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Q2FY21 Post Earnings Review

Phase-wise unlocking drives gradual recovery

15th December 2020

Phase-wise unlocking paved way for some sectoral recovery

- Gradual lifting of lockdown through **phase-wise unlocking** led to recovery in supply-chain operations, capacity utilization and improvement in demand
- Sectors like cement and auto reported traction in demand and higher government spending on infrastructure projects
- However, **re-imposition of lockdown** in certain areas may lengthen the recovery phase of the overall economy

Operating margins supported by cost control

- As revenue growth is still in the recovery mode, companies continue to focus on **maintaining cost** to facilitate operating margins
- **Discretionary expenses** like advertising and travel costs are kept under check, along with benefit of lower commodity cost

Pharmaceutical sector continue to see traction owing to nature of the pandemic

- **Pharmaceutical** companies benefited from unlocking, improvement in domestic market and tie-up with global manufacturers for COVID-19 treatment
- **Medicinal demand** is further expected to increase as winter approaches and coronavirus cases surge

Rural growth outperforms urban scenario

- There are fewer coronavirus cases in the **rural sector** compared to its urban counterpart
- Companies have reported that demand in some rural areas are returning to pre-COVID levels, while urban areas are still below normalcy
- As such, companies are strengthening their rural infrastructure like supply chain, distributors, advertising, etc.

Focus Coverage Companies

Coverage Companies
BFSI – Banking
HDFC Bank
ICICI Bank
Kotak Bank
Axis Bank
SBI bank
IndusInd Bank
Karur Vysya Bank
Bandhan Bank
BFSI – NFBCs / Specialty Finance
Bajaj Finance Ltd.
Bajaj Finserv Ltd.
Cholamandalam Investments
HDFC AMC
HDFC Ltd.
NAM
CreditAccess Grameen
BFSI – Life Insurance
HDFC Life
ICICI Prudential
SBI Life
Max Financial
Holding Companies
Bajaj Holdings
EID Parry
Ramco Industries
Pilani Investments

Coverage Companies
Consumer – Essentials
Britannia Industries
Nestle India
ITC Ltd.
Hindustan Unilever
Tata Consumer Products
Consumer – Personal Care
Colgate Palmolive India
Godrej Consumers
Emami Ltd.
Consumer – Durables
Blue Star
Whirlpool India
Symphony
Consumer – Others
Asian Paints
Berger Paints
Avenue Supermarts
Cements
Ultratech Cement
Ramco Cement
Shree Cement
ACC Cement

Coverage Companies
IT
Infosys
TCS
HCL Technologies
Tech Mahindra
Wipro
Persistent Systems
Tata Elxsi
Mindtree
Sonata Software
Sterlite Technologies
Infibeam Avenues
Pharmaceuticals
Sun Pharma
Dr. Reddy Labs
Cipla
Lupin
Glenmark Pharma
Cadila Healthcare
Aurobindo Pharma
Alembic Pharma
Granules India
Torrent Pharma

Coverage Companies
Oil & Gas
Indraprastha Gas Ltd
Mahanagar Gas Ltd
Petronet LNG Ltd
BPCL
HPCL
Auto and Auto Ancillary
Tata Motors
Maruti Suzuki
Bajaj Auto
Ashok Leyland
Eicher Motors
Minda Corporation
Minda Industries
Sundaram Fasteners
Balkrishna Industries
Bharat Forge
Endurance Technology
Miscellaneous
Emmbi Industries
Solar Industries
ABB
Petrochemical and Chemicals
Reliance Industries
Supreme Petrochemicals
UPL Ltd.
Aarti Industries

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BFSI Sector

Improvement in outlook for credit costs

- The banks have front ended credit costs on higher anticipation of stress assets.
- However, collection efficiency for larger banks, especially, have fared well. Collections have been between 94%-97% across large banks, especially. There has been a month-on-month improvement in October too.
- While it is not as pristine as pre Covid level of 99%, most of the stress book may be restructured. We expect lower credit costs for large banks, especially.
- Though asset quality is expected to worsen, the ensuing credit costs have been factored in.

Large banks capturing market share in advances and deposit

- The advance growth beat industry trend for select banks while other have been far lower than long term trend.
- Large banks and well capitalized banks have fared well with reasonable resource cost even amidst caution.
- Despite higher liquidity, banks have not paused on the deposit its acquisition franchise. Larger banks have gained market share at a reasonable cost.

NIMs have improved but not secularly

- NIMs have improved but this improvement in not secular across banks.
- The liquidity drag, likely reversals and mix change is likely to impact NIMs.

Cost to Income ratio improvement unlikely any further

- C/I rose sequentially as the previous quarter was an exception.
- While some benefits have been structural, favorably impacting FY21. We expect costs to rise from hereon.
- We like banks with sustainable fee incomes.

Valuation

- The stocks have run up since our last report on account of liquidity (largely by foreign portfolio investors) and optimism around the vaccine. Some factors are a monitorable and a risk to the valuations. We have evaluated fundamentals in cognisance to the above phenomenon and recommended rating. Our change in recommendation is on account of valuations.

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Companies	Net Interest Income	Asset Quality / Provisioning	Outlook / Strategy
HDFC Bank	• NII has increased 16.7% YoY on a 15.8% YoY growth in advances despite a fall in NIMs. • Other income grew 9% YoY with improving disbursements and fees.	• GNPA were 1.1%, lower on account of SC's standstill. Ex the same it would have been 1.4%. • While provisions were higher 37% YoY, it fell% 5% QoQ, implying normalization.	• GNPA is likely to rise to 1.4% as the bank recognizes the bad assets. • But we expect the credit costs are unlikely to be high.
ICICI Bank	• NII grew 16.2% YoY as NIMs declined 7 bps YoY on higher liquidity and mix change	• GNPA were 5.2%, lower on account of SC's standstill. Ex the same it would have been 5.4%.	• Bank has fund raising and strong capital for growth. • We expect it to clock RoA 1% in FY21.
Kotak Mahindra Bank	• NII grew 26.7% YoY on a weak loan growth on account of lower credit costs and opex	• GNPA were 2.2%, lower on account of SC's standstill. Ex the same it would have been 2.7%. It is well provided for the stress book.	• We don't expect adverse impact of credit costs and is expected to clock 1.9% in RoA in FY21.
Axis Bank	• NII grew 51.3% QoQ, on lower credit costs and strong other incomes. NIMs rose 18 bps QoQ.	• GNPA were 4.2%. Ex the SC standstill it would be 4.3%. The bank is well provided for at	• RoA is at 50 bps in FY21 as incremental credit costs are likely to be lower.

Companies	Net Interest Income	Asset Quality / Provisioning	Outlook / Strategy
SBI	• NII grew 14.6% YoY on a 13bps improvement in NIMs.	• GNPA were 5.3%, it would be 5.9% had it not been for SC standstill. It has guided for annual slippages of Rs 60,000 Cr for the year.	• We expect an improvement in RoA at 50 Bps. • We believe there is a tail of credit costs and an upside to slippages.
IndusInd Bank	• NII grew 12.7% YoY on a 6 bps YoY improvement in NIMs. However the advances grew a mere 2% YoY.	• The credit costs declined 13% QoQ as collection efficiency improved. GNPA were 2.2%. Without considering the SC standstill, it would be 2.3%	• We expect an RoA of 1% but the loan book growth to remain tepid.
Karur Vysya Bank	• NII grew 1% YoY as NIMs fell 9 bps YoY and advanced degrew 3.2% YoY	• Like the peers, the bank has front-ended provisions. We believe this may not be fully sufficient. • Its moratorium in August was 39%. GNPA were 1.1%, without the standstill they would have been 1.4%.	• We expect RoA at 40 bps as there may be credit costs impact yet amidst advance book realignment.
Bandhan Bank	• NII grew 25.8% YoY while NIMs fell 20 bps YoY and advances degrew 22.6% YoY	• Total INR 20.9 bn of bank provisioning includes additional provisioning of INR 17.4 bn (3.5% of micro loans and 2.3% of overall loans).	• We expect bank to deliver ROA of 3.6% and ROE of 23.3% in FY22E.

Sequential improvement in credit costs as collection efficiency improves

Particulars (INR Cr)	HDFC Bank	ICICI Bank	Kotak Bank	Axis Bank	SBI Bank	IndusInd Bank	Karur Vysya Bank	Bandhan Bank
Net Interest Income	15,776	9,366	3,913	7,326	28,181	3,278	601	1,923
Pre-Provision Profit	13,814	8,261	3,297	6,898	16,460	2,831	449	1,628
Provisions	3,704	2,995	369	4,581	10,118	1,964	285	395
Net Profit	7,513	4,251	2,184	1,683	4,574	647	115	920
Advances	10,38,335	6,52,608	2,04,845	5,76,372	22,93,901	2,01,247	47,821	1.2%
Deposits	12,29,310	8,32,936	2,61,564	6,35,454	34,70,462	2,28,279	61,122	0.4%
CASA (%)	41.6%	43.8%	57.1%	44.2%	44.0%	40.2%	33.9%	70.0%
NIM (%)	4.1%	3.6%	4.5%	3.6%	3.1%	4.2%	3.5%	1.5%
Cost to Income (%)	36.8%	38.3%	38.5%	38.0%	55.2%	41.4%	48.6%	NA
GNPA (%)	1.1%	5.2%	2.6%	4.2%	5.3%	2.2%	7.9%	NA
NNPA (%)	0.2%	1.0%	0.6%	0.9%	1.6%	0.5%	3.0%	8.0%
PCR (%)	84.5%	81.6%	74.9%	77.0%	88.2%	76.6%	75.2%	38.2%

Source: Company, KRChoksey Research

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Sequential improvement in credit costs as collection efficiency improves

Particulars	HDFC Bank		ICICI Bank		Kotak Bank		Axis Bank		SBI		IndusInd Bank		Bandhan Bank		Karur Vyasa Bank	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Net Interest Income	0.7%	16.7%	0.9%	-4.0%	5.1%	16.8%	4.9%	-2.3%	5.8%	-0.1%	-0.9%	-10.0%	6.2%	25.8%	7.1%	-2.2%
Pre-Provision Profit	7.7%	18.1%	-23.3%	20.2%	25.7%	31.4%	18.0%	15.9%	-0.4%	11.9%	-1.1%	8.9%	2.7%	24.5%	-5.3%	4.1%
Provisions	-4.8%	37.1%	-60.6%	19.6%	-61.7%	-9.6%	3.7%	8.8%	-19.1%	14.4%	-13.0%	10.2%	-53.5%	171.0%	8.9%	-1.8%
Net Profit	12.8%	18.4%	63.6%	19.6%	75.5%	26.7%	51.3%	8.8%	9.2%	14.4%	40.5%	10.2%	67.3%	-5.3%	8.9%	-1.8%
Advances	3.5%	15.8%	3.4%	6.4%	0.4%	-4.0%	2.7%	10.5%	-0.2%	6.9%	1.6%	2.1%	5.1%	22.6%	3.7%	-3.2%
Deposits	3.4%	20.3%	3.9%	19.6%	0.0%	12.2%	1.2%	8.8%	1.5%	14.4%	8.1%	10.2%	9.1%	34.4%	1.8%	-1.8%
(in Bps)																
CASA (%)	974	233	128	-291	41	354	319	308	17	28	25	-119	112	520	71	409
NIM (%)	-20	-10	-12	-7	12	-9	18	7	11	13	-12	6	-15	-20	11	-9
Cost to Income (%)	182	-193	820	-557	-312	-662	-90	-242	291	-44	68	-250	145	-144	251	-207
GNPA (%)	-30	-28	-29	-120	-15	23	-54	-85	-16	-191	-32	2	-23	-56	-41	-96
NNPA (%)	-25	-16	-23	-60	-23	-21	-30	-106	-27	-120	-34	-60	-8	-16	-45	-151
PCR (%)	1,477	828	304	548	650	1,089	200	-200	187	696	953	2,702	331	161	245	1,337

Source: Company, KRChoksey Research

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Sector not on a firm footing as bank yet

- The unlock in the quarter improved collection efficiency and there was a better understanding on likely stress.
- However, the collection efficiency was lower than banking peers on account of the customer segment.
- The provisions were higher and there is unlikely to be any reprieve in credit costs.
  - The provision for Bajaj Finance were at the same level as last year despite the lockdown. The management remained highly cautious and seem to have withdrawn disbursement from some segments. This impeded the performance of Bajaj Finserv too.
  - Cholamandalam's provisions rose on account of higher LGD for early-stage buckets and prudential contingent provisions. This is on account of lower collection efficiency.
  - HDFC's provisions were in control as it has front ended provisions in the previous quarter and there is improvement in recoveries and home loan collections.
- AUM growth has remained tepid as there has been lower demand and higher caution except in home loans
  - Bajaj finance seems to been highly cautious and has withdrawn form some segments as collection efficient and credit parameters weaken.
  - Cholamandalam disbursements were higher sequentially before not at pre Covid levels as it has withdrawn from HCV and focus is on tractors and used vehicles.
  - HDFC witnessed healthy growth as home loans demand rose on lower interest rates and favorable regulation.
- AMCs yields improved on change in mix, but the share of debt and liquid rose, and MF equity witnessed withdrawal. Retail participation did not grow in commensurate to AUM.
- The stocks have run up since our last report on account of liquidity (largely by foreign portfolio investors) and optimism around the vaccine. Some factors are a monitorable and a risk to the valuations. We have evaluated fundamentals in cognisance to the above phenomenon and recommended rating. Our change in recommendation is on account of valuations.

Companies	Net Interest Income	Asset Quality / Provisioning	Outlook / Strategy
Bajaj Finance Ltd.	• NII rose 4% YoY as AUM grew 1.15% YoY. • The bank has been able to largely maintain NIMs as its funding costs has been manageable.	• The provisions were almost at similar levels as the last quarter at INR 1,700 Cr, higher by 0.9% QoQ despite the unlock. • GNPA were 1.03%, ex the standstill they would be 1.34% largely stable. But early-stage provisions were high.	• NII and PPOP is likely to grow by 4%/12% but PAT is expected to degrow by 10% on account of higher credit costs.. • ROA will be lower at 2.6%.
Bajaj Finserv Ltd.	• Revenue rose 5.8% YoY despite a strong performance from insurance as NBFC topline was weak	• INR 1,660 Cr. provided as provision largely for the NBFC. • Solvency ratio was 255% (regulatory requirement of 150%) for BAGIC	• We expect Bajaj Finserv to clock CAGR of 15% in revenues and 4% in PAT between FY20-FY22E, skewed in FY22 aided by abating claims and provisions in FY22.
Cholamandalam Investment and Finance Company Ltd.	• NII grew 35% YoY as AUM grew 16% YoY and managed asset by 13% YoY on 133 bps NIM improvement. • PPOP grew 7.5% YoY/up 3.8% QoQ to INR 637 Cr, led by increase in asset under management	• While Stage 3 asset fell to 2.8% the coverage rose 100 bps QoQ. • Provision Cover for stage 1 rose 50 bps QoQ. Provisions were high at 200 bps of advances.	• We expect CAGR of 10% in NII/PPoP and 25% in profits over FY20-22. This is aided by lower incremental provisions. • We expect a normalized 15% growth in advances in FY22 aiding the earning growth. The insurance subsidiaries are likely to outperform the NBFC in the year.

Companies	Net Interest Income	Asset Quality / Provisioning	Outlook / Strategy
HDFC AMC	• PAT grew 12% QoQ on better yields on mix change and other incomes even as operating costs fell. • PAT margin rose 62 bps QoQ to 74.1%.	• AUM degrew 3.2% YoY/ 0.9% QoQ to INR 3,54,400 Cr – losing market share by 80 bps to 13.2%. It is on account of loss of share in equity AUM as it gained in debt. • The equity AUM degrew 14% YoY/higher by 2% QoQ at INR 1,40,300 Cr – losing market share by 70 bps sequentially to 13.6%. • Liquid MF degrew 13% YoY/25% QoQ to INR 77,500 Cr losing market share 290 bps market share sequentially to 18%. • However, it gained in debt funds rose 19% YoY/19% QoQ to INR 125,500 Cr gaining 70 bps in market share to 13.6%.	• The AUM growth remained weak on account of weakness in equity funds. • It plans to launch new investment styles and funds to mitigate the stagnancy of weak performance. • It appointed Mr. Navneet Munot as its MD and CEO. Expect CAGR 8.8% in profits over FY20 and 22 and improved margins.
HDFC Ltd.	• NII grew 15% QoQ/29% YoY on an AUM growth of 2% QoQ/10% YoY at INR 5,40,270 Cr. • Individual loans grew 9% YoY and non-individual grew 13% YoY. • The spread on loans was 2.27%. The spread on the individual loan book was 1.91% and on the nonindividual book it was 3.15%. NIM were at 3.3% higher by 10 bps QoQ.	• GNPA was ₹ 8,511 crore. This is equivalent to 1.81% of the loan portfolio. GNPA of the individual portfolio stood at 0.84% while that of the non-individual portfolio stood at 4.19%. • The quarter ended September 30, 2020, saw resolutions in certain non-individual loans. • Ex the SC standstill, GNPA would have been 1.83%, with individual NPLs at 0.88% and non- individuals NPLs at 4.19%.	• The uptick in loans driven by the healthy spreads is a positive. • The credit costs are unlikely to be high from hereon, thereby improving RoAs.
CreditAccess Grameen Ltd.	• NII up 34% YoY to INR 3.3 bn and other income de-grew by 14% YoY	• GNPA for CAGL/MMFL stood at 1.82% / 1.52%, respectively. • Provided adequate provisioning at 5.17% of loan assets.	• It is expected to focus on new customer acquisition and loans growth in H2FY21; it predicts ~10-12% advances growth for the year.

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HDFC fared well as home loans outperformed other segments

Particulars (INR Cr)	Bajaj Finance Ltd.	Bajaj Finserv Ltd.	Cholamandalam Investments	HDFC AMC	HDFC Ltd.	Nippon Asset Management	CreditAccess Grameen
Net Interest Income / Revenue	4,158	12,710	1,173	456	3,426	258	331
Other Income	7	2	82	114	908	64	10
Employee Cost	514	1,014	170	53	181	68	92
Other Operating Expenses	645	7,881	185	37	185	45	51
Pre-Provision Profit	3,006	3,817	900	NA	3,968	NA	197
Provisions	1,700	1,660	318	NA	436	NA	155
Net Profit	965	1,619	432	338	2,870	145	79
Asset Under Management	1,37,090	1,37,090	67,182	3,54,400	5,40,270	2,76,774	11,183
Cost to Income (%)	27.8%	69.9%	28.3%	15.9%	8.4%	35.1%	42.2%

Source: Company, KRChoksey Research

HDFC fared well as home loans outperformed other segments

Particulars	Bajaj Finance Ltd.		Bajaj Finserv Ltd.		Cholamandalam Investments		HDFC AMC		HDFC Ltd.		Nippon Asset Management		CreditAccess Grameen	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY*
Net Interest Income / Revenue	0.2%	4.0%	7.8%	6.7%	24.7%	35.7%	10.9%	-8.4%	15.2%	29.4%	10.7%	-14.1%	-9.3%	34.3%
Operating Expenses	0.2%	-16.1%	17.9%	2.0%	2.7%	-11.6%	-4.5%	-15.0%	-7.7%	-3.5%	0.0%	-22.6%	9.1%	40.2%
Pre-Provision Profit	0.4%	14.9%	-10.2%	19.8%	41.2%	45.5%	NA	NA	-17.4%	-24.9%	NA	NA	-23.0%	26.9%
Provisions	0.9%	186.2%	-1.3%	196.6%	465.6%	233.7%	NA	NA	-63.6%	-42.2%	NA	NA	-41.9%	220.9%
Net Profit	0.3%	-35.9%	-15.8%	-19.9%	0.2%	40.7%	11.8%	-8.2%	-5.9%	-27.6%	-7.0%	6.2%	9.9%	-21.6%
Asset Under Management	-0.7%	1.1%	-0.7%	1.1%	-1.1%	4.3%	0.9%	-3.2%	1.6%	10.2%	11.0%	-1.0%	-4.6%	41.5%
(in Bps)														
Change in PAT Margin	34	-902	-201	-191	-249	328	62	-15	-177	-1129	-1,080	1,070	465	-1593
Cost to Income (%)	-3	-674	600	-328	-688	-1107	-320	-155	82	175	146	-1,025	820	240

Source: Company, KRChoksey Research

New Business Premium (NBP) improvement healthy, yet to reach pre Covid

- The sequential premium earned improved as persistency improved. However it is not at pre covid level yet especially for earlier policies.
- Premium grew between 50-75% QoQ with ICICI PruLife underperforming. The share protection and par savings rose. However the protection of ICICI PruLife could not witness traction. New Business premium rose between 75-125% QoQ. The demand for protection may taper gradually in ensuing quarters.
- Value of New Business (VNB) Margin for all improved materially except HDFC life on account of mix change to high margin businesses. Sequentially the improvement was witnessed across due to some cost benefits. ICICI PruLife life is likely to focus VNB and not on the topline. However the margin on a steady state may witness some
- Solvency ratio improved sequentially except for Max. SBI life and HDFC life have raised capital to shore solvency ratios.
- Persistency across tenures improved sequentially but is lower than pre Covid level. The post lockdown policies have better persistency. Some agencies have been underperforming for SBI life but this is likely to be transitory.
- The payouts have remained higher but are lower than earlier estimated by the insurers.
- The stocks have run up since our last report on account of liquidity (largely by foreign portfolio investors) and optimism around the vaccine. Some factors are a monitorable and a risk to the valuations. We have evaluated fundamentals in cognisance to the above phenomenon and recommended rating. Our change in recommendation is on account of valuations.

