plans. A good uptick has been seen in this service.
- Churn: RJio saw a moderately higher churn due to lockdown, reflected in lower net adds.

- Data traffic: Wireless data traffic was up 20% to 14.4 exabytes in 2QFY21. ARPU increased to INR145.
- InVITs: RJio has completed its transactions of tower and fiber InVITs. ADIA and PIF have each invested INR38b in the Fiber trust.
- Data usage: Per capita wireless usage was healthy at 12GB, and voice usage was at 776 minutes/month.

RETAIL



- The Retail sector saw a gradual recovery in sales as economic activity continued to pick up, with 75–95% of retail stores operational in 2QFY21. Although footfall has been lower, conversion rates and bill sizes have improved. Retailers expect sales to be 70–80% in 3QFY21, driven by strong festive shopping. Retailers would continue to focus and invest in online channels and logistics for stronger sales and customer traction via the online medium. ABFRL/V-Mart/SHOP have guided for muted capex / store adds in FY21 until normalcy returns. Pantaloons has guided to add 25 stores in FY21, V-Mart opened 7 new stores in Oct'20, while SHOP has guided to shutdown 3–4 of its non-profitable stores in FY21.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook	Sales Recovery post Unlock
Aditya Birla Fashions*	■ Expect 3QFY21 to achieve 70–80% of last year's sales, while in 4QFY21, sales should normalize to pre-COVID levels. ■ Expect Pantaloons to grow 2–5% over the next 12–18 months. Pantaloons would add 25 stores annually in the current fiscal. ■ Net debt declined by INR900m to INR31.6b in 1HFY21. It aims to bring debt to INR20b–25b, excluding the investment from Flipkart.	■ Other categories, including Innerwear, have already achieved pre-COVID sales.
Jubilant Foods	■ JUBI expects near-normalcy by 4QFY21. ■ It aims to open over 100 stores in FY21 in place of the stores closed. ■ JUBI is benefiting from three strong trends: (a) Market is becoming a lot more organized, (b) Delivery proportion is increasing for the better, and (c) Technology usage is increasing. ■ Management believes that the worst of aggregator discounting is behind them.	■ Delivery and Takeaway channels continue to see strong traction. ■ Dine-in channel remains muted, with a system sales recovery of only 17.5% in 2QFY21, which improved to 33.9% in Oct'20. ■ Oct'20 sales are healthy despite a higher base in Oct'19, which had both Dussehra and Diwali in that month.
Shoppers Stop	■ 50 Shoppers stop shops are currently on Amazon; gradually, more stores and products would be integrated with Amazon's e-commerce platform. ■ The drop in gross margins is attributable to provisions and the rising share of private label brands (impact of -265bps). ■ The company aims to be debt-free by Mar'21 or Sept'21.	■ Festive sales are down 25% v/s last year pre-Dussehra in the eastern region.
Titan	■ TTAN expects a 90–100% recovery in jewelry sales YoY in 3QFY21 and targets a full recovery in 4QFY21. ■ The company targets a 75% recovery in 3QFY21 and a 100% recovery in 4QFY21 in Watches, while the Eyewear segment registered 61% recovery in 2QFY21 and targets 75–80% recovery in 3QFY21. ■ The impact of ineffective hedges is likely to decline significantly in subsequent quarters.	■ Festive sentiment seems to be good. ■ TTAN has introduced promotions and schemes to boost sales. Despite social distancing, TTAN has done well. ■ TTAN is 11 days into the 30–31 day festive season, and the company is seeing single-digit positive growth YoY in Jewelry.
V-Mart*	■ VMART has opened seven new stores in Oct'20. The management continues to scout for attractive opportunities for expansion. ■ Company is looking to return to pre-COVID cost structure in 3QFY21. ■ The management is reviewing its fundraising plans and expects there would be no need to raise additional funds.	■ The company is currently operating at over 95% of operational days. ■ VMART is targeting pre-pandemic business levels this festive season.



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Aditya Birla Fashions

Buy

Current Price INR 160

Business operations

- **Wholesale revenues:** Wholesale revenues declined as business from large-format stores (LFS) was more severely impacted due to multiple factors. a) These stores operate in malls and urban areas, which were closed for a longer period. b) Many LFS used existing inventory instead of ordering fresh inventory. Hence, while secondary sales were happening, primary sales were limited.
- Other categories, including Innerwear, have already achieved pre-COVID sales.
- **Cost optimization:** It achieved cost optimization of INR8.7b in 1HFY21.
- **Other income:** Other income included rent concession of INR1.2b.
- **Payables:** Payables declined by INR5b in 1HFY21 as there was no fresh inventory buying, while the company supported vendors to manage their liquidity.
- **Net debt:** Net debt declined by INR900m to INR31.6b in 1HFY21. It aims to bring debt to INR20b–25b, excluding the investment from Flipkart.
- **Online sales:** Online business revenues grew 3x YoY. Online sales for Pantaloons increased 4.3x YoY. The Lifestyle segment should achieve online sales contribution of 12–13%, and Pantaloons should increase to 4–5% over next 12–18 months.
- **Pantaloons:** Pantaloons added seven new stores in 2QFY21, along with new brand entities that would be rolled out to other stores.
- **Other businesses:** Innerwear and Athleisure sales are higher v/s last year.

Business outlook

- Expect 3QFY21 to achieve 70–80% of last year's sales, while in 4QFY21, sales should normalize to pre-COVID levels.
- International brands: Collective and others have delivered well and are inching toward profitability.
- **Pantaloons:** Expect Pantaloons to grow 2–5% over the next 12–18 months. Pantaloons would add 25 stores annually in the current fiscal.
- **New stores:** It aims to add over 100 new stores per year for the Lifestyle segment and around 25 stores for the Pantaloons brand, with capex of INR1.5b.
- **Cost of retailing:** Cost of retailing is expected to be 30–35% of sales.
- **Flipkart investment:** The Flipkart investment is a financial investment to strengthen the existing business and the Innerwear and Ethnic Wear segments, along with strengthening its focus on the online channel.

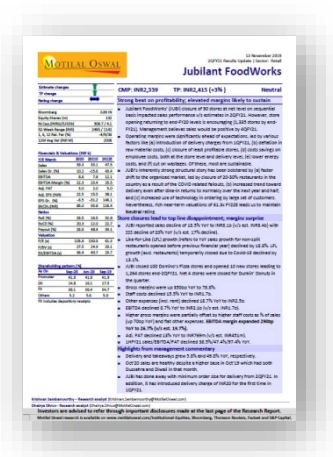
Jubilant Foodworks

Neutral

Current Price INR 2,618

Macro and performance

- JUBI expects near-normalcy by 4QFY21.
- It aims to open over 100 stores in FY21 in place of the stores closed.
- The company expects to emerge much stronger from the COVID impact.
- Delivery and takeaways grew 5.8% and 49.8% YoY, respectively.
- JUBI is benefiting from three strong trends:
 - (a)Market is becoming a lot more organized,
 - (b)Delivery proportion is increasing for the better, and



- (c) Technology usage is increasing (JUBI had highest-ever app downloads in 2QFY21).
- Sales in Mumbai and Bangalore are weaker than last year. However, 159 towns reported sales higher than last year.
- Oct'20 sales are healthy despite a higher base in Oct'19 which had both Dussehra and Diwali in that month.
- 105 stores that were closed were underperforming (largely dine-in only outlets). Further, they were on locations where even after recovery, their performance would not have attained the desired levels.
- JUBI had record app downloads at 6.3m in 2QFY21. Delivery is faster and customer experience is a lot better on their app, which is another factor apart from the COVID impact, which is boosting delivery sales.
- Adoption of delivery in smaller towns is an extremely encouraging sign and is unlikely.

New initiatives

- JUBI has done away with minimum order requirement in delivery.
- It has launched drive-in and eating in the car experience.
- New product launch of pasta-pizza combination has received encouraging consumer response.

Costs, margins and other financials

- Sustainable cost savings include (a) lower staff costs due to much more efficient deployment of manpower now at the store, (b) lower energy costs, (c) cut on wastages, (d) cuts on cost of delivery, and (e) vehicle operating costs (even excluding delivery charge introduction).
- Gross margins were aided by (a) low RM costs led by benign dairy prices, (b) lower discounts, (c) introduction of delivery charges, and (d) better forecasting.
- Marketing spends were high due to IPL. This offset some cost savings.
- Capex - INR2b in FY21.

Other points

- India is different from other countries where Dominos saw strong SSSG growth on account of: (a) extended COVID impact, (b) complete lockdowns in large towns, (c) limited operating hours allowed, and (d) delivery dine-in mix being more favorable in other markets.
- Management believes that the worst of aggregator discounting is behind them.
- Loyalty feature added in the app is still at an early stage.
- Affordable Chinese QSR positioning of Hong's kitchen offers significant long-term promise.



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Shoppers Stop

Neutral

Current Price INR 185

Business performance

- **Operational days:** Operational days were at 80% v/s last year, and store operational hours are returning to normal (up to 9pm) post state government approvals.
- **Footfall:** Footfall was down 65% in September. Standalone stores' footfall declined 59%, but was better v/s mall stores.
- **Bill size:** ATV is up 20% YoY and the average bill value is up 6% YoY.

Shoppers Stop

Key Metrics (Q3 FY21):

- Revenue: ₹1,100.00 Crores
- EBITDA: ₹150.00 Crores
- Net Profit: ₹40.00 Crores

Management Commentary:

The company has reported a 25% decline in revenue for Q3 FY21 compared to Q3 FY20, primarily due to the impact of COVID-19 on the festive season. However, the company has managed to maintain its gross margins and has seen a significant improvement in its operating expenses, leading to a 40% reduction in cost savings. The company expects the remaining 60% of the total savings to be realized in the next year.

Margin Benefit: The company expects a ~1% margin accretion to be seen from employee cost and ~1% from store operational cost.

Private brands: Value buying is strong, especially in private brands and products below INR999.

Rental exemptions: Rental exemptions are in the range of 25–75%, while some stores have moved on to revenue-sharing agreements.

Online conversion: The online conversion rate stands at 1.5%, and the company aims to reach 2.5%.

Online business: The online business has seen marginal profits in the past quarter, and this may continue in future.

- **Cost savings:** SHOP had INR1.85b and INR1.3b in cost savings in 1Q and 2Q, respectively. Savings from lease rentals were 40%, and other expenses formed the remaining 60% of the total savings. Of INR4.5b savings this year, expect INR2b to be permanent savings and continue next year.
- **Margin Benefit:** Going ahead, ~1% margin accretion would be seen from employee cost and ~1% from store operational cost.
- **Private brands:** Value buying is strong, especially in private brands and products below INR999.
- **Rental exemptions:** Rental exemptions are in the range of 25–75%, while some stores have moved on to revenue-sharing agreements.
- **Online conversion:** The online conversion rate stands at 1.5%, and the company aims to reach 2.5%.
- **Online business:** The online business has seen marginal profits in the past quarter, and this may continue in future.

Business outlook and festive expectations

- **Amazon partnership:** 50 shops are currently on Amazon; gradually, more stores and products would be integrated with Amazon's e-commerce platform and would account for a large portion of sales in future.
- **Personal Shopper:** The program has seen great traction online as well. The bill size is 2.8 x when personal shoppers offer shopping assistance.
- **Beauty segment:** The Company plans to launch one more private brand in the Beauty segment.
- **MD & CEO appointment:** Mr. Venu Nair joined the company as MD & CEO of Shoppers Stop. He served as CEO of Westside and earlier worked with Marks & Spencer as well.
- **Festive sales:** Festive sales are down 25% v/s last year pre-Dussehra in the eastern region.
- **Store openings/closures:** It opened one Shoppers Stop store in Lucknow in 2QFY21 and would be closing another three to four stores. Expect 5–10% of store closures, mostly in the metros.
- **Gross margins:** The drop in gross margins is attributable to provisions and the rising share of private label brands; gross margins are expected to return by the start of FY21. The impact on the GM from private labels stands at -265bps.
- **Debt:** It aims to be debt-free by Mar'21 or Sept'21.



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Titan

Buy

Current Price INR 1,365

Operating environment and macros

- Management is very satisfied with the performance and business recovery. They are much better prepared once overall sentiment and demand recovers.
- Festive sentiment seems to be good. TTAN has introduced promotions and schemes to boost sales. Despite social distancing, TTAN has done well. It is 11 days into the 30-31 day festive season and the company is seeing single-digit positive growth YoY in Jewelry.
- Walk-ins as well as conversions are improving. Average ticket size is higher YoY.
- Local and standalone jewelers' recovery rate is only 55-70% compared to 90% (adjusted for bullion sales) for TTAN.

Titan Company

Remarkable recovery in jewelry: Positive demand trends encouraging

■ Titan's FY2021 performance was encouraging, reflecting the strong post-lockdown demand recovery of jewelry. The first 10 days of the festive season, when demand for jewelry was high, saw a significant recovery in jewelry sales. The company's jewelry sales were up 10% YoY in FY2021, while watches and eyewear sales were up 5% YoY. The company's jewelry sales were up 10% YoY, while watches and eyewear sales were up 5% YoY. The company's jewelry sales were up 10% YoY, while watches and eyewear sales were up 5% YoY.

- TTAN is expecting 90-100% recovery in jewelry sales YoY in 3QFY21 and is targeting full recovery in 4QFY21.
- In all segments – jewelry, watches and eyewear – demand is improving MoM.
- For watches, 55% recovery was seen in 2QFY21. The company is targeting 75% recovery in 3QFY21 and 100% recovery in 4QFY21.
- Eyewear segment registered 61% recovery in 2QFY21 and is targeting 75-80% recovery in 3QFY21.

Jewelry segment components

- Wedding jewelry sales grew YoY v/s 10% YoY decline in overall jewelry (excl. bullion sales). TTAN expects wedding demand to be healthy going forward.
- Studied jewelry sales were lower than last year at 26% (v/s 38% in 2QFY20). However, this improved sequentially (18% in 1QFY21) and is improving MoM also. The company expects normalcy in studied sales proportion by 4QFY21.
- Higher gold coin sales proportion at 14% v/s 3% in 2QFY20 impacted margins.

Clarifications and exceptions

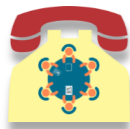
- There was INR3.9b of bullion sales in 2QFY21.
- Loss due to ineffective hedges of INR4.84b was incurred on account of significant variation in (a) actual sales v/s the company's expectations, and (b) gold prices v/s the company's expectations. While 1QFY21 sales were lower than expected, 2QFY21 sales were higher than expected. Impact of ineffective hedges is likely to come down significantly in subsequent quarters.
- Deferring of gold loan payment due to moratorium also resulted in ineffective hedges.
- There was INR340m one-off provision on overdue margin money from a broker that the company hopes to recover in the future.

Expansion

- 14 Tanishq stores were added in 1HFY21.
- Expect 30-35 Tanishq store additions in FY21. Demand from franchisees is good unlike most other retail players.



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V-Mart Retail

Buy

Current Price INR 2,018

Operational performance

- COVID-19 impact: Due to the increasing number of COVID-19 cases, some states are seeing store closures even after the lockdown. Stores in UP were shut on the weekends due to a state government mandate and Bihar had closed stores until 10th September 2020.
- Operational days: Post the Unlock 5.0 initiatives by the government, it is operating at 95% utilization v/s 79% in 2QFY21.
- Store and sales metrics: Footfall is down 45% YoY. Conversion rate stood at 60% in 2QFY21. Average bill size is up 19% YoY. Due to higher demand for Athleisure and Leisure products, average selling price (ASP) is down 15% YoY.
- Gross margin: Extension of EOSS impacted gross margin, but aided in inventory liquidation and paved the way for new inventory during the winters and reduce the company's working capital risk from resurgence in COVID-19 cases.
- Rental savings: VMART saved INR190m in rental expense in FY21 (20% of total rental cost), of which INR25m was recognized in 1Q and the remaining is in 2Q.

MOTILAL OSWAL
V-Mart Retail

Key Metrics (Q3 FY21 vs Q3 FY20)

Metric	Q3 FY21	Q3 FY20
Revenue	1,12,15,15,15	1,12,15,15,15
EBITDA	1,12,15,15,15	1,12,15,15,15
EBIT	1,12,15,15,15	1,12,15,15,15
Net Profit	1,12,15,15,15	1,12,15,15,15
Operating Assets	1,12,15,15,15	1,12,15,15,15
Operating Liabilities	1,12,15,15,15	1,12,15,15,15
Operating Capital	1,12,15,15,15	1,12,15,15,15

Management Commentary:

The company has witnessed a decline in revenue and EBITDA in Q3 FY21 compared to Q3 FY20. This is primarily due to the impact of the COVID-19 pandemic, which has led to a decline in demand for certain products. However, the company has managed to maintain its operating assets and liabilities, and its operating capital remains healthy. The management is looking to return to pre-COVID cost structure in 3QFY21 and is targeting pre-pandemic business levels during this festive season.

Of the total rental savings recognized in 2Q, INR150m is adjusted in other income and the remainder against rentals.

- Geographical trend: The company is witnessing stress in tier 1 markets while demand is better in its core market: tier 2/3/4 cities.

Working capital

- Inventory stood at healthy levels, but the management is still continuing with its conservative provisioning given its apprehensions about COVID-19 pandemic. Overall, the company has a comfortable inventory and working capital position.
- Payables: VMART had cleared 95% of vendor dues by Aug'20 and thus received a differentiated supply for its winter collection. The company is looking to continue the accelerated payment cycle to maintain better relationships and be the priority customer for vendors.
- Cash position: VMART has a comfortable cash position and is yet to utilize over 25% of its working capital limit.
- Winter inventory: The company stocked inventory at the optimum time and its winter collection is better than its peers.

Outlook

- Stores: VMART opened seven new stores in Oct'20 and the management said it would continue to look at attractive opportunities for expansion.
- Cost: The management is looking to return to pre-COVID cost structure in 3QFY21. It is targeting pre-pandemic business levels during this festive season.
- Sales: The Company is still witnessing some weakness in the market and a full recovery is yet to happen. However, demand is better than previous quarters.
- Fund raise: The management is reviewing its fund raising plans and expects there would be no need to raise additional funds.
- Digital adoption: Currently, digital contributes less than 1% to total sales and the management is looking to scale it.

Others

- Management change: The current CEO has resigned citing personal reasons and the company has appointed Mr. Vineet Jain as its new CEO.

TECHNOLOGY



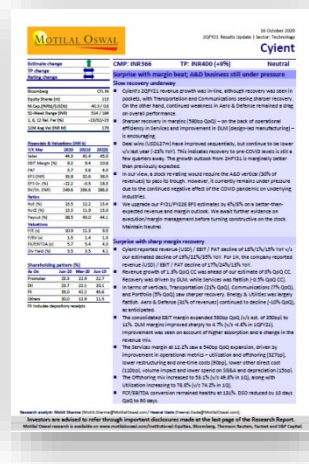
- Supply-side issues were largely contained in 1QFY21, and demand normalization was seen across segments in 2QFY21. In terms of verticals, BFSI, Retail, Healthcare, Technology, and Telecom have seen good recovery. Energy and Utilities, Manufacturing (Aero and Defense), and Travel and Hospitality are expected to take longer to recover. Companies have seen the deal pipeline improve further (v/s 1QFY21), with the pipeline now at pre-COVID levels. The pandemic has become a material catalyst in driving the adoption of hyper-scale cloud platforms by enterprises globally. It has accelerated cloud adoption significantly, which was otherwise expected to be a three- to five-year cycle. Cloud migration, cyber-security, and IoT are coming up more frequently in client discussions. However, this opportunity is not limited to just 'cloud migration', but would also be extended to the 'use of cloud applications' – making the IT industry a key beneficiary in the long run. Expect 3QFY21 to be positive in terms of revenues and margins.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook	Sustaining Margins (%)
HCL Technologies	■ Reiterated revenue growth guidance of 1.5–2.5% CQGR CC. ■ HCL is seeing good deal creation activity across verticals and geographies, and the pipeline stands at an all-time high. ■ The key theme strongly playing out is cloud migration, which is strengthening the whole digital foundation – a positive for HCL. ■ Company is confident of growth in the ER&D space in the coming quarters.	■ Upward revision of 20–21% was seen in EBIT margin guidance for FY21.
Infosys	■ Upward revision of revenue guidance to 2–3% YoY CC (v/s 0–2% YoY CC earlier). ■ Growth in 2Q was attributable to the global economy opening up and clients investing in technology to navigate through the pandemic. ■ The deal pipeline remains strong as clients look to accelerate their digital transformation and undertake cost-efficiency measures. ■ Infosys continues to gain market share in some verticals through vendor consolidation deals.	■ Upward revision of 23–24% was seen in EBIT margin guidance for FY21.
TCS	■ Deal wins (USD8.6b) were healthy in 2Q and comprised a larger number of small and medium deals. ■ Going forward, the deal pipeline is strong, with a good mix of small and large deals. ■ The pandemic has been a catalyst, resulting in accelerated demand for cloud, security, and digital technologies. ■ The medium- to long-term outlook for IT Services is healthy on the back of increasing digital investments.	■ The medium-term EBIT margin target band is 26–28%.
Tech Mahindra	■ Supply-side constraints have eased; the conversion of the funnel is back at previous levels, with a larger number of medium-sized deals. ■ Growth came from multiple verticals. Manufacturing has now bottomed out and would return on the growth path. ■ 5G is more of an FY22 phenomenon as, despite high data consumption, revenues have been muted for service providers. ■ Breakthrough deals in FY20 should help accelerate enterprise growth to industry-leading levels.	■ Target is to sustain the EBIT margin at 14–15%.
Wipro	■ Revenue growth guidance is for 1.5–3.5% QoQ CC for 3QFY21. ■ Growth in 2Q was broad-based, driven by increasing volumes. ■ Deal pipeline is strong and at pre-COVID levels, with a good mix of small and large deals. ■ The Consumer business unit is expected to grow in the near term on the back of healthy deal wins. Outlook for BFSI is optimistic. ■ Wipro is seeing vendor consolidation trends as clients go ahead with few trusted and stronger players in the market.	■ Company would maintain margin in the narrow band for the remainder of FY21.

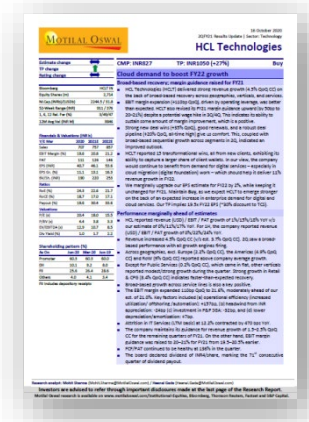
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HCL

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Cyient

Neutral

Current Price INR 463

- In 2QFY21, recovery was driven by the DLM business, which saw good volumes and quality growth. Management expects the momentum to continue and sustain over 2HFY21.
- Aerospace & Defense continues to face headwinds, and management is hopeful that the vertical would see a trough in 2HFY21. On the other hand, Communications (now the largest vertical) is seeing growth on account of accelerated rollout of broadband and the 5G network.
- Transportation saw sharp recovery as government client deals were ramped-up to adhere to project timelines. It is expected to see continued traction in the near term.
- Margin expansion was largely attributable to improved operational metrics. Utilization and Offshoring gave the benefit of ~330bp, along with other cost reductions.
- Management intends to offer wage hikes, effective from 1st October 2020, to the bottom pyramid (~8k employees). This would moderately impact margins in 3Q. Furthermore, typically the difference in billings and seasonal furloughs would be headwinds in 3Q.
- The company would continue with its capital allocation policy of 40–50% PAT payout in the form of dividends/buyback.
- For FY21, management expects low double digit decline given it is positive on the recovery outlook for 2HFY21 in most parts of the business. In terms of margins, it would largely be in line with FY20.

HCL Technologies

Buy

Current Price INR 819

- The company saw sharper and broad-based recovery across segments during the quarter. Hence, the management had increased its revenue and margin guidance for the quarter a month ago.
- (a) Increasing intensity of technology spend, (b) client stickiness (existing clients giving new deals), (c) an early lead in the Digital Foundation Business (Cloud, Security, Digital Workplace, Networks), (d) operational efficiency measures (offshoring, automation), and (e) employees have helped the company achieve growth/improvement.
- Margin expansion in the quarter was driven by increased utilization, offshoring, and automation. Revenue growth and margin expansion in Mode 2 is aiding overall performance.
- The company would offer wage hikes (similar to last year, but with a lag of a quarter – the best in the industry) and variable payouts similar to last year.
- 2QFY21 is seasonally weak for Products, but it saw decent growth on a sequential basis as some bookings were pulled forward from 3Q.
- HCLT signed 15 transformational deals in 2QFY21 (v/s 11 in the last quarter) and gained wallet share in some consolidation opportunities.
- While renewals have been good in 2QFY21, net new deal wins have also grown (+35% QoQ). The deal pipeline is robust (+20% QoQ) and at an all-time high. A good mix of deals is in the pipeline from across geographies (the US and Europe).
- Digital Foundation Services is witnessing significant traction in transformation, cloud adoption, security, etc.
- Strong momentum is seen in Life Sciences and Healthcare, Technology, BFSI, and Telecom. Manufacturing demand has improved, but some impact has been seen

from increased offshoring in a large deal. Hence, this vertical would grow slower than others.

- Recovery in ER&D was largely driven by improved demand (new product engineering and product sustenance), which is expected to grow in the near term.
- FCF/PAT conversion continues to be strong due to (a) improved DSO and (b) higher non-cash expenses (depreciation & amortization; some part of tax).
- High localization in the US (two-thirds) helps. H1B visa regulatory changes would still have some impact as HCL needs to provide wage hikes in some cases.



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Company	Market Cap	Revenue	Profit	EPS	P/E
Infosys	₹1,10,000 Cr.	₹1,10,000 Cr.	₹1,10,000 Cr.	₹1,10,000 Cr.	10x

Infosys

Buy

Current Price INR 1,103

- Revenue growth was attributable to the global economy opening up and clients investing in technology to navigate the COVID pandemic.
- Revenue growth guidance for FY21 has been increased to 2–3% YoY CC (from 0–2% YoY CC) based on an improved demand outlook. This may indicate a modest 2H as the expected impact of furloughs in 3Q and 4Q has been seasonally modest for Infosys. However, it does not indicate anything negative on the demand front as the company is seeing largely broad-based recovery.
- Improved revenue per person (RPP) had a +100bp margin impact in the quarter. This was largely driven by a high number of bill days, automation, and lower discounts in the quarter.
- The earlier margin guidance of 21–23% has been improved to 23–24%. Furthermore, the company would pay a one-time incentive to its junior employees and offer wage hikes effective from 1st January 2021. Also, a 23–24% EBIT margin band cannot be considered sustainable for now; this will have to be keenly monitored.
- Significant margin tailwinds have emerged as a result of the pandemic – increased offshoring, lower attrition, and reduced travel/SGA costs – which would partially return as travel restrictions are eased and the environment normalizes further.
- The deal pipeline remains strong as clients look at accelerating their digital transformation and undertake cost efficiency measures. Infosys continues to gain market share in some verticals through vendor consolidation deals.
- In terms of verticals, given that the momentum has returned in Retail, management remains cautious due to continued liquidity issues and a number of stores shutting down. Communication is expected to be weak, but the company has a decent pipeline of deals. On the other hand, ENU is still under pressure and seeing an elongated recovery. BFSI is expected to do well on the back of six large deal wins in 2Q.
- Strong localization (63%) in the US should help navigate regulatory changes/challenges. It plans to hire 12k local resources in the US over the next two years.
- The company has made three acquisitions in the past quarter. However, it does not see these acquisitions contribute meaningfully to growth in FY21.



Let's Solve

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L&T Infotech
Q3 FY21 Results (INR Lakhs)

Particulars	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,10,000	1,05,000	1,00,000
Operating Profit	25,000	22,000	20,000
Profit Before Tax	23,000	20,000	18,000
Profit After Tax	18,000	16,000	14,000

L&T Infotech

Buy

Current Price INR 3,092

- Management stated that it is seeing acceleration in the digitalization of every operation – more so in the Cloud and Data Products business, which is going to be the key investment area for the company going forward.
- The overall pipeline is 22% higher than last year. The large deal pipeline has also increased proportionately and is stronger than the last quarter. But, it is seeing delayed decision-making at the client end.
- In terms of verticals, Insurance is still struggling due to the pandemic, and ENU recovery is tepid, with prices now having stabilized, but still lower than pre-COVID levels. Hi-Tech declined due to the reprioritization of spends, but management is seeing growth returning in the coming quarters. Manufacturing is also seeing decent recovery.
- Europe growth had been high due to a small base, and America is expected to grow faster in the coming quarters.
- The management is positive about surpassing 4QFY20 revenues in 3QFY21 on account of a healthy deal pipeline and sustained client mining.
- Management intends to roll out wage hikes to all its employees effective from 1st January 2021.
- Furthermore, PAT margin guidance was reinstated at 14–15% for FY21. Management is confident that it could sustain margin expansion from operational efficiencies and sustainable increase in the offshore mix.

Mindtree

Neutral

Current Price INR 1,357

- Management indicated the company is well-positioned to benefit from the new normal as clients engage to enable business model transformations.
- The company's alignment of its service offerings has led to a strong order book and winning market share.
- The company is on the path to transformation as demand is seeing good momentum, supported by a healthy deal pipeline, healthy win ratio, and broad-based growth.
- Management alluded that the Travel and Hospitality vertical is seeing green shoots amid uncertainty in the market, and other industries continue to see traction. This would lead to growth momentum in 3Q despite the seasonal furloughs.
- North America was impacted due to seasonal variation in the Top client. However, order bookings saw good contribution from this geography in 2Q, and the deal pipeline is strong going ahead.
- The company is seeing good traction in its Top client; it aims to gradually generate higher growth from the rest of the portfolio going forward to reduce concentration risk.
- The company completed its promotion cycles in 2Q and now intends to offer wage hikes, as per industry standards, effective from 1st January 2021.
- Management is confident of sustaining margins despite the wage hikes. It stated that the company has reached a comfortable margin band. It intends to further invest in the business going forward to aid profitable growth.



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Mindtree
Q3 FY21 Results (INR Lakhs)

Particulars	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,10,000	1,05,000	1,00,000
Operating Profit	25,000	22,000	20,000
Profit Before Tax	23,000	20,000	18,000
Profit After Tax	18,000	16,000	14,000

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Mphasis

Buy

Current Price INR 1,315

- Management alluded that clients are shifting from the crisis management mode toward accelerating remote transformation in an attempt to adjust to the new reality. A shift has been seen from Omni-channel to digital due to the pandemic.
- The company has been winning wallet share in cases where the customers are undergoing vendor consolidation.
- The deal pipeline is robust and has increased by 75% YoY. Cloud spend has been pulled forward and has grown 3x in the deal pipeline.
- Management is confident of positive growth momentum in BCM and expects revenue conversion in Insurance on the back of a robust pipeline.
- The Direct business in Europe is a key focus area with a strong pipeline. It is expected to be a growth driver for the remainder of FY21. Furthermore, the direct business has achieved a USD1b annualized run-rate.
- Continuous improvement has been seen in the client pyramid, driven by expanding wallet share in large clients and consistent new client wins. Furthermore, healthy conversion of clients (50%) is happening from each stage to the next.
- Management reiterated its EBIT margin guidance band to be 15.5–16.5% for FY21 as it looks toward continued investments in the business.
- The company is undertaking efforts to improve the longevity of the DXC relationship. 2Q performance for the Europe / ADM / IMS segment was impacted by DXC.

Coforge Ltd

Neutral

Current Price INR 2,355

- Order intake remained healthy at USD201m, with the next 12-month executable order book at USD489m (21% YoY increase).
- Management guided for organic revenue growth of at least 6% YoY and the EBITDA margin (pre-RSU) for FY21 would be around 17.8% (the same as FY20).
- The deal pipeline is robust, with a good mix of new wins and renewals. The large deals pipeline is also strong, with two large deals closed during the quarter in the BFSI vertical.
- The platform engineering, AI/automation, and digital domains are seeing good traction in terms of demand. However, revenues from AI are a small part of a deal, although they are a necessary differentiator.
- The global Travel industry continues to be depressed; recovery is expected in the US and EMEA over the next year's summer or holiday season. Currently, companies expect to reach pre-COVID levels by the end of CY21–24 globally depending on the relevant markets.
- Management is comfortable with utilization at 80% levels, and the offshore ratio should normalize to around 65% over the coming quarters.
- The company would continue to look for attractive M&A opportunities.



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TATA CONSULTANCY SERVICES

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Persistent Systems

Buy

Current Price INR 1,146

- Sequential growth in 2QFY21 was led by a volume increase from new projects. This was partly offset by the impact of deal ramp-downs and price discounts offered to clients.
- The Alliance business is seeing strong traction and growth in the large deal pipeline. Moreover, its largest customer being split into two companies is expected to further benefit the company over the medium-to-long term.
- The management stated it is comfortable with the current margin levels and focused on sustained growth. 2QFY21 margins levels are sustainable going forward despite the impending wage hike (effective from 1st November 2020).

Revenue and margins ahead of estimates

- Persistent reported revenue (USD) / EBIT / PAT growth of 8%/54%/18% YoY v/s our estimates of 8%/34%/12% YoY. For 1H, the company reported revenue (USD) / EBIT / PAT growth of 9%/44%/14% YoY.
- Revenues grew 3.9% QoQ (USD), ahead of our expectations (3% QoQ).
- North America (7.1% QoQ) and RoW (5% QoQ) fueled growth despite sharp decline in Europe (-22.6% QoQ).
- Unlike 1Q, the IP portfolio declined 3.3% QoQ, while Services (5.4% QoQ) was in the lead with robust growth.
- Tech. Cos. & Emerging Verticals (4.5% QoQ) and BFSI (4.2% QoQ) did well, while Healthcare and Life Sciences reported decent growth (1.8% QoQ).
- Top client growth was robust at 13.8% sequentially.
- Adjusted for CSR activity, the EBIT margin expanded ~150bp QoQ. Reported margins stood at 12.1% (v/s 10.4% in 1Q) and were ahead of our estimates.
- The 2Q margin beat was primarily on account of a decrease in purchase/royalty expense (290bp QoQ). This more than compensated for higher employee cost (140bp QoQ) – it increased despite higher utilizations (+270bps QoQ) and offshoring.
- The attrition rate stood at 10.6%, implying a 210bp improvement from 1Q.
- DSO days reduced by 6 days sequentially and stood at 63 days.
- The board appointed Mr. Sandeep Kalra as the CEO effective from 23rd Oct 2020. He previously served as Executive Director and President of Persistent Systems and was responsible for the Technology Services business.

Tata Consultancy Services

Neutral

Current Price INR 2,660

- Revenue growth was broad-based across verticals and geographies. Margin expansion was largely driven by revenue growth. Overall, the performance in 2QFY21 was better than the management's expectation.
- The deal pipeline is strong, with a good mix of large and small deals. Deal wins in 2QFY21 comprised a larger number of small and medium deals and fewer large deals.
- Management expects to see the typical seasonal impact of furloughs in 3Q.
- The company plans to offer wage hikes (similar to last year) across the hierarchy, effective from 1st October.
- Management hinted at the ability to maintain margins in a narrow band despite the impact of furloughs and wage hikes in the near term.



30 October 2020
BSE/IT: Results Update | TCS

Company: TCS
CMP: INR 2,757
TP: INR 2,800 (+1.5%)

Headline: TCS has won several vendor consolidation deals in the quarter, resulting in market share gains in certain accounts.