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Company	Premium/APE performance	Product mix/Market share
HDFC Life	• The GWP grew at a robust ~35% YoY/74% QoQ driven by an improvement in individual premium. The opening of the economy ensured improved business momentum. • The NBP grew 23% YoY/77% QoQ against a degrowth of 25% YoY /43% QoQ in the last quarter. The insurer gained significant market share at ~23.3% from 20.7% last quarter.	• There was a shift in product mix towards Par, savings product, and individual protection. • The share of Par grew by ~200-300 bps in the product mix even as credit protection has lagged.
ICICI PruLife	• The NBP grew 1% YoY but was lower 13.5% YoY for H1FY21. APE degrew 23% YoY as the linked business degrew 42% YoY but non linked savings rose 45% YoY. • Group business has shown resilience with a 86% QoQ /140% YoY growth. • However linked business has doubled since last quarter. PAT growth remained flat at INR 303 cr. it grew 5.4% QoQ.	• The protection APE's share witnessed an improvement to 19.5% from 14.8% last year. Nonlinked savings APE grew by 34.0% from Rs. 4.79 bn in H1-FY2020 to Rs. 6.42 bn in H1-FY2021. • The mix between linked, non linked, group and protection was 46.3%,28.1%,6.1%, and 19.5% respectively. • As a result of the focus on premium growth and protection business, market share on new business sum assured improved to 12.5% in H1-FY2021, the highest amongst private life insurers.
SBI Life	• The business for SBI life improved sequentially and annually, growing 28% YoY/71% QoQ as business across channels improve. • The renewal premium grew 28% YoY/123% QoQ as persistency across tenure improved materially. The market share rose to 24.5% from 23.9% in Q1FY21. • Reported PAT of INR 300 Cr. grew by 130% YoY/down 23% QoQ.	• The product mix has shifted to ULIPs contributing 56 in H1FY21 vs 48% in Q1 on APE basis to non-par savings contributed 12% vs 18% in Q1Fy21.
Max Life	• GWP rose 20% YoY, 64% QoQ in line with growth in competitors. • The single premium grew strong, but not a material improvement in persistency led to a lower growth than new business in renewal premium.	• The share of Par/Individual protection/Group protection/non-Par savings/ULIP is 17%/12%/8%/31%/31% vs 31%/7%/7%/20%/35%. • This change in mix aided the VNB margin.

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Company	VNB/Margin Performance	Persistency/Solvency/AUM
HDFC Life	• The margins improved to 25.1% vs 24.3% last quarter, higher by 80 bps QoQ. This is backed by 22% growth in Value of New Business (VNB) in Q2FY21 to INR 548 Cr. • The growth in H1FY21 is 40% YoY, higher optically on account of weak business in Q1FY21 despite a high base. • The sequential improvement is on account of the shift in product mix towards Par, savings product, and individual protection. • The share of Par grew by ~200-300 bps in the product mix even as credit protection has lagged.	• The early months persistency and 49th month persistency across channels rose by ~100-200 bps, another positive. • The overall persistency was 88%/79%/69%/66%/53% vs 87%/77%/69%/65%/53% for 13th/25th /37th/49th/61st month respectively. • Solvency ratio improved 1000bps QoQ at 203% aided by profits and capital raise. • AUM rose 15% YoY at INR 1,50,000 Cr. Debt to equity was 67:33
ICICI PruLife	• VNB doubled from last quarter to INR 401 Cr in Q2FY21. This has been on account improved margins. • The margins rose to 27.4% from 24.4% last quarter. The shift in mix to non linked savings and lower ULIP has contributed to the improvement. • It aims to focus on VNB rather than the top line. However this has been at the expense of lower top line growth and measured growth in key segments such as ULIPs.	• The 13th month persistency rose to 83.7% from 82.9% in Q1FY21 and the 49th month rose to 63.9% from 63.7% last quarter. There has been material improvement in 61st month persistency for 5M FY21 basis. • However, it still lags pre Covid levels across buckets. Solvency ratio rose 40 bps QoQ to 206%. • AUM size stood at INR 181,496 Cr. up by 9.7%YoY/6.8% QoQ . • Debt: Equity mix in AUM stood in the ratio of 57:43
SBI Life	• The change in mix aided an improved VNB margin to 18.8% higher by 70 bps YoY/10 bps QoQ. • The proportion of benefit in the margin on account of change in mix is 390 bps YoY. • The share of ULIP rose 700bps QoQ/100 bps to 55%, whilst the share of protection and Par remained the same. However, the share of profitable segment within Par and protection rose aiding the margins.	• The 13th month persistency rose 10 bps YoY to 85.9%, 25th month improved 140 bps YoY to 78.8%; 37th month improved by 110 bps YoY to 72.1%; 49th month persistency fell 160 bps YoY to 66.3% and 61st month persistency improved 340 bps YoY to 60.9%. • The improvements are positive, especially during this time and SBI Life's higher dependence on agents. • AUM size stood at INR 1,86,360 Cr. up by 20%YoY/6.3% QoQ. Debt: Equity mix in AUM stood in the ratio of 76:24
Max Life	• This change in mix aided the VNB margin. • VNB grew 188% QoQ /41% YoY.	• The solvency continues to slip but is at 207% higher than regulatory requirement of 150%. • The 13th month persistency was improved 100 bps QoQ to 83% but was lowver by 200 bps YoY. 61st persistency remained the same QoQ at 52%. • AUM size stood at INR 77,764 Cr. up by 20%YoY/+6% QoQ. More than 95% of debt investments is in sovereign papers and AAA rated securities. Debt is 92% of AUM.

Companies	Channel mix	Industry Outlook / Strategy
HDFC Life	• The share of various distribution channels rose by ~100-200 bps at the cost of direct. • The distribution mix between Banca/broker/agency/direct is 60%/6%/13%/21% vs 59%/5%/12%/24% last quarter.	• HDFC Life has delivered a robust business performance despite the weak market conditions. • Its strength in distribution and product mix augurs very well for its business momentum and we expect it to continue to gain market share and improve margins. • The flexibility across products gives it ability to grow without material hurdles
ICICI PruLife	• The channel mix has improved towards Banca at the cost of agency versus last quarter. • The mix between Banca/agency/Direct/Partnership/Group stands at 51%/21%/13%/7%/8% vs 40%/25%/12%/9%/15% last quarter. They have grown 97%/64%/76%/78%/51% QoQ respectively.	• ICICI PruLife has shown VNB margin improvements but the business growth has been weak. • As it plans to focus on quality, we expect the topline to remain weak. . It has been cautious than its competitors to reduce balance sheet risk and the share of high margin business is a monitorable. • We expect ROEV to improve to 15.7% in FY21 and 17.6% in FY22 as its VNB grows at a CAGR 9% over FY20-22.
SBI Life	• The share of ULIP rose 700bps QoQ/100 bps to 55%, whilst the share of protection and Par remained the same. • However, the share of profitable segment within Par and protection rose aiding the margins	• The growth in premium and improved persistency is a positive. • It is witnessing month on month improvement across channels and products. We expect the improvement in persistency to lever growth. • We expect improvement in agent productivity as well. The diversified product mix and focus across segments and products is a positive to hedge risks.
Max Life	• The mix between proprietary and banca was 67% and 33%, at the same level at last year	• It is transiting to merge with Axis Bank and associates. While the share of Axis bank is likely to rise further, we monitor the changes in strategy.

New Business Premium (NBP) improvement healthy, yet to reach pre Covid level

Particulars (INR Cr.)	HDFC Life	ICICI Prudential	SBI Life	Max Life
New Business Premium (Individual + Group)	5,872	2,959	5,940	1,595
Renewal Premium (Individual+ Group)	4,310	5,774	7,150	2,937
Total Premium	10,183	8,733	13,090	4,532
Profit After Tax	330	303	300	86*
Asset Under Management (AUM)	1,50,600	1,81,496	1,86,360	77,764
Value of New Business (VNB)	548	400	299	325
Annualized Premium Equivalent (EV)	2,130	1,465	2,678	1,144
Key Financial Ratios (%)				
Solvency Ratio	203%	206%	245%	207%
Persistency Ratio				
13th Month	88%	82%	86%	83%
61st Month	53%	58%	61%	52%
VNB Margin	25%	27%	19%	24%

**Max Life discloses PBT*

Source: Company Data, KRChoksey Research

New Business Premium (NBP) improvement healthy, yet to reach pre Covid level

In INR Cr.	HDFC Life		ICICI Pru		SBI Life		Max Life	
Key Financial & Actuarial Metrics	**YoY**	**QoQ**	**YoY**	**QoQ**	**YoY**	**QoQ**	**YoY**	**QoQ**
New Business Premium (Ind. + Grp.)	47%	124%	0%	84%	27%	94%	16%	77%
Renewal Premium (Ind. + Grp.)	21%	33%	10%	39%	28%	56%	22%	59%
Total Premium	**35%**	**74%**	**7%**	**52%**	**28%**	**71%**	**20%**	**65%**
Profit After Tax	**32%**	**-27%**	**1%**	**5%**	**131%**	**-23%**	**231%**	**-23%**
Assets Under Management (AUM)	15%	8%	10%	7%	20%	6%	19%	6%
Value of new business (VNB)	23%	88%	0%	99%	21%	24%	41%	188%
Total APE	21%	78%	-23%	78%	-16%	-13%	10%	73%
Key Financial Ratios (in Bps)								
Solvency Ratio	1,100	1,300	-510	40	2,500	600	-1,700	-500
Persistency Ratio								
13th Month	-100	100	-340	100	11	437	-200	100
61st Month	-100	0	-60	-330	339	-227	-100	-
Value of New Business Margin (VNB margin) %	-240	80	624	289	70	10	330	720

Source: Company Data, KRChoksey Research

SBI and HDFC Bank are among our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
HDFC Bank	ACCUMULATE	BUY	7,61,040	1,383	1,510	1,510	9.0%	4.4	3.8
ICICI Bank	ACCUMULATE	ACCUMULATE	3,55,730	515	560	528	8.7%	1.9	2.4
Kotak Mahindra Bank	HOLD	HOLD	3,80,049	1,920	1,946	1,800	1.4%	4.3	6.0
Axis Bank	ACCUMULATE	ACCUMULATE	1,87,455	613	645	630	5.2%	2.3	1.9
SBI	ACCUMULATE	BUY	2,43,195	272	300	300	10.3%	1.0	1.0
IndusInd Bank	ACCUMULATE	ACCUMULATE	69,865	924	982	850	6.3%	3.6	1.6
Karur Vysya Bank	ACCUMULATE	BUY	3,780	47	50	42	6.0%	1.0	0.7
Bandhan Bank	ACCUMULATE	ACCUMULATE	68,150	423	457	431	8%	5.2[1]	3.8

Note: 1) 3-year average P/BV
Source: Company, KRChoksey Research
The stocks have run up since our last report on account of liquidity (largely by foreign portfolio investors) and optimism around the vaccine. Some factors are a monitorable and a risk to the valuations. We have evaluated fundamentals in cognisance to the above phenomenon and recommended rating. Our change in recommendation is on account of valuations and fundamentals.

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HDFC AMC and HDFC Ltd. are among our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Bajaj Finance	ACCUMULATE	BUY	2,91,453	4,844	5,113	4,095	5.5%	8.4	7.2
Bajaj Finserv	ACCUMULATE	BUY	1,43,049	8,995	9,500	8,203	5.6%	4.2	3.8
Cholamandalam Investments	HOLD	ACCUMULATE	30,327	369	379	284	2.7%	3.8	3.8
HDFC AMC	ACCUMULATE	BUY	60,493	2,839	3,020	3,020	6.4%	15.2	10.8
HDFC Ltd.	ACCUMULATE	BUY	4,13,342	2,296	2,500	2,403	8.9%	3.7	4.1
NAM	UR	UR	18,694	306	UR	UR	UR	5.3	NA
CreditAccess Grameen	BUY	BUY	12,205	785	904	843	15%	3.1[1]	3.5

Note: UR – Under Review 1) 3-year average P/BV

SBI Life and HDFC Life are among our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ EV (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
HDFC Life	ACCUMULATE	BUY	1,33,921	665	704	704	5.9%	18.4	4.5
ICICI Prudential	ACCUMULATE	BUY	71,364	499	526	509	5.4%	8.5	2.6
SBI Life	BUY	BUY	84,904	850	996	996	17.2%	10.3	2.3
Max Financial	HOLD	HOLD	16,983	634	657	619	3.6%	6.3	1.8

Source: Company, KRChoksey Research

Consumer Sector

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Consumer Essentials coming back on track; Normalcy in operations

- Factories return to normal output.
- Demand for 'out-of-home' channels improved during the quarter.
- Tea prices were up by 65-80% on YoY basis.

Improvement in operating margins

- Most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
- ITC margin was higher compared other peer companies, however, margins of Britannia and HUL has witnessed growth during the quarter.

FMCG Industry trends

- Aggregate demand (at 77%) remains significantly below pre-covid levels while Aggregate supply stood at 92%) of pre-covid level.
- Strong traction continued for hygienic products. Essential products & 'at-home' consumption witnessed moderation and remained at elevated levels
- Huge spurt in online shopping – robust growth in e-com channel – clear preference for contactless shopping.
- Increase in digital option by traditional trade. Modern trade footfalls lower as consumer prefer e-com stores.

Companies	Revenue and Segment-wise Performance
Britannia	• Britannia reported sequentially flat revenue of INR 3,419 Cr (+12.1% YoY) on the back of ~10% on volume growth. Among dairy business, cheese witnessed double digit growth whereas Drinks impacted due to incremental in-home consumption. While bakery business did well, other adjacent businesses (croissants/cakes) posted limited upside in the quarter. • Rural market performed better as they were less impacted than urban market and given Britannia's continued investments to increase distributor reach in rural areas. Rural share was ~30% of the total revenue. • In terms of supply chain, wholesale trade continue to remain largest contributor with ~90% share; the management expects slow recovery on Modern trade format.
HUL	• In Q2FY21, HUL reported revenue growth of 16.1% YoY (+8.4% QoQ) at INR 11,442 Cr. with Core business registered 3% sales growth with 1% volume growth. With inclusion of GSK (Horlicks and Boost) and V-Wash, HUL reported 16% YoY increase. • Within segments, Health, Hygiene & Nutrition (~80% of the portfolio), grew by +10% YoY which was partially offset by underperformance of discretionary products (which are out-of-home in nature) that had degrowth of 25% YoY. Nonetheless, the performance improved sequentially. Foods & Refreshment segment saw sharp 19% YoY growth fueled by price revision in tea segment. • Home care segment declined 1.6% with price cuts in fabric wash. In personal care segment, items under skincare, color cosmetics and deo categories (~15% of revenue) declined by 25% YoY which will be likely to struggle in upcoming quarter as well.
ITC Ltd	• ITC's revenue during the Q2FY21 stood at INR 13,148Cr (+2.2% YoY / 25.2% QoQ). Share of contribution from Cigarette segment was 43% (46% in Q2FY20), FMCG segment was 30% (26% in Q2FY20), Hotel segment and Agri business contributed 1% and 23% respectively against 3% and 21% in Q2FY20 respectively to revenue and paper board and packaging segment share remained flat at 13%. • FMCGs performance was driven by higher operating leverage, enhanced operational efficiencies, portfolio premiumization and product mix enrichment. Cigarettes segment was impacted due to localized lockdowns in several parts of the country. Restriction on travel and tourism halted the Hotel segment. • Paperboard performance recovered to pre-covid levels. Robust growth was witnessed in Agri business driven by trading opportunities in rice, mustard, coffee and higher wheat supply for Aashirwad atta.

Companies	Revenue and Segment-wise Performance
Nestle	• Nestle's total sales and domestic sales both increased by 10.1% YoY. driven by volume and better product mix. Exports increased by 9.4% YoY. The quarter witnessed growth driven by an improved supply condition, as factories returned to normalcy. • During the quarter there was a spurt in the demand for in-home consumption, which resulted double digit growth in the key brands like MAGGI Noodles, MAGGI Sauces, KITKAT, Nestle MUNCH, NESCAFE Classic and SUNRISE. • Demand in 'out-of-home' channels improved during the quarter but continues to be impacted due the pandemic fear. The e-com channels had witnessed strong performance with 97% growth YoY accounting for 4% of overall sales.
Tata Consumer	• In Q2FY21, Tata Consumer Products Ltd. (TCPL) reported healthy revenue growth of 18.5% YoY (+ 2.5% QoQ) at INR 2,781 Cr with 12% volume growth across all segments in India. • Overall branded segment (~90% of revenue) growth increased 25% YoY. Within Branded segment, branded domestic beverage segment (~41% revenue) witnessed growth of 25% YoY, Branded India food business (~24% revenue) grew 13% YoY and Branded international beverage segment (~35% revenue) grew 11% YoY. • During the quarter, tea prices were up by 65-80% (INR 80-110/kg) on YoY basis, due to which TCPL has increased the prices of several tea brands by about 30% (INR 80-130/kg)

Companies	Margin Performance
Britannia	• EBITDA margin contracted by 121bps QoQ/+361bps YoY to 19.8% in Q2FY21, while EBITDA grew 37.2% YoY/ (down 5.8% QoQ) to INR 675 Cr. • The company witnessed moderate cost inflation in the prices of key raw materials and expect the prices to be stable going forward given the positive outlook on monsoon and harvest. • Reported PAT showed growth of 23.4% YoY (down 8.5% QoQ) to INR 499 Cr. (Adj. PAT increased by 23.2% YoY) • Adjusted Net Profit margin for the quarter expanded 132 bps YoY to 14.6% (down by 134bps QoQ) from 13.3% in Q2FY20
HUL	• EBITDA margin remained flat with 24bps improvement on YoY to 25.1% in Q2FY21. The margin remained largely stable due to cost savings and unlocking of synergies of GSK merger. • Net Profit showed growth of 8.7%YoY (up 6.8% QoQ) at INR 2,009 Cr. Net Profit margin for the quarter declined by 120bps YoY to 17.6%. • The Company has proposed interim dividend of INR 14 per share with the record date fixed as October 29, 2020.
ITC Ltd	• EBITDA margin contracted 416 bps YoY/ to 33.5% while absolute EBITDA declined by 9.1% YoY/ to INR 4,401Cr due to lower revenue and higher excise duty which increased 52% YoY. However, the segmental margins performed well during the quarter. The FMCG – others EBITDA grew by 66% YoY, with OPM at 9.7% (+300 bps YoY). The margins were driven by robust brand portfolio, operating leverage, supply chain efficiency, power of digital and purposeful innovation. Whereas cigarettes EBITDA d-grew by 15.6% YoY mainly due to temporary disruption in certain wholesale markets. • PAT de-grew by 18.1% YoY/ to INR 3,419 Cr due to higher tax expenses.

Companies	Margin Performance
Nestle	• EBITDA margin expanded by 158 bps YoY / 44 bps 24.9% in Q3CY21, while EBITDA grew 17.6% YoY / (+18.2% QoQ) to INR 883 Cr. • The company witnessed moderate cost inflation in the prices of key raw materials and expect the prices to be stable going forward. However, operational efficiencies managed to maintain the margin. • Reported PAT showed de-growth of 1.4% YoY (+20.7% QoQ) to INR 587 Cr. • Tax Expense for the quarter ended 30 September 2020 is not comparable. The cumulative effect of lower tax rate made applicable from 1 April 2019 was adjusted fully in quarter ended 30 September 2019. Net Profit after Tax and Earnings per share are also not comparable for the same reason.
Tata Consumer	• EBITDA grew 26.9% YoY (-17.2% QoQ) to INR 400 Cr while EBITDA margin expanded 95bps YoY to 14.4% due to higher sales, gross margin improvement and rationalization of discretionary expenses. • PAT for the quarter stood at INR 257Cr (+33.1% YoY) with NPM at 9.2% (+101bps YoY), mainly due to lower interest and tax expenses. • We expect continued pressure on margins due to rising inflation in tea prices.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Britannia	• The management plans to invest in technology for manufacturing of cakes, biscuits, and salted snacks. • The company also plans to invest in Hi-tech food park at Ranjangaon with 12 new manufacturing lines and a total capacity of 140,000 TPA.	• The company launched 3 new categories – wafer biscuits, baked salted snacks, and milk shakes • The company launched new variants of Treats and Little Hearts • The company also relaunched Nutrichoice cream cracker in a sugar free variant • Relaunched Good day biscuits and Nutrichoice Arrowroot
HUL	• Building a brand portfolio that fits for future normal • Growth fundamentals remain robust • Moving forward on account of competitive volume-led growth.	• HUL's 97% business is gaining volume share • During the quarter HUL witnessed +200bps increase in brands share of voice.
ITC Ltd	• Rapid capacity ramp-up (sanitizers 100x, handwash 4.4x, Savlon soaps 4.6x) • Augmented direct distribution • Enhanced focus on rural / stockiest channel • High focus on fulfilling demand in top outlets, modern trade and e-com • Presence scaled-up in chemist outlets	• Launched 70+ products / SKUs across all segments / categories in H1FY21

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Nestle	• The management plans to invest INR 2,600 Cr in next 3-4 years to augment its existing manufacturing capacities, as well as towards the new under construction 'state-of-art' factory in Sanand, Gujarat.	• Retains market leadership in the key brands.
Tata Consumer	• TCPL posted all round revenue and profit growth during the quarter driven by accelerated momentum in India business. The integration of food and beverage business in India is progressing ahead of plan and it should start to see synergy benefits in the near term.	• Tata Starbucks in July-September opened 11 new stores and added one new city Lucknow, taking its total store count to 196 as of Q2FY21.