Key highlights:

- Revenue growth: 10% QoQ, 35% YoY
- EBITDA margin: 18.5% QoQ, 19.5% YoY
- Net profit: 15% QoQ, 16% YoY
- Operating leverage: 1.2x
- Debt-to-equity ratio: 0.1x
- Dividend yield: 1.5%

Full report available on the Motilal Oswal Research Report page.



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30 October 2020
BSE/IT: Results Update | Tech Mahindra

Company: Tech Mahindra
CMP: INR 838
TP: INR 850 (+1.4%)

Headline: Supply side constraints present in 1QFY21 have cleared and management is seeing increased demand momentum.

Key highlights:

- Revenue growth: 12% QoQ, 38% YoY
- EBITDA margin: 19.5% QoQ, 20.5% YoY
- Net profit: 16% QoQ, 17% YoY
- Operating leverage: 1.3x
- Debt-to-equity ratio: 0.2x
- Dividend yield: 1.8%

Full report available on the Motilal Oswal Research Report page.



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- TCS has won several vendor consolidation deals in the quarter, resulting in market share gains in certain accounts.
- Demand recovery is seen across verticals. Travel and Hospitality would take longer to recover, while BFSI, Retail (excluding Discretionary), and Healthcare continue to do well.
- The pandemic has turned out to be a catalyst as clients now see business value in resiliency, which was neglected in the past. This change in views has resulted in accelerated demand for cloud, security, and digital technologies.
- The medium- to long-term outlook for IT Services is healthy as technology spends / budgets are expected to increase on the back of increasing digital investments.

Tech Mahindra

Neutral

Current Price INR 838

- Supply side constraints present in 1QFY21 have cleared and management is seeing increased demand momentum.
- The conversion of funnel is back to previous levels with larger number of medium-sized deals.
- During the quarter, growth came from multiple verticals. Management alluded that Manufacturing has now bottomed out and is expected to return on growth trajectory in the coming quarters.
- In case of Communications, deal signings have doubled from 1QFY21 and the funnel across transformational areas is looking decent.
- Revenues in 3QFY21 may be impacted due to increased furloughs but the same has not come up yet in client discussions.
- Margin improvement of 410bp was partly driven by: (1) supply and demand side recovery (~160bp), (2) cost management incl. offshoring, utilization and reduction in sub-con expenses (~160bp), and (3) normalization of seasonality in 1QFY21 in the mobility business (70bp).
- Management is hopeful of sustaining margins (if not improving them further).
- 5G will be more a FY22 phenomenon as despite the high data consumption revenues have been muted for service providers. This has negatively impacted investments in the 5G cycle. However, B2C should see expansion in projects.
- In the past, Enterprise business had witnessed industry-leading growth and the company is aiming to achieve the same. Breakthrough deals in FY20 should help accelerate this growth.

Wipro

Neutral

Current Price INR 346

- The company has done better than the earlier expectation of a stable 2Q quarter with 2% QoQ CC revenue growth. Growth has been broad-based, driven by an increase in volumes. Strong growth in the BPO service line (8% QoQ CC) was largely driven by fresh demand across new/existing clients.
- Expect to maintain the IT EBIT margin in a narrow band at ~19% levels going forward. The company would offer promotions and wage hikes (similar to last year) to its junior employees effective from 1st Dec 2020.
- Demand has improved since 1Q. The deal pipeline is strong and at pre-COVID levels, with a good mix of large and small deals. Decision-making has improved, but remains slower for large deals. The intensity of sales activity has increased.

- The Consumer business unit is expected to grow in the near term on the back of healthy deal wins. The outlook for BFSI is optimistic, although it is expected to see the impact of seasonal furloughs in 3Q. ENU and Technology are expected to see growth going forward. Communication, Healthcare, and Manufacturing would also grow moderately in the near term.
- The company is seeing flight to safety/consolidation as clients are going ahead with fewer/trusted and stronger players.
- The company would continue with its 50% payout policy going forward – it gives higher payouts if and when the board feels comfortable with the cash position and environment.
- The new CEO announced his five-point plan as part of a strategy refresh:
 - Growth focus – Focusing on existing accounts; shaping large deals
 - Focus and scale – Prioritizing markets/sectors and striving for leadership positions in these areas
 - Offerings – Evolving offerings beyond traditional IT offices, focusing on vertical-based solutions, and leveraging the partnership ecosystem
 - Talent – Continuing to invest in building talent
 - Simplified operating model – Agile/Lean operating model that would help improve external focus on customers.



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Zensar Tech

Neutral

Current Price INR 209

- The company got back on growth trajectory in 2QFY21 and management believes they are strongly positioned to continue on this path. This is on the back of robust pipeline and continued traction in cloud and digitization services.
- Hi-Tech vertical and top-5 client growth was soft due to business challenges in their largest customer in the vertical. Softness is expected to continue for the coming 1-2 quarters.
- EBITDA margins surpassed the 15% target during the quarter. There is continued focus on cost conservation and management is optimistic to be in a narrow band despite return in travel/discretionary spends and wage hikes in 4QFY21.
- Sustained margins are expected on the back of cost optimization levers and divestment of its non-core business, which was margin dilutive.
- It is actively looking at M&A opportunities in the digital engineering and cloud space.

In-line revenues; Better-than-expected margin performance

- ZENT reported revenue (USD/ EBIT/ PAT growth of -14%/26%/12% YoY (v/s est. 13%/-10%/-3% YoY) . For 1HFY21, the company reported revenue (USD)/ EBIT/ PAT growth of -14%/6%/2%.
- Revenue decline of 0.6% QoQ (CC) was in line with our expectations.
- Unlike 1QFY21, Hi-tech declined (4.7% QoQ CC) along with Manufacturing (3.8% QoQ CC) and Emerging (10.8% QoQ CC). This was offset by strong growth in Consumer Services (11.3% QoQ CC), Banking (6.6% QoQ CC) and Insurance (2.3% QoQ CC).
- Europe/ Africa reported strong growth of ~8%/6% QoQ (USD) while America declined (1.5% QoQ USD).
- Top-5 clients reported sequential decline in revenue (7.2% QoQ USD) while Top 6-10/11-20 reported robust growth of ~6%/4% QoQ (USD).

- Margin expansion of the company is a big positive surprise. Optimization of direct costs (+370bp impact) and volume/utilization (+130bp impact) were the key margin tailwinds. Overall, core EBIT margin expanded 450bp QoQ (v/s est. 30bp).
- Utilizations increased to 83.3% (v/s 82.2% in 1QFY21) while attrition also improved by 220bp and stood at 11.7% (all-time low).
- DSO remained largely stable. The company's debt further reduced by ~USD17m.
- Total Contract Value of deals signed during the quarter was ~USD175m. Management indicated that the current deal pipeline is USD1.5b+.



TELECOM

- Telcos have reiterated their stance that ARPUs should reach INR200 in the near term and INR300 in the long term for the industry to be sustainable. Capex has remained higher this quarter on account of network upgrades owing to high data demand during the lockdown. However, capex would be lower in 2HFY21 as data demand is expected to normalize as the economy opens up. Bharti Infratel's management mentioned the energy margin would be in the range of 0–3%. However, the company is engaging with telecom operators to bring back customers to the fixed energy model that is expected to bring back margins to previous levels. TCOM is in the process of executing large international deals and expects high revenue / EBITDA revenue growth in the coming years. Furthermore, it seeks to monetize its land parcels and other assets.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY21	Roll Out of 5G Services/Costs
Bharti Airtel	■ The Broadband and Enterprise segments are poised for growth, with huge scope and record 1m/130k of home passes and customers adds in 2QFY21, driven by the new LCO distribution model. ■ High capex intensity was required in 1HFY21 to support high data growth in the lockdown, but this would moderate. ■ Competitive dynamics have been limiting tariff hikes; Bharti's customers have the capability to absorb additional tariff hikes.	■ 5G spectrum prices are too high, which would lead to fewer investment opportunities for 5G solutions. The government might lay down some guidelines in Jan'21 for 5G auctions. ■ Bharti has formed an R&D team, which is working with vendors and software companies to develop the ORAN network and lower capex.
Vodafone Idea	■ Significant capacity has been created and hence high capex in the upcoming quarters is unlikely; capex would be the same as 2Q levels. ■ VIL would drive priority 4G investments in 16 circles to boost revenues and subscriber growth. ■ VIL would monetize its 11.15% stake in Indus at a cash consideration of INR38b.	■ After successfully achieving targeted merger opex synergies of INR84b, VIL plans to achieve INR40b in annualized cost savings over 18 months.
Bharti Infratel	■ BHIN has maintained its guidance of 0–3% Energy margin. ■ Management expects tenancy addition to remain steady as closing of AGR puts regulatory uncertainty behind and there are tenancy exits. ■ On a quarterly basis, capex run-rate should be equal to 2QFY21 capex.	■ BHIN is awaiting the DoT's approval to add more components of telecom infrastructure to the company's offerings. ■ Major contract renewal is coming up in 2023; contractual charges should remain largely at current levels.
Tata Comm	■ Growth Services' EBITDA margin improved due to change in the service mix as more profitable services are contributing a higher portion to revenue. ■ TCOM is looking at all options for asset monetization, including real estate and other assets. ■ The company will utilize incremental FCF to reduce its leverage.	■ More cost rationalization could come in FY22. However, some of the one-time COVID-19 related benefits would see reversal.



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**Bharti Airtel****Buy**

Current Price INR 484

Key highlights

- Competitive dynamics have been limiting tariff hikes. Bharti's ARPU is already at a premium and would increase further once competitors initiate hikes.
- There are 160m digital customers and 82m monthly active users on Airtel Thanks. These could be leveraged for analytics and customized products and services to improve subscriber monetization.

The screenshot shows a research report for Bharti Airtel. It includes a table of contents, a key performance summary, and a detailed financial performance section. The financial performance section includes a table with columns for 'Financial Performance' and 'Key Metrics'. The table lists various financial metrics such as Revenue, EBITDA, Earnings Before Interest and Taxes, and Net Income, along with their respective values and growth rates. The report also includes a section on 'Key Metrics' which highlights the company's performance in terms of revenue, EBITDA, and Net Income.

- The Broadband and Enterprise segments are poised for growth, with huge scope and record 1m/130k of homepasses and customers adds in 2QFY21, driven by the new LCO distribution model.
- High capex intensity was required in 1HFY21 to support high data growth in the lockdown, but this would moderate. 5G is still two years away, while spectrum renewal could come next year.

India Mobile business

- Mobile business: Overall, Bharti added 13.9m customers, and the churn was low at 2.2%, with ARPU growing to INR162.
- Postpaid segment: Bharti has stepped up the acquisition of corporate postpaid customers and added 710k subscribers in the Postpaid segment.
- Upgrading networks: Bharti has added more than 200k physical cell sites, added twin beams, refarmed spectrums, and added massive MIMOS to upgrade the quality of its networks and increase the reach of its networks. Bharti has also launched 4G services in the Andaman and Nicobar Islands.
- Airtel Thanks: Airtel Thanks now has over 82m monthly active users. Bharti is partnering with financial services firm to sell insurance and other financial products.

Broadband & DTH business

- Growth: The Broadband category is on the cusp of growth as the need for broadband connectivity emerges in education, work-from-home, and entertainment. Bharti added record 1m homepasses in 2Q and added 29 new cities in the LCO model. Bharti added record 130k customers in the Broadband segment. The company expects growth to continue, driven by work-from-home culture; revenue benefits would accrue from 3QFY21.
- Scaling the LCO model: Airtel has perfected the LCO model, and the firm is now beginning to scale the model and expand into the Home Broadband segment.
- DTH: Airtel has added 549k customers in the DTH segment, led by distribution synergies.

Enterprise business

- Rising demand: Enterprise demand has been rising, largely due to the quality of service and lower costs. Airtel added 6.6TB of capacity over the network in 2Q and launched applications – such as Blue Jeans and Airtel Cloud (partnered with AWS) – to deliver cloud solutions. It is also focused on growing Netxra, which lowers data storage costs for enterprise customers.
- Airtel IQ: Airtel launched 'Airtel IQ', a cloud-based omni-channel platform, to connect clients to their customers (with major tie-ups such as Swiggy). This is expected to be over a billion-dollar market opportunity.
- Massive growth opportunity: This segment has ample growth opportunities in a) the connectivity space – the company's core business and b) other solutions, such as cybersecurity, cloud (Airtel has private, public, and edge cloud), data centers, video conferencing, and collaboration and partnership opportunities.

5G rollout and ORAN deployment

- ORAN tests: Bharti has tested for the first field deployment of the ORAN network, designed in-house.
- ORAN network: Bharti has formed an R&D team, which is working with vendors and software companies to develop the ORAN network and lower capex. The inhouse team is developing indoor and outdoor small cells to develop the solution.

- 5G rollout: The 5G rollout is still a few years away as 5G devices are costly and the network rollout would take longer. 5G has advantages such as faster speed and low latency, demand for which is currently low in India.

Business outlook

- Deleveraging strategy: 70% of the debt consists of deferred spectrum and lease liability. Thus, market debt is limited, which may gradually be reduced by improving FCF: a) USD235m from Carlyle Group, b) stake in fiber assets, and c) dividends from Bharti Infratel.
- Capex & FCF: 1Q capex was lower due to the lockdown; 2Q capex increased due to massive network demand from a surge in data consumption and increasing coverage and capacity. All of the business segments in India and Africa are FCFpositive.
- Resistance to tariff hikes: Competitive dynamics have been limiting the tariff hikes; Bharti's customers have the capability to absorb additional tariff hikes.
- Spectrum holdings: Sub 1800MHz is expiring, and the company would evaluate whether the spectrum is required. Bharti's spectrum holding in the mid-band is strong currently, and it may look to add a spectrum in the GHz band.
- Ghana sellout: It decided to sell its stake in Ghana to the government due to losses incurred in the business.



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Bharti Infratel

Neutral

Current Price INR 219

Key Highlights

- Energy margin: BHIN has maintained its guidance of 0-3% Energy margin. Energy EBITDA losses increased due to (a) operators moving to pass-through model from fixed energy model, and (b) some payment disputes with operators. Management is looking to bring customers back to the fixed energy model.
- Tenancy: Management expects tenancy addition to remain steady as closing of AGR puts regulatory uncertainty behind and there are tenancy exits.
- Capex: On quarterly basis, capex run-rate should be equal to 2QFY21 capex. Capex/tower is largely dependent on commodity prices and over the last few years, overall spends have remained largely flat.
- RoCE/RoE: Pre-tax RoCE/RoE stood at 23%/29%.

Operational Performance

- Tower/co-location addition: Total tower/co-location addition for 2QFY21 stood at 1,482/2,116, the highest in any quarter in the last 8/3 years. Closing colocation stood at 1.81x.
- Exit penalty charge: It stood at INR684m for 2QFY21 as the company records it on cash receipt. This will increase with the completion of the merger.

Regulatory outlook

- AGR: Closing of AGR hearing puts regulatory uncertainty behind for telecom industry and bodes well for telecom infrastructure players.
- BHIN is awaiting the DoT's approval to add more element of telecom infrastructure in the company's offerings.

Merger update

- Shareholding: Post completion of merger, Providence Equity Partners/Vodafone Group/Bharti Airtel would get 3.2%/28.24%/36.7% share in the combined company. VIL chose the option to receive cash and consideration of INR40b for its stake in Indus Towers.

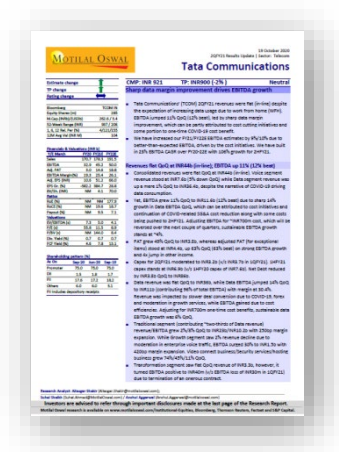
- Security Package: All parties involved agreed to a security package for the benefit of the combined company. This is to be invoked if VIL is unable to satisfy payment obligations under Master Service Agreement with the combined company. This includes (a) prepayment in cash of INR24b by VIL, which has to be made on completion of the merger for current/future obligations under MSA, (b) primary pledge over shares owned by Vodafone group in the combined company for INR40b (at INR200-205 share price), and (c) secondary pledge over shares owned by Vodafone group in the combined company with maximum cap of INR42.5b. This provides comfortable cover for payments due from VIL.
- Post completion of the merger, the combined company will be known as Indus Towers and will no longer remain a subsidiary of any entity.

Outlook

- Energy margin: BHIN has maintained its guidance of 0-3% Energy margin. Energy EBITDA losses increased due to (a) operators moving to pass-through model from fixed energy model, and (b) some payment disputes with operators. Management is looking to bring customers back to the fixed energy model.
- Capex: On quarterly basis, capex run-rate should be equal to 2QFY21 capex. Capex/tower is largely dependent on commodity prices. Over the last few years, the overall spends have remained largely flat.
- Receivables: BHIN's receivables should decline with the completion of the merger as it will be cleared in the merger transaction.
- Tenancy: Management expects tenancy addition to remain steady.
- Contract renewal: Major contract renewal is coming up in 2023; the contractual charges should largely remain at current levels.

TATA COMMUNICATIONS

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Tata Communications

Neutral

Current Price INR 1,031

Key Highlights

- Cost optimization: TCOM should see more cost rationalization in FY22. Of this, a major portion should come from change in the offshore and onshore mix. However, some of the one-time COVID-19 related benefits should see reversal. Thus, overall EBITDA margin should be in the range of 22-25%.
- Revenue: TCOM is in the process of executing large international deals and expects high revenue/EBITDA growth in the coming years.
- Growth services: EBITDA margin improved due to change in the service mix as more profitable services are contributing a higher portion of the revenue.
- Tax rate: It should be in the range of 28-30% from FY22E; however, management is looking to keep it in the range of 25-28%. Overseas accumulated losses should help TCOM in remaining tax efficient.

Operational performance

- Enterprise business: It grew 9.9% YoY led by 5.1% growth in India and 16% growth in International market.
- Forex impact: Data revenue should have grown by 1.7% QoQ, excluding the forex impact.
- COVID-19 impact: TCOM is witnessing delays in deal closure; however, its pipeline and funnel addition remains strong.
- Growth services: EBITDA margin improved due to change in service mix as more profitable services are contributing a higher portion of the revenue. Voice traffic has seen moderation in 2QFY21 while strong growth was seen in other services.

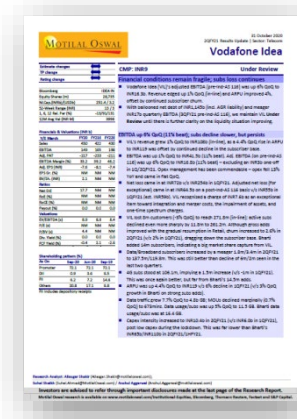
- Seasonally weak quarter: Second quarter of the financial year is generally weak due to vacations.
- Data services: The segment witnessed third consecutive quarter of double-digit EBITDA growth. One-off COVID-19 related cost benefit stood at INR430m in 2QFY21. Of the overall cost savings in 1HFY20, INR500m is due to one-time COVID-related benefit and INR1.9-2b should be due to structural realignment.
- Transformation business: It is on track and has turned profitable with a strong international pipeline.
- Payment solutions: It remained impacted by COVID-19 with reduction in the average number of transactions. However, management expects transactions to increase in the future.
- Return ratio: Average cost of borrowing stood at 2.8% for 2QFY21 due to reduction in LIBOR rates. RoCE was at 17.3% v/s 11.6% YoY.

Outlook

- Cost optimization: More cost rationalization could come in FY22. However, some of the one-time COVID-19 related benefits would see reversal. Thus, overall EBITDA margin should be in the range of 22-25%. Major portion of these cost savings should come from the change in onshore and offshore mix, which currently stands at 61:39 and should change to 57:43.
- Tax rate: It should be in the range of 28-30% from FY22E; however, management is looking to keep it in the range of 25-28%. Overseas accumulated losses should help TCOM in remaining tax efficient.
- Revenue: TCOM is in process of executing large international deals and expects high revenue/EBITDA revenue growth in the coming years.
- Innovation service: Net foundry has started to pick up. It has strong pipeline and should see major growth in FY22. India IoT business is growing and should continue to grow. The segment should reach break-even with annual revenue of USD125m.



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Vodafone Idea

Under Review

Current Price INR 10

Concall highlights

- Tariff and floor pricing – Strongly believe, based on engagement with the new TRAI chairman, that the floor pricing might be taken into considerations. Alternately, VIL would not hesitate to take the first step on tariff hikes.
- Rebranding – Consistency of execution and synergy would be enhanced under the integrated 'Vi' brand and efficiency improved.
- Capex – Significant capacity has been created and hence high capex in the upcoming quarters is unlikely; capex would be the same as 2Q levels.
- Rationalize major investments in 16 circles – VIL would drive priority 4G investments in 16 circles to boost revenues and subscriber growth. However, it would continue to make only the necessary investments in the other 6 circles

Operational highlights

- **Vi brand:** VIL is set to recapture the customer's mindset with the Vi brand.
- **Partnership:** VIL has entered into various regional and global partnerships with tech firms for deeper integration of data and networks. It is further creating a massive digital experience for its subscribers, which would lead to monetization.
- **Synergies:** As of 2QFY21, VIL had achieved 25% of the targeted INR40b opex synergies.

- **Customer adds:** VIL added 1.5m 4G customers in 2Q; data usage normalized from the peak during the lockdown months.
- **Infratel merger:** NCLT approved the merger of Infratel–Indus Towers; VIL would monetize its stake of ~11%, amounting to INR38b.
- **Fundraise:** VIL’s board has also approved INR250b fundraise, with a mix of debt and equity; it would complete this over the next 2–3 months.
- **AGR dues payment:** VIL has paid over INR78b (more than 10% of AGR dues); the next payment is in Mar’22. VIL has also made a request to DoT for a recalculation as it believes there is some miscalculation in the AGR dues and liabilities could be lowered.
- **Tax refund:** It received an INR9b tax refund from authorities.
- **Liquidity:** Net debt stood at INR1145b in 2QFY21. Cash and CE were at INR14.3b.
- **Postpaid:** Postpaid subscribers are sticky in nature and hence there are fewer concerns over churn in this segment. Competitors’ entry in this segment reflects the need for higher ARPU for the industry.
- **Vodafone Group’s AGR liability:** An INR84b payment is yet to be received by Vodafone Group; VIL has received INR20b from Vodafone Group.

Network and investment

- **Network coverage:** It has good coverage in the top 16 circles – with quality network and service. The company would maintain its focus on these subscribers to retain them.
- **Network quality:** The quality of the network would improve as the company is investing in network operations and capacity buildup.
- **Cell sites:** The cell site count stood at over 450k.
- **Network investments:** VIL is also massively investing in ORAN and MIMOS for network upgrades. VIL’s GIGAnet 4G network is the fastest in India. It has deployed the largest H cloud in the country.

Business outlook

- **Capex:** Significant capacity has been created and hence high capex in the upcoming quarters is unlikely; capex would be the same as 2Q levels.
- **Tariff hikes:** Current prices are quite low for a sustainable business model. ARPU of INR200 in the short term and INR300 in the long term is needed for the Telecom industry. VIL is not hesitant to take the first step on tariff hikes.
- **Floor pricing:** Industry has been engaging with the TRAI chairman over floor pricing concerns; strongly believe the floor pricing issue would be resolved.
- **Brand synergy:** Consistency of execution and synergy would be enhanced under the integrated ‘Vi’ brand, which was earlier difficult on account of the existence of two brand entities. Currently, there is no gap in execution as VIL remains focused on its execution strategy.
- **Data usage:** Data usage is not expected to rise going ahead and would normalize post increased usage during lockdown.

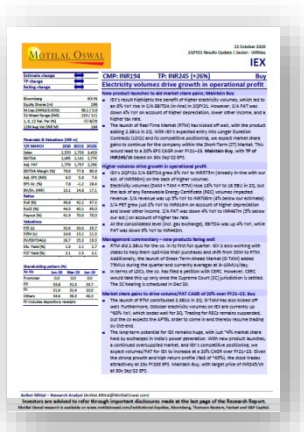
UTILITIES



- PWGR noted it has been able to complete Pole-I of its Raigarh Pugalur project during the quarter, and another INR100b of works related to the project are yet to be commissioned. PWGR has maintained its FY21 capex and capitalization targets of INR105b and INR200–250b, respectively. NTPC expects 5.5GW of capacities to be commercialized in FY21. It expects its plants – Lara U-2, Gadarwara U-2, and Meja U-2 – to be commercialized by Dec'20. In terms of receivables, NTPC is hopeful of lowering its overall receivables to INR160–170b at end-FY21. However, the company has noted that this would depend on multiple factors, including bill discounting. NTPC has thus far realized INR67b from the PFC-REC led 'Atmanirbhar' scheme and hopes that further money from the scheme would help reduce the stretch in receivables.



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Indian Energy Exchange

Buy

Current Price INR 205

Volumes

- Volumes for Open Access (OA) increased 40% YoY and comprised ~32% of IEX's volumes. In 1H, IEX's share rose to ~50% of ST volumes v/s 30–40% earlier.
- The company is seeing good volumes in October as well, with RTM doing 25MUs/day and G-TAM 7–10MUs/day.
- REC: No volumes were traded during the quarter. APTEL has concluded the hearing and the order is expected soon. REC trading may happen from 28th Oct.

New products

- RTM: The company did 2.3BUs in its first full quarter. Currently, it is working with states to help them make better decisions and shift from DSM to RTM. It expects some volumes to eventually shift from DSM to RTM.
- LDCs: The petition has been filed with CERC. However, CERC would take this up only once the SC jurisdiction is settled. The SC hearing is scheduled in Dec'20.
- G-TAM: It did 75MU within G-TAM during the quarter. Currently, avg. volumes stand at 8–10MU/day. DISCOMs with excess renewable tie-ups have been selling as they are able to realize 70–80paise higher than the clearing price in DAM. In future, generators can set up a portion of their capacity on merchants to sell on G-TAM.

Gas exchange

- Enablers such as system operators, uniform taxation (GST), pipelines, and regasification terminals would be needed to raise the volumes on gas exchanges.
- GAIL was interested in buying 26% equity in IGX, but as per PNG regulations, members can have only 5% stake. IGX is discussing with strategic investors for a stake sale

Others

- The co. expected Power market regulations to be issued in September. However, post the SC order, two CERC members are on leave and hence the forum is currently not available.
- Overall, the ST market stands at ~10%. However, the co. expects this to increase as old plants would get phased out. The possible launch of cross-border transactions may also aid growth for ST.
- Derivatives can only be introduced after the jurisdiction issue is settled by the SC.



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JSW Energy

Buy

Current Price INR 63

- PSA for SECI's 810MW hybrid project would be signed by end-FY21 and the project should be completed after 24 months. The project will be set up in Tamil Nadu and the company has received connectivity approvals. Solar capacity will be ~15-20% of the capacity mix. PLFs for Solar would be 26-27%, while wind would be 33-35%. The company expects to get near normative (mid- teens) returns on the same.
- The company plans to achieve ~10GW capacity over the next five years with 1-1.5GW capacity addition every year. Subsequently, JSWE expects the share of Renewables to increase from 35% to 65-70% in its capacity mix.
- Spot merchant market is currently benign and tariffs are not viable. The company does not see trend improvement in merchant prices in FY21.
- Ind Barath (700MW) continues to see delays in approval process due to creditor litigation.
- Power supplied to group captive consumers has moved to a job works model, leading to lower revenue as well as fuel costs.
- PPA for Kutehr (240MW) would be signed in FY21.
- JSW Steel's Dolvi would be completed by FY21; the PPA would also be signed then.
- The company is identifying locations to set up solar parks or wind turbines. This is because it is handy while bidding for SECI and evaluating JSW Group captive opportunities. JSW Group will require 1-1.2GW of renewable capacity under RPO in the future.

NTPC

Buy

Current Price INR 92

- The company has approved buyback of 197.9m equity shares at INR115/share for an aggregate amount of INR22.758b. The government of India will tender shares only to an extent that its share in NTPC does not fall below 51%.
- Fixed cost under recoveries stood at INR4.97b in 1HFY21. NTPC expects it to decline to ~INR2b levels in FY21.
- Late payment surcharge stood at INR11.3b in 1HFY21 (v/s INR8.2b in 1HFY20).
- NTPC's over-dues have increased to INR190b at end-Sep'20 (v/s INR164b at end-Jun '20). These include over-dues from Uttar Pradesh (INR44b), J&K (INR37b), Karnataka (INR30b), Madhya Pradesh (INR19b) and Telangana (INR13b).
- NTPC is hopeful of bringing down its overall receivables to ~INR160-170b at end-FY21 but noted that it would be dependent on multiple factors, including bill discounting. It has realized INR67b from the PFC-REC led 'Atmanirbhar' scheme so far and hopes further money can help in reducing receivables.
- NTPC can trigger tri-partite clause for outstanding dues >90 days. However, it will have to write to the Ministry of Power and Ministry of Finance for the same. ~INR110-120b of the current outstanding would be >90 days but it expects much of these over-dues to come through the PFC-REC scheme.
- The company expects 5.5GW of capacities to commercialize in FY21. It expects its plants Lara U-2, Gadgarwara U-2 and Meja U-2 to commercialize by Dec'20.



Power Grid Corporation of India

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Results Update

Power Grid

Q3 FY21 Results (Rs. Crores)

Particulars	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,121.13	1,085.12	1,085.12
Operating Profit	185.12	175.12	175.12
Profit Before Tax	185.12	175.12	175.12
Profit After Tax	140.12	135.12	135.12
EPS	14.01	13.51	13.51

Key highlights: Strong performance in core transmission segment, improved operational efficiency, and robust financial performance.

Power Grid Corp

Buy

Current Price INR 192

Works in hand:

- PWGR currently has INR410b worth of works in hand. This consists of ongoing works of INR 225b, new projects of INR 66b and TBCB projects of INR 120b.

Receivables

- Trade receivables stood higher at INR66b (v/s INR53b at end- 2QFY20) but have declined sequentially (v/s INR82b at end-1QFY21).
- Receivables at end-2QFY21 stand at 69 days. The company is aiming to bring it down to 45 days by end-FY21.

Order pipeline

- PWGR has noted INR179b of upcoming opportunity in inter/intra state works. The company expects finalization for the same in the next 3-6months.
- Additional projects of 20GW from Rajasthan and 20GW from Gujarat are under consideration. While the company has noted the difficulty to exactly quantify, an opportunity of ~INR280-300b may exist for the same.

Capex and Capitalization

- PWGR has commissioned INR95b of the Raigarh-Pugalur project with another INR100b of works for the project left to be completed.
- The company has maintained its FY21 capex and capitalization target of INR 105b and INR200-250b, respectively.

InvIT

- PWGR has classified five assets with gross block of INR75b as held for sale given the impending InvIT. The company is still in the process of selecting independent directors for its InvIT and looking into other preparatory works for the filing and creation of InvIT.

Late Payment Surcharge

- Late payment surcharge (LPS) on its over-dues has come down from 18% to 12%. The draft rule for LPS is still under deliberation. However, an earlier guideline from the Ministry of Power (MoP) to reduce the LPS rate has been extended.



TATA POWER

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Tata Power

Q3 FY21 Results (Rs. Crores)

Particulars	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,121.13	1,085.12	1,085.12
Operating Profit	185.12	175.12	175.12
Profit Before Tax	185.12	175.12	175.12
Profit After Tax	140.12	135.12	135.12
EPS	14.01	13.51	13.51

Key highlights: Strong performance in core transmission segment, improved operational efficiency, and robust financial performance.

Tata Power

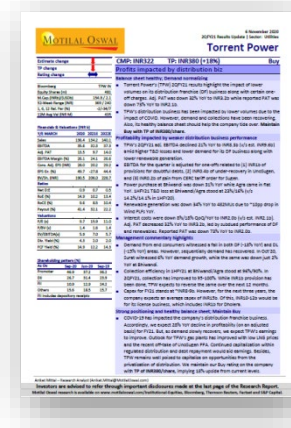
Buy

Current Price INR 58

- TPWR's management noted the process for the merger of subs with the co has begun. The hearing for the merger of Af-Taab has commenced, while the NCLT filing is underway for CGPL & TPSSL.
- The co. is in talks regarding the Mundra PPA, but there is some difference in the initial and final terms. The co. is more focused on making Mundra self-sustainable. At current coal prices, the benefit of a compensatory tariff may not be substantial.
- AT&C losses at CESU stood at 28% (down from ~40% upon takeover).
- The co. has signed a non-binding term sheet for the InvIT of its renewable assets. Due diligence of assets is underway. The co. targets completing the InvIT transaction by early 4QFY21.



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Torrent Power

Buy

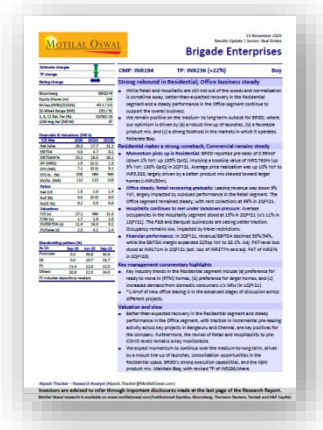
Current Price INR 307

- EBITDA was impacted by lower demand at DFs and lower wind PLFs.
- Demand from end consumers witnessed a fall in both DF (-18% YoY) and DL (-15% YoY) areas. However, sequentially demand has recovered. In Oct'20, Surat witnessed +6% YoY demand growth, while it was down just 2% YoY at Bhiwandi.
- Collection efficiency in 1HFY21 at Bhiwandi/Agra stood at 96%/90%. In 2QFY21, collection has improved to 99-100%. While INR1b provision has been done, the company expects to recover and reverse the same over the next 12 months.
- Capex for FY21 stands at ~INR8-9b. However, for the next three years, TPW expects an average capex of INR15b. Of this, INR10-12b would be for its license business, which includes INR1b for Dholera.
- Wind PLFs saw 10pp decline and was a trend witnessed across the country. Wind generation was below P90 levels but not below P75.
- Collection efficiency at Bhiwandi/Agra stood at 96%/90% in 1HFY21. In 2QFY21, collection has improved to 95-100%. The company expects to recover the INR1b provision in the coming quarters.
- The company will selectively look at bidding for renewable projects. This would be dependent on its internal parameters and competitive intensity.
- The company sold 480MUs merchant volumes at a contribution of INR24p (v/s 390MUs sold at a contribution of INR72p in 2QFY20).

Others



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Results Update



Brigade Enterprises

Buy

Current Price INR 220

- **COVID-19 impact:** Residential is seeing strong demand since the start of the unlock, driven by the festive season. In the Leasing space, while the Office segment remains steady, Retail is gradually recovering with improving footfall. Although occupancies in Hospitality continue to improve, rentals remain subdued.
- **Residential segment:** The Residential business saw better-than-expected recovery in 2QFY21, supported by a favorable product mix and project locations. Collections grew 44% QoQ to INR4b. Trend: Consolidation in the industry continues to gyrate demand for grade-A developers, while overall demand in the industry remains subdued. Demand for larger homes and RTM inventory remains strong.
- **Office segment:** Rent collections remained steady across operational assets, with 99% rent collections in 2QFY21. ~1.4msf of new office leasing is in the advanced stages of discussion across different projects.
- **Retail segment:** The Mall business recovered at the end of 2QFY21, with occupancies at 65–70%, rental revenue at 45%, and footfall at 35–40% of pre-COVID levels. At the Orion Gateway Mall, tenant churn thus impacted short-term rentals. Trend: Beauty and Cosmetics, Consumer Electronics, Sports, and Leisure, etc. continue to support consumption. The company launched Orion Mall Uptown in September.
- **Hospitality segment:** All of the eight hotels continue to operate. New hotel Holiday Express in Bengaluru OMR is at 50% occupancy in November, driven by large group bookings. Trend: The F&B and Banquet businesses are seeing good momentum, while the Rooms business continues to see improved occupancy. Nevertheless, room rentals remain under pressure, impacted by travel restrictions.
- **Labor strength** has reached 90% of pre-COVID levels, and there is no stress in the raw material supply chain and pricing.
- **New launches:** Over the next couple of quarters, the company plans to launch 3.12msf in Residential and 0.76msf in Leasing.