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ITC margin was higher compared other peer companies

Particulars (INR Cr)	Britannia	HUL	ITC	Nestle	Tata Consumer
Sales	**3,419**	**11,442**	**13,148**	**3,542**	**2,781**
Total Expenditure	**2,744**	**7,434**	**8,747**	**2,658**	**2,382**
Cost of Raw Materials	1,812	4,107	3,637	1,388	1,208
Purchase of Stock	262	1,499	1,166	32	519
Changes in Inventories	-109	-231	-42	65	-81
Employee Cost	134	559	1,070	370	230
Other expenses	644	1,139	2,915	804	506
EBITDA	**675**	**4,369**	4,401	**8,84**	**400**
EBITDA Margin (%)	**19.8%**	**25.1%**	33.5%	**24.9%**	**14.4%**
Depreciation	48	249	405	91	63
EBIT	**627**	**2,620**	**3,996**	**793**	**337**
Interest Expense	30	29	13	**22.4%**	18
Other Income	74	151	582	41	26
PBT	**671**	**2,742**	**4,565**	35	**345**
Exceptional Items	1	-81	0	**787**	-24
Tax	175	652	1,147	1,99	87
Share of Associates/Minorities	-2	0	0	0	23
PAT	**499**	**2,009**	**3,419**	**587**	**257**
PAT Margin	**14.6%**	**17.6%**	**26.0%**	**16.6%**	**9.2%**
EPS	**20.73**	**8.55**	**2.74**	**60.89**	**2.8**

Source: Company, KRChoksey Research

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Performance of all the essential companies were better during the quarter due to recovery in demand

Particulars	Britannia		HUL		ITC	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**0.0%**	**12.1%**	**8.4%**	**16.1%**	**25.5%**	**2.2%**
Total Expenditure	**1.5%**	**7.3%**	**8.3%**	**15.7%**	**16.1%**	**9.0%**
Cost of Raw Materials	2.1%	16.2%	14.9%	27.2%	17.8%	5.1%
Purchase of Stock	33.5%	1.2%	-11.1%	3.6%	-29.1%	61.8%
Changes in Inventories	-551.5%	-2060.3%	32.8%	20.9%	-94.3%	-116.6%
Employee Cost	-1.8%	8.8%	-5.6%	30.0%	-3.1%	3.3%
Other expenses	12.8%	5.8%	18.0%	5.8%	19.8%	14.2%
EBITDA	**-5.8%**	**37.2%**	**8.5%**	**17.4%**	**49.4%**	**-9.1%**
EBITDA Margin (%)	-121 bps	361 bps	4 bps	28bps	536 bps	-416 bps
Depreciation	1.1%	8.1%	2.9%	5.1%	-3.4%	-2.7%
EBIT	**-6.3%**	**40.1%**	**9.1%**	**18.8%**	**58.2%**	**-9.7%**
Interest Expense	16.4%	84.7%	0.0%	-6.5%	-16.1%	-5.1%
Other Income	-21.5%	7.9%	-3.2%	-16.1%	-37.1%	-7.6%
PBT	**-9.1%**	**34.5%**	**8.4%**	**16.4%**	**32.9%**	**-9.5%**
Exceptional Items	477.8%	-53.6%	**-31.4%**	**72.3%**	**NM**	**NM**
Tax	-10.0%	83.2%	23%	41.7%	32.0%	32.0%
Share of associates	30.1%	160.3%	-	-	-	-
PAT	**-8.5%**	**23.4%**	**6.8%**	**8.7%**	**33.2%**	**-18.1%**
PAT Margin	-136 bps	134 bps	-25 bps	-120bps	150 bps	-643 bps

Source: Company, KRChoksey Research

Performance of all the essential companies were better during the quarter due to recovery in demand

Particulars	Nestle		Tata Consumer	
Change %	QoQ	YoY	QoQ	YoY
Sales	**16.1%**	**10.1%**	**2.5%**	**18.5%**
Total Expenditure	**15.4%**	**7.9%**	**6.7%**	**17.2%**
Cost of Raw Materials	16.2%	10.6%	19.2%	33.1%
Purchase of Stock	-24.7%	-44.2%	-2.7%	18.9%
Changes in Inventories	-32.2%	21.2%	73.9%	346.2%
Employee Cost	0.0%	14.8%	0.3%	4.4%
Other expenses	33.7%	3.4%	0.9%	4.0%
EBITDA	**18.2%**	**17.6%**	**-17.2%**	**26.9%**
EBITDA Margin (%)	44 bps	158 bps	-342 bps	95 bps
Depreciation	-1.4%	16.8%	1.1%	6.7%
EBIT	**21.0%**	**17.7%**	**-19.9%**	**31.6%**
Interest Expense	-0.9%	35.2%	3.4%	-12.4%
Other Income	-9.1%	-38.9%	-19.8%	-6.5%
PBT	**20.6%**	**12.4%**	**-20.8%**	**30.9%**
Exceptional Items	-	-	-137.8%	NM
Tax	20.4%	90.9%	-21.1%	37.0%
Share of associates	-	-	-136.9%	-514.0%
PAT	**20.7%**	**-1.4%**	**-21.5%**	**33.1%**
PAT Margin	62 bps	-194 bps	-283 bps	101 bps

Source: Company, KRChoksey Research

Recovery in production levels

- Production has started in phased manner.
- The sector witnessed volume momentum.
- Key brands has maintained its market share.

Focus on cost optimization leading to margin expansion

- Most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
- Colgate and Emami's margin was higher compared other peer companies, however, margins of GCPL has witnessed growth during the quarter.

Industry dynamics

- Strong traction continued for hygienic products. Essential products & 'at-home' consumption witnessed moderation and remained at elevated levels
- Huge spurt in online shopping – robust growth in e-com channel – clear preference for contactless shopping.
- Increase in digital option by traditional trade. Modern trade footfalls lower as consumer prefer e-com stores.

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Companies	Revenue and Segment-wise Performance
Colgate	• Colgate revenue was up 5.2% YoY at INR 1,277.8 Cr; domestic revenue grew 7.1% YoY. Growth was broad based and witnessed across categories. Both toothpaste (~80% of sales) and toothbrush (~18% of sales) noticed growth through increase in house penetration. • The adverse impact of lockdown has been reversed and the company has commenced operations fully from April. • All the categories saw positive growth this quarter with toothpaste continuing its accelerated performance, driven by strong brand fundamentals and household penetration.
Godrej Consumer Products Ltd (GCPL)	• GCPL reported revenue growth of 10.8% YoY (+25.3% QoQ) at INR 2,915 Cr. Growth on sequential basis was on account of excellent growth in Household Insecticides and Hygiene business which is value for money products which grew by 17% YoY. • Domestic sales (~54% of total sales) grew 11% YoY while volume grew at 5% YoY led by resurgence in Household insecticides and scale of up of hygiene. Indonesian business grew 5% YoY, while US, Africa and the Middle East grew 10% YoY and LATAM grew by 46% YoY on constant currency basis. • Segment wise, household insecticides business, including Goodknight and incense sticks (~85% of revenue) reported a growth of 17% YoY. Soaps delivered a sales growth of 27% YoY while hair colours too reported a significant growth of 22% YoY.
Emami Ltd	• In Q2FY21, Emami reported revenue growth of 11.3% YoY (+52.7% QoQ) to INR 735 Cr. against our estimates of INR 661 cr. The growth was on account of 10% volume growth in the domestic business. • Domestic sales (~80% of revenue) witnessed growth of 13% YoY while international sales (~17% of revenue) were up by 11% YoY in Q2FY21.

Companies	Margin Performance
Colgate	• Colgate's resilience and disciplined approach to managing all revenue and cost drivers, despite all the uncertainties and challenges around, drove improvements in key financial metrics with gross margins and EBITDA at 67.9% and 32% respectively. • Net Profit before tax grew by 32% and we are pleased that we were able to increase shareholder value while we continue to drive innovation that meets the needs of our consumers. • Advertisement spend as a percentage of sales increased to 12.8% during the quarter (10.9% in Q1FY21/ 14.4% in Q2FY20) due to new product launched. Employee cost was also on higher side that grew 18.0% YoY. However, the Change in inventory helped in pulling of EBITDA margin to 31.8%, up by 541bps YoY / 224bps QoQ.
GCPL	• EBITDA margin expanded 134bps YoY to 23.1% in Q2FY21 mainly due to scale deleverage. • Decline in raw material cost (~37% to sales vs 42.2% to sales in Q1FY20) also contributed to growth in EBITDA margin. • Net Profit margin for the quarter contracted by 1bps YoY (-124 bps QoQ) to 15.7% due to higher tax expenses.
Emami Ltd	• Q2FY21 EBITDA margin expanded by 575 bps YoY/944 bps QoQ to 35% while Net Profit increased by 23.4% YoY to INR 118 cr (+199.5% QoQ) with NPM of 16.1%. • On half-year basis, consolidated revenue declined 7% to INR 1,216 Cr. while EBITDA grew by 16.2% YoY to INR 380 Cr.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Colgate	• The company is also aiming at acquiring market share which has been lost against ayurvedic and natural brands over the last few years. • Besides, the management is focusing on increasing its online channels and tied up with dentists over Colgate platform to counter the COVID-19 impact.	• The company launched three new products namely Colgate Visible White Instant, Colgate Vedshakti Mouth spray and the new Colgate Gentle line of toothbrushes. • Relaunched its flagship toothbrush, Colgate Zig Zag, with anti-bacterial bristle technology. • This 'Colgate Gentle' toothpaste is designed with Dentists and is endorsed by the Indian Dental Association.
Godrej Consumer	• Sequential recovery in Hair Colour. • Doubling down on chemists and ecommerce; ramping up rural distribution. • Manufacturing units operating at ~90% capacity. • Robust scale up of Hygiene portfolio. • Steady performance in Household Insecticides.	• New launches in Health scaling up well • Goodknight Gold Flash liquid vaporiser continues to receive an excellent response post the national scale up • Market share gains in Household Insecticides continues in Indonesia Market
Emami Ltd	• The management is monitoring the situation closely and has started its plants/operations in a phased manner from mid-April.	• During the quarter, the company has launched 20 new products and 40+ new SKU's. The new product portfolio contributes around 4% to the domestic business

Colgate & Emami's margin was higher compared GCPL

Particulars (INR Cr)	Colgate	GCPL	Emami
Sales	**1,285**	**2,915**	**735**
Total Expenditure	**876**	**2,242**	**478**
Cost of Raw Materials	366	1,302	202
Purchase of Stock	104	97	50
Changes in Inventories	-60	-116	-34
Employee Cost	97	267	78
Other expenses	370	692	181
EBITDA	**409**	**673**	**257**
EBITDA Margin (%)	**31.8%**	**23.1%**	**35.0%**
Depreciation	46	51	115
EBIT	**363**	**622**	**142**
Interest Expense	2	31	2
Other Income	8	14	8
PBT	**369**	**605**	**148**
Exceptional Items	0	0	0
Tax	95	146	28
Share of Associates/Minorities	0	0	-1
PAT	**274**	**458**	**118**
PAT Margin	**21.3%**	**15.7%**	**16.1%**
EPS	**10.1**	**4.48**	**2.7**

Source: Company, KRChoksey Research

Performance of all the companies were better during the quarter due to recovery in demand

Particulars	Colgate		GCPL		Emami	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**23.5%**	**5.2%**	**25.3%**	**10.8%**	**52.7%**	**11.3%**
Total Expenditure	**19.6%**	**-2.5%**	**20.9%**	**8.9%**	**33.3%**	**2.3%**
Cost of Raw Materials	51.0%	3.9%	49.2%	19.2%	107.0%	1.2%
Purchase of Stock	25.6%	68.1%	1.4%	10.5%	15.8%	95.3%
Changes in Inventories	-318.3%	-449.3%	-221.3%	199.6%	-271.0%	31.8%
Employee Cost	6.5%	18.0%	1.9%	0.1%	0.3%	4.1%
Other expenses	27.7%	-4.2%	31.2%	6.5%	52.1%	-5.7%
EBITDA	**32.9%**	**26.7%**	**42.2%**	**17.7%**	**109.1%**	**33.2%**
EBITDA Margin (%)	**224 bps**	**541 bps**	**274bps**	**134bps**	**944 bps**	**575 bps**
Depreciation	1.6%	-8.5%	0.5%	6.7%	53.5%	40.3%
EBIT	**38.3%**	**33.3%**	**47.2%**	**18.6%**	**195.2%**	**28.0%**
Interest Expense	-8.5%	-24.5%	-35.2%	-41.0%	-47.2%	-73.4%
Other Income	20.5%	-12.3%	-36.0%	-47.5%	17.8%	-51.8%
PBT	**38.2%**	**32.3%**	**48.0%**	**22.4%**	**194.2%**	**25.0%**
Exceptional Items	0	0	0	0	NM	NM
Tax	37.9%	173.3%	**893.9%**	**81.8%**	**199.6%**	**34.4%**
Share of associates	0	0	0	0	-31.3%	-24.8%
PAT	**38.4%**	**12.3%**	**16.1%**	**10.8%**	**199.5%**	**23.4%**
PAT Margin	**229 bps**	**135 bps**	**-124bps**	**-1bps**	**790 bps**	**158 bps**

Source: Company, KRChoksey Research

Shutdown impacts revenue growth owing to the discretionary nature of products

- Whirlpool reported revenue of 14.8% sales growth, led by pent-up demand.
- Blue star was severely impacted due to lower level of operation in project business and lack of Air Conditioners demand.

Pressure on operating margin continues

- Cost control measures were offset by a higher change in inventory resulting in marginal improvement in margin for Blue Star Ltd.
- Higher revenue, backed by cost reduction measures resulted in margin expansion for Whirlpool.

Corporate outlook

- Whirlpool is expanding distribution reach, entering new product categories, and expanding capacity in core products to recover and grow its business.
- Blue Star expects digitization and healthcare segments to provide opportunities for the Professional Electronics and Industrial Systems business due to opportunities playing out in the current situation

New product launches and Market share

- Whirlpool India gained market share during the quarter.
- Blue Star increased its market share in Air Conditioners, while it is looking to grow in water purifiers.

Companies	Revenue and Segment-wise Performance
Blue Star Ltd	• Blue Star revenue declined 27.8% YoY (up 44.1% QoQ) to INR 902 Cr in Q2FY21. Q2FY21 witness recovery in business activity with lockdown easing, and improvement in consumer sentiments, though it is below pre-Covid level. • **Segment-wise details** • Electro-Mechanical Projects and Commercial Air Conditioning Systems segment (~60% of revenue) declined 31.0% YoY/ up 73.1% QoQ to INR 540.83 Cr; down by 31.0% YoY / up by 73.1% QoQ; segment witnessed a gradual recovery with a major order from the infrastructure segment. The Commercial Air Conditioning business recovery was attributed to Healthcare, Pharma and Government sectors • Unitary Products revenue (~35% of revenue) declined 15.5% YoY/ up 15.9% QoQ to INR 319 Cr. Segment witnessed recovery in demand with retail outlet opening and growth in e-commerce channel. Pharma and Healthcare segment for modular cold rooms and medical refrigeration product, and growth momentum in supermarket refrigerators led to recovery in Commercial Refrigeration business. • Professional Electronics and Industrial Systems Business (~5% of revenue) registered a sharp revenue decline of 51.9%YoY/ up 10.1% QoQ to INR 43 Cr.
Whirlpool India	• Whirlpool reported revenue growth of 14.8% YoY and 55.7% QoQ to INR 1,600 Cr, growth was mainly led by recovery in demand on account of easing of lockdown and is attributable towards pent-up demand.
Symphony Ltd	• In Q2FY21 Symphony's consolidated revenues stood at Rs 191 cr. Revenues declined by 30% y-o-y as COVID-19 continued to impact the business and operations during the quarter. Geography-wise Indian Revenues declined by 44% while rest of the world witnessed marginal revenue uptick y-o-y. • Worldwide outbreak of covid-19 has impacted the company's sales severely as it seeks during peak summer season in India in which most of the secondary sales done.

Companies	Margin Performance
Blue Star Ltd	• EBITDA margin expanded 22 bps YoY/ 589 bps QoQ to 6.1% in Q2FY21 while EBITDA declined 25.1% YoY to INR 55 Cr. Finance cost increased by 162.9% YoY due to increase in borrowing. • PAT declined 59.6% YoY to INR 15 Cr due to poor operational performance, lower other income and higher interest expenses. • Electro-Mechanical Project & CACS margin improved to 6.4% in Q2FY21, due to better margin profile of the projects executed and improved margin in the Commercial Air Conditioning business, backed by cost optimization measures.
Whirlpool India	• Gross margin declined 426bps YoY to 35.22%, due to increase in change in inventories. • EBITDA margin expanded 115bps YoY/ 679bps QoQ to 11.3% in Q2FY21. EBITDA grew 27.8% YoY/ 288.4% QoQ to INR 18,116 lakhs mainly led by overall operational efficiency. Employee cost declined 2.1% YoY/ up 1.0% QoQ and other expenses declined 4.9% YoY / up 57.7% QoQ. • Despite better operation efficiency and lower finance cost PAT grew only 4.6% YoY to INR 135 Cr, due to higher depreciation cost in Q2FY21 and lower tax outgo in Q2FY20 leading to higher PAT during Q2FY20.
Symphony Ltd	• Gross margin on standalone basis slightly improved from 47% to 48% on YoY basis on account of some value engineering. PAT stood at 27cr registering degrowth of 53% YoY and Increasing 2700% on QoQ basis. PAT margin decreased by 512 bps on YoY basis and increased by 2161 on QoQ basis. • EBITDA fell 52.7% YoY to Rs. 35cr, as EBITDA margin expanded 8.9pps YoY to 18.3%, hit by higher raw material prices and freight costs. • EPS for the quarter stood at 2.17 against 8.18 YoY and 0.22 QoQ.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Blue Star Ltd	• The management indicated gradual demand revival in this quarter and expects recovery to accelerate strengthened by upcoming festive season. • Gradual recovery has been seen in infrastructure segment, while commercial air conditioning business saw attraction from Healthcare, Pharma and Government sector. • The commercial buildings and factory sector is yet to witness a recovery • Company will focus on working capital management and cost optimisation.	• Blue star's overall YTD market share stood at 12.75% as on Sep 2020. • For its water purifier business, the company expects it to be breakeven by end of the financial year. • In Q2FY20 company launched Virus Deactivation technology AC in the market. • VRF market share stands at 19.5% and is 2nd largest player in it, while Chiller market share stands at 25-30%.
Whirlpool India	• Whirlpool witnessed double digit volume growth in Q2FY21. • Management expects better pickup in demand during festive season. • Expects strong and sustained recovery across most of the categories. • Management is optimistic about consumer durable sector in short and long term on account of good festive season and increasing penetration level of consumer durable.	• Whirlpool had been benefitted of market share gain.
Symphony Ltd	• Management stated that uncertainties about the performance in FY21 exists and expects overall decline in current financial year compare to last year • Symphony India is confident to maintain last year operating margin percentage which was a about 50% despite inline inventory with the different channels. • Symphony has initiated certain measures and strategies to offset the current situation and which may yield benefit once the normalcy returns	• In FY20, Symphony launched new models across its products portfolio in Residential, Commercial and Centralised air cooling system • Company has initiated and taken new initiatives among which many of them are in pipeline in respect of new products and Innovation, Value Engineering, Enhancing operating efficiency, and enhancement of dealer-distribution network especially in rural and semi urban market, Company will witness meaningful impacts of these initiatives in FY22.

Whirlpool margin was higher compared to Blue Star and Symphony

Particulars (INR Cr)	Blue Star	Whirlpool	Symphony
Sales	**902**	**1,600**	**191**
Total Expenditure	**847**	**1,418**	**164**
Cost of Raw Materials	489	903	43
Purchase of Stock	85	56	54
Changes in Inventories	106	34	10
Employee Cost	91	150	26
Other expenses	76	274	28
EBITDA	**55**	**181**	27
EBITDA Margin (%)	6.1%	11.33%	14.14%
Depreciation	21	42	5
EBIT	**34**	**139**	**22**
Interest Expense	18	1	4
Other Income	6	35	8
PBT	**22**	**173**	**26**
Exceptional Items	0	0	-7
Tax	7	44	4
Share of Associates/Minorities	0	6	0
PAT	**15**	**135**	**15**
PAT Margin	1.71%	8.42%	7.85%
EPS	**1.6**	**10.6**	**2.1**

Source: Company, KRChoksey Research

Performance of Whirlpool is better as compared to Blue star and Symphony

Particulars	Blue Star		Whirlpool		Symphony	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**44.1%**	**-27.8%**	**55.7%**	**14.8%**	24.0%	-29.8%
Total Expenditure	**35.6%**	**-28.0%**	**44.7%**	**13.3%**	**3.1%**	**-21.5%**
Cost of Raw Materials	133.9%	-31.9%	204.2%	-0.4%	-28.3%	16.2%
Purchase of Stock	-44.3%	-52.1%	-26.9%	-38.5%	315.4%	-50.9%
Changes in Inventories	-9.1%	18350.0%	-87.9%	-118.3%	-52.4%	-350.0%
Employee Cost	30.0%	-24.0%	1.0%	-2.1%	0.0%	-13.3%
Other expenses	-0.2%	-38.2%	57.7%	-4.9%	-12.5%	-17.6%
EBITDA	**3950.0%**	**-25.1%**	**288.4%**	**27.8%**	640.0%	-57.1%
EBITDA Margin (%)	589 bps	22 bps	679 bps	115 bps	-902bps	1,739 bps
Depreciation	-1.3%	-4.7%	49.6%	25.8%	0.0%	-16.7%
EBIT	**NM**	**-33.7%**	**658.6%**	**28.4%**	**-320.0%**	**-61.4%**
Interest Expense	-3.7%	162.9%	-87.1%	-78.1%	100.0%	33.3%
Other Income	-31.9%	-44.7%	145.5%	-10.0%	0.0%	-27.3%
PBT	**NM**	**-58.4%**	**587.3%**	**21.3%**	**-750.0%**	**-60.0%**
Exceptional Items	NM	NM	NM	NM	NM	NM
Tax	-177.9%	-56.0%	408.9%	150.8%	-166.7%	-42.9%
Share of associates	-3.4%	-61.1%	NM	NM	NM	NM
PAT	**NM**	**-59.6%**	**755.0%**	**4.6%**	650.0%	-74.1%
PAT Margin	NM	-134 bps	689 bps	-82 bps	655 bps	-1,347 bps

Source: Company, KRChoksey Research

Demand recovery in sector and normalization of operations

- Production has started in phased manner.
- The sector witnessed volume momentum.
- Key brands has maintained its market share.

Improvement in operating margins

- Most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
- Asian Paint's margin was higher compared other peer companies, however, margins of Berger Paints and Avenue Supermarts has witnessed growth during the quarter.

Industry trends

- Paint Industry witnessed recovery in tier 2 / 3 / 4 markets and have reached pre Covid levels whereas metros and tier 1 / 2 markets reported 70-80% demand recovery of pre Covid level.
- The discretionary consumption also shown early signs of recovery and did better compared to Q1.
- Huge spurt in online shopping – robust growth in e-com channel – clear preference for contactless shopping.
- Increase in digital option by traditional trade. Modern trade footfalls lower as consumer prefer e-com stores.