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Results Update

BSE

Buy

Current Price INR 555

Star MF platform

- The Star MF platform is seeing strong traction in volumes. The number of orders processed grew 56% YoY in 2QFY21. Star MF contributed INR14.9b to net equity inflow in Sep'20 v/s negative industry inflow of INR7.3b.
- However, led by one-time rate negotiation, BSE took a hit in September. Oct onward, all of the AMCs would transact on the revised rate by the company, which is lower than the realization in the previous quarters.

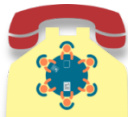
India INX platform

- BSE's market share in India INX, operating out of GIFT City, stood at 79%. During the quarter, total turnover increased 38% YoY to USD206.4b.
- BSE is still unable to monetize the platform due to competitive pressures.

Key highlights from management commentary

- The Board of Directors is pleased to announce that the company has been awarded the status of a 'Category 1' company by the Securities and Exchange Board of India (SEBI).
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Key highlights from management commentary

- Management reaffirmed that based on the new formula of 6% of land value, LLF, as per its calculation, stands at INR4.5b for FY21. The Ministry of Railways (MoR) has, however, demanded INR12.8b (incl. GST). The company has represented the matter before the ministry and expects a resolution by FY21-end.
- Management has raised its volume guidance for FY21. It expects volume decline of <10% v/s earlier guidance of 20% decline.
- The company is focused on maintaining margins. The rail freight margin increased 100bps YoY to 29.9% in 2QFY21 (28.66% in 1QFY21).
- The company has deferred price hikes, and no timelines are ascertained for price hikes currently.
- Capex spend for FY21 is guided at INR5.0b.
- CCRI expects DFC to be commissioned by FY21-end.

Equity and equity derivatives

- BSE expects inter-operability, along with a push toward the best price execution, to increase liquidity on its electronic trading platform over time.
- Currently, BSE hosts a large amount of smaller companies on the platform. With an external push, brokers should start using BSE for larger companies as well.
- Total market share for BSE in the Equity segment is still below 6%.

Commodity derivatives

- Commodity futures contracts include Gold, Silver, Copper, Oman Crude Oil, Guar Gum, Guar Seed, Cotton, Almond, Brent Crude Oil, Aluminum, Zinc, and Turmeric.
- BSE's market share in commodity derivatives stands at 7%. The platform is focusing on contracts that do not exist yet on other exchanges.

Others

- BSE would maintain its capital allocation policy of returning 90–95% standalone profit to shareholders.

Container Corp

Buy

Current Price INR 410

Key highlights – volume guidance raised; price hikes deferred

- Management reaffirmed that based on the new formula of 6% of land value, LLF, as per its calculation, stands at INR4.5b for FY21. The Ministry of Railways (MoR) has, however, demanded INR12.8b (incl. GST). The company has represented the matter before the ministry and expects a resolution by FY21-end.
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- CCRI expects DFC to be commissioned by FY21-end.

CCRI attempts to limit LLF to INR4.5b v/s INR12.8b demand raised by Railways

- The Ministry of Railways (MoR), Government of India, vide its order no.2015/LML-11/13/4 dated 19.03.2020, communicated that the land license fee (LLF) applicable on the Railways land leased to CCRI shall w. e. f. 01.04.2020 be charged as per the extant policy of the Railways – i.e., @6% of the value of land, which would be further increased 7% annually. Based on this order, CCRI received a demand of INR12.8b as LLF from the MoR for FY21. LLF in FY20 was paid on the basis of volumes handled at the rate of INR1175/TEU of loaded containers, with total cost of INR1.4b in FY20.
- As per CCRI's assessment, the above demand is not as per the Railways' extant policy and the company has represented the same to MoR. By applying the extant policy of Railways, CCRI has estimated an amount of INR4.5b for FY21 as LLF for all of the terminals on Railways land. It accordingly provisioned INR2.33b for LLF in 1HFY21.
- As the Railways land was leased to CONCOR prior to 2006, CONCOR has also represented to the MoR to continue to charge LLF on the basis of the number of

TEUs handled until the time that it remains a PSU. Response from the Railways is awaited on this representation.

- The company expects a resolution on the LLF matter by FY21-end.

2QFY21 insights

- The company is focused on maintaining margins. The rail freight margin increased 100bps YoY to 29.9% in 2QFY21 (28.66% in 1QFY21).
- Empty running losses were at INR512m for 2QFY21 (EXIM – INR219m and domestic – INR293m). There was higher empty container movement due to lower imports.
- Originating volume was at 540,623 TEUs, including 472,428 TEUs for EXIM and 68,195 TEUs for domestic.
- Lead distance declined to 752kms in 2QFY21 (v/s 786kms in 2QFY20) as the company executed few very short-distance movement orders due to on-road problems. Lead distance for EXIM stood at ~680kms (683kms in 1QFY21); domestic was at 1,390kms (1,262kms in 1QFY21).
- The number of double-stacking trains stood at 673 (v/s 674 in 2QFY20).
- The volume mix for JNPT and Mundra stands at 37.3% and 30.6%, respectively.



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Coromandel International
Q3 FY2020
Revenue: ₹1,100.00 Cr.
Profit: ₹100.00 Cr.
EPS: ₹10.00

Coromandel Intl

Buy

Current Price INR 774

Agri scenario

- India posted two consecutive seasons of good rainfall and is expected to see bumper production in the kharif season. The country experienced rainfall above 9% during the year. Reservoir levels are good, which bodes well for upcoming Rabi acreage.
- Rice acreage has increased substantially in Andhra Pradesh and Telangana. Sowing in these states has crossed normal levels and is at 112% of normal area, with Rice and Cotton at 138% and 126%, respectively (of normal area).
- The parliament has recently passed three agricultural reform bills, expected to improve price discovery, better storage infrastructure, and provide farmers the opportunity to sell directly to companies.
- The government announced an increase in MSP (minimum selling price) on Rabi crops to provide 50%+ returns to farmers. Furthermore, the government announced the procurement of 50mmt of rice (30mmt already procured) in the current marketing season, v/s the previous year's 42mmt.

Industry

- Fertilizers: Phosphatic fertilizers saw increased uptake in volumes in 2QFY21, driven by favorable weather and good market conditions. NPK sales improved 20% to 7.3mmt.
- Phosphoric Acid: Prices for 3QFY21 have been finalized at USD689/mt; price in 2QFY21 stood at USD625/mt. The complex fertilizer industry player would take a price increase next month.
- The early onset of the monsoons and the resultant advancement in demand led to lower channel inventory.
- Crop Protection: Demand for crop protection chemicals was good throughout 2QFY21.

Company-specific

- CRIN saw a marginal decrease in market share to 16% in 2QFY21 (v/s 17% in 2QFY20). Consumption market share, represented by peer sales, stood at 18% in

2QFY21 (v/s 20% in 2QFY20). The share of unique-grade stands at 45% in 2QFY21 (v/s 35% YoY).

- In 2QFY21, the phosphoric fertilizer plant operated at 90% utilization (v/s 65% in 1QFY21 and 86% in 2QFY20).
- The business benefitted from the backward integration of its second phosphoric acid plant at Vizag. Furthermore, the de-bottlenecking of operations at Vizag and Kakinada is progressing as per plan.
- The Crop Protection business posted strong growth in the domestic market in both the B2B and B2C segments, led by a good monsoon and the scaling up of its new product portfolio.

Subsidy

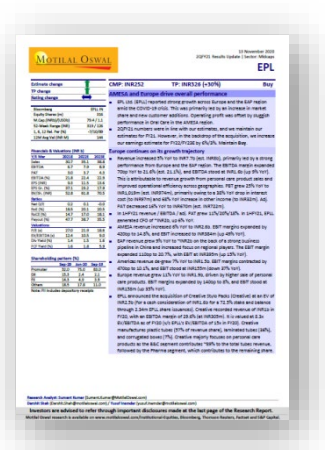
- The government initiated subsidy disbursements in July; subsidy disbursals were later shifted to urea companies, leading to the formation of backlog.
- Subsidy outstanding stood at INR28.6b as of Sept'20, INR10b higher v/s this period last year. Subsidy outstanding includes INR21b (claimed and pending at the Dept. of Fertilizer).
- In 2QFY21, subsidy received from the government was lower at INR7.9b (v/s INR10.2b in 2QFY20). Government allocation of the subsidy was higher for urea and within NPK; allocation was higher for imported players.

Others

- The Specialized Nutrition and Organic business is gaining traction and poses high growth potential.
- Revenue: Nutrients and Other Allied business revenue contribution stood at 86% (v/s 90% in 2QFY20); the balance was contributed by Crop Protection.
- Capital allocation: Initially, the company planned to spend INR4.5–5b on capex in FY21; however, due to COVID-19, part of this was deferred to FY22. Hereafter, CRIN plans to maintain an annual capex run-rate of INR4–5b for the next 2–3 years.
- New molecules: CRIN has identified 30–35 molecules that have gone or will go off patent soon, and plans to focus on these molecules.



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EPL Ltd

Buy

Current Price INR 264

Operational Highlights – 2QFY21/1HFY21

- AMESA revenue increased 6% YoY to INR2.6b. EBIT margins expanded by 420bp to 14.8%, and EBIT increased to INR384m (up 49% YoY). This was ascribed to strong growth across verticals and newly launched hygiene products (hand sanitizers). However, this was partly offset by sluggish demand in B&C (Beauty & Cosmetic) in the backdrop of the pandemic.
- EAP revenue grew 9% YoY to ~INR2b on the back of a strong business pipeline in China and increased focus on regional players. The EBIT margin expanded 110bp to 20.7%, with EBIT at INR395m (up 15% YoY), primarily on increasing revenue share from the B&C and Pharma segments.
- America's revenue de-grew 7% YoY to INR1.5b on account of lower sale of travel tubes (Oral Care segment) and sampler tubes in the US (severely affected by lockdown). EBIT margins contracted by 470bp to 10.1%, and EBIT stood at INR155m (down 37% YoY).
- Europe revenue grew 11% YoY to INR1.9b, driven by higher sale of personal care products. EBIT margins expanded by 140bp to 8%, and EBIT stood at INR158m

(up 35% YoY). This was driven by gains in market share in the Personal Care segment and higher conversion from plastic to laminated tube, thereby leading to margin improvement.

Acquisition of Creative Stylo Packs (Creative)

- It was founded in 2012 by two young entrepreneurs – Bhavik Shah and Darshan Shah.
- FY20 revenue stood at INR1,031m (57% from plastic tubes, 36% from laminated tubes, and 7% from corrugated boxes) and adj. EBITDA was INR305m (29.6% margin).
- Creative has a manufacturing facility in Himachal Pradesh with annual production of ~200m tubes. Some of its marquee clients include L’Oreal, Himalaya, Marico, Joy, and Zydus Wellness.

Transaction overview

- It acquired the company at EV of INR2,539 m. EPL plans to purchase 72.5% stake through cash and the balance 27.5% stake through the issuance of EPL shares to the founders of Creative Stylo Packs.
- Creative’s founders would become part of EPL’s senior management team after the transaction and play a role in expanding EPL’s global business.
- Closure of the transaction is contingent upon the satisfaction of customary conditions. The transaction is expected to close in 4QFY21.

Acquisition rationale

- It achieved higher revenue growth (in the last three years, Creative Stylo Packs’ revenue grew by 8.3% v/s EPL’s revenue growth of 6.2%) and was EBITDA margin-accretive with synergies of INR35m. Acquisition is expected to boost personal care revenue and add plastic tube capacity in northern India.
- Creative Stylo Packs has the strategic advantage of having plants in northern India, closer to the customer.
- Existing capacity provides headroom to grow revenue.

Personal Care

- Personal Care contribution stood at 47% in 1HFY21. Revenue from Personal Care grew at 11% to INR6,377m in 1HFY21.

AMESA

- Personal Care contribution declined to 46.8% in 1HFY21 (v/s 52.4% in 1HFY20), weighed by sluggish demand in B&C on account of the COVID-19 outbreak. However, B&C was seen recovering in the latter part of 2QFY21.
- Timely innovation and launches of hygiene products have boosted 1HFY21 performance.

EAP

- Personal Care contribution increased to 41.1% in 1HFY21 (v/s 34.1% in 1HFY20). Growth is largely driven by the B&C and Pharma segments.
- It has a strong business pipeline; there is an increased focus on fast-growing regional players.

Americas

- Personal Care contribution increased to 27% in 1HFY21 (v/s 26.3% in 1HFY20).
- New customer wins across categories, bottle to tube product conversions, and the cross-selling of personal care products to existing oral care customers was observed.
- ~25% of the business comes from travel tubes (most of the travel tubes are oral care tubes) or sampler tubes (severely affected by lockdown). However, this is a

temporary phenomenon, and previous growth trends are believed to have returned from 3QFY21.

Europe

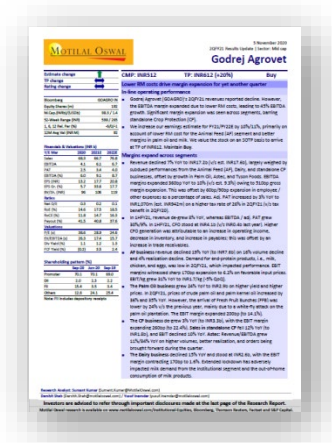
- Personal Care contribution increased to 66.8% in 1HFY21 (v/s 65.4% in 1HFY20).
- Strong new customer wins were reported across Personal Care categories; it has a robust business development pipeline.
- Growth in the Europe region would be driven by the company targeting the steady Oral Care business and conversion from rigid to plastic tubes.

Other highlights

- With a growing health consciousness among people, the company has begun manufacturing hand washes and hand creams, along with hand sanitizers. It plans to move ahead with the entire portfolio in the Health and Hygiene space.
- Hand sanitizer sales were lower in 2QFY21 v/s 1QFY21, due to inventory filing at customers' end.
- The company is committed to increasing the share of B&C tube sales.
- The EBITDA margin increased YoY in 2Q, driven by a better product mix and productivity improvement.
- BOD has declared interim dividend of INR2.05 per share.



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Godrej Agrovet

Buy

Current Price INR 513

Animal Feed

- Demand for end-protein products – milk, chicken, and eggs – was low in 2QFY21, which led to volume and revenue decline of 16% YoY and 19% YoY, respectively. However, operating profit was supported by favorable input prices.
- Apr–Jun'20 layer population was down by 25% and broiler population by 50–55%. Retail demand saw resurgence from May'20. Furthermore, the opening up of hotels has led to an increase in demand for chicken and broiler. The company expects the AF business to return to pre-COVID levels as early as Mar–Apr'21.
- Margins: Corn and soya crops were affected due to extended rainfall; however, bumper production is expected to keep prices at moderate levels. As a result, margins are expected to remain at similar levels in 3QFY21 and expand in 4QFY21.

Crop Protection

- During the quarter, excessive rainfall in August and September'20 reduced application opportunities for agrochemical products. This led to decline in segmental revenues and profitability.
- Increased emphasis on efficient WC management and cash collections has proved beneficial as the company managed cash collections of INR4,330m in 1HFY21 v/s INR2,990m in 1HFY20.
- In 1QFY21, production was partly halted (for 15 days) due to lockdown, and in 2QFY21, excessive rains affected sales volumes. However, 2HFY21 is expected to be far better than 1HFY21.

Vegetable Oil

- The Vegetable Oil segment reported a strong performance, with segmental revenues growing by 24% YoY in 2QFY21.
- Vegetable oil performance was driven by higher yield and higher end-product prices. Prices of crude palm oil and palm kernel oil increased by 36% YoY and 35% YoY, respectively, in 2QFY21.

- Oil extraction ratio (OER) increased to 17.3% in 2QFY21 v/s 16.5% in 2QFY20. Weaker FFB arrival (down by 24%) affected quarterly performance.
- Oil production fell 15–16% YoY (due to whitefly disease); however, operating performance in Palm Oil improved owing to an increase in palm oil prices and better yield.

Dairy

- Extended lockdown adversely impacted milk demand from the Institutional segment (HORECA) and the out-of-home consumption of milk products; however, on a month-on-month basis, demand is improving. Operating performance improved in 2QFY21 on the back of lower procurement prices and fixed price control.
- The milk surplus situation is expected to continue for a few more months and would be resolved by Jan–Feb'20.
- New launch: The company launched the dairy sweet 'Mysore Pak', which has received an encouraging initial response. Also, it re-launched the entire product portfolio under the new 'Godrej Jersey' logo.

Astec Lifesciences

- The domestic and export markets contributed to revenue growth. Operating profitability was driven by higher volumes, better realization, and orders being brought forward in 2QFY21.
- Triazole Fungicide: The global Triazole Fungicide market stands at USD3.2b and is growing in the lower single digit. However, its substitute, Succinate Dehydrogenase Inhibitor (SDHI), is growing at a faster rate. The growing use of Triazole, along with SDHI, provides huge potential for growth. Currently, the company sells USD80m and is focusing on improving market share.
- Astec plans to spend INR850m to set up a new state-of-the-art plant to manufacture new-generation herbicides and intermediates. Revenue generation potential from the new herbicide plant could be in the range of INR1,750–2,000m. The plant is expected to commence operations by 4QFY21.
- Astec is capable of growing at 20% p.a. as the Contract Manufacturing business has shown strong demand.
- Domestic business revenue contribution on an annual basis is 60–65%. Traditionally, demand is low in 1Q and picks up from early 2Q. In FY21, capacities are sold out for the export business in Astec.

Godrej Tyson Foods Limited

- In the Yummiez segment, products continue to receive excellent customer response across product categories. Market share in the Non-Vegetarian Frozen Food and Vegetarian Frozen Food segments stood at 28.5% and 7.9%, respectively, in 1HFY21 (v/s 23% and 5.6% in FY20).
- Retail: The Retail business in Real Good Chicken grew by 28% YoY, whereas Yummiez revenue grew by 71%. Live Bird contribution stood at 56%, Yummiez was 23%, and Real Good chicken accounted for the balance (of total retail revenue in 2QFY21).



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IndiaMart Intermesh

Buy

Current Price INR 4,997

- The increase in collections was primarily led by: 1) an increase in online adoption and 2) an uptick in economic activity. The relevancy of the platform remains very strong as repeat buyers are now at 60% v/s 55% in the previous quarter.
- 1HFY21 margins almost doubled, led by: 1) a reduction in employee expenses on some amount of cutback in salaries and the non-payment of variable pay, 2) pricing renegotiations in outsourcing sales contracts, and 3) the optimization of other expenses, led by the closure of offices.
- Going ahead, we can expect half of the benefit to return as the company has now rolled back salaries to pre-COVID levels (from August 2020). Also, it would start paying variable pay when collections breach the pre-COVID mark.
- In 2Q, IndiaMart added 8K suppliers, of which 80% of suppliers witnessed churn in 1QFY21. Net new suppliers were around 2000. The company expects to breach the 147k mark (pre-COVID levels) before the end of FY21. The target is to add 5k paid suppliers every quarter. Most of the additions from the next quarter would be net new suppliers.
- For the first 10–15 years, IndiaMart solely focused on exports. However, it took the strategic decision to focus only on domestic suppliers in 2009. With India turning attractive for manufacturing, IndiaMart decided to once again venture into exports (from Sept). Currently, the company has only a few 100 suppliers outside of India. It would be some time before the initiative would scale up and the company achieves significant revenue contribution from the same.
- IndiaMart expects JD Mart (Just dial's new B2B initiative) to help expand the market. If the platform is able to generate positive ROI for its customers, it could co-exist with IndiaMart as the market is very large. However, there is also a strong network effect in the B2B Classifieds businesses; therefore, IndiaMart does not expect any market share loss from the launch of JD Mart. The company does not expect to spend on advertising to compete with the JD Mart platform.

Indian Hotels

Buy

Current Price INR 114

- **Industry:** The global Tourism industry was one of the worst affected due to the lockdown, with an estimated loss of USD5t and ~200m job loss.
- In the Indian Hospitality sector, branded hotels lost ~INR312b in revenue, whereas unbranded hotels lost revenue of ~INR1,110b.
- **Hotel occupancy:** Hotel occupancies fell significantly to 7% in Apr'20 from 75% in Apr'19, with a 55–60% drop in average rates. Loss in hotel revenues over Jan–Dec'20 is estimated to be ~INR1,430b.
- **RESET'20 strategy:** In 1QFY21 IHIN initiated the RESET'20 strategy, under which it introduced several new revenue initiatives – Qmin Home delivery, Qmin Shop, Qmin Food Truck, Qmin Hospitality@Home, and 7 Rivers. Under Qmin Home Delivery / Qmin Hospitality@Home / 7 Rivers, the company achieved INR100m/INR140m/INR6m in revenue in 1HFY20. Other Qmin initiatives are also gaining traction.
- **The average ticket size** of Qmin's (F&B) orders for two people is INR3,500–4,000, and the food is sold at the same price as the restaurant food; hence,

Indian Hotels

Q3 FY2020

Key Metrics:

- Revenue: ₹1,200.00m
- EBITDA: ₹150.00m
- EBIT: ₹100.00m
- Net Profit: ₹50.00m

P&L Statement (₹m):

Particulars	Q3 FY2020	Q3 FY2019	Q3 FY2018
Revenue	1,200.00	1,100.00	1,000.00
Cost of Sales	(1,050.00)	(950.00)	(850.00)
EBITDA	150.00	150.00	150.00
EBIT	100.00	100.00	100.00
Finance Income	10.00	10.00	10.00
Finance Expense	(20.00)	(20.00)	(20.00)
Other Income	10.00	10.00	10.00
Other Expense	(10.00)	(10.00)	(10.00)
Net Profit	50.00	50.00	50.00

these businesses have very high margins. There is no additional cost to take Qmin orders (other than RM cost) as the same kitchen is used and the same chefs prepare the meal. Hence, incremental cost associated with these new initiatives is very low.

- **Unlocking the potential of the domestic business:** Under this new initiative (another new revenue source), IHIN managed to achieve revenue of INR270m in 1HFY21 (launched in June'20).
- **New hotel launches:** IHIN signed eight new hotels, thereby adding 740 rooms to its room inventory.
- **Cost rationalization:** In 2QFY21, it managed to reduce its variable/fixed cost by INR3,180m/INR134m YoY. A similar initiative was taken in 1QFY21 as well, where the company managed to reduce variable/fixed cost by INR3,570/INR980m YoY. Of the 51% YoY drop in total expenditure (in 2QFY21), a significant drop was seen in RM/Admin/Fixed lease expenses by 82%/61%/51% YoY.
- **Lease rental waivers:** In 1HFY21, IHIN managed to achieve significant lease rental waivers to the tune of INR310m/INR370m/INR240m under IHIN / subsidiaries / group companies. Of this, an INR420m benefit was received in 1HFY21. Also, IHIN managed to reduce corporate overheads by 28% YoY in 1HFY21 (by INR430m) on the back of prudent corporate spending, redeployments, and restructuring.
- **RevPAR:** RevPAR across portfolios fell to its lowest level of INR339 in Apr'20 from INR2,320 (on total inventory) in Mar'20. However, with an increase in demand and the effect of the pandemic gradually subsiding, RevPAR is gradually growing and increased by INR1,001 to INR1,340 (as of Sept'20) from its lowest level in Apr'20.
- **Industry RevPAR:** Compared with the industry, IHIN's RevPAR increased by 2.1x to INR1,061 over Jun–Sept'20; the corresponding increase in industry RevPAR was 1.7x to INR796 for the same period.
- **Ginger occupancy:** Ginger Hotels was the first to see a strong surge in occupancy rates from its lowest level (in Apr'20). Occupancy rates at Ginger Hotels increased to 51% in Sept'20 from 13% in Apr'20.
- **Other highlights:** Domestic air traffic has improved significantly in the last three months on the back of a surge in domestic tourism, and is expected to continue its growth trajectory. Air traffic increased by 40% in Sept'20 v/s Aug'20. Going forward, leisure travel is expected to pick up faster than corporate travel, part of which is due to an increase in 'revenge travel'.
- Travel has picked up for the MSME business, which has thus aided performance in Ginger.
- The company would be cash positive from Nov'20.
- The Goa hotel of IHIN is operating at 80% occupancy for the last 4–6 weeks, but hotels at business locations are operating at 40% (some hotels would be operating at 60%).
- **International hotels:** Hotels in Dubai are doing very well because of the IPL (Indian Premier League) tournament. US and Cape Town hotels opened up in October, and demand is expected to pick up in the next 2–3 months. Hotels in Sri Lanka and London have resumed, but the London hotel was closed once

again due to the re-imposition of lockdown. Certain packages are announced by the US and UK governments as the resultant impact on the business is low.

⊗ INFO EDGE ⊗

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Info Edge

Neutral

Current Price INR 3,994

- **Recruitment:** While Naukri's billings declined 20% YoY, it has seen improvement with each month post-May'20. Traffic is now back at pre-COVID levels. Gradual recovery has been seen in the job market, led by resilient verticals such as IT and Pharma. The drag is led by verticals such as Hospitality and Travel. The Naukri Job Seek index has seen continued improvement from May'20; however, it was still down 23% at end-Sep'20.
- **99acres:** 99acres' revenue declined 36% YoY. Operating loss at -INR72m, led by lower revenues and higher advertisement spends. New home launches, which constitute around ~23% of revenues, have seen muted activity as a higher preference for ready-to-move houses has been seen among buyers.
- **Jeevansathi:** INFOE would deploy the majority of its marketing dollars toward aggressively advertising for Jeevansathi. The company's new features, such as video/voice calling and 'Milan Samaroh', are seeing good response.
- **Zomato:** Zomato's revenue run-rate is now near pre-COVID levels. This is largely attributable to higher order value. Order volumes are yet to recover to similar levels (impacted by restaurant closures on account of COVID lockdown). Zomato's burn has reduced significantly and is within an attractive unit economics range.
- **Cash:** The company's total cash balance post-QIP and 2QFY21 stands at INR3.3b. Talks on potential M&As are yet to materialize. INFOE would continue to evaluate options in the areas of Recruitment, Matrimony, and Education.

Kaveri Seeds

Buy

Current Price INR 510

Cotton

- Cotton volumes were stable during 1HFY21 as compared to 1HFY20. KSCL gained market share in cotton in Gujarat, Maharashtra and Haryana, and lost share in Telangana and Andhra Pradesh.
- Volume contribution from new products was up from 31% to 35%. The company plans to launch new products, viz. KCH 111, Moneymaker and Viplav.
- Gujarat, Maharashtra and parts of Tamil Nadu saw decline in acreage due to increased attractiveness witnessed in groundnut, soybean and chilly.
- Heavy rainfall in Oct'20 combined with neutral commodity prices is believed to increase pressure on cotton and maize.
- Growth in cotton is expected to be 10%+ in the next Kharif season and is based on the current trend, which implies the target is easily achievable.
- Significant increase in the use of HTBT is seen across markets, which has impacted sale of branded cotton. KSCL managed to sell 5m packets in 2QFY21.

Hybrid rice

- Hybrid rice volumes increased 41% in 1HFY21 due to introduction of the new hybrid 468 KPH471 and KRH7299. Contribution of new hybrids improved sharply from 50% to 67%.

- Telangana government has directed for 50lac/ha of paddy cultivation. Although this is not hybrid rice, KSCL hopes to gain from this initiative, as the company has also started catering to the non-hybrid rice market.
- Overall, hybrid rice market stands at 365,000-370,000MT (growth of 7-8%). KSCL enjoys healthy market share of 7-8% as overall hybrid rice has significantly jumped 41%.

Selection rice

- Selection rice volumes grew 33% in 1HFY21 on the back of consistent performance across geographies. Further, new products registered robust growth due to encouraging growth in Chintu and Sampurna.

Maize

- Maize volumes increased 36.8% while revenue growth stood at 33.5%. Segment's growth was driven by increase in contribution of new products, which went up from 6.6% to 8.3% (in volume terms).
- Overall maize acreage remained stable. Heavy rainfall in Oct'20 and decline in prices should lead to lower acreage in FY21.
- **Market share:** KSCL gained market share in Karnataka, Maharashtra, and northern India and also participated in tenders (as KSCL routinely participates in government tendering), which led to increase in volumes.

Vegetables

- The second quarter is usually lean quarter for vegetables; however, 2HFY21 is expected to be better as the company plans to increase its revenue share from vegetables. This is to compensate for the decline in maize acreages.
- Vegetables seeds market in India is currently valued at INR30b+ and is growing at 20% run rate. Current market share of KSCL is very low; the company gradually expects to improve it.

Other highlights

- **Inventory:** Cotton inventory is high compared to last year. Higher level of cotton inventory is due to higher sales anticipated by KSCL in succeeding quarters.
- Inventory write-off was in the range of INR150-200m in 2QFY21 and is expected to be in a similar range.
- **Tax rate:** The company does not have to pay any tax as the income is recorded as agricultural income. Tax payable is on mutual fund investment made by the company.
- **Exports:** KSCL is exploring export opportunities and has shortlisted nine countries as potential export countries. Currently, majority of export revenue comes from Bangladesh. Over the next 4-5 years, the company aims to achieve sizeable revenue share from exports.
- **Guidance:** In 2HFY21, majority of revenue would come from maize. While maize acreages should decline due to lower prices, KSCL's presence in other seeds is believed to offset the impact.
- **Subsidiaries:** Revenue from subsidiaries has increased considerably with lower margins as KSCL has formed the subsidiary to conduct its trading activity.
- **Other expenses:** No royalty payment was recorded in 2QFY21, leading to fall in other expenses in the quarter.



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The screenshot shows a research report titled 'KNR Construction' by Motilal Oswal. It includes a table of contents, a summary of the report, and a detailed analysis of the company's performance and outlook. The report is dated 18 November 2020.

KNR Constructions

Buy

Current Price INR 293

Business update:

Execution efficiency stood ~80%.

- NHAI has completed 80-90% of land acquisition for orders awarded in 1HFY21.
- The share of HAM projects in ordering has fallen 28% in 1HFY21 on account of delay in achieving financial closure. High interest rate arbitrage has led to developers being less interested in such projects.
- Recent changes in HAM project financing: a) Interest rate due and payable on reducing balance has been linked to MCLR of top five commercial banks (as against the RBI rate), and b) Funds will be released in 10 tranches as compared to five earlier, thus easing working capital requirement. It is expected to lead to 1-1.5% increase in the current interest rate offered by banks.
- Toll revenue in Sep'20 was the highest in this calendar year. Daily toll income has increased to INR900m per day from INR700m per day.

Order book:

- INR11.6b worth of orders received in Coimbatore (to be completed in eight months).
- Total OB - INR85.6b (EPC and HAM – 55%, Irrigation and others – 45%). Around 65% of the orders are from third-party clients.

KNRC is targeting INR20-25b in orders in 2HFY21.

HAM project update:

- Project completion: Chittor to Mallavaram – 64%, Ramsanpalle to Mangloor – 56%, Trichy to Kallagam – 50%, Magadi to Somwarpeth – 14%.
- Tentative project completion date for HAM projects – Chittor by Feb'21 and Ramsanpalle by Mar'21.
- INR2.4b equity invested in 1HFY21, with another INR500m invested in the ongoing quarter. INR1b/INR500m will be invested in FY22E/FY23E.

Irrigation:

- Total exposure to Telangana government stood at INR7.4b (including WIP).
- Mallanasagar project – 60% complete, with 30% work completed in the second irrigation project.

Monetization:

- KNR Walayar Tollways: Realized payment of INR3.1b (out of INR3.25b). Remaining payment will be made based on certain milestones.

Receivables:

- Majority of payment from Telangana government should be received by 4QFY21.

Margin:

- 17-18% margin is sustainable going forward.

Others:

2QFY21 revenue break-up: Irrigation – INR1.4b (23%), HAM – INR3.2b (53%), with the balance related to EPC projects.

- INR110m of exceptional items: INR60m against higher equity provided and INR50m against future provisions.
- INR350m worth of capex done in 1HFY21, while the company may incur INR1-1.2b for FY21.



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Results Update

The screenshot shows a research report titled 'Lemon Tree Hotels' with a date of 18 November 2020. It includes a table of contents and a detailed financial analysis. The report is categorized under 'Current Price INR 33' and 'Buy'.

Lemon Tree Hotels

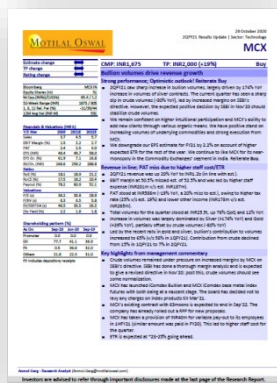
Buy

Current Price INR 33

- **Operational inventory:** Out of an inventory of 5,200 operational rooms, ~4,500 rooms were operational during 2QFY21 (+20% QoQ).
- **Cost rationalization measures:** Some of the cost rationalization measures taken by the company are expected to be permanent in nature, which in turn should lead to EBITDA margin expansion of 500-600bp.
- **Liquidity:** LEMONTRE has received INR1,750m from APG; an additional INR1,250m will be raised in the coming quarters. The company also plans to raise an additional 1,500m, which along with existing cash will be able to meet debt obligations for the next few quarters (assuming similar occupancy rate and ARR is maintained).
- **Room occupancy mix:** In 1QFY21, the company did 1,500 rooms per day, of which 1,215 room occupancies were related to COVID-19 and remaining 285 were traditional occupancies. In 2QFY21, COVID-19 room occupancy reduced to 958 rooms (57% room mix), whereas traditional occupancies increased to 722 (33%). With the effects of COVID-19 gradually subsiding, room occupancy mix is changing significantly, which was seen in Oct'20. LEMONTRE did 1,900 rooms per day in Oct'20, of which, 280 occupancies were related to COVID-19 and retail occupancies increased to 1,600 (v/s 1,500 for same period last year).
- **Demand dynamics:** Demand from retail (particularly in leisure hotels), airline crew and SME customers have picked up; however, the company expects corporate demand to return in 4QFY21.
- **Retail demand is primarily driven by 'Staycation'** and SME movement. The company has seen sharp surge in retail booking in key metros and Tier-1 cities.
- **Aurika Udaipur:** The ongoing Farm Bill agitation in the periphery of the hotel significantly affected Oct'20 performance. However, post Diwali demand is expected to be high. Currently, the hotel is operating at 60% of last year's ARR levels (last year ARR was INR15,000).
- **Corporate travel is expected to catch-up from 4QFY21.** Post 4QFY21, another 2-3 months are required for the situation to return to pre-COVID levels.
- Over the last five years, revenue share from large corporate customer for LEMONTRE has fallen from 50% to ~32%.
- **Staff-per-room ratio (SPR):** Aggregate staff-per-room ratio stood at 1. In 1QFY21, LEMONTRE reduced SPR significantly to 0.5 and it remained roughly in the same range in 2QFY21. Currently, staff count of LEMONTRE stands at 2,700 across all hotels. Post return-to-normalcy, LEMONTRE plans to maintain SPR of 0.75.
- **Food & Beverages:** Contribution stood at ~30% to total revenue. LEMONTRE has no plans to tie-up with food delivery companies for home delivery of food, similar to that of Qmin (an IHCL initiative).
- **Debt repayment in 1HFY21** was under moratorium and got extended by six months. LEMONTRE has repaid debt obligation, which was due in Apr-Sep'20; the remaining liability is INR450m, which is to be paid in the remaining part of FY21. 75% of LEMONTRE's debt is payable after five years.
- **Other income** majorly comprises the lease waiver received in 1Q-2QFY21; this is expected to decline in 2HFY21.