Companies	Revenue and Segment-wise Performance
Asian Paints	• Asian Paints reported revenue growth of 5.9% YoY (+83.1% QoQ) to INR 5,350 Cr Growth was driven by improved demand for paint industry from tier2/3/4 markets, while product wise recovery was seen in economy, premium and some luxury range of products. • Volume reported double digit growth of 11% YoY. On segmental basis, paint revenue (~98% of revenue) grew 6% YoY (82% QoQ) to INR 5,232 Cr while Home improvement declined 3% YoY to INR 117 Cr. Both the segments in the Home Improvement category viz. the Kitchen and Bath business reported a recovery in quarter compared to Q1FY21, while bath business reported PBT breakeven. • Industrial segment reported recovery in both of its business, Automotive coatings JV (PPG-AP) with good growth seen in OEM, while Refinish though recovered but still its low and in Industrial Coatings JV (AP-PPG) growth is seen in Powder business, while demand for Industrial Liquid paint is still subdued. • The international business portfolio did well, supported by volume growth across market specially Africa and Middle east, while Nepal continues to be under pressure due to Covid related restriction. Sri Lanka and Bangladesh unit reported double digit volume growth.
Berger Paints	• Berger Paints Q2FY21 results were above our estimates on the revenue front. The company reported revenue growth of 9% YoY (+ 87.2% QoQ) to INR 1,743 Cr against our estimates of INR 1,211 cr. • The growth was mainly due to revival in demand and gradual lifting-up of lockdown restriction in major parts of the country. Decorative business showed an improved performance after the COVID affected first quarter. General Industrial and Protective Coatings business line also showed improved performance for the quarter.
Avenue Supermarts	• Standalone Revenue from operations grew by 36.1% QoQ / (down 12.3% YoY) to INR 5,218 Cr in Q2FY21 on account of ease in lockdown restrictions and gradual recovery noted. • On a consolidated basis, revenue declined 11.4% YoY to INR 5,306 Cr. Amid Covid-19, the company witnessed gradual progress and saw month on month improvement like September'20 did better than August'20 which performed well compared to July'20. • However, footfalls continue to be significantly lower than pre-Covid level, but average basket values were significantly higher than pre-Covid levels as consumers tends to stock-up things attributed to in-home consumption. • In the month of September'20, 2 and 2+ year old DMart stores did 87.5% of September'19 sales. Besides, discretionary consumption also shown early signs of recovery and did better compared to Q1.

Companies	Margin Performance
Asian Paints	• The company witnessed gross margin expansion of 197 bps YoY (-34 bps QoQ) due to stable raw material price and continued work on driving sourcing and formulation efficiency. • EBITDA margin expanded by 474 bps YoY to 23.6% (+708 bps QoQ) due to cost optimization efforts. In order to dealer to stock up products company has increased their discounts towards them. • Despite recovery in revenue and improved operational performance PAT grew merely 1.2% YoY to INR 830 Cr, on account of lower tax outgo during same period previous year.
Berger Paints	• Overall, Q2FY21 EBITDA margin expanded by 353 bps YoY to 19.2% (+934 bps QoQ) indicating an improvement in the cost efficiencies on YoY basis. • Net Profit grew by 12.3% YoY to INR 221 cr. with NPM at 12.7% which expanded 38bps YoY (+1,110 bps QoQ) due to higher other income of 23 Cr. (+47.4% YoY). • Raw material consumption as a percentage of sales improved over corresponding quarter last year mainly on account of decline in raw material prices but was offset partially by the decorative paint price decreases in September & December of FY2019.
Avenue Supermarts	• Gross profit margin stood at 14.0% (13.7% in Q1FY21 / 15.1% in Q2FY20) as sale of low margin FMCG and staples demand remains robust. • However, high margined General Merchandise and Garments sales (22.7% of total revenue) were less compared to previous year (27.3% of total revenue). EBITDA margin improved on sequentially by 198.4% on QoQ; however, declined 37.0% YoY to INR 325 Cr. • Additionally, EBITDA margin expanded 336 QoQ (down 249 bps QoQ). Net Income improved 324.8% QoQ (down 36.9% YoY) to INR 211 Cr. PAT margin grew 272 bps QoQ (down 160 bps YoY) to 4.0%.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Asian Paints	• Management expects margin to be elevated given stable raw material price and cost optimization measures in coming quarters.	• With view to strengthen its presence as household names company has foray into other décor segment like Lighting, Furnishing& furniture. • Company has launched 1500+ SKU's across three brand: Nilaya, Royale and Ador. • With foraying into this segment its home improvement category is expected to report healthy growth going forward.
Avenue Supermarts	• Management stated that uncertainties about the performance in FY21 exists and expects overall decline in current financial year compare to last year. • However, there has been a gradual revival in demand from Q2FY21 and expect normalcy in next couple of quarter.	• During the quarter, six new stores were added whereas 2 stores were converted to fulfillment centers for e-commerce business; thus, taking the total tally to 220 stores (8.2mn Sq. ft. of retail business area) as at the end of 30th September 2020. • The company expanded its E-Commerce operations in select pin codes of Pune City.

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Asian Paints margin was higher compared to Berger Paints and Avenue Supermarts

Particulars (INR Cr)	Asian Paints	Berger Paints	Avenue Supermarts
Sales	**5,350**	**1,743**	**5,218**
Total Expenditure	**4,085**	**1,407**	**4,893**
Cost of Raw Materials	2,646	750	4,550
Purchase of Stock	417	250	0
Changes in Inventories	(89)	-3	-65
Employee Cost	379	114	123
Other expenses	732	296	285
EBITDA	**1,265**	**335**	**325**
EBITDA Margin (%)	**23.6%**	**19.2%**	**6.2%**
Depreciation	194	54	90
EBIT	**1,072**	**281**	**235**
Interest Expense	21	11	8
Other Income	83	23	56
PBT	**1,134**	**294**	**282**
Exceptional Items	0	0	0
Tax	294	72	72
Share of Associates/Minorities	(10)	-1	0
PAT	**830**	**221**	**211**
PAT Margin	**15.5%**	**12.7%**	**4.0%**
EPS	**8.66**	**2.28**	**3.22**

Source: Company, KRChoksey Research

Performance of Asian Paints & Berger Paints is better as compared to Avenue Supermarts

Particulars	Asian Paints		Berger Paints		Avenue Supermarts	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**83.1%**	**5.9%**	**87.2%**	**9.0%**	**36.1%**	**-12.3%**
Total Expenditure	**67.5%**	**-0.3%**	**67.8%**	**4.4%**	**31.4%**	**-9.9%**
Cost of Raw Materials	96.6%	-4.7%	131.0%	-13.1%	41.7%	-16.4%
Purchase of Stock	120.0%	8.9%	232.1%	94.9%	-165.9%	-83.3%
Changes in Inventories	-211.7%	-64.8%	-102.2%	-93.2%	-	-
Employee Cost	4.8%	9.0%	-1.8%	1.4%	1.3%	17.6%
Other expenses	58.4%	-13.0%	71.4%	1.4%	-2.7%	3.3%
EBITDA	**161.3%**	**32.5%**	**264.0%**	**33.5%**	**198.4%**	**-37.0%**
EBITDA Margin (%)	708 bps	474 bps	934 bps	353 bps	336bps	-249bps
Depreciation	1.3%	-1.8%	6.7%	13.7%	5.0%	8.5%
EBIT	**265.6%**	**41.4%**	**574.6%**	**38.1%**	**929.9%**	**-45.7%**
Interest Expense	1.9%	-20.9%	-11.9%	5.1%	4.8%	-54.9%
Other Income	75.5%	-21.4%	196.0%	47.4%	8.7%	529.9%
PBT	**254.2%**	**35.5%**	**690.3%**	**40.4%**	**324.3%**	**-33.3%**
Exceptional Items	NM	NM	NM	NM	NM	NM
Tax	240.8%	3961.1%	306.8%	455.3%	322.7%	-20.1%
Share of associates	-36.9%	5.1%	-75.5%	NM	-	-
PAT	**280.1%**	**1.2%**	**1398.9%**	**12.3%**	**324.8%**	**-36.9%**
PAT Margin	805 bps	-72 bps	1,110 bps	38 bps	272bps	-160bps

Source: Company, KRChoksey Research

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Our top picks are ITC Ltd, Hindustan Unilever, Nestle India and Britannia Industries

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Britannia Industries	ACCUMULATE	BUY	89,911	3,733	4,125	4,125	10.5%	58.2	47.0
Nestle India	ACCUMULATE	BUY	1,76,968	18,401	19,640	19,640	6.7%	79.1	68.1
ITC Ltd.	ACCUMULATE	BUY	2,65,811	216	228	228	5.6%	30.6	13.9
Hindustan Unilever	ACCUMULATE	BUY	5,56,598	2,375	2,556	2,556	7.6%	60.4	60.7
Tata Consumer Products	HOLD	ACCUMULATE	52,955	576	590	516	2.4%	45.5	56.6
Colgate Palmolive India	HOLD	ACCUMULATE	42,818	1,574	1,622	1,622	3.0%	46.6	45.5
Godrej Consumers	HOLD	ACCUMULATE	74,391	727	735	735	1.1%	52.1	40.6
Emami Ltd.	HOLD	HOLD	19,069	427	441	355	3.2%	75.5	34.8
Blue Star	HOLD	ACCUMULATE	7,628	790	815	770	3.1%	45.4	44.0
Whirlpool India	UR	UR	26,491	2,085	UR	UR	NA	52.8	43.5
Symphony	HOLD	ACCUMULATE	63,125	904	922	966	2.0%	68	28
Asian Paints	HOLD	ACCUMULATE	2,41,526	2,521	2,564	2,310	1.7%	63.0	69.8
Berger Paints	UR	UR	65,674	677	UR	UR	NA	66.7	67.1
Avenue Supermarts	UR	UR	1,74,640	2,685	UR	UR	NA	116.0	95.2

Note: UR – Under Review
Source: Company, KRChoksey Research

Cement Sector

Demand recovery was led by rural and retail segments, while urban demand was still below pre – COVID-19 level

- Cement demand during the quarter improved in northern, central and eastern India. Demand recovery in South was impacted due to stricter lockdowns, especially in Tamil Nadu and Kerala.
- Rural and retail witnessed increased cement consumption, which resulted in pickup in cement volume. While urban demand was still below pre-COVID-19 level.
- Demand from rural segment is expected to continue, while urban demand is likely to recover in H2FY21. Some Tier-1 towns are showing signs of recovery in real estate market. Housing demand is also showing green shoots.
- Cement demand rebounded in September, with pick-up in government spend on Infrastructure and affordable housing.

Q2FY21 witnessed revenue growth with easing of lockdown related restriction

- Our Cement coverage saw revenue growth of 5.3% YoY / 33.7% QoQ in Q2FY21, led by overall volume growth of 11.0% YoY / 34.1% QoQ.
- In Q2FY21 volume growth was reported by Ultratech Cement (18.7% YoY / 36.9% QoQ) and Shree Cement (14.2% YoY / 32.5% QoQ), while it was flat for ACC (0.8% YoY / 35.2% QoQ). Ramco reported YoY volume decline (-18.8% YoY / +14.1% QoQ) in Q2FY21.

EBITDA margin expanded backed by recovery in revenue and cost reduction

- EBITDA grew 31.9% YoY / 35.5% QoQ, while EBITDA margin expanded 525 bps YoY / 35 bps QoQ with various cost reduction exercises. PAT margin expanded 322 bps YoY while it was flat QoQ.
- Realizations were flat YoY and QoQ, while EBITDA/t for coverage universe improved by 28.0% YoY / 12.6% QoQ.

Companies	Revenue	Volume
Ultratech Cement	• Revenue grew 7.7% YoY / 35.6% QoQ in Q2FY21 to INR 10,354 Cr. • Realization declined 9.3% YoY / 0.9% QoQ. • Trade sales share increased 3.0% YoY while Rural markets penetration increased by ~5% YoY.	• Consolidated cement sale volume improved 18.7% YoY / 36.9% QoQ to 20.1 MT.
Ramco Cement	• Revenue declined 4.5% YoY (up 20.7% QoQ) to INR 1,257 Cr in Q2FY21. • Realization improved 16.8% YoY / 4.2% QoQ in Q2FY21, due to the stability in cement prices, improved sale of flagship products and premium products in trade segment.	• Cement volume for the quarter was 2.21 MnT as against 2.72 MnT, -18.8% / +14.1% YoY / QoQ, respectively. Sales volume were down due to lockdown, restricted access in containment zones and unusually heavy rains in Kerala, Karnataka, AP and Telangana during August and September.
Shree Cement	• Revenue grew 8.2% YoY / 31.0% QoQ to INR 3,250 Cr. • Realization declined 5.2% YoY / 1.1% QoQ	• Volume grew 14.2% YoY / 32.5% QoQ to 6.5 MT due to easing of lockdown.
ACC*	• Revenue rose 35.9% QoQ (flat YoY) to INR 3,537 Cr in Q3CY20. Cement revenue grew 32.2% QoQ / 4.3% YoY, (94% of revenue). • Realization were stable for both Cement & RMX. Cement realization for the quarter was -2.2%/+3.5% QoQ/YoY, respectively, while RMX realization was +3.0%/3.4% QoQ/YoY, respectively.	• Cement volume were flat YoY at 6.5Mnt (+0.8% YoY, +35.2% QoQ) in Q2FY21 • RMX volume reported a steep 43.2% YoY decline (up 206.7% QoQ)

Note: * stands for closing as per Calendar Year

Companies	Margin	Outlook
Ultratech Cement	• EBITDA margin expanded by 607bps YoY (-115bps QoQ) to 26.0% due to lower energy cost, employee cost and other expenses as % of revenue. • Net Profit margin for the quarter expanded to 8.7% in Q2FY21 vs 6.0% in Q2FY20 (10.4% in Q1FY21).	• Work on the Company's 3.4 mtpa cement capacity addition in Odisha, Bihar and West Bengal has picked up pace and are expected to get commissioned during FY22, in a phased manner. • The 14.6 MT cement plants acquired in FY20 have been integrated and now investing in improving operations further.
Ramco Cement	• EBITDA margin expanded 1,274 bps YoY / 1,021 bps QoQ to 35.2%. EBITDA margin improvement YoY was on account of lower RM cost, lower overhead expenses, lower energy cost & lower transportation cost. • Net Profit margin expanded 599 bps YoY / 824 bps QoQ to 18.8%	• Expects to commission the clinkering unit of 1.5 MTPA along with 9 MW WHRS in Jayanthipuram and 2.25 MTPA clinkering unit in Kurnool before March 2021. The one-MTPA cement grinding facility, 12 MW of WHRS and railway siding in Kurnool are expected to be commissioned in FY22. • During the six months period up to 30th Sep 20, the company has reduced the borrowings by INR 104 Cr after spending for capex of INR 685 Cr.
Shree Cement	• EBITDA margin expanded on account of lower employee cost & energy cost. Q2FY21 EBITDA margin expanded 163 bps / 302 bps YoY / QoQ to 30.8%. • Effective tax rate was higher for the quarter at 27.6%. Depreciation declined 31.9% YoY while Other Income rose 76.4% YoY. Net Profit margin for the quarter expanded 588 bps YoY / 293 bps QoQ to 16.2%.	• Company will commission its 3mn MT SGU each in Cuttack and Pune by Dec 20 and 4mn MT clinker line in Chattisgarh by Q2FY23.
ACC*	• EBITDA margin improved 328 bps YoY (-148 bps QoQ) to 19.4%. EBITDA margin improvement was led by lower power cost, lower logistics cost & lower other expenses. • Net Profit margin improved 176 bps YoY (-26 bps QoQ) to 10.5%.	• Capacity addition of 5.9 MTPA with total capex of INR 30 bn augurs well and is expected to commence its operation by end of CY21.

Note: * stands for closing as per Calendar Year

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Volume accelerated revenue growth

Particulars (INR Cr)	Ultratech Cement	Ramco Cement	Shree Cement	ACC Cement
Sales	**10,354**	**1,257**	**3,250**	**3,537**
Total Expenditure	7,659	815	2,250	2,866
EBITDA	**2,695**	**442**	**1,000**	**671**
EBITDA Margin (%)	26.0%	35.2%	30.8%	19.4%
Depreciation	672	85	310	161
EBIT	**2,022**	**357**	**690**	**511**
Interest Expense	357	27	64	16
Other income	135	8	103	46
Exceptional items	336	0	0	0
PBT	**1,465**	**338**	**730**	**540**
Tax	566	103	202	177
Share of Associates/Minorities	1	0	1	1
PAT	**898**	**236**	**527**	**364**
PAT Margin	8.7%	18.8%	16.2%	10.5%
Adj. PAT	**898**	**236**	**527**	**364**
Adj. PAT Margin	8.7%	18.8%	16.2%	10.5%
EPS	**31.1**	**10.0**	**146.1**	**19.3**
Adj. EPS	**31.1**	**10.0**	**146.1**	**19.3**

Source: Company, KRChoksey

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Q2FY21 witnessed improvement in operational efficiency

Particulars	Ultratech Cement		Ramco Cement		Shree Cement		ACC Cement	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**35.6%**	**7.7%**	**20.7%**	**-4.5%**	**31.0%**	**8.2%**	**35.9%**	**0.3%**
Total Expenditure	**37.8%**	**-0.5%**	**4.2%**	**-23.5%**	**25.6%**	**5.7%**	**38.0%**	**-3.5%**
EBITDA	**29.9%**	**40.5%**	**70.0%**	**49.7%**	**45.3%**	**14.2%**	**27.8%**	**20.5%**
Change in EBITDA Margin (bps)	**-115**	**607**	**1,021**	**1,274**	**302**	**163**	**-148**	**328**
Depreciation	4.1%	0.6%	1.2%	11.6%	3.2%	-31.9%	-1.1%	6.4%
EBIT	**41.6%**	**61.8%**	**103.1%**	**63.0%**	**77.9%**	**64.1%**	**40.8%**	**25.8%**
Interest Expense	-9.2%	-29.6%	-11.4%	80.0%	-10.7%	-12.5%	22.6%	-1.5%
Other income	-51.6%	-8.2%	-17.5%	-9.8%	-18.2%	76.4%	-11.3%	-10.4%
Exceptional items	NM	NM	NM	NM	NM	NM	NM	NM
PBT	**26.7%**	**64.6%**	**117.3%**	**58.7%**	**64.8%**	**79.6%**	**34.7%**	**22.6%**
Tax	57.1%	81.9%	122.4%	127.9%	79.6%	117.3%	33.8%	25.5%
Share of Associates/Minorities	NM	NM	NM	NM	20.0%	-66.4%	NM	NM
PAT	**12.6%**	**55.1%**	**115.1%**	**40.2%**	**59.9%**	**69.7%**	**34.3%**	**20.3%**
Change in PAT Margin (bps)	**-177**	**265**	**824**	**599**	**293**	**588**	**-26**	**176**

Source: Company, KRChoksey

Ultratech and ACC remains our top pick in Cement industries

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Ultratech Cement	BUY	BUY	1,44,636	5,015	5,964	5,362	18.9%	41.1	27.0
The Ramco Cement	HOLD	HOLD	19,927	845	868	814	2.7%	28.6	22.0
Shree Cement	ACCUMULATE	ACCUMULATE	85,692	23,805	26,272	22,710	10.4%	55.1	40.2
ACC	BUY	BUY	30,291	1,609	1,957	1,815	21.6%	32.3	21.0

Source: Bloomberg, KRChoksey Research

IT Sector

TCS, Infosys, HCLT stand out among top-tier IT, Tata Elxsi among the mid-sized firms

- **Large deal wins, plus a smattering of smaller deals with rapid execution drive major top-tier IT performances**
  - Among the top-tier IT stocks, TCS, Infosys and HCLT all reported stand-out performances, with the 3 IT majors clocking 4-4.8% QoQ CC revenue growth rates vs 2.9% for Tech Mahindra and 1.1% for Wipro; their growth was fairly broad-based, in particular for HCLT, for whom all verticals saw healthy growth including Retail & CPG, Life Sciences, Technology, and Communications, Media & Entertainment, while for TCS and Infosys, BFSI and Life Sciences drove growth, apart from Retail and Technology.
  - Margin-wise, apart from Wipro, the other top-5 IT firms recorded 100-440bps QoQ EBIT margin expansion, aided by growth leverage, lower sub-contractor and travel cost, higher utilisation and offshore revenue.
  - Large deal execution, with a smattering of smaller deals with lower execution time frames aided revenue growth for the 3 top-tier IT firms, and clients investing in digital transformation initiatives also underscores how core IT has become to enterprises. TCS' large deal TCV rose >34% YoY, while that of Infosys rose >10% YoY, reflecting healthy underlying traction.
- **Tata Elxsi, the stand-out performer among mid-sized firms, Persistent, Sonata also clock solid performance**
  - Robust growth in Broadcast & Media, and Medical Devices verticals, with recovery in Transportation (aided by top client JLR) drove robust performance by Tata Elxsi, with CC revenue up 6.9% QoQ (6.7% CC EPD growth, 7.4% INR total growth) along with a substantial 439bps QoQ EBIT margin expansion. This represents a highly impressive growth recovery after a challenging 1QFY21.
  - Persistent Systems and Sonata Software also performed well, with USD revenue up 3.9% QoQ and 6.8% QoQ, respectively led by large deal execution for the former and growth recovery in Travel, apart from Essential Retail, Distribution, Manufacturing and Commodities for the latter; EBIT margin rose handsomely up 171bps QoQ for Persistent, and IITS EBITDA margin rose 126bps QoQ for Sonata, aided by higher utilisation and cost optimisation for both firms.
  - Mindtree under-performed, with CC revenue up 2.1% QoQ, slowest in our mid-tier universe, even as EBIT margin rose 357bps QoQ.