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MCX

Buy

Current Price INR 1,610

Volumes

- Despite volume dip in 1QFY21, 1HFY21 did a good catch-up on account of 30% YoY increase in gold volumes and 170% YoY increase in silver volumes.
- Crude volumes remained under pressure on increased margins by MCX due to SEBI's directive. SEBI has done a thorough margin analysis and is expected to give a revised directive in Nov'20; post this, crude volumes should see some normalization.

Index Products

- MCX has launched iComdex Bullion and MCX iComdex base metal index futures. Both are at a nascent stage currently. The board has decided not to levy any charges on index products till Mar'21.
- MCX will focus on building the market for these products. In the near-to-medium term, index options will have higher potential to contribute to consolidated revenues.

Institutional Participation

- After SEBI allowed participation of institutional investors such as mutual funds and portfolio managers (PMS), two mutual funds have started dealing in commodities. Combined open interest of these MFs stand at INR800m.
- Among brokers, ICICI Securities has started operations and is ramping up in the segment. Brokers are also making changes in their platforms by introducing negative pricing-related changes. Once it is completed, other brokers will also start their operations.
- MCX anticipates good amount of AIFs to start dealing in commodities, however, it will create more open interest than volumes. PMS has still not seen much participation.

Technology Platform

- MCX's existing contract with 63moons is expected to end in Sep'22. The company has already rolled out RFP for new proposals.
- MCX will look out for source code only and will then develop the platform in-house. It is looking for a source code that is already being used by other commodity brokers globally.
- 63moons is also eligible to apply for the RFP.

Operational Expenses

- MCX has taken a provision of INR40m for variable pay-out to its employees in 1HFY21 (similar amount was paid in FY20). This has led to higher staff cost for the quarter.
- MCX has also incurred some additional cost in launch of Bulldex- Bullion index product.

Tax

- 2QFY21 saw an increased ETR on higher provisions. Further, some of the tax impact of Jun'20 has also come into this quarter.
- Going ahead, ETR will be in the range of 23-25%. The company will keep using its MAT credit. Once exhausted, it will shift toward the new tax regime.

Future aspirations

- MCX and IEX signed licensing agreement for launch of electricity derivatives in India. MCX is exploring to launch gas exchange. Further, the company expects Gold spot exchange to be operational from next year.



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MOTILAL OSWAL		Oberoi Realty	
Segment	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,10,00,000	1,10,00,000	1,10,00,000
EBITDA	1,10,00,000	1,10,00,000	1,10,00,000
EBIT	1,10,00,000	1,10,00,000	1,10,00,000
EBT	1,10,00,000	1,10,00,000	1,10,00,000
Net Profit	1,10,00,000	1,10,00,000	1,10,00,000
EPS	1,10,00,000	1,10,00,000	1,10,00,000
Dividend	1,10,00,000	1,10,00,000	1,10,00,000
Payout Ratio	1,10,00,000	1,10,00,000	1,10,00,000
Debt to Equity	1,10,00,000	1,10,00,000	1,10,00,000
Current Ratio	1,10,00,000	1,10,00,000	1,10,00,000
Operating Cycle	1,10,00,000	1,10,00,000	1,10,00,000
Capital Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Asset Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Equity Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Return on Assets	1,10,00,000	1,10,00,000	1,10,00,000
Return on Equity	1,10,00,000	1,10,00,000	1,10,00,000
Return on Capital Employed	1,10,00,000	1,10,00,000	1,10,00,000
Return on Investment	1,10,00,000	1,10,00,000	1,10,00,000
Return on Sales	1,10,00,000	1,10,00,000	1,10,00,000
Return on Assets	1,10,00,000	1,10,00,000	1,10,00,000
Return on Equity	1,10,00,000	1,10,00,000	1,10,00,000
Return on Capital Employed	1,10,00,000	1,10,00,000	1,10,00,000
Return on Investment	1,10,00,000	1,10,00,000	1,10,00,000
Return on Sales	1,10,00,000	1,10,00,000	1,10,00,000



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MOTILAL OSWAL		Phoenix Mills	
Segment	Q3 FY21	Q3 FY20	Q3 FY19
Revenue	1,10,00,000	1,10,00,000	1,10,00,000
EBITDA	1,10,00,000	1,10,00,000	1,10,00,000
EBIT	1,10,00,000	1,10,00,000	1,10,00,000
EBT	1,10,00,000	1,10,00,000	1,10,00,000
Net Profit	1,10,00,000	1,10,00,000	1,10,00,000
EPS	1,10,00,000	1,10,00,000	1,10,00,000
Dividend	1,10,00,000	1,10,00,000	1,10,00,000
Payout Ratio	1,10,00,000	1,10,00,000	1,10,00,000
Debt to Equity	1,10,00,000	1,10,00,000	1,10,00,000
Current Ratio	1,10,00,000	1,10,00,000	1,10,00,000
Operating Cycle	1,10,00,000	1,10,00,000	1,10,00,000
Capital Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Asset Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Equity Turnover	1,10,00,000	1,10,00,000	1,10,00,000
Return on Assets	1,10,00,000	1,10,00,000	1,10,00,000
Return on Equity	1,10,00,000	1,10,00,000	1,10,00,000
Return on Capital Employed	1,10,00,000	1,10,00,000	1,10,00,000
Return on Investment	1,10,00,000	1,10,00,000	1,10,00,000
Return on Sales	1,10,00,000	1,10,00,000	1,10,00,000
Return on Assets	1,10,00,000	1,10,00,000	1,10,00,000
Return on Equity	1,10,00,000	1,10,00,000	1,10,00,000
Return on Capital Employed	1,10,00,000	1,10,00,000	1,10,00,000
Return on Investment	1,10,00,000	1,10,00,000	1,10,00,000
Return on Sales	1,10,00,000	1,10,00,000	1,10,00,000

Oberoi Realty

Buy

Current Price INR 466

- Residential real estate trends:** Branded Grade A developers are seeing strong traction in demand due to (a) timely completion and delivery of projects, and (b) product quality.
- Early signs of demand pickup:** 2QFY21 (barring few days of Sep'20 during Shradh, an inauspicious period) saw strong pickup in demand. Strong traction in site visitations, better conversion ratio (visits/booking) and demand for larger and ready-to-move-in homes are few of the visible trends. With the traction continuing into Oct'20, 3QFY21 has started on a strong footing too, which can fuel robust demand pickup in 2HFY21.
- On launch of Sky City Phase II (Borivali):** Despite 34% of unsold inventory in Phase I of Sky City, OBER has planned to launch Phase II in FY21, which is largely on account of (a) availability of only higher floors in Phase I, (b) trying to meet demand of consumers that prefer under construction projects with 3+ years of waiting period (as against 1+ year of waiting period for Phase I), and (c) apartments in Phase I having a servant room, which might see demand during the current COVID situation.

Residential project timelines:

- Exquisite and Esquire: 100% complete and ready-to-move-in.
- Sky City Phase I in Borivali – est. completion within 12-15 months.
- Enigma and Eternia in Mulund – est. completion within 12-15 months.
- Three Sixty west: Occupancy Certificate to be received within 45-60 days.
- Labor strength is back to pre-COVID levels. This is largely driven by an inability of many grade B developers with weaker financial position to start construction activity due to liquidity constraints. Thus, most of the available labor is channelized into projects by grade A developers, thus, mitigating the supply shortage of labor.

Phoenix Mills

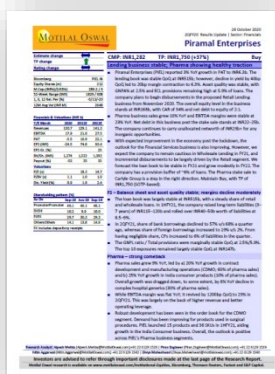
Buy

Current Price INR 657

- Consumption trend:** Consumption trends are seeing a marked improvement MoM. The first week of November saw consumption reaching 85% of last year's levels in many categories. The trend is largely driven by malls being allowed to operating in normal hours, the opening up of F&B outlets, and the festive season.
- Segmental trends:** Trading density was at 75% in Fashion and Apparel (v/s the same period last year), 55–70% in F&B, 84% in Electronics, and ~100% (in some cases) in Watches and Jewelry, implying a sustained performance.
- Vacancy levels** have not been significantly impacted and have increased just 100bps v/s pre-COVID levels.
- On rental negotiations:** a) 90% of all the negotiations are complete; b) waivers are applicable up to the end of FY21; c) on average, the revenue share component has increased 100–200bp.
- Multiplexes negotiations:** PHNX waived off 100% of rentals in 1HFY21 (lockdown period). For 3QFY21, the company would offer 75% waiver on MG and take 22% revenue share (v/s 17% in the old structure), and for 4QFY21, it would offer 50% waiver on MG and take 22% revenue share. From Apr'21,



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rental agreements are expected to move back to old terms. Over 2QFY22–2QFY23, the structure would be MG + 20% revenue share.

- **Debt levels:** Debt was down from INR47b at the end of 1QFY21 to INR45b, with avg. cost of borrowing at 8.88% in 2QFY21 (down 25bp from 9.14% in 1QFY21).
- **Update on Fountainhead:** a) Tower 1 is 95% leased and operational; b) the OC has been received for Tower 2; and c) Tower 3 is expected to turn operational by end-FY21. Tenant interest is moderate in the Fountainhead project.

Piramal Enterprise

Buy

Current Price INR 1,395

Business updates

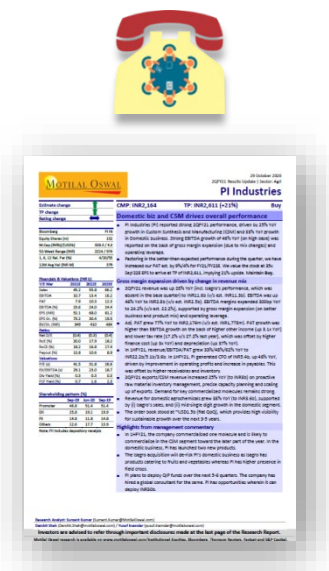
- The focus is on making the book more granular. It is not chasing growth in FY21.
- 2Q was much better than 1Q in the RE segment, with a sharp uptick in sales and construction activity.
- Net debt to equity has come down to less than 1x.
- The Retail Lending platform would start disbursing from November 2020.
- 90% of workers are at the sites, and 100% of projects have resumed construction. September sales are at 100% of pre-COVID levels.
- It plans to increase the share of retail loans to 40–50% over the next few years, both organically and inorganically.
- Outstanding provisions on FS were at INR30.37b; only one exposure was more than 15% of NW.
- The debt level in Pharma was at INR22–25b post the deal.
- Incremental borrowings are happening at 8.5–9%.
- It raised INR115–120b LT (3–7 years) in 1H; INR35–40b was in rollovers.
- Fintechs, SFBs, etc. are going to prove competitive in the Retail business; COF and low leverage are going to be a major advantage.
- Customer assets on the standalone BS are at INR15–16b.
- It is yet to work out the final nos of restructuring/extension of DCCO.
- It would exit Shriram Group at the appropriate time.
- With competition reducing, opportunities are seen in the wholesale book.
- Stage 2 loans are at INR12–13b.
- Renewable exposure outstanding was at INR28b v/s INR39b a quarter ago; Acme and Renew exposures (INR15b) are down due to refinancing by Brookfield. Except for MICRA, all of the exposure in Renewable would be refinanced.

P I Industries

Buy

Current Price INR 2,432

- **Domestic performance:** Domestic business increased significantly by 33% YoY, driven by portfolio rationalization and revenue from Isagro acquisition. Flagship products – ‘Nominee’ and ‘Osheen’ are two products, which did well during the quarter. Gross margin increased by 170bp owing to the change in business mix of Exports, Domestic and Isagro’s share.
- **New launches:** PI plans to launch 2-3 new products over the next three years, which are proprietary products.
- **Export performance:** Exports during the quarter increased ~25% YoY, primarily due to proactive raw material inventory management and precise capacity



planning, along with scaling up of exports. Demand for key commercialized molecules remains strong.

- **CSM business:** Order book of the CSM business stands at USD1.5b, which provides high visibility of sustainable growth over the next 3-5 years.
- Management has highlighted that focus will be on maintaining steady order book flow (with visibility of 3-5 years) and on improving the supply chain.
- **Isagro's contribution** to overall company's top line growth in 1HFY21 was ~11%.
- The Isagro acquisition will de-risk PI's domestic business as Isagro has products catering to fruits and vegetables whereas PI has higher presence in field crops.
- Last year, PI launched 'Awkira', a wheat herbicide. It is mainly targeted at Punjab and Haryana where weed in wheat crop fields has developed resistance against crop protection chemicals (currently used in the states).
- **COVID-19 impact:** Impact of COVID-19 on operations and movement of goods was limited. All manufacturing facilities resumed operations and are operating at pre- COVID capacity utilization levels.
- **Future plans:** The company is pursuing inorganic growth opportunities to diversify into adjacent products, widen technology portfolio and de-risk operations.
- Further, the company is evaluating few pharma assets and is working with a global consulting firm to crystalize and implement a strategic roadmap for diversification.
- **New plants:** One new MPP is expected to be commissioned in FY22.
- **New products:** 'Londax Power' was inherited from partner, Kumiai (originally a DuPont product, which was acquired by Kumiai). 'Shield' is an existing product, where PI has made changes to the formulation and improved the product's efficiency. 'Londax Power' is an insecticide, which is a 9(3) product (PI has sole distribution rights), and 'Shield' is a fungicide and an in-house R&D innovation.
- **Capex:** PI's capex stood at INR1, 160m in 1HFY21. Some expansion projects were delayed due to the lockdown; however, currently the approved capex stands at INR5-6b, part of which will get spilled over to FY22.
- PI plans to deploy QIP funds over the next 5-6 quarters and has hired a global consultant for the same. The company has opportunities wherein it can deploy INR30b.

Other highlights

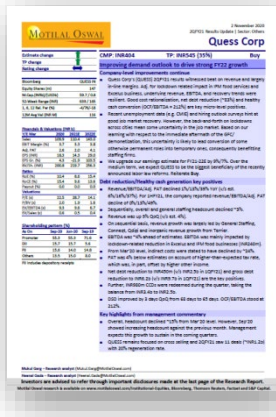
- **Tax rate:** Tax rate for the quarter stood at 17.2%, which was lower due to better utilization of SEZ and deferred tax adjustment related to SEZ assets, which contributed 2.2% of the overall tax decline. Tax rate of 21-22% is expected to continue in 2HFY21.

Quess Corp

Current Price INR 465

Buy

- Overall, headcount declined ~15% from Mar'20 level. However, Sep'20 showed increasing headcount against the previous month. Management expects this growth to sustain in the coming quarters.
- QUESS remains focused on cross selling and 2QFY21 saw 11 deals (~INR1.2b) with 20% regeneration rate.
- Going into 3QFY21, General Staffing is seeing good traction and is expected to grow; however, not at the same level as previous festive seasons. Domestic IT



Quess Corp
12 November 2020
Quess Corp
Current Price: INR 123.00
Target Price: INR 140.00
Rating: Buy

Key Highlights:

- Quess Corp Q3FY21 results witnessed an increase in revenue and EBITDA margin, as the management managed to reduce indirect costs and improve operating leverage. The company reported a 13% increase in revenue and a 13% increase in EBITDA margin.
- Revenue management was a key driver of growth, with the company reporting a 13% increase in revenue.
- EBITDA margin improved to 13% from 11% in Q3FY20, driven by cost reduction measures.
- Net debt reduction to INR450m (v/s INR2.5b in 1QFY21) and gross debt reduction to INR6.2b (v/s INR9.7b in 1QFY21) are the key positives.
- Further, INR980m CCDs were redeemed during the quarter, taking the balance from INR3.4b to INR2.5b.
- DSO improved by 3 days QoQ from 68 days to 65 days. OCF/EBITDA stood at 212%.

staffing is already above pre-COVID levels and International IT staffing is at the same levels.

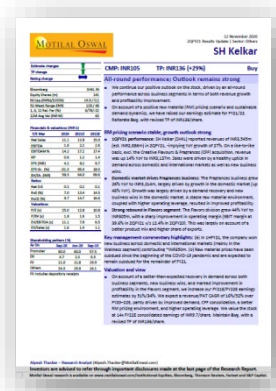
- Management remains confident of Monster's operations (traffic up 60% QoQ) with renewals showing significant improvement and close to an all-time high. 3QFY21 would likely report negative EBITDA on account of further investments into the business.
- The company is targeting to save ~INR700m per month from its indirect costs permanently on the back of operational efficiencies.
- With net debt now standing at INR450m, management expects it to be zero in the coming quarter due to improved cash conversion owing to better collections/working capital management along with receipt of tax refunds.
- QUESS is targeting 20% RoE by FY23. Cash flow growth of 20% is on track.