Companies	Revenue	Margin	Industry Outlook / Strategy
Infosys	• Vertical-wise, Financial Services (+7.8% QoQ), Retail (+10.1%), Hi-Tech (+11.4%) and Life Sciences (8.2%) saw robust growth. Geo-wise, North America (+4.8% QoQ in USD terms), Europe (+7.6%), India (+11.1%) and RoW (+8.8%) grew at a robust pace.	• EBIT margin surged by as much as 268bps QoQ on revenue growth, operational efficiency and higher utilisation. EBIT margin came in at its highest level since 4QFY16.	• The IT major revised upward both revenue and margin guidance, and now expects FY21 revenue growth in CC terms to range between 2-3% and EBIT margin at 23-24% (0-2% and 21-23% earlier).
TCS	• TCS' 2QFY21 revenue was aided by BFSI (+6.2% CC QoQ growth) and Life Sciences (+6.9%) verticals. • Geo-wise, North America revenue rose 3.6% QoQ in CC terms.	• EBIT margin rose by a substantial 259bps QoQ to 26.2% (our expectations 25.3%), aided by revenue growth and substantial cost control on both wage cost and SG&A.	• Management believes this is the first phase of the technology up-cycle with enterprise IT and productivity moving to the cloud, a phenomenon that is likely to last several years, giving adequate runway for growth for TCS.
HCL Technologies	• CC revenue was led by Retail & CPG (8.4% QoQ CC growth), Life Sciences & Healthcare (8.6%), Technology and Services (6.3%) and Telecommunications, Media & Entertainment (6.1%) verticals.	• EBIT margin saw expansion of 108bps QoQ to 21.6% (75bps above our estimate) aided by revenue growth and cost control, which was the key driver for net profit growth of 7.4% QoQ to INR 31.4 bn.	• The IT major has guided for 1.5%-2.5% QoQ growth each in 3QFY21 and 4QFY21, with EBIT margin for the year likely to be 20-21%.
Tech Mahindra	• Revenue was aided by growth across verticals including COMM (+3.0% QoQ), Technology, Media & Entertainment (+14.1% QoQ), BFSI (+9.5% QoQ) and Retail, Transport & Logistics (+7.7% QoQ)	• EBIT margin surged by as much as 413bps QoQ to 14.2%, the highest level since 4QFY19, aided by revenue growth, lower employee and subcontractor costs and higher utilisation (85% cum-trainees vs 82% in 1QFY21).	• Manufacturing vertical has bottomed out; Retail is segmented into 2 blocks – e-commerce (showing robust growth) and offline retail businesses, which are in a hurry to move online (opportunities in omni channel retail).
Wipro	• Wipro's' 2QFY21 IT revenue was led by BFSI (+3.7% CC QoQ growth), Communications (+4.6), Consumer Business Unit (+4.5%), Health BU (+4.1%) and Manufacturing (+3.5%).	• IT Services EBIT margin rose by 14bps QoQ to 19.2%, largely range-bound despite higher utilisation, given a high base (EBIT margin had risen 146bps QoQ in 1QFY21) and INR appreciation.	• Wipro has guided for 3Q revenue growth of 1.5-3.5% QoQ in CC terms, above street expectations of 0-2% QoQ.

Companies	Revenue	Margin	Industry Outlook / Strategy
Persistent Systems	• Revenue rose 3.9% QoQ, above expectations, aided by 5.3% QoQ linear services growth (offshore volume growth at 7.8% QoQ), with BFSI (+4.2% QoQ) and Technology (+4.5%) clocking healthy growth among the verticals, aided by deal ramp ups.	• Profitability-wise, EBIT margin saw a healthy 171bps QoQ expansion, aided by revenue growth, lower royalty cost, operational efficiency and higher utilisation.	• 3Q is seasonally strong for Alliances, while the large deal won in 1Q is ramping up to a stage where onsite resources will move offshore. • The company is looking to add 300-400 employees in 3Q and 4QFY21, which should support revenue growth.
Tata Elxsi	• Vertical-wise, Transportation saw a rebound, clocking 5.9% QoQ INR growth, led by top client JLR (+15.4% QoQ). Broadcast & Communications and Healthcare and Medical Devices both clocked healthy growth of 6.7% and 13.4% QoQ, respectively.	• EBIT margin powered ahead by 439bps QoQ to 24.8% on revenue growth and lower employee costs (down 550bps QoQ as a % of revenue) owing to offshore shift.	• Wage hikes are effective October 1, 2020, with 6-8% a likely range. • Management has maintained 22-24% PBT margin guidance, with a bias towards the upper end of the band. • Deal pipeline is strong across all 3 business segments, and management is confident of sustaining pre-COVID-19 growth momentum.
Mindtree	• Revenue was led by Manufacturing, CPG & Retail (+7.7% QoQ), BFSI (+3.3%) and Travel & Hospitality (+5.9%) verticals.	• EBIT margin surged 357bps QoQ to 17.3%, highest level in nearly 6 years aided by a substantial reduction in travel cost (down 83bps QoQ as a % of revenue) and higher utilisation rate (78.8% cum-trainees vs 75% in 1QFY21).	• The company will award wage hikes from January 1, 2021. • Despite 3Q being a seasonally weak quarter, the company sees revenue growth in the quarter given its deal pipeline.
Sonata Software	• Sonata Software's IITS revenue was up 6.8% QoQ in USD terms, led by Travel (up 167% QoQ), Distribution & Manufacturing (+6.8%), Retail Essential (+31.8%) and Commodity & Service Industry (+5.1%) verticals.	• EBIT margin surged by 248bps QoQ to 9.6%, owing to weak 2Q DPS seasonality and higher IITS margins (EBITDA margin up 127bps QoQ) owing to higher utilisation (87% vs 83% in 1Q), billability (77% vs 70% in 1Q) and cost control.	• Travel and Non-Essential Retail are still seeing adverse impact from COVID-19 pandemic, while Distribution, Manufacturing and Essential Retail are seeing good traction. • Growth is likely to be more secular in 2HFY21.

Companies	Revenue	Margin	Industry Outlook / Strategy
Sterlite Technologies	• STL's capacity utilisation exceeded pre-COVID-19 levels; OF utilisation was 60% of the expanded capacity of 50 mn fkm and OFC utilisation was more than 90% and further to see improvement in coming quarters. The optical fibre cable capacity is at 18 mn fkm, STL has initiated the expansion of its OFC capacity from 18 mn fkm to 33 mn fkm which is expected to be complete by June 2021. The capacity expansion is on account of visibility of growth in global optical fibre cable demand and STL's strong customer engagement and solution offerings demonstrated positive long term growth.	• For Q2FY21, EBITDA declined by 29.84% YoY to INR 2,024 Mn while EBITDA margin declined by 376bps YoY and (+357bps QoQ) to 17.46%.	• Management expects H2FY21 to be much better than H2FY20 on account of healthy order book and visibility of demand and also expects margin to improve on back of increase in overall utilisation rate.
Infibeam Avenues	• Q2FY21 consolidated revenue declined 8.6% YoY (up 49.9% QoQ) to INR 1,539 mn. • Revenue was affected due to the low contribution from sectors like aviation, travel & tourism, hotel, and entertainment.	• EBITDA declined 13.9% YoY (up 11.7% QoQ) to INR 346 mn. • EBITDA margin contracted 138 bps YoY / 769 bps QoQ to 22.5%.	• Infibeam is currently witnessing a steep volume increase in its payment service business as well as bill payment business. • Despite volume being low in aviation, travel& tourism, hotel and entertainment, company witnessed a robust payment volume growth in led by retail and educational sector and from professional.

Particulars (INR Cr)	Infosys	TCS	HCL Technologies	Tech Mahindra	Wipro
Sales	**24,570**	**40,135**	**18,594**	**9,372**	**15,097**
Total Expenditure	17,487	28,622	13,643	7,669	11,659
EBITDA	**7,083**	**11,513**	**4,951**	**1,703**	**3,438**
EBITDA Margin (%)	**28.8%**	**28.7%**	**26.6%**	**18.2%**	**22.8%**
Depreciation	855	998	935	372	658
EBIT	**6,228**	**10,515**	**4,016**	**1,331**	**2,780**
Interest Expense	48	0	0	38	127
Other income	570	740	136	118	555
Exceptional Items	0	(1,218)	0	0	0
PBT	**6,750**	**10,037**	**4,152**	**1,411**	**3,208**
Tax	1,892	2,793	999	346	723
Share of Associates/Minorities	13	29	11	-2	19
PAT	**4,845**	**7,215**	**3,142**	**1,066**	**2,466**
PAT Margin	**19.7%**	**18.0%**	**16.9%**	**11.4%**	**16.3%**
EPS (INR)	**11.4**	**22.5**	**11.6**	**12.1**	**4.3**

Source: Company, KRChoksey Research

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Particulars (INR Cr)	Persistent Systems	Tata Elxsi	Mindtree	Sonata Software
Sales	**1,008**	**430**	**1,926**	**804**
Total Expenditure	842	312	1,536	716
EBITDA	**166**	**118**	**390**	**87**
EBITDA Margin (%)	**16.4%**	**27.4%**	**20.3%**	**10.9%**
Depreciation	44	11	57	10
EBIT	**122**	**107**	**333**	**77**
Interest Expense	0	1	13	4
Other income	16	4	25	2
Exceptional items	0	0	0	0
PBT	**138**	**110**	**345**	**76**
Tax	36	31	91	19
Share of Associates/Minorities	0	0	0	0
PAT	**102**	**79**	**254**	**57**
PAT Margin	**10.1%**	**18.3%**	**13.2%**	**7.1%**
EPS (INR)	**13.3**	**12.7**	**15.4**	**5.5**

Source: Company, KRChoksey Research

Particulars (INR Cr)	Sterlite Technologies	Infibeam Avenues
Sales	**1,160**	**154**
Total Expenditure	957	119
EBITDA	**202**	**35**
EBITDA Margin (%)	**17.5%**	**22.5%**
Depreciation	82	25
EBIT	**121**	**9**
Interest Expense	50	1
Other income	9	3
Exceptional items	-2	-
PBT	**79**	**13**
Tax	24	4
Share of Associates/Minorities	0	1
PAT	**55**	**9**
PAT Margin	**4.8%**	**5.9%**
EPS (INR)	**1.5**	**0.14**

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Particulars	Infosys		TCS		HCL Technologies		Tech Mahindra		Wipro	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**3.8**	**8.6**	**4.7**	**3.0**	**4.2**	**6.1**	**2.9**	**3.3**	**1.2**	**-0.2**
Total Expenditure	**-0.3**	**2.9**	**1.1**	**-0.5**	**2.8**	**1.6**	**-1.8**	**1.3**	**-0.6**	**-3.1**
EBITDA	**15.7**	**25.6**	**14.9**	**12.6**	**8.4**	**20.7**	**30.9**	**13.5**	**7.8**	**11.0**
Change in EBITDA Margin (bps)	**296**	**391**	**253**	**245**	**103**	**322**	**389**	**162**	**140**	**231**
Depreciation	13.1	17.6	2.3	15.5	3.2	54.3	-3.0	8.8	6.9	36.7
EBIT	**16.1**	**26.8**	**16.2**	**12.3**	**9.7**	**14.8**	**45.1**	**14.8**	**8.0**	**6.3**
Interest Expense	0.0	14.3	-	-	-	-	-23.9	0.0	-2.5	-43.6
Other income	20.0	-8.9	62.3	-36.6	-33.7	-4,633.3	-71.8	-45.7	-14.5	-25.5
Exceptional items	-	-	-	-	-	-	-	-	-	-
PBT	**16.5**	**22.8**	**5.6**	**-4.7**	**7.4**	**18.8**	**9.9**	**5.5**	**3.7**	**2.3**
Tax	24.5	29.7	13.8	13.0	7.5	19.6	5.7	52.8	5.7	26.1
Share of Associates/Minorities	-66.7	-27.8	-29.3	81.3	0.0	37.5	-88.7	-85.4	-11.4	117.4
PAT	**14.5**	**20.6**	**20.3**	**4.9**	**7.4**	**18.5**	**9.7**	**-5.1**	**3.2**	**-3.4**
Change in PAT Margin (bps)	**183**	**196**	**272**	**38**	**50**	**179**	**70**	**-101**	**31**	**-54**

Source: Company, KRChoksey Research

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Particulars	Persistent Systems		Tata Elxsi		Mindtree		Sonata Software	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**1.7**	**13.9**	**7.4**	**11.5**	**0.9**	**0.6**	**-15.6**	**14.3**
Total Expenditure	**-0.4**	**10.4**	**1.4**	**-1.1**	**-3.2**	**-7.8**	**-18.1**	**17.0**
EBITDA	**13.2**	**36.3**	**27.3**	**67.8**	**21.2**	**57.3**	**11.8**	**-3.6**
Change in EBITDA Margin (bps)	168	270	429	921	340	730	266	-201
Depreciation	1.0	3.5	3.5	2.2	-4.7	-19.5	-1.6	9.2
EBIT	**18.4**	**53.9**	**30.5**	**79.9**	**27.1**	**87.8**	**13.8**	**-5.0**
Interest Expense	-	-	-6.1	-4.0	0.8	-4.3	10.2	7.4
Other income	-18.0	-56.8	-67.2	-64.4	-39.7	24.4	-22.0	-88.3
Exceptional Items	-	-	-	-	-	-	-	-
PBT	**12.7**	**19.0**	**17.0**	**56.1**	**18.9**	**87.9**	**12.3**	**-23.0**
Tax	10.9	20.5	23.9	50.6	18.5	88.0	5.9	-29.2
Share of Associates/Minorities	-	-	-	-	-	-	-	-
PAT	**13.3**	**18.5**	**14.5**	**58.4**	**19.1**	**87.9**	**14.6**	**-20.8**
Change in PAT Margin (bps)	104	39	114	543	201	612	188	-316

Source: Company, KRChoksey Research

Particulars	Sterlite Technologies		Infibeam Avenues	
Change (%)	QoQ	YoY	QoQ	YoY
Sales	**32.3**	**-14.7**	**49.9**	**-8.6**
Total Expenditure	**26.9**	**-10.7**	66.4	-44.1
EBITDA	**66.4**	**-29.8**	**11.7**	**-13.9**
Change in EBITDA Margin (bps)	357	-376	-769	-138
Depreciation	10.0	8.8	7.2	16.6
EBIT	**154.4**	**-43.4**	**26.1**	**-49.5**
Interest Expense	-0.6	-16.7	8.8	-11.6
Exceptional Items	-2.0	2.2	17.0	28.1
PBT	-	-	**-14.1**	**-62.7**
PBT	**1,052.9**	**-50.7**	**-14.1**	**-62.7**
Tax	471.6	607.2	22.9	-54.3
Share of Associates/Minorities	-	-	-80.8	-92.4
PAT	**2,342.5**	**-65.0**	**-23.1**	**-65.1**
Change in PAT Margin (bps)	450	-684	-557	-953

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Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Infosys	ACCUMULATE	BUY	4,96,317	1,163	1,300	1,300	11.8	18.7	23.7
TCS	ACCUMULATE	BUY	10,43,913	2,784	3,170	3,170	13.9	23.1	27.8
HCL Technologies	BUY	BUY	2,34,773	862	1,015	1,015	17.8	15.6	17.1
Tech Mahindra	BUY	BUY	88,899	919	975	975	6.1	15.2	16.1
Wipro	ACCUMULATE	BUY	2,02,037	354	420	420	18.8	16.0	18.5
Persistent Systems	ACCUMULATE	BUY	9,996	1,314	1,415	1,415	7.5	17.1	21.1
Tata Elxsi	ACCUMULATE	BUY	10,019	1,606	1,600	1,600	(0.3)	29.2	27.3
Mindtree	ACCUMULATE	BUY	24,072	162	1,520	1,520	5.9	20.1	20.8
Sonata Software	ACCUMULATE	BUY	3,685	86	393	393	10.8	13.2	12.5
Sterlite Technologies	BUY	BUY	6,406	162	191	191	17.9	26.9	12.3
Infibeam Avenues	BUY	BUY	5,757	86	105	105	22.7%	152.1	27.1

Source: Company, KRChoksey Research

Pharmaceutical Sector

Indian Pharma Market (IPM) growth turns positive in September quarter; Volume decline narrows:

- For the quarter ended Sep-20, Indian Pharma Market (IPM) reported a muted revenue growth of 1.0% YoY (vs -5.9% YoY in June quarter).
- Volume fell 6.5% YoY (vs -11.8% YoY in June quarter), Price led growth was 4.6% YoY (vs +4.5% in previous quarter) while New Product Launch led growth was at 2.9% YoY (+1.4% in previous quarter). On the Moving Annual Total (MAT) basis, YoY growth in the IPM was at 3.5% YoY.
- Drugs & pharmaceuticals continued to record a sharp increase in exports during the quarter and exports recorded double digit y-o-y growth during the quarter.

Therapy performance in the domestic market:

- Cardiac, Anti-Diabetics, and the Respiratory therapies grew at 12.0%/7.7%/6.1% YoY on a MAT basis in September quarter in the domestic market.
- On the other hand, Anti-Infectives, Pain management and Gynae therapy sales declined at 0.7%/1.0%/-2.1% YoY, which had an adverse impact on MAT Sep-20 sales growth.

Healthy revenue growth in Pharma coverage; continued cost savings supported margin improvement:

- Our coverage stocks reported an aggregate growth of 8.1% YoY (+11.1% QoQ) growth in sales during Q2FY21. Granules India (+22.7% YoY/16.7% QoQ), Alembic Pharma (17.4% YoY/+8.6% QOQ) and Aurobindo Pharma (+15.8% YoY/+9.4% QoQ) led the growth in revenue in Q2FY21.
- EBITDA of pharma coverage grew 18.1% YoY (+15.3% QoQ) with margin improvement of ~200bps YoY (+85bps QoQ). Granules India saw highest improvement in EBITDA margin in Q2FY21 (+935bps YoY/492bps QoQ), followed by Sun Pharma (+508bps YoY/+374bps QoQ) & Torrent Pharma (+450bps YoY/-67bps QoQ).
- Overall Adj. Net Profit for the quarter grew 12.8% YoY (+23.8% QoQ) with Adj. PAT Margin improvement of 60bps YoY (+147bps QoQ). Sun Pharma (+549bps YoY/+348bps QoQ), Granules India (+537bps YoY/+391bps QoQ) & Cadila Healthcare (+506bps YoY/+224bps QoQ) saw highest improvement in Adj. PAT Margin.

Companies	Revenue and Segment-wise Performance
Sun Pharma	• Sun Pharma reported consolidated total Revenue growth of 5.3% YoY (up 12.8% QoQ) to INR 85,531 mn, driven primarily by Rest of the World (ROW) and EM markets. • ROW grew 16.3% YoY (+28.3% QoQ, 16% of revenue) while EM grew 10.4% YoY (+18.4% QoQ, 18% of revenue). • Domestic business with a growth of 0.7% YoY was muted (+6.0% QoQ, 30% of revenue). US business grew moderately at 4.3% YoY (+16.6% QoQ, 30% of revenue). • API business grew 9.0% YoY (-7.8% QoQ, 6% of revenue) while Other revenue grew 60% YoY (+4.0% QoQ, 1% of revenue).
Lupin	• Lupin reported Revenue decline of 1.0% YoY (up 8.7% QoQ) to INR 38,350 mn, driven by India, Growth Markets and ROW. • India sales declined 0.7% YoY (up 3.6% QoQ, 35% of revenue), while Growth Markets declined 3.7% YoY (up 8.1% QoQ, 8% of revenue). ROW declined 27.4% YoY (up 55.4% QoQ, 2% of revenue). • North America grew 5.6% YoY (up 15.0% QoQ, 37% of revenue), EMEA grew 2.0% YoY (up 30.4% QoQ, 9% of revenue) • API revenue rose 22.5% YoY (down 8.6% QoQ, 10% % of revenue).
Cipla	• Cipla reported revenue growth of 14.6% YoY / 15.9% QoQ to INR 50,383 mn in Q2FY21, on account of strong growth in domestic market, SAGA and European region. • India which is the largest revenue contributor (~41% of sales) grew 16.8% YoY/ 30.0% QoQ led by strong growth in prescription (+14.0% YoY) backed by continued traction in the Covid portfolio, chronic therapies, modest recovery in the hospital portfolio, followed by healthy growth in trade generic and CHL business. • Europe business (~5% of sales) grew 30.0% YoY/ 2.9% QoQ led by strong growth in key DTM market. API business (~4% of sales) grew 20.4% YoY/ 2.7% QoQ. • SAGA region (~18% of sales) grew 24.9% YoY / 21.1% QoQ led by strong growth in SA business (+14.0% YoY in local currency). North America (~21% of sales) grew 10.1% YoY / 2.7% QoQ, due to continued traction in new launches. • EM (~9% of sales) grew 5.1% YoY / 3.7% QoQ, it grew across all region. Remdesivir supplies commenced in multiple emerging markets.

Companies	Revenue and Segment-wise Performance
Cadila Healthcare	• Cadila Healthcare reported Revenue growth of 13.5% YoY (up 4.9% QoQ) to INR 38,200 mn in Q2FY21. • India business which comprises human health, consumer wellness and animal health business posted sales of INR 15.83 bn, up by 11% on a YoY basis. The Company gained market share in Gynaecology, Pain management, Anti-Infectives, Anti-Diabetic and Hormones portfolio during the quarter as compared to the corresponding quarter of the previous financial year. • The animal health business in India saw a significant improvement in the performance during the quarter as the business posted a sales of INR 1.6 bn during the quarter, with a growth of 20% on a YoY basis. The growth was driven by good demand and the strong brand equity. • The company's business in the US posted sales of INR 17.09 bn up by 18% on a YoY basis. • The company's business in the emerging markets of Asia, Africa and Latin America grew by 12% in constant currency.
Glenmark	• Glenmark Pharmaceuticals reported revenue growth of 4.9% YoY / 25.9% QoQ to INR 29,525 mn, mainly led by growth in domestic and Europe market. • India business (~36% of revenue) grew 17.2% YoY / 34.7% QoQ. API business (~11% of revenue) grew 19.1% YoY / 36.8% QoQ. • EU business (~11% of revenue) grew 11.6% YoY / 16.2% QoQ. ROW (~13% of revenue) grew 9.1% YoY / 79.5% QoQ. • US declined 11.3% YoY / up 1.3% QoQ. LA declined 18.9% YoY / up 49.5% QoQ. Other revenue declined 32.1% YoY / 12.6% QoQ.
Aurobindo Pharma	• Aurobindo reported Revenue growth of 15.8% YoY (+9.4% QoQ) to INR 64.8 bn, led by the US & Antiretroviral business. • Overall Formulation business grew 17.9% YoY (+9.9% QoQ, 87% of sales) & API business grew 2.9% YoY (+6.3% QoQ, 13% of sales). • Within Formulations, US sales grew 12.5% YoY (up 2.7% QoQ, 49% of revenue), Europe sales grew 8.1% YoY (+14.6% QoQ, 23% of revenue), Anti-Retrovirals grew 111.3% YoY (up 18.1% QoQ, ~8% of revenue). • Within APIs, the 36.9% YoY (+41.0% QoQ) growth in non-Betalactum was partially offset by -16.1% YoY (-13.2% QoQ) decline in Betalactum.

Companies	Revenue and Segment-wise Performance
Torrent Pharma	• Torrent Pharma reported Q2FY21 Revenue growth of 0.6% YoY (down 1.9% QoQ) to INR 20,170 mn. • India business grew 7.1% YoY (+4.1% QoQ, 48% of revenue), versus the IPM growth of 1% for the quarter as per AIOCD. Sub-chronic and acute segments witnessed gradual recovery during the quarter while chronic momentum continued. Field Force productivity (PCPM) for the quarter was INR 8 lakhs with an MR strength of 4,000. • Germany business grew 4.4% YoY (+6.1% QoQ, 13% of revenue). The US business declined –13.9% YoY (-12.3% QoQ, 16% of revenue), Brazil business declined -17.3% YoY (-7.9% QoQ, 6% of revenue). Other countries posted a muted 1.5% YoY growth (-14.5% QoQ, 10% of revenue) while other revenue grew 13.0% YoY (flat QoQ, 7% of revenue).
Aurobindo Pharma	• Aurobindo reported Revenue growth of 15.8% YoY (+9.4% QoQ) to INR 64.8 bn, led by the US & Antiretroviral business. • Overall Formulation business grew 17.9% YoY (+9.9% QoQ, 87% of sales) & API business grew 2.9% YoY (+6.3% QoQ, 13% of sales). • Within Formulations, US sales grew 12.5% YoY (up 2.7% QoQ, 49% of revenue), Europe sales grew 8.1% YoY (+14.6% QoQ, 23% of revenue), Anti-Retrovirals grew 111.3% YoY (up 18.1% QoQ, ~8% of revenue). • Within APIs, the 36.9% YoY (+41.0% QoQ) growth in non-Betalactum was partially offset by -16.1% YoY (-13.2% QoQ) decline in Betalactum.
Alembic Pharma	• Alembic pharma reported yet another outstanding quarterly numbers with 7%/21%/34% higher Revenue/EBITDA/PAT from our estimates. The beat was supported by strong growth in Azithromycin OSD along with the strong market share gain. • Lagging therapies of Gastroenterology and Gynecology also reported significant improvement during the quarter. • Geography wise, growth in revenue was led by the ROW market which grew by 84.1% YoY (14% of revenue, up 3.3% QoQ) due to continued recovery in the European businesses from supply chain related issues and API business which grew by 28.9% YoY (18% of revenue, flat QoQ). • The US business (8.0%/-2.3% YoY/QoQ) & domestic business (6.1%/35.6% YoY/QoQ) too saw a healthy growth.
Granules India	• Granules India beat our Q2FY21 estimates on all fronts with a beat of 12.1%/49.7%/57.6% on Revenue/EBITDA/PAT, respectively. Growth in the quarter was driven by new launches and increase in market share of existing products across the three verticals. • Contribution from FD in Q2FY21 (+22.4%/+11.5% YoY/QoQ) stood at 50%, same as that of Q2FY20. PFI (+32.6%/+25.7% YoY/QoQ) contribution increased to 20.2% from 19.0% in Q2FY20 & rest 29.7% was contributed by APIs (+17.2%/+20.1% YoY/QoQ) against 31.0% in Q2FY20. • Geography wise, North America grew 27.7% YoY (+23.7% QoQ, 55% of revenue), India business grew 18.9% YoY (+40.5% QoQ, 14% of revenue), ROW grew 54.5% YoY (+12.0% QoQ, 6% of revenue), Europe grew 9.0% YoY (+9.3% QoQ, 18% of revenue), Latin America grew 13.1% YoY (down 23.7% QoQ, 8% of revenue).

Companies	Margin Performance
Sun Pharma	• EBITDA rose 29.7% YoY to INR 23,096 mn (+30.9% QoQ). • EBITDA margin expanded 508 bps YoY to 27.0% in Q2FY21 (from 21.9% in Q2FY20) due to gradual recovery in overall business coupled with control on expenses, despite higher R&D spending and forex losses. On the sequential basis, EBITDA expanded by 374 bps. • Company reported PAT of INR 18,128 mn for the quarter primarily due to better margins, higher other income at INR 2,558 mn (vs INR 2,009/1,538 mn in Q2FY20/Q1FY21), lower finance cost at INR 333 mn (vs INR 839/520 mn in Q2FY20/Q1FY21) & negative tax rate of -1.6% (vs 18.6%/-11.26% in Q2Fy20/Q1FY21). Company had a forex loss of INR 1,164 mn (vs INR 85/-792 mn in Q2FY20/Q1FY21). • Adjusted PAT for the quarter was INR 15,900 mn (+49.4%/38.7% YoY/QoQ).
Lupin	• EBITDA margin contracted by 135 bps YoY to 15.2% in Q2FY21 (from 16.5% last year) mainly on account of lower Gross Profit Margin. • On a sequential basis EBITDA margin improved 132 bps QoQ. Improvement in EBITDA margin QoQ was on account of savings in employee cost. • Management expects that with continued focus on cost control and operating leverage,benefits will be visible from Q4FY21 onwards. • Company's reported Net Profit of INR 2,110 mn in Q2FY21 as against a loss of INR 1,271 in Q2FY20. Net Profit margin came in at 5.5% (vs 3.0% in Q1FY21.
Cipla	• EBITDA for the quarter grew 29.4% YoY / 12.2% QoQ to INR 11,766 mn. EBITDA margin expanded 266 bps YoY (down 78bps QoQ) to 23.4%. • YoY improvement in EBIDTA margin was on account of lower employee cost at 16.3% of revenue (vs 17.3% in Q2FY21) and lower other expenses at 21.7% of revenue (vs 28.7% in Q2FY20) on account of cost saving measures. • High margin COVID-19 drugs also helped in improving margins. • Net Profit grew 41.2% YoY / 15.1% QoQ to INR 6,654 mn. Accordingly, net profit margin expanded 248 bps YoY (down 9 bps QoQ) to 13.2%. Effective tax rate at 28.5% in Q2FY21 vs 29.5% in Q2FY20, contributed to net profit margin expansion.

Companies	Margin Performance
Dr. Reddy's	• Lower export incentive impacts GPM; higher employee cost offsets savings in SG&A: Gross Profit Margin (GPM) for the quarter was lower by ~200bps QoQ on account of lower export incentive, adverse forex movement and product mix while on YoY basis GPM was lower as base quarter had higher GPM compared to other quarters. • Accordingly, EBITDA margin contracted by 430bps YoY despite savings in SG&A (23.4% of revenue in Q2FY21 vs 24.2% in Q2FY20). • The decline in Net Profit was on account of positive effective tax rate at 11.7% (vs -41.4% in Q2FY20). D&A cost rose 1.1% YoY, while other income & finance cost declined by 5.2%/16.8% YoY, respectively. • Net Profit Margin contracted 728bps YoY (+228 bps QoQ).
Cadila Healthcare	• EBITDA rose 35.8% YoY to INR 8,634 mn (up 5.9% QoQ). EBITDA margin expanded 372 bps YoY to 22.6% in Q2FY21 (from 18.9% in Q2FY20). • EBITDA margin improvement YoY was on account of lower other expenses at 26.6% of revenue in Q2FY21 vs 29.2% in Q2FY20) & lower employee cost at 16.1% of revenue (vs 17.6% in Q2FY20). • Finance cost decline of 49.0% YoY (-32.0% QoQ) to INR 457 mn and lower effective tax rate rose of 20.7% in Q2FY21 (vs 32.3% in Q2FY20) helped Cadila in posting 73.0% YoY growth in Adj. Net Profit to INR 5,620 mn. • Accordingly, Adj Net Margin expanded 506 bps YoY to 14.7% (up 224 bps QoQ) from 9.7% in Q2FY20.
Glenmark Pharma	• EBITDA grew 22.7% YoY / 15.6% QoQ to INR 5,528 mn. EBITDA margin expanded 272 bps YoY (down 166 bps) to 18.7%, due to lower other expenses and employee cost as % of revenue. • Negative other income and higher YoY tax rate resulted in decline in reported net profit by 8.4% YoY / 7.9% QoQ to INR 2,340 mn, while adjusted net profit declined 9.7% YoY (up 2.1% QoQ) to INR 2,309 mn. • Reported net profit margin contracted 115 bps YoY / 291 bps QoQ to 7.9%. Adj. NPM contracted 126 bps YoY / 182 bps to 7.8%.

Companies	Margin Performance
Torrent Pharma	• Gross margin for the quarter at 72.5% was lower by 63bps YoY and by 145bps QoQ. Inventory adjustment affected the Gross Margin during the quarter. • EBITDA grew 17.4% YoY (-3.9% QoQ) to INR 6,350 mn. EBITDA margin expanded 450 bps YoY to 31.5% in Q2FY21 (from 27.0% last year), on account of lower other expenses at 23.1% of revenue (vs 28.3% of revenue in Q2FY20). On sequential basis, EBITDA contracted by 67bps. • Net Profit grew 27.0% YoY (down 3.4% QoQ) with 320bps YoY (-24bps QoQ) improvement in Net Profit Margin due to lower finance cost at INR 920 mn in Q2FY21 vs (INR 1,160 mn in Q2FY20).
Aurobindo Pharma	• EBITDA for the quarter rose 22.7% YoY (+14.0% QoQ) to INR 14.3 bn while EBITDA margin expanded 125 bps YoY (+88 bps QoQ) to 22.1% in Q2FY21 (from 20.8% last year). Despite higher R&D investments (~6% vs. 4.3% in FY20), company was able to maintain its EBITDA margin. • Higher gross margin and favorable product mix partially offset by increased R&D cost led to steady EBIDTA margin. • Net Profit rose 26.0% YoY (+3.3% QoQ) to INR 8.1 bn. Net Profit Margin for the quarter expanded 101 bps YoY to 12.4% (-74 bps QoQ) from 11.4% in Q2FY20.
Alembic Pharma	• Alembic Pharma recorded EBITDA margin of 30.4% in Q2FY21 (+259bps YoY) mainly on account of lower other expenses (29.2% of revenue in Q2FY21 vs 32.6% in 1QFY20). • This was on account of lower travelling and promotional expenses as well as reduced R&D spend. • Net Profit Margin expansion of 303bps YoY was on account of EBITDA margin expansion, higher other income at INR 32 mn (vs INR 3.6 mn in Q2FY20) and 36.6% YoY decline in finance cost.
Granules India	• Highest ever margins; to be sustained at current levels with aim to achieve 30%: Company reported Gross profit margin improvement of 930bps to 57.9% for Q2FY21 with increasing share of FD & PFI. • It recorded EBITDA margin of 29.9% (+935bps/+492bps YoY/QoQ), with improved operational efficiencies & higher capacity utilization. • NPM improved 538bps/392bps YoY/QoQ to 19.1% in Q2FY21 despite higher effective tax rate & lower other income, though finance cost declined 8.5% YoY (+5.3% QoQ).

Higher Single digit revenue growth YoY in coverage universe

Particulars (INR Cr)	Sun Pharma	Lupin	Cipla	Dr. Reddy's
Total Revenue	**8,553**	**3,835**	**5,038**	**4,911**
Total Expenditure	**6,243**	**3,253**	**3,862**	**3,677**
Material Cost	2,146	1,382	1,946	1,580
Employee Cost	1,705	685	821	949
Other expenses	2,392	1,187	1,094	1,148
EBITDA	**2,309**	**581**	**1,177**	**1,234**
EBITDA Margin (%)	**27.0%**	**15.2%**	**23.4%**	**25.1%**
Depreciation	499	213	265	316
EBIT	**1,811**	**369**	**912**	**839**
Interest Expense	33	34	39	25
Other Income	256	25	54	51
Exceptional Items	0	0	0	0
Net (gain) /loss on FX	116	0	0	0
PBT	**1,917**	**360**	**926**	**866**
Tax	-31	147	264	101
Share of Associates	-6	0	-3	7
Minority Interest	130	0.4	-6	0
PAT	**1,813**	**211**	**665**	**772**
PAT Margin	**21.2%**	**5.5%**	**13.2%**	**15.7%**
Adj. PAT	**1,590**	**214**	**665**	**850**
Adj. PAT Margin	**18.6%**	**5.6%**	**13.2%**	**17.3%**
EPS (INR/share)	**7.56**	**4.71**	**8.2**	**46.4**

Source: Company, KRChoksey Research

Sun Pharma, Torrent Pharma & Cadila Healthcare lead in margin improvement on YoY basis

Particulars	Sun Pharma		Lupin		Cipla		Dr. Reddy's	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**12.8%**	**5.3%**	**8.7%**	**-1.2%**	**15.9%**	**14.6%**	**10.9%**	**2.0%**
Total Expenditure	**7.3%**	**-1.6%**	**7.0%**	**0.4%**	**17.1%**	**10.8%**	**11.2%**	**8.4%**
Material Cost	9.0%	-5.4%	7.3%	2.8%	22.5%	33.2%	19.7%	12.8%
Employee Cost	-3.1%	5.2%	-13.6%	-9.9%	6.3%	7.8%	8.8%	14.9%
Other expenses	14.3%	-2.5%	23.9%	4.3%	16.9%	-13.4%	3.1%	-1.6%
EBITDA	**30.9%**	**29.7%**	**19.1%**	**-9.3%**	**12.2%**	**29.4%**	**10.1%**	**-13.1%**
EBITDA Margin (bps)	*374bps*	*508bps*	*132bps*	*-135bps*	*-78bps*	*266bps*	*-20bps*	*-437bps*
Depreciation	0.5%	5.3%	-0.9%	-15.8%	-1.5%	-6.3%	8.3%	1.1%
EBIT	**42.8%**	**38.5%**	**34.7%**	**-5.0%**	**16.9%**	**45.5%**	**1.3%**	**11.8%**
Interest Expense	-35.9%	-60.3%	-24.0%	-59.3%	-14.5%	-14.6%	8.2%	-16.8%
Other Income	66.3%	27.3%	-42.3%	-80.5%	-18.3%	-46.8%	-41.2%	-5.2%
PBT	**-187.8%**	**33.8%**	**31.9%**	**-421.2%**	**15.8%**	**35.9%**	**-3.0%**	**11.8%**
Exceptional Items	NM	NM	NM	NM	NM	NM	NM	NM
Tax	-112.7%	-111.7%	-10.7%	111.0%	15.8%	31.5%	-66.9%	NM
Share of associates	NM	NM	-23.2%	-55.2%	NM	NM	-5.2%	-37.6%
Minority Interest	-116.9%	31.2%	38.3%	-31.4%	NM	NM	NM	NM
PAT	**-209.5%**	**70.4%**	**97.4%**	**-266.1%**	**15.1%**	**41.2%**	**29.8%**	**-30.3%**
PAT Margin	*NM*	*NM*	*247bps*	*878bps*	*-9bps*	*248bps*	*228bps*	*-728bps*
Adj .PAT	***38.7%***	***49.4%***	***96.4%***	***-17.3%***	***15.1%***	***41.2%***	***42.9%***	***-41.9%***
Adj PAT Margin	*348bps*	*549bps*	*249bps*	*-108bps*	*-9bps*	*248bps*	*387bps*	*-1,309bps*

Source: Company, KRChoksey Research

KRChoksey research

Aurobindo Pharma, Alembic Pharma & Granules India post highest revenue growth among the pack

Particulars (INR Cr)	Cadila Healthcare	Glenmark Pharma	Torrent Pharma	Aurobindo Pharma
Sales	**3,820**	**2,952**	**2,017**	**6,483**
Total Expenditure	**2,957**	**2,399**	**1,382**	**5,051**
Material Cost	1,322	1,041	554	2,516
Employee Cost	617	700	363	912
Other expenses	1,018	659	465	1,623
EBITDA	**863**	**553**	**635**	**1,432**
EBITDA Margin (%)	**22.6%**	**18.7%**	**31.5%**	**22.1%**
Depreciation	179	104	165	257
EBIT	**684**	**449**	**470**	**1,176**
Interest Expense	46	81	92	16
Other Income	28	-32	6	54
Exceptional Items	132	-3	0	0
PBT	**534**	**339**	**384**	**1,193**
Tax	111	105	74	387
Share of Associates	11	NM	NM	-20
Minority Interest	-38	NM	NM	-0.6
PAT	473	234	310	806
PAT Margin	**12.4%**	**7.9%**	**15.4%**	**12.4%**
Adj. PAT	**562**	**231**	**310**	**806**
Adj. PAT Margin	**14.7%**	**7.8%**	**15.4%**	**12.4%**
EPS (INR/Share)	**4.62**	**8.29**	**18.3**	**13.76**

Source: Company, KRChoksey Research

KRChoksey | research

Barring Dr. Reddy's & Lupin; EBITDA margin improvement across companies on YoY basis

Particulars	Cadila Healthcare		Glenmark Pharma		Torrent Pharma		Aurobindo Pharma	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**4.9%**	**13.5%**	**25.9%**	**4.9%**	**-1.9%**	**0.6%**	**9.4%**	**15.8%**
Total Expenditure	**4.7%**	**8.3%**	**28.5%**	**1.5%**	**-0.9%**	**-5.6%**	**8.2%**	**13.9%**
Material Cost	5.8%	14.3%	28.7%	5.5%	3.6%	3.0%	4.5%	6.2%
Employee Cost	-1.2%	4.1%	37.4%	2.0%	-2.7%	1.4%	2.7%	17.3%
Other expenses	7.1%	3.6%	20.0%	-4.8%	-4.5%	-18.1%	18.3%	26.1%
EBITDA	**5.9%**	**35.8%**	**15.6%**	**22.7%**	**-3.9%**	**17.4%**	**14.0%**	**22.7%**
EBITDA Margin (%)	*20bps*	*372bps*	*-166bps*	*272bps*	*-67bps*	*450bps*	*88bps*	*125bps*
Depreciation	1.2%	3.9%	-8.1%	10.5%	2.5%	1.2%	0.7%	5.8%
EBIT	**7.2%**	**47.7%**	**23.0%**	**26.0%**	**-6.0%**	**24.3%**	**17.3%**	**27.2%**
Interest Expense	-32.5%	-49.1%	-14.0%	-10.2%	-9.8%	-20.7%	-25.4%	-61.6%
Other Income	22.2%	2.2%	NM	NM	50.0%	-82.4%	-53.5%	160.7%
PBT	**-10.0%**	**336.4%**	**-5.1%**	**-2.3%**	**-4.5%**	**29.7%**	**10.0%**	**38.1%**
Exceptional Items	NM	-52.5%	NM	NM	NM	NM	NM	NM
Tax	-10.4%	180%	1.8%	14.8%	-8.6%	42.3%	27.5%	72.6%
Share of associates	-31.7%	2.7%	NM	NM	NM	NM	NM	NM
PAT	**4.3%**	**342%**	**-7.9%**	**-8.4%**	**-3.4%**	**27.0%**	**3.3%**	**26.0%**
PAT Margin	*-8bps*	*921bps*	*-291bps*	*-115bps*	*-24bps*	*320bps*	*-74bps*	*101bps*
Adj. PAT	**23.8%**	**73.0%**	**2.1%**	**-9.7%**	**-3.4%**	**27.0%**	**3.3%**	**23.5%**
Adj. PAT Margin	*224bps*	*506bps*	*-182bps*	*-126bps*	*-24bps*	*320bps*	*-74bps*	*78bps*

Source: Company, KRChoksey Research

Granules India reports highest growth in revenue & improvement in margin

Particulars (INR Cr)	Alembic Pharma	Granules India
Total Revenue	**1,457**	**858**
Total Expenditure	**1,014**	**602**
Material Cost	312	361
Employee Cost	276	79
Other expenses	425	161
EBITDA	**443**	**256**
EBITDA Margin (%)	**30.4%**	**29.9%**
Depreciation	44	36
EBIT	**399**	**220**
Interest Expense	4	6
Other Income	3	3
Exceptional Items	0	0
PBT	**398**	**217**
Tax	73	54
Share of Associates	-0.2	0
Minority Interest	8	0
PAT	**333**	**164**
PAT Margin	**22.9%**	**19.1%**
EPS (INR/Share)	**16.96**	**6.6**

Source: Company, KRChoksey Research

KRChoksey research

Granules India, Cadila Healthcare & Sun Pharma posts highest Adj. PAT growth

Particulars	Alembic Pharma		Granules India	
Change %	QoQ	YoY	QoQ	YoY
Sales	**8.6%**	**17.4%**	**16.7%**	**22.7%**
Total Expenditure	**8.5%**	**13.2%**	**9.0%**	**8.2%**
Material Cost	-7.6%	14.4%	21.3%	0.5%
Employee Cost	0.3%	26.8%	-4.7%	25.6%
Other expenses	32.7%	5.1%	-5.8%	20.9%
EBITDA	**8.9%**	**28.3%**	**39.7%**	**78.6%**
EBITDA Margin (bps)	*6bps*	*259bps*	*492bps*	*935bps*
Depreciation	5.5%	21.8%	5.8%	18.9%
EBIT	**9.2%**	**29.1%**	**47.4%**	**94.5%**
Interest Expense	-32.8%	-36.6%	5.3%	-8.5%
Other Income	NM	NM	-42.8%	-62.8%
PBT	**10.8%**	**31.5%**	**45.7%**	**88.8%**
Exceptional Items	NM	NM	NM	NM
Tax	9.3%	39.0%	42.2%	178%
Share of associates	NM	NM	NM	NM
Minority Interest	NM	NM	NM	NM
PAT	**10.6%**	**35.4%**	**46.8%**	**70.8%**
PAT Margin	40bps	303bps	392bps	538bps
Adj .PAT	***10.6%***	***35.4%***	***46.8%***	***70.8%***
Adj PAT Margin	40bps	303bs	392bps	538bps

Source: Company, KRChoksey Research

Cipla and Glenmark Pharma trading at significant discount on FY22E compared to historical average

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Sun Pharma	ACCUMULATE	ACCUMULATE	1,36,051	568	598	598	5.3%	38.0	22.5
Dr. Reddy Labs	ACCUMULATE	ACCUMULATE	83,354	5,017	5,418	5,418	8.0%	31.6	26.9
Cipla	BUY	BUY	60,967	756	950	950	25.7%	34.8	21.3
Lupin	ACCUMULATE	ACCUMULATE	42,621	939	994	974	5.8%	63.6	24.6
Glenmark Pharma	BUY	BUY	14,849	527	616	576	16.8%	22.7	13.3
Cadila Healthcare	HOLD	ACCUMULATE	47,706	467	483	461	3.4%	23.7	19.4
Aurobindo Pharma	BUY	BUY	52,383	897	1,044	1,027	16.3%	17.8	13.8
Alembic Pharma	BUY	BUY	21,408	1,086	1,286	1,286	18.4%	22.3	21.6
Granules India	BUY	BUY	9,605	388	459	459	18.3%	18.7	17.4
Torrent Pharma	UR	UR	44,693	2,647	UR	UR	NA	37.2	38.1

Note: UR – Under Review
Source: Bloomberg, KRChoksey Research Research

Petrochemicals and Chemical Sector

Chemical companies witnessed revenue growth across the sector in Q2FY21, with opening of economic activity