Debt reduction/Healthy cash generation key positives

- Revenue/EBITDA/Adj. PAT declined 1%/13%/39% YoY (v/s est. 6%/16%/37%). For 1HFY21, the company reported revenue/EBITDA/Adj. PAT decline of 0%/13%/49%.
- Sequentially, overall and general staffing headcount declined ~3%.
- Revenue was up 9% QoQ (v/s est. 4%).
- On sequential basis, revenue growth was largely led by General Staffing, Conneqt, Qdigi and inorganic revenue growth from Terrier.
- EBITDA was ~4% ahead of estimates. EBITDA was mainly impacted by lockdown-related reduction in Excelus and IFM food businesses (INR240m).
- From Mar'20 level, indirect costs were stated to have declined by ~24%.
- PAT was 4% below estimates on account of higher-than-expected tax rate, which was, in part, offset by higher other income.
- Net debt reduction to INR450m (v/s INR2.5b in 1QFY21) and gross debt reduction to INR6.2b (v/s INR9.7b in 1QFY21) are the key positives.
- Further, INR980m CCDs were redeemed during the quarter, taking the balance from INR3.4b to INR2.5b.
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SH Kelkar
12 November 2020
SH Kelkar
Current Price: INR 123.00
Target Price: INR 140.00
Rating: Buy

Key Highlights:

- SH Kelkar Q3FY21 results witnessed an increase in revenue and EBITDA margin, as the management managed to reduce indirect costs and improve operating leverage. The company reported a 13% increase in revenue and a 13% increase in EBITDA margin.
- Revenue management was a key driver of growth, with the company reporting a 13% increase in revenue.
- EBITDA margin improved to 13% from 11% in Q3FY20, driven by cost reduction measures.
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- Further, INR980m CCDs were redeemed during the quarter, taking the balance from INR3.4b to INR2.5b.
- DSO improved by 3 days QoQ from 68 days to 65 days. OCF/EBITDA stood at 212%.

SH Kelkar

Buy

Current Price INR 123

- **2QFY21 performance:** Improved traction was seen in order inquiries and leads from new and existing large and mid-sized FMCG customers during the quarter, along with improved recovery in the demand environment.
- **Capacity utilization:** Capacity utilization was a) 50% for the Fragrances and Flavors segments, b) 20% for the China plant, and c) 80% for the Mahad and Vapi plants.
- **Capex:** The major capex cycle is over, and the management does not envisage any significant capital outflow over the next couple of years. At the current capacity base, the company is confident of achieving 2–2.5x revenue hereafter.
- **On synergy with CFF:** The company expects EUR1m of synergy benefits to flow in due to the CFF acquisition: EUR0.5m synergy through the supply chain, RM buying, and EUR0.5m synergy via product development cost.
- **Growth and margin outlook:** The company has guided for 10–12% revenue growth, which would be largely driven by growth from existing clients and contribution from new business wins (in 1HFY21) that is recurring in nature. It has reiterated its 43–44% gross margin guidance, achievable on a sustainable basis.



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- It aspires to become a billion-dollar company by the end of the decade through organic and inorganic growth.

SRF

Buy

Current Price INR 5,087

Specialty Chemicals

- **The Specialty Chemicals** business reported a robust performance on the back of healthy demand and higher capacity utilization at dedicated and multipurpose plants. This led to better operating leverage and expansion in overall margins.
- **Products in the Fungicides and Herbicides segment** in Agrochemicals gained significant traction during the quarter. Furthermore, cost reduction and optimum use of resources contributed to business performance.
- **New launches:** It launched two new products in 2QFY21, one in the Pharma and one in the Agrochem segment. Growth in the product portfolio is expected to increase global visibility.
- **Capex:** In 2QFY21, the BOD approved the setting up of a dedicated facility to produce 200MT per year of the P16 specialty product at Dahej, at an approximate cost of INR175m.
- **Guidance:** On the back of robust demand in 1HFY21, SRF aims to achieve 25%+ topline growth in Specialty Chemicals.
- **Export:** Currently, domestic contributes 7–8% to Specialty Chemicals' revenue. Certain foreign players expect to install facilities in India, and SRF would be their preferred supplier.
- Opportunity in Agrochem is significant, viz. in bromination, iodination, fluorination, etc.

Fluorochemicals

- **Sales in the Fluorochemicals** business remained muted due to weak demand for refrigerants from the Automobile and Air Conditioning segments and low prices of refrigerants globally. Sequentially, the business has shown improvement, and demand is expected to return, led by OEMs (improvement expected in PV sales).
- **Anti-dumping duty:** Director General Trade Remedies (DGTR) has initiated an anti-dumping duty investigation on R-32 and the refrigerant gas plant. Also, a ban has been imposed on the import of free-charge ACs. Post the imposition of ADD, the domestic utilization of refrigerant facilities is expected to improve.
- **R-gas utilization level:** Current utilization is yet to reach pre-COVID levels. The R-gas business is seasonal in nature; 1Q has been the best quarter – which was impacted due to COVID-19. As of Sept'20, the R32 capacity was operating at full utilization levels. SRF aims to increase R-134a utilization levels with the increase in domestic demand. R-125 faces challenges due to lower prices; however, DGTR plans to impose ADD on imports from China as the US has already imposed ADD on the import of products from China.

Packaging Films

- The Packaging Films business performed well on the back of a) healthy volumes (from the BOPET and BOPP segments), b) margin expansion, and c) increased utilization – post the commissioning of BOPET film capacities in Thailand and Hungary.
- The EBIT margin declined on a QoQ basis due to the addition of new capacities, but remained healthy at 29.6%.
- **Thailand unit:** The newly commissioned BOPET films in Thailand delivered a strong performance in 2Q and operated at 90% of installed capacity. The new resin plant in Thailand is also expected to be commissioned in 3QFY21.

- **New products:** It launched four new products in 2QFY21. BOPET value-added product sales grew by 21% (v/s the same period last year).
- **Capex:** SRF approved capex of INR4,240m to set up a second BOPP line in Indore over a period of 20 months.

Technical Textiles

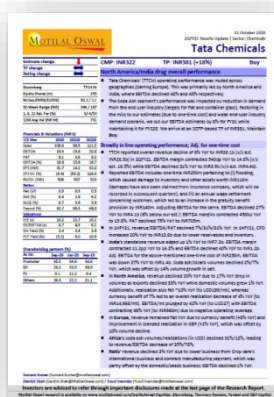
- Operating profit for the Technical Textiles biz increased 140% YoY to INR500m in 2QFY21. The business delivered a healthy performance owing to faster recovery in the domestic Tire industry. Sales volumes in the Nylon Tire Cord Fabrics segment improved ~25% YoY.
- The performance of polyester yarn was impacted due to domestic slowdown and increased competition from Chinese players.
- No major ramp-up in capacity is expected in the Technical Textiles business. By the end of the current quarter, technical textile plants were operating at optimum utilization levels.

Other highlights

- **QIP:** SRF raised INR7,500m through QIP, which would be used for organic growth.
- **Capex:** SRF plans for INR15–18b capex annually over the next 2–3 years on the back of capital raised and cash generation from the business. 60–70% capex would be utilized on the Specialty Chemicals business and 20–30% would be spent on Packaging Films. The balance would be utilized as maintenance capex in Technical Textiles and other businesses.
- **Net debt:** Net debt stands at ~INR35.5b as of Sept'20 (v/s INR37b as of FY20), and is expected to reduce further with higher cash generation.
- **Two projects** – one related to future water security and the other the setting up of thermal oxidation facilities at the chemical complex at Dahej – have been approved by the BOD. These projects are expected to be implemented over the next three years and would minimize the environmental impact of the Chemicals business, ensuring future sustainability at the Dahej site.
- **Dahej land:** SRF has enough land (at Dahej) to meet capex requirement for the next 3–5 years. However, many environmental clearances are needed to set up new plants. As a result, SRF seeks new opportunities to acquire land.



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Tata Chemicals

Buy

Current Price INR 356

India standalone operations

- Soda Ash business performance in 2QFY21 was better compared to 1QFY21. Demand in the segment is stable, though capacity to supply steadily was affected due to continuous rain and floods, leading to INR110m damages to inventory and assets. Other damages have also been claimed from insurance company, which will be recorded in subsequent quarters.
- Indian Soda Ash prices are expected to increase post announcement of ADD (anti-dumping duty) on Soda Ash, and similar trend is visible since recent price movements.
- Prudent spending and non-availability of labor led to delay of de-bottlenecking operations at locations in India and the US. With the above hindrance subsiding, TTCH plans to initiate the de-bottlenecking of Mithapur plant.

North America operations

- Domestic and export volumes improved sequentially in the North America region, and similar trajectory is expected to continue. With ramp-up of volumes, pricing is also expected to improve, leading to positive outlook after 4-5 months.

- US exports is expected to improve further – it is currently 60,000-70,000MT higher than 1QFY21. LATAM and South-East Asia are key markets for the US; both markets were affected significantly in 1QFY21 due to the pandemic. However, demand is picking up in these regions, but it is slightly slower than that in NA market.

UK operations

- UK performance was stable during the quarter with marginal exports. Operations are smooth with minimal disruptions.
- UK Bicarb operations are improving. The company plans to increase revenue share from Bicarb as compared to Soda Ash biz (as Bicarb business is margin accretive).

Africa operations

- Volumes and realizations were marginally lower. Lower realizations were due to softness in the South-East Asian market. As at end-2QFY21, realizations are gradually picking up and similar trend is expected to continue.

Rallis

- Domestic seed and crop care businesses performed well during the quarter. New product portfolio development plan and capex plans announced by the company are well on track.

Silica business

- Silica business is gaining traction, with few OEMs visiting manufacturing plant. The company plans to commence with trial orders soon.
- With increase in operations at Silica plant, TTCH plans to increase capacity from the current level of 10,000MT. The company has acquired land in Tamil Nadu and plans to increase capacity to 50,000MT.
- TTCH units have received approval from two of its clients and are awaiting orders.

Nutritional Solutions

- Performance was strong on the back of higher consumer demand. In the UK, British salt volumes were stable.
- TTCH plans to achieve 75% utilization level in this segment in FY21 and achieve cumulative revenue of INR10b between Silica and Nutraceuticals.

Energy Solutions

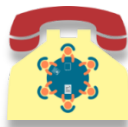
- Energy business is still in a nascent stage. Plans of the company have been pushed forward due to COVID-19.

Other highlights

- Business is scaling up across geographies leading to increase in utilization levels. Operations are returning to normalcy across locations.
- Capex: Focus will be on ramping-up capacities of salt, Bicarb, nutrition and agriscience segment as demand visibility is strong in these segments. Further, focus will be on improving product mix and prudent capital allocation.
- Cash: Standalone cash was down to INR7.7b in 2QFY21 (v/s. INR19.3b in 2QFY20). This was mainly due to repayment of loan, leading to reduction in interest cost by INR 110m.
- Improvement in WC days: Standalone WC days improved to 17 days in 2QFY21, with 5 days reduction over 1QFY21. Consolidated WC days stands at 28 days.
- Capacities, which were announced for Soda Ash are off the table/postponed due to cash crunch. Some of the Chinese capacity has also been shut. 3.5-4.5MMT Soda Ash capacity in China may shut down as these are subscale plants and some of the units are facing strict environmental issues (as per management). Chinese inventory, which had gone up prior to COVID-19 has now decreased.



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- Soda ash inventory build-up: China's inventory has come down from peak level of 1.8MMT (in Mar-Apr'20) to 0.75MMT.

TeamLease Services

Buy

Current Price INR 2,418

- Management expects positive growth momentum in 3Q and 4Q, although this would be nowhere near pre-COVID levels. However, festival demand would not be as large as it was in earlier periods.
- The Manufacturing and Auto industries are showing early signs of recovery, reflected in the company's NETAP headcount.
- The management's intended restructuring has played out in terms of headcount and cost rationalization. Going forward, the focus would be on customer growth.
- The company reported de-growth of around 43% of its overall customers in 2Q, and 30% of the total are now showing some signs of growth. Within Staffing, the company has won a large-ticket customer and won back a large chunk of the business from Samsung, increasing its market share.
- Labor law reforms would not have an immediate impact on business revenues, but over the longer term, the company would be a beneficiary of the same.
- For the current year, the focus is on taking margins to FY19 levels. In the long run, management targets a 3–4% margin band.
- The company expects a tax refund of INR300m in 3QFY21.

UPL

Neutral

Current Price INR 420

Latin America

- UPL recorded strong growth in Chile, Argentina and Paraguay as compared to the previous year. The company took price hike to counter strong devaluation of the Brazilian Real, leading to positive revenue growth in Brazil.
- In Brazil, the second quarter is seasonally stronger compared to first quarter. Perito and Sperto were two key growth drivers in Brazil.

North America

- UPL managed to gain market share in the NA region. Further, dry conditions in western parts of the US (creating strong demand for miticides) and good weather conditions in the remaining part of the country, also contributed to the region's growth.
- NA region saw strong growth in portfolio with differentiated and sustainable solutions, leading to gain in market share in several accounts.

Europe

- Despite the second wave of COVID-19, UPL's operations were not disrupted in the Europe region and the company recorded strong growth in Northern Europe, mainly in herbicides. Southern Europe experienced growth with higher value differentiated products in Italy, Iberia and Turkey.

India

- In India, UPL recorded robust growth in key products, including pre-emergence herbicides and sustainable solutions.
- The company managed to book record sales growth and collections during the lockdown period.

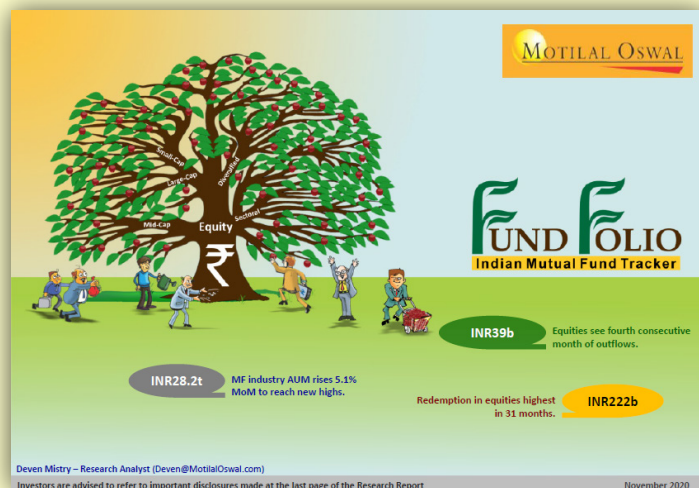
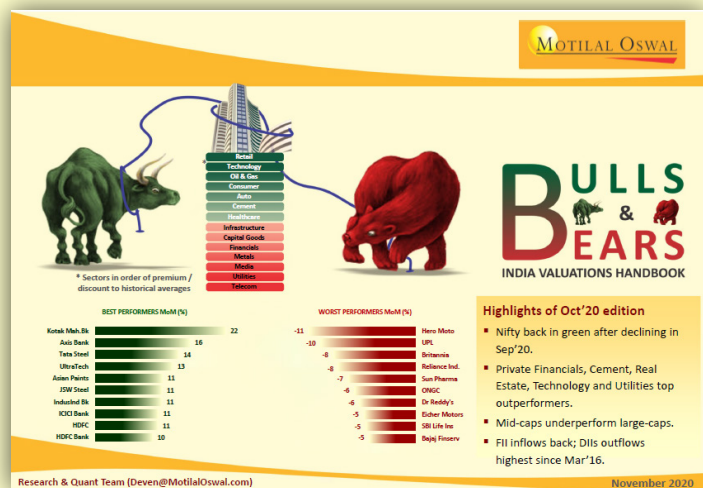
RoW

- UPLL's RoW growth is mainly attributed to the strengthening of its B2C model in China with higher focus on value brands. China continues to be a key region for the company, and UPLL plans to spend on R&D and employees.
- New product launches in Vietnam and other South East Asian countries yielded positive results. Strong performance in South Africa, Australia and New Zealand was primarily driven by normalization of weather patterns.

Comments on financials

- Revenue growth: Revenue/EBITDA growth in 2QFY21 stood at 14%/17%, which was due to market share gain in several geographies, favorable agronomic conditions and demand spill-over from preceding quarter. Growth was partially offset by currency volatility in Brazil, LATAM and Africa.
- Fixed overheads: Integration cost savings, synergy benefits, reduction in travel costs, selling and other expenses aided reduction in fixed overheads.
- WC days: Net working capital days improved by 14 days, which was primarily due to payable and inventory reduction. Further, India's record cash collection was also a key for the improvement in net WC days.
- Exceptional items: Exceptional items during the quarter stood at INR2.1b (v/s INR3.05b in 2QFY20). This was due to ~INR2b provision for closure of the Netherlands' plant, which was done to optimize its global manufacturing facility.
- Shortfall in production volumes due to closure of the Rotterdam plant will be offset by increased production at India and Colombia units.
- Cost synergies: Cost synergy benefits due to merger was USD33m (~INR2.5b) in 2QFY21, whereas cumulative synergies stood at USD153m. This is in line with UPLL's long-term strategy of achieving USD200m+ synergy benefits by end-FY21.
- Revenue synergies: Revenue synergies came in at USD52m (INR3.9b) in 2QFY21, while cumulative revenue synergy stood at USD299m. UPLL plans to achieve USD350m+ in revenue synergy benefits by end-FY21.
- Operating profit before working capital (WC) changes stood at INR35.5b. Increase in WC was in line with the seasonality of the business and stood at INR29.1b. Similar trend is being observed in 3QFY21, followed by release in WC by 4Q.
- As on Sep'20, net debt stood at INR238b (gross debt stood at INR318b), which was higher by INR17.8b v/s Mar'20. This was mainly due to increase in WC by INR29.1b, which is in line with the seasonality of the business. UPLL plans to reduce debt by another USD700m in 2HFY21.
- Net borrowings include INR36.9b (raised from 10-year bond in Jun'20) and repayment of INR8.6b 5-year bond (buyback from open market). UPLL plans to achieve 2x net debt-to-EBITDA by end-FY21.
- Capex: Capex during 1HFY21 stood at ~INR9.5b; of this, INR1.5b was utilized for acquisitions of Yoloo and Agrospec.
- Auditor resignation: BSR & Co. (sub-licensee of KPMG in India) continues to be the statutory auditor of UPLL and for the consolidated financial statements of the group. KPMG Mauritius has resigned as the statutory auditor of UPL Corporation. This was done to reorganize audit processes and ensure efficiency in timely completion of audits and result announcements.
- Outlook: Over FY21, the company plans to achieve 6-8% growth in revenue and 10-12% in EBITDA. Growth will be driven by focus on differentiated solutions as well as new product launches. Price increases in local currencies and cost savings is believed to support margins.

GALLERY



NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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