- Q2FY21 witnessed recovery in revenue growth, which was mainly driven by volume growth
- UPL volume growth was driven by market share gain, while that for Aarti industries volume gain was led by sales push in non-regular markets
- While in case of RIL, petrochemical witnessed a strong rebound in domestic demand compared to Q1FY21, due to easing of lockdown restriction

Margins expanded QoQ in specialty companies; while it declined for Agrochemical

- From our coverage, UPL saw a revenue growth of 14.4% YoY / 14.1% QoQ, while EBITDA margin was flat YoY at 18.6% (-474 bps QoQ) in Q2FY21
- Aarti Industries saw EBITDA margin contraction of 403 bps YoY (up 227 bps) to 21.7%, while Supreme Petrochem margin expanded 1,233 bps YoY to 16.8%

Valuation & Outlook

- Specialty chemical companies are now seeing uptrend in demand and discretionary end use sector is expected to reach pre-Covid-19 level in Q3FY21
- Within petrochemical segment, RIL is increasing its focus on diversifying its product portfolio into essential sectors such as health & hygiene segment, food and beverage packaging and agriculture demand-led products

KRChoksey | Institutional

Companies	Revenue	Margin	Industry Outlook / Strategy
Reliance Industries	• Consolidated Revenue for the quarter, net of excise, stood at INR 1,112 bn, up by 26.0% QoQ / down 25.7% YoY; led by strong rebound in domestic demand across O2C business as well as normalization of retail business in Q2. • Petrochemical witnessed a strong rebound in domestic demand compared to Q1FY21, due to easing of lockdown restriction.	• EBITDA margins contracted to 4.8% (down 123 bps YoY, down 336 bps QoQ) led by lower middle distillates cracks and narrower light-heavy crude differential leading to higher crude cost as well as planned maintenance activity during the quarter. • EBITDA was INR 189 bn, up by 12.3% QoQ / down 16.2% YoY.	• RIL aggressive approach towards diversifying with new product and acquisition (like recent stake purchase in Urban Ladder Home Décor Solution Pvt. Ltd.) is expected to be positive for company. • RIL is increasing its focus on essential sectors such as health & hygiene segment, food and beverage packaging and agriculture demand led products.
Supreme Petrochemicals	• Earnings beat was on account of substantially low RM prices as well as return of normalcy at the plants, leaving behind COVID-19 led restrictions. • For Q2FY21, Supreme Petrochem's (SPL) revenue from operations increased by 3.8% YoY (+138% QoQ) to INR 69,406 lakhs. • During the quarter, SPL operated all its operations at both of its locations at near normal levels and there was minimal impact of the lockdown.	• Gross Profit Margin improved 1,186bps/1,277bps YoY/QoQ to 24.3%, compared to 12.5%/11.6% in Q2FY20/Q1FY21 due to lower RM costs and better pricing. • Higher GPM improved EBITDA margin by 1,233 bps YoY to 16.8% (vs 4.4% in Q2FY20). • SPL had a loss of INR -319 lakhs at EBITDA level in the previous quarter. Employee cost rose 3.4% YoY to 1.5 but was flat at 1.5% of revenue. • Overhead expenses came down YoY to 6.3% of revenue vs 6.9% of revenue in Q2FY20.	• Brent crude is trading at 11% discount to its 1Y average price while USDINR is in line with 1Y average. • However, the fall in Styrene Monomer (which is derived from crude oil) is higher than the price correction seen in Polystyrene prices. • The spread between Polystyrene & Styrene Monomer has increased by 16% in last one year. • We believe that Supreme Petrochem will continue to benefit from this rise in spread in near future.

Companies	Revenue	Margin	Industry Outlook / Strategy
UPL Ltd.	• UPL's growth was largely led by volume growth of 19% YoY due to market share gains in key territories combined with favorable weather patterns in Brazil, US, Andean and parts of EU. • Growth in volume was somewhat offset by prices declining -1.0% YoY and -4.0% YoY forex impact. • Currency devaluation in Brazil and several countries in LATAM (e.g., Mexico), impacted Gross Profit Margin in quarter. Company reported GPM of 40% in Q2FY21 against 42% in Q2FY20.	• EBITDA for the quarter grew 15.2% YoY (down 9.0% QoQ) to INR 16.7 bn while EBITDA margin remained flat YoY at 18.6% (-474bps QoQ) in Q2FY21 (from 18.5% last year). • Company reported Net Profit growth of 179% YoY (down 16.0% QoQ) to INR 4.6bn. • Adjusted for exceptional items, Adjusted Net Profit grew 43.1% YoY (up 17.0% QoQ) to INR 6.7bn. • Reported NPM for the quarter came in at 5.2% (+300bps YoY, -185bps QoQ) while Adjusted NPM stood at 7.5% (+151bps YoY, flat QoQ).	• Company has maintained its guidance of 6-8% growth in revenue and 10-12% in EBITDA. • The growth will be driven by a focus on differentiated solutions as well as new product launches. • Price increases in local currencies and cost savings will support margins.
Aarti Industries	• Aarti Industries Limited Q2FY21 consolidated revenue grew 18.7% YoY / 25.1% QoQ to INR 11.7 bn. • Specialty Chemical sales grew 23.9% YoY / 31.9% QoQ to INR 11.1 bn. • Pharmaceutical sales grew 21.7% YoY / 14.1% QoQ to INR 2.2 bn.	• Gross Profit Margin declined 247bps YoY / 161 bps QoQ to 50.7% in Q2FY21, mainly due to increase in purchase on stock in trade and higher change in inventories as a percentage of revenue. • EBITDA was flat YoY (up 39.7% QoQ) at INR 2.5 bn. EBITDA margin contracted 403 bps YoY (up 227 bps) to 21.7%. Employee cost as % of revenue stood at 8.0% (vs 7.5% last year) and other expenses as % of revenue stood at 21.0% (vs 20.0% last year).	• We continue to remain positive on AIL in the light of greater tailwinds as against relatively few challenges (China raw material sourcing, COVID related disruption etc). • The company's capex plans for both its segments, well-established backward integration facilities, focus on rising share of high-value products shows strong earnings visibility over the next 2-3 years.

UPL and Aarti Industries reported healthy YoY revenue growth

Particulars (INR Cr)	Reliance Industries	Supreme Petrochem	UPL Ltd.	Aarti Industries
Sales	**1,11,236**	**694**	**8,939**	**1,128**
Total Expenditure	**92,291**	587	7,131	918
EBITDA	18,945	**116**	**1,667**	**254**
EBITDA Margin (%)	**17.0%**	**16.80%**	**18.60%**	**21.70%**
Depreciation	6,626	9.67	533	55
EBIT	**12,319**	**107**	**1,134**	**199**
Interest Expense	6,084	1.302	343	22.2
Other income	4,249	0.667	75	0
Exceptional items	0	0	211	0
PBT	**10,484**	**112**	**655**	**177**
Tax	-13	25.95	112	33.7
Share of Associates/Minorities	-930	0	68	3.3
PAT	**9,567**	**86**	**463**	**140**
PAT Margin	**8.6%**	12.40%	5.20%	12.00%
Adj. PAT	**9,567**	**86**	**674**	**140**
Adj. PAT Margin	**8.6%**	12.40%	7.50%	12.00%
EPS	**14.8**	**9.16**	**6.07**	**8.1**
Adj. EPS	**14.8**	**9.16**	**8.81**	**8.1**

Source: Company, KRChoksey Research

Reliance and Supreme Industries reported YoY EBITDA margin expansion

Particulars	Reliance Industries		Supreme Petrochem		UPL Ltd.		Aarti Industries	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**26.0%**	**-25.7%**	**137.5%**	**3.8%**	**14.1%**	**14.4%**	**25.1%**	**18.7%**
Total Expenditure	**29.3%**	**-27.4%**	92.68%	-9.4%	21.2%	14.2%	21.6%	25.1%
EBITDA	**12.3%**	**16.2%**	**NM**	**291.8%**	**-9.0%**	**15.2%**	**39.7%**	**0.1%**
Change in EBITDA Margin (bps)	**-209**	**193**	NM	1,233bps	-474bps	14bps	227bps	-403bps
Depreciation	5.0%	24.7%	3.3%	8.4%	2.1%	12.0%	5.8%	20.4%
EBIT	**10.8%**	**-19.0%**	**NM**	**413.5%**	**-13.4%**	**16.8%**	**53.3%**	**-4.4%**
Interest Expense	-9.7%	11.6%	-30.3%	-4.9%	-37.7%	-10.0%	-12.5%	-28.8%
Other income	-3.2%	34.7%	275.4%	138.3%	11.9%	212.5%	-81.8%	-99.3%
Exceptional items	NM	NM	NM	NM	744%	-30.8%	NM	NM
PBT	**27.5%**	**-30.1%**	**NM**	**404.7%**	**-18.2%**	**112.0%**	**68.9%**	**-3.1%**
Tax	NM	NM	NM	NM	-21.7%	13.1%	55.1%	8.2%
Share of Associates/Minorities	NM	NM	NM	NM	-30.0%	143%	143.3%	-22.7%
PAT	**-27.7%**	**-15.1%**	**NM**	**138.9%**	**-16.0%**	**178.9%**	**71.3%**	**-5.0%**
Change in PAT Margin (bps)	**-639**	**108**	NM	702bps	-185bps	306bps	323bps	-297bps

Source: Company, KRChoksey Research

UPL provides strong upside potential

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Reliance Industries	BUY	BUY	12,67,508	2,006	2,313	2,284	15.3%	18.0	19.1
Supreme Petrochemicals	HOLD	ACCUMULATE	3,520	371	375	277	1.0%	23.3	29.2
UPL Ltd.	BUY	BUY	33,193	435	622	622	43.0%	24.6	9.5
Aarti Industries	ACCUMULATE	ACCUMULATE	21,205	1,220	1,315	1,271	7.8%	27.3	26.9

Source: Bloomberg, KRChoksey Research

Oil and Gas

CNG Volumes not yet recovered to pre-covid levels; Gross Margin improvement led by lower LNG price

- **CNG Segment:**
  - IGL has 559 stations with Compression capacity of 88.12 lakh kg per day through which it provides CNG to 11.33 lakh vehicles as of Q2FY21, with an average sale of 19.68 lakh kg per day in Q2FY20
  - IGL allocation from Government of India of domestic gas for the entire consumption of CNG segment. Lower price of domestic (APM gas) gas makes the economics of switching to gas more attractive drive growth in CNG segments which constitute ~70% of the sales volumes
  - Total CNG stations operational by MGL are 259 stations out of which 15 stations are operational at Raigad GA. MGL's CNG average daily volume has sharply recovered from Q1 lows of 0.48 MMSCMD (up 166% QoQ) to 1.27 MMSCMD in Q2FY21 and reached to 3 MMSCMD in November 2020.
  - MGL's CNG sales in Raigad GA has reached to 30,900/kg per day in the month of September 2020 and expected further to grow as new CNG stations become operational over the next few month.
- **PNG – Domestic and Commercial & Industrial connection:**
  - IGL increased it's steel and MDPE pipeline network from 14605 kms in FY20 to 15211 kms in Q2FY21. Company have total 14.48 lakh connections in domestic and commercial in Delhi & other geographical areas as on September 30, 2020. PNG continued to be focus area of the company during lockdown, In H1FY21 company able to connected with 67402 new connections
  - To further expand in commercial segments, IGL executed Gas sale agreements with Industrial customers in Karnal GA which would facilitate increase in consumption of NG volumes
  - In Raigad GA, MGL has got permission to laid 8.5 km pipeline from PWD, 23kms from NH166D and 5 kms from NH17.
  - MGL's PNG industrial Net realization for the quarter improved to INR 29.23/scm (as against INR 22.80/scm in Q1FY21) and Restaurant category Net realization was at INR 32/scm (as against INR 28/scm in Q1FY21)

Companies	Revenue and Segment-wise Performance
Indraprastha Gas Ltd	• Net Revenue for the quarter came in at INR 1305 cr, down 22.9% YoY (+104.5% QoQ) mainly due to lower volume sales in CNG segments on account of COVID-19 related nationwide lockdown **Segment-wise Performance:** • Segment Contribution: o Q2 FY21: CNG 70%; Residential 8%; Commercial/Industrial 15%; and Sale to other CGD companies 7%; o Q2 FY20: CNG 70%; Residential 9%; Commercial/Industrial 13%; and Sale to other CGD companies 8% • Q2 FY21 Performance o CNG volume down 20% YoY to 255 Million KGS, PNG Industrial/Commercial Volume down 1% YoY to 72 Million SCM and Natural Gas Volume down 26% YoY to 34 Million SCM in Q2FY21. While PNG Domestic volume growth of 21% YoY to 40 Million SCM. The Covid-19 related lockdowns, reduction in travel and less industrial activity affected the industrial and CNG sales of IGL
Mahanagar Gas Ltd	• Net revenue was reported at INR 507 cr, down 35.3% YoY (up 93.6% QoQ). Revenue growth was mainly due to strong recovery in CNG average daily volume from Q1 lows of 0.48 MMSCMD (up 166% QoQ) to 1.27 MMSCMD in Q2FY21 **Segment-wise Performance:** • Segment Contribution: o Q2 FY21: CNG 62%; Residential 22%; and Commercial/Industrial 16% o Q2 FY20: CNG 73%; Residential 13%; and Commercial/Industrial 14% • Q2 FY21 Performance o CNG volume down 42.0% YoY to 117.4 SCM Million, PNG Industrial/Commercial Volume down 19.9% YoY to 30.7 SCM Million and PNG Domestic volume growth of 21.6% YoY to 42.6 SCM Million. The Covid-19 related lockdowns and reduction in travel led to a sharp 30.9% YoY volume dip during the quarter .
Petronet LNG Ltd	• Net revenue was reported at INR 62,358 Mn, down 33.4% YoY (+27.7% QoQ). During the quarter, Dahej terminal processed the highest ever LNG driven by a strong revival in demand, followings the easing of lockdowns curbs, with low LNG prices. Total volume processed stood at 254 TBTU (+2% YoY, +34% QoQ) • Q2 FY21 Performance o Dahej terminal operated at a capacity utilization of ~104% and processed 243 TBTU as against 181 TBTU in the previous quarter. Kochi terminal operated at a capacity utilization of ~17% processed 11 TBTU for Q2FY21 as against 9 TBTU in the previous quarter
BPCL	• Net revenue came in at INR 49,409 Cr, down 23.1% YoY (+30% QoQ) mainly due to lower demand in HSD-retail, MS-Retail, ATF on account of COVID-19 related nationwide lockdown and partially offset by increase in LPG demand. With the gradual reopening of the economy, sequentially company reported better revenue growth. • Q2 FY21 Performance o Refinery throughput was at 7.12 MMT; down 23% YoY (+9.7% QoQ). Lower refinery throughput and revenue from operations which was mainly due to lower demand of petroleum products

<table>
<tr><th>Companies</th><th>Revenue and Segment-wise Performance</th></tr>
<tr><td>HPCL</td><td>
Net Revenue for the quarter came in at INR 51,832 cr in Q2FY21; which is down 15% YoY and up 37.2% QoQ. Revenue growth was mainly due to better demand of MS-Retail, HSD and Lube products with the gradual reopening of the economy and yearly decline was due to lower oil prices.
Segment-wise Performance:
Segment Contribution:
Q2 FY21: Domestic sales volume of 8.10 MMT; and Export sales Volumes of 0.33 MMT
Q2 FY20: Domestic sales volume of 8.95 MMT; and Export sales Volumes of 0.45 MMT
Q2 FY21 Performance
HPCL reported domestic sales volume down of 9.5% YoY (-11.5% QoQ) to 8.10 MMT. While Export sales reported at 0.33 MMT, which is down 26.7% YoY (-13.2% QoQ). HSD-Retail and MS-Retail demand has sharply improved to 90% in September, 2020 (as compared to September, 2019 demand). In October, HSD-Retail sales grew by 9% YoY and expected demand further to improve in coming month.
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Companies	Margin Performance
Indraprastha Gas Ltd	• Gross Margin /SCM stood at INR 14.4/ scm up 284 bps YoY and (+69 bps QoQ), led by lower natural gas price which is down 26.3% YoY (-0.3% QoQ) to INR 12.06/scm in Q2FY21 • EBITDA margin expanded 799 bps YoY (+1812 bps QoQ) to 31.2% due to better cost management and lower other expenses as proportion of sales • PAT margin was at 29.1%, up 457 bps YoY (+2363 bps QoQ) due to lower tax expenses and higher share of profit of associates & JVs
Mahanagar Gas Ltd	• Gross Margin /SCM stood at INR 17.3/ scm up 260 bps YoY and (+120 bps QoQ), led by lower natural gas price which is down 32.3% YoY (-4.7% QoQ) to INR 9.3/scm in Q2FY21 • EBITDA margin was at 43.6%, up 874 bps YoY (up 1307 bps QoQ) driven by decrease in natural gas price, better realization in industrial and restaurant category, and higher operating leverage. • PAT came in at INR 144 cr, was down 46.7% YoY due to higher tax rate and up 219% QoQ. Sequentially higher PAT was led by better operating performance, higher volume sales and better realization in industrial and restaurant category. PAT margin was 28.5%, down 605 bps YoY (+1120 bps QoQ).
Petronet LNG Ltd	• EBITDA margin for the quarter expanded 946 bps YoY to 21.9% (up 323 bps QoQ) driven by decrease in raw material price by 1001 bps YoY and 287 bps QoQ as proportion of sales. • The Board of Directors approved a special interim dividend of 80 % on equity, which is Rs 8 / share. • Net Profit margin for the quarter expanded 311bps YoY to 14.7% (+451bps QoQ) on the back of lower finance cost, higher other income and depreciation also declined YoY.
BPCL	• Gross Margin expanded 839 bps YoY to 21.5% (down 159 bps QoQ) backed by inventory gains of INR 1697 cr as against losses of INR 602 cr in Q1FY21. GRM for this quarter came in at $3.19/bbl, growing from $3.10/bbl in Q2FY20 • EBITDA grew 77.5% YoY (+18.9% QoQ) to INR 5,067 cr in Q2FY21 due to lower other expenses. • Net profit for the quarter reported at INR 2,263 cr; which is higher 50.6% YoY (+11.2% QoQ). PAT margin for the quarter came in at 4.6%; up 224 bps YoY and down 78 bps QoQ. Sequentially decline in PAT margin was mainly due to higher tax expenses.
HPCL	• Gross Margin expanded 454 bps YoY to 14.8% (down 588 bps QoQ) driven by higher inventory gains. GRM for this quarter came in at $5.11/bbl, growing from $2.83/bbl in Q2FY20 • EBITDA grew 55.7% YoY (-17.3% QoQ) to INR 3,608 cr in Q2FY21. Sequentially, decline in EBITDA was due to higher other expenses and employee cost. • Net profit for the quarter reported at INR 2976 cr; which is higher 290.7% YoY (+32.1% QoQ) due to better inventory management, effective product placement, and higher share in profit of joint ventures/associates and higher other income.

Companies	Outlook / Strategy
Indraprastha Gas Ltd	• Started sale of CNG at 6 stations in Karnal GA and 8 stations in Meerut, Muzaffarnagar and Shamli. The company has also started the sale of CNG at 8 OMC outlets and 4 DODO stations in Rewari and the sale of PNG to domestic households • The company is planning to invest INR 10 bn capex despite the delay in H1FY21. This includes setting up 90 CNG stations, pipelines and infrastructure upgradation in FY21 across Delhi and other GAs, including the 4 won in 9th and 10th rounds. The company could able to fund this from internal cash flows • Improve CNG infrastructure in Delhi & NCR to meet the additional demand in view of conversion of private cars and improvement in public transport system
Mahanagar Gas Ltd	• The company has laid 18.53 km of steel pipeline during the quarter to expand total pipeline network to ~5,650 km in Q2FY21 • Capex target for FY21 is INR 550-600 cr, Out of which INR 120 cr capex will be spent in Raigad area • In Raigad GA, the company has got permission to laid 8.5 km pipeline from PWD, 23kms from NH166D and 5 kms from NH17 • MGL sales volume reached to 3 MMSCMD in November 2020 and management expected margin could reach to new high in the coming quarter with the stable spot gas price and same level of exchange rate.
Petronet LNG Ltd	• Kochi-Mangalore pipeline expected to be commissioned by end-December 2020, it's been delayed by four months due to some issues in Chandragiri river. Capacity utilization would be 30-35% once the pipeline is commissioned • For FY21, capex will be INR 348 cr with INR 130 cr for Small scale LNG and INR 70 cr for new corporate office. Out of INR 15 cr was invested in H1FY21 • PLNG plans to open LNG dispensing stations in three phases with 50 stations in FY21, 300 stations by 2025 and 1000 stations over the next decade. The company expects ~9-10 mmt of additional volume over the next decade from this. • Regasification revenue for the quarter came in at INR 678 cr vs INR 500 cr in last year same quarter and INR 613 cr in Q1FY21, higher revenue was mainly due to higher volume
BPCL	• In H1FY21, Company added 962 retail outlet and expected to add another ~900 retail outlet in H2FY21. BPCL's management also expected to commission ~6,000 retail outlet over the next three years. • Capex target for FY21 remain as guided INR 8,000 cr in Q1FY21, which was guided INR 12,500 cr earlier. For FY22, Capex will be ~INR 12,000-13,000 cr for Kochi refinery Petrochemical project and Mumbai refinery LPG projects. • Divestment process is on track and expected could complete by Mar-21.
HPCL	• HPCL's GRM improved to $5.11/bbl with an inventory gain $2.33/bbl in Q2FY21 as compared to GRM of $2.83/bbl with an inventory gain of $0.28/bbl in Q2FY20. Improvement in refinery margins was mainly due to better margins on Lube and fuel oil products. • Capex target for FY21 was at INR 11,500 cr and out of INR 4,900 already invested in H1FY21. • AS of September 2020, company has outstanding of INR 4,000 cr for LPG subsidy with Government of India. • HPCL improved its offering of CNG to customers and added 103 new stations to 574 stations selling CNG as on H1FY21. While company also commissioned 42 mobile dispenses, this can deliver diesel on door-to-door basis. As of September 2020, the Company has provided 36 EV charging facility and expected to add one charging facility in every two HSD station. • As of H1FY21, the company has total debt amount of INR 25,218 cr excluding lease obligation.

KRChoksey | research

MGL has a better margin profile compared with IGL

Profit & Loss Account	CGD		Energy	OMC	
(INR Mn)	IGL	MGL	PLNG	BPCL	HPCL
Revenue from Operations	**13,054**	**5,067**	**62,358**	**494,086**	**518,324**
Expenses:					
COGS	6,097	1,771	47,199	387,628	441,580
Gross Profit	**6,957**	**3,296**	**15,159**	**106,458**	**76,744**
Gross Margin (%)	**53.3%**	**65.0%**	**24.3%**	**21.5%**	**14.8%**
Employee benefit expenses	313	248	338	16,610	10,127
Other expenses	2,574	838	1,188	39,177	30,536
EBITDA	**4,071**	**2,210**	**13,632**	**50,671**	**36,081**
EBITDA Margin (%)	**31.2%**	**43.6%**	**21.9%**	**10.3%**	**7.0%**
Depreciation and amortisation expenses	711	425	1,952	10,650	8,833
EBIT	3,360	1,785	11,680	40,021	27,248
Finance Cost	23	20	850	1,078	2,724
Other income	303	184	1,419	3,047	7,782
Profit/Loss before exceptional items	3,640	1,949	12,249	41,991	32,306
Share of profit of associates & JVs	288	0	99	-821	6,074
Exceptional item	0	0	0	1,103	0
Profit before Tax (PBT)	3,929	1,949	12,347	40,067	38,380
Total Tax expense	124	507	3,153	14,172	8,621
PAT before Non-controlling interest	3,805	1,442	9,195	25,895	29,759
Non-Controlling interest	0	0	0	3,265	0
PAT after Non-controlling interest	**3,805**	**1,442**	**9,195**	**22,631**	**29,759**
PAT Margin (%)	**29.1%**	**28.5%**	**14.7%**	**4.6%**	**5.7%**
Diluted EPS	5.4	14.6	6.1	11.5	19.5

Source: Company, KRChoksey Research

IGL PAT margin expansion led by better operating performance

Particulars	IGL		MGL		PLNG		BPCL		HPCL	
Change %	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ
Revenue from Operations	-22.9%	104.4%	-35.3%	93.6%	-33.4%	27.7%	-23.1%	30.0%	-15.0%	37.2%
Expenses:										
COGS	-38.4%	104.4%	-53.2%	79.4%	-41.2%	23.0%	-35.5%	-97.8%	-92.7%	-276.8%
Gross Profit	-1.0%	104.5%	-18.6%	102.4%	13.3%	44.8%	25.9%	21.1%	22.6%	-1.8%
Gross Margin (%)	1177 bps	2 bps	1336 bps	282 bps	1001 bps	287 bps	839 bps	(159) bps	454 bps	(588) bps
Employee benefit expenses	-14.1%	-0.5%	29.8%	0.7%	26.2%	-6.0%	63.9%	65.5%	29.2%	16.3%
Other expenses	-5.7%	14.6%	-25.6%	43.7%	-21.3%	17.5%	14.6%	11.0%	-3.3%	18.1%
EBITDA	3.7%	387.9%	-19.1%	176.4%	17.5%	49.8%	77.5%	18.9%	55.7%	-17.3%
EBITDA Margin (%)	799 bps	1812 bps	874 bps	1307 bps	946 bps	323 bps	581 bps	(96) bps	316 bps	(458) bps
Depreciation and amortisation expenses	14.4%	4.3%	8.6%	0.5%	-0.4%	0.8%	4.1%	-0.7%	7.0%	0.0%
EBIT	1.7%	2100.5%	-23.8%	373.4%	21.1%	63.1%	118.5%	25.6%	82.6%	-21.7%
Finance Cost	26.5%	-3.4%	40.0%	32.7%	-19.1%	-3.5%	-85.7%	-84.4%	-9.3%	-18.4%
Other income	-22.2%	-1.0%	-19.8%	-24.8%	60.3%	107.5%	-26.8%	-43.3%	166.2%	45.9%
Profit/Loss before exceptional items	-1.0%	736.3%	-23.8%	221.2%	29.2%	75.8%	181.5%	38.4%	117.6%	-12.2%
Share of profit of associates & JVs	-32.0%	387.2%	NA	NA	291.6	-148.2	-126.5%	-271.7%	438.9%	208.9%
Exceptional item	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Profit before Tax (PBT)	-4.2%	694.5%	-23.8%	221.2%	41.8%	82.6%	122.4%	30.1%	194.0%	23.0%
Total Tax expense	316.4%	-13.0%	443.0%	227.7%	244.4%	78.8%	747.9%	58.7%	58.6%	-0.6%
PAT before Minority interest	-8.5%	981.4%	-46.7%	219.0%	-15.6%	84.0%	58.4%	18.4%	290.7%	32.1%
Minority interest	NA	NA	NA	NA	NA	NA	147.9%	114.3%	NA	NA
PAT after Minority interest	-8.5%	981.4%	-46.7%	219.0%	-15.6%	84.0%	50.6%	11.2%	290.7%	32.1%
PAT Margin (%)	457 bps	2363 bps	(605) bps	1120 bps	311 bps	451 bps	224 bps	(78) bps	449 bps	(22) Bps
Diluted EPS	-8.4%	988.0%	-46.7%	219.0%	-15.6%	84.1%	50.7%	11.2%	290.6%	32.1%

Source: Company, KRChoksey Research

Our top picks are Petronet LNG, HPCL and MGL

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Indraprastha Gas Ltd	ACCUMULATE	BUY	3,36,130	482	517	503	7.3%	22.3	23.2
Mahanagar Gas Ltd	ACCUMULATE	BUY	1,05,728	1,059	1,171	1,042	10.6%	20.4	11.5
Petronet LNG Ltd	BUY	BUY	3,96,200	262	319	319	21.8%	20.6	11.7
BPCL	ACCUMULATE	ACCUMULATE	8,56,521	397	437	437	10.0%	12.3	8.6
HPCL	BUY	BUY	3,30,040	217	258	224	18.9%	8.2	11

Source: Bloomberg, KRChoksey Research

Auto and Auto Ancillary Sector

Green-Shoots in Passenger vehicles and Two-Wheelers, while Commercial Vehicle remain challenging

- As per SIAM, In Q2FY21, Industry Passenger Vehicles sales grew by 17.2%, volumes stood at 726,232 units compared 620,620 units last year same quarter. 3-wheeler sales declined by 75% during the quarter, with volume sales at 45,902 units compared to 180,899 units last year same quarter. The 2-wheeler sales marginally grew by 0.2% during the quarter, with volume sales at 4,690,565 units compared to 4,682,571 units last year same quarter.
- CV segment performance will remain challenging due to high axle norms, delayed infrastructure projects. We expect the announcement impending scrappage policy to bring relief to CV segment. CV sales declined by 20% from 167,173 units in Sep-19 to 133,524 units in Sep-20.

3-Wheelers to be impacted as people shun shared mobility and public transport

- Industry 3-wheelers performance continues to remain laggard as it witnessed a decline of 75% YoY in Q2FY21.
- This can be attributed to public transport and shared mobility being impacted due to social distancing which will in turn drive demand for personal vehicles such as entry level passenger vehicles and 2-Wheelers
- Bajaj Auto's domestic 3-wheeler recovery remained sluggish with cargo demand recovering faster with 40-50% recovery rate and passenger at 20-25%.

Gearing up new launches to bolster sales ahead of festive season; Rural recovery expected to boost domestic demand

- Rural market led by good monsoon and robust crop output is expected to show strong growth as compared to urban region .
- This will drive the demand for Tractor, Small Commercial Vehicles and Motorcycle sales which will benefit Eicher Motors and Bajaj Auto.
- New launches planned in affordable segment ahead of festive season: Tata Motors (micro-SUV concept 'HBX', Tata Gravitas), Maruti Suzuki (New-Gen Celerio)

Companies	Revenue Performance
Maruti Suzuki	• Revenue stood at INR 187.5 bn, up 10.4% YoY/ 356.5% QoQ, mainly on account of 16.2%/ 413.2% QoQ increase in volume to 3,93,130 units being sold in Q2FY21. Demand was mainly driven by 1st time buyer. • Average Selling Price declined 5.0% YoY/ 6.4% QoQ, due to adverse effect of commodity price. Average discount in Q2FY21 was INR 17,600/unit compared to INR 25,000/unit last year. • Domestic sales grew 18.6% YoY while export sales declined 12.7% YoY. • Navratri festival this year saw a delivery of 96,700 units compared to 76,000 delivery same period last year. • Currently plant is running at 85-90% utilization level.
Tata Motors	• Revenue declined 18.2% YoY/ up 67.4% QoQ to INR 535.3 bn, mainly led by 5.1% YoY volume growth in Tata Motor Standalone and decline of 11.9% YoY in JLR. • Tata Motor Standalone sales were down by 3% YoY while that of JLR declined by 21.3% YoY. • Standalone volume were mainly driven by passenger car segment which grew 139% YoY driven by strong momentum in "New Forever" portfolio, followed by utility segment which grew 69% YoY, while M&HCV and LCV reported decline of 52% YoY and 17% YoY respectively. • JLR volume - China reported 3.7% YoY growth, UK, N. America, Europe and overseas reported decline of 2.9% YoY, 15.8% YoY, 19.8% YoY and 30.3% YoY respectively.
Bajaj Auto	• Bajaj Auto revenue declined 6.1% YoY/ up 138.8% QoQ to INR 7,041 Cr, mainly led by decline in volume by 10.2% YoY/ up 137.7% QoQ, QoQ growth was attributable to easing of lockdown. • Realization grew 3.4% YoY due to favorable mix and price hikes. • Domestic CV volume continue to be remained under pressure (down by 78% YoY) as people movement is restricted amid lockdown.
Eicher Motors	• Eicher Motors reported consolidated revenue from operations of INR 2,134 Cr, a growth of 160.8% YoY (marginally down by 2.7% QoQ). Average price realization increased by 9.1% YoY due to higher mix of BS-VI motorcycles. Total volumes of Royal Enfield motorcycles declined by 9.6%YoY at 1,50,519 vehicles due to lifting-up of lockdown and gradual revival in demand. • In its Joint venture business, VECV continued to be affected by demand slowdown in commercial vehicle space. VECV sold 8,167 trucks and buses registering a decline of 28% YoY.
Ashok Leyland	• Revenue in Q2FY21 declined by 28% YoY (+366% QoQ) at INR 2837 Cr. The decline in revenue was led by volume decline of 33% YoY partially offset by rise in ASP by 7% YoY. • LCV sales are back to pre-COVID levels, MHCVs are witnessing a slow pick-up from COVID lows • Volumes came in at 19.4k units (vs. 3.8k units QoQ). MHCV/LCV volumes declined by 53/5% YoY

Companies	Margin Performance
Maruti Suzuki	• Reported EBITDA growth of 20.4% YoY to INR 19.3 bn in Q2FY21, due to improved capacity utilization, lower advertisement expenses, lower operating expenses on account of cost reduction efforts. The raw material cost is expected to normalize in the coming quarters. • Despite good operation performance, lower depreciation cost, net profit grew only 1.0% YoY to Rs 13,716 mn in Q2FY21 on account of lower tax rate in Q2FY20 resulting in higher profit. • Focus on cost controls related to material cost through localization and fixed cost is likely to aid margin going forward.
Tata Motors	• EBITDA declined 20.9% YoY/ up 791.4% QoQ to INR 5,665 Cr due to decline in volume, whereas EBIDTA margin declined 36 bps YoY/ up 860 bps QoQ to 10.6%. • Tata Motor's standalone achieved the cash saving of INR 2,475 Cr in H1FY21 and targets saving of INR 6,000 Cr in FY21. • JLR Project charge + saving resulted in saving of GBP 180 Cr and targets for saving of GBP 250 Cr of FY21. • Despite cost saving initiative, company reported net loss of INR 307 Cr due to weaker volume resulting in lower sales, higher finance cost and poor product mix.
Bajaj Auto	• Gross margins declined 360bps QoQ to 29.3% due to higher raw material cost. • EBITDA margin expanded 93 bps YoY to 18.0% (+539 bps QoQ) led by increase in capacity utilization and reduction in Other expenses. • Net Profit de-grew by 18.9% YoY to INR 1,138 Cr. (+115.7% QoQ) attributed to reduction in treasury income coupled with one-time gain noted in last year's Net Profit. Net profit margin contracted 255 bps YoY/173 bps QoQ to 16.2%
Eicher Motors	• Absolute EBITDA declined 13% YoY to INR 471 Cr while EBITDA margin contracted 262bps YoY/down 2616bps QoQ to 22.1% • Overall, bottom line recorded a profit of INR 343 Cr (-40% YoY) with NPM of 16.1% (-1003bps YoY).
Ashok Leyland	• Absolute EBITDA declined by 65% YoY (-124% QoQ) while margins contracted by 298bps YoY (+5404bps QoQ) to 2.84%. This decline was on account of lower MHCV mix, negative operating leverage and higher input costs. • Overall, Net Profit declined by 477% YoY (-62% QoQ) to INR -146.67 Cr with NPM at -5.17% (-616bps YoY/5404 bps QoQ) due to lower other income and higher depreciation and interest expense. • EPS stood at INR -0.5 per share as against 0.13 YoY and 1.32QoQ.

Companies	Industry Outlook / Strategy
Maruti Suzuki	• Backlog demand and shift in trends towards personal mobility led to increase in PV demand in recent months. Festive period in Kerala and Western India has begun well. • Demand was higher for lower price variant/smaller capacity during the quarter as consumer are using it for utility purpose to avoid public transport and car/transport sharing, rather than aspiration. • Though outlook beyond December is unclear, but management expects demand till that time to be healthy. • Inventory as on September end were at 1.2 lakh units.
Tata Motors	• JLR expects to exceed charge + savings targets of £2.5 billion in FY21. While Tata Motors standalone target for cost saving of INR 6,000 Cr. • Total lifetime savings under Project Charge+ stood at £4.7 billion. The company raised targeted savings by £1 billion to £6 Billion (earlier £5 Billion) to be achieved through material cost, VME and other overheads which will aid margin • Capex (Indian operations): INR 669 crore for Q2FY21. Capex (JLR): £531 million for Q2FY21; FY21E capex guidance: £2.5 billion
Bajaj Auto	• Exports revenues declined ~10% YoY (volume declined by 20% YoY at 479,751) while USD realization at INR 74 in Q2FY21 (INR 75.6 in Q1FY21). • The management observed ~50%, ~90%, ~90% and ~80% recovery in Asian, Middle East, Africa and LATM, respectively and expect growth in Q3FY21 and full recovery by Q4FY21. Domestic CV continue to remain under pressure as people movement is restricted, within CV segment cargo has performed better than passenger vehicle. • Domestic 3W recovery remained sluggish with cargo demand recovering faster with 40-50% recovery rate and passenger at 20-25%.
Eicher Motors	• Eicher Motors has signed a definitive agreement for the integration of Volvo India buses into VECV (Volvo Eicher Commercial Vehicles) for INR 100 Cr. The final business transfer is expected to be closed within the next two months. The transfer will be only for its business and assets and no debt will be transferred • The company has started getting bookings for bike nearly at pre-COVID level. Most of the dealers are operational • The supply chain got impacted due to lockdown in Pune , Aurangabad and some parts of Chennai. Now supply chains are improving and getting better. The company is not sourcing anything from China • The company is currently operating at 40-45% capacity. The company has planned a new launch in Royal Enfield almost every quarter. The company received good response for its BS-VI vehicles specially from fleet owners and truck owners
Ashok Leyland	• Ashok Leyland is focusing on cost reduction plan under the Project 'Reset' which will reduce overall cost structure and improves the efficiency. • Management expects demand to be driven by ICVs, tipper sales (driven by a pick-up in infrastructure activities) and LCVs. Inquiries for haulage vehicles are increasing, though conversions are delayed

Companies	New Launches/Market share
Maruti Suzuki	• Overall share of diesel engine car in the industry fell to ~17% in Q2FY21 vs. 20.6% in Q1FY21, which benefitted Maruti as it exited the segment • Share of replacement buyer came down to 18.8% in H1FY21 vs. 24.4% last year. • Demand from rural economy was higher compared to urban demand, with rural demand growing by 10% YoY. Rural contribution was higher at 41% in Q2FY21 vs. 38.5% last year. • There is no delay in rolled out of new model despite Covid-19, as particular model cycle is typically 36-40 months.
Tata Motors	• CV market share for company has been falling from 45.1% in FY19 to 36.7% in H1FY21. Though market share has been increasing month on month since May 2020. • MHCV on other side witnessed a market share gain from 55.0% in FY19 to 60.2% in H1FY21, while it has been falling for other CV category. • Company is gradually improving is CV market share as supply chain stabilizes. • PV market share has improved from 6.3% in FY19 to 7.9% in H1FY21, backed by positive response from new launches. • JLR added 5 PHEVs and 5 MHEVs added so far in FY21.
Bajaj Auto	• In Q2FY21, the company introduced Pulsar 125 Drum Split Seat and expanded the footprint of Pulsar 125 Disc Split Seat. • Further refreshed versions of Platina 100 ES and Duke 50 were also introduced. • Company market share in CV segment was at 53.3%. While within CV segment cargo registered highest ever market share of 37%. • In export segment, the market share has increased in more than 30 markets (out of 70) that contributes ~80% of exports.
Eicher Motors	• The company's market share marginally fell from 23.5% in H1Fy20 to 23.3% in H1FY21. The company is continuously expanding its network in H1FY21 and added 25 large size stores and 171 studio stores in India. • The company launched contactless sales platform during the quarter which is doing well • Witnessed a surge in its website count of number of visits from 2.5 mn in pre-Covid level to 5 mn currently • Market share gained in Bangladesh and Africa despite decline in overall industry volumes • A proposed new plant in Bhopal which will be spread over 150 acres, the phase 1 will have a capacity to produce 40,000 units p.a. and scalable up to 100,000 units p.a. It will be 1st BSVI compliant green filed plant in Indian CV industries
Ashok Leyland	• Ashok Leyland rolled out the 'Bada Dost' LCV in the quarter, and the company expects light truck sales to ramp up. While inquiries for haulage trucks are rising, the sales conversions remain delayed. • AL launched its modular platform 'AVTR' during Q1FY21 and has received excellent feedback and is see good interest from fleet operators

Margin highest for Bajaj Auto & Eicher Motors due to favourable currency and better cost rationalization

Particulars (INR Cr)	Maruti Suzuki	Tata Motors	Bajaj Auto	Eicher Motors	Ashok Leyland
No of vehicles	**3,93,130**	**2,23,948**	**10,53,337**	**158,686**	**19,444**
Sales	**18,744**	**53,530**	**7,156**	**2,134**	**28366**
Total Expenditure	**16,811**	**54,983**	**5,957**	**1,663**	**27562**
Cost of Raw Materials	8,862	33,986	4,774	1,261	**19224**
Purchase of Stock	4,514	3,086	347	70	**1999**
Changes in Inventories	-262	-3,605	-63	(108)	**-1022**
Employee Cost	827	6,409	325	207	**3736**
Other expenses	2,870	7,555	507	233	**3625**
EBITDA	**1,934**	**5,665**	**1,266**	**471**	**804**
EBITDA Margin (%)	**10.32%**	**10.58%**	**18.00%**	**22.1%**	**2.8%**
Depreciation	766	5,601	64	105	**1712**
EBIT	**1,168**	**64**	**1,202**	**366**	**-91**
Interest Expense	22	1950	3	4	**872**
Other Income	603	633	286	100	**219**
Exceptional Items	0	-5	0	0	**-17**
PBT	**565**	**-815**	**1,485**	**462**	**-1578**
Tax	376	-471.39	347	115	**-111**
Share of Associates/Minorities	0	36.02	0	(4)	**0**
PAT	**1,372**	**-307**	**1,138**	**343**	**-1467**
PAT Margin	**7.3%**	**-0.6%**	**16.2%**	**16.1%**	**-5%**
EPS	**45.4**	**-0.9**	**3.0**	**12.6**	**1**

Source: Company, KRChoksey Research

KRChoksey research

Overall, the sector recovered in Q2FY21

Particulars	Maruti Suzuki		Tata Motors		Bajaj Auto		Eicher Motors		Ashok Leyland	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
No of vehicles	**413.2%**	**16.2%**	**125.9%**	**-4.3%**	**137.7%**	**-10.2%**	**167.2%**	**(10.8%)**	**410%**	**-33%**
Sales	**356.5%**	**10.4%**	**67.4%**	**-18.2%**	**132.4%**	**-7.2%**	**160.8%**	**(2.7%)**	**335.8%**	**-27.8%**
Total Expenditure	**205.0%**	**7.8%**	**41.8%**	**-16.1%**	**117.7%**	**-8.2%**			**180.1%**	**-25.5%**
Cost of Raw Materials	568.7%	5.9%	242.7%	-5.7%	181.5%	-9.3%	283.2%	12.4%	491.5%	-11.5%
Purchase of Stock	386.4%	8.3%	78.9%	1.2%	286.7%	-13.3%	169.9%	(3.8%)	168.6%	14.6%
Changes in Inventories	NM	NM	-143.5%	-452.0%	-122.3%	-72.6%	NM	NM	-667.6%	-127.9%
Employee Cost	13.2%	-1.4%	12.6%	-12.0%	-3.9%	-4.2%	17.3%	11.5%	5.5%	-13.5%
Other expenses	120.2%	7.2%	32.9%	-31.2%	71.3%	-22.9%	70.7%	(16.9%)	70.6%	-34.7%
EBITDA	**NM**	**20.4%**	**791.4%**	**-20.9%**	**210.2%**	**-1.0%**	**NM**	**(13.0%)**	**-124.1%**	**-64.8%**
EBITDA Margin (%)	***NM***	***86 bps***	***859 bps***	***-36 bps***	***414 bps***	***93 bps***	***2161bps***	***-262bps***	***5404 bps***	***-298 bps***
Depreciation	-2.2%	-17.3%	0.0%	5.7%	0.8%	4.9%	6.8%	16.7%	4.6%	6.9%
EBIT	**NM**	**71.7%**	**-101.3%**	**-96.6%**	**249.0%**	**-1.3%**	(487.9%)	(18.9%)	**-81.7%**	**-232.4%**
Interest Expense	29.5%	-20.6%	3.9%	6.2%	178.9%	113.7%	(25.0%)	(13.6%)	13.5%	189.6%
Other Income	-54.3%	-34.5%	4.4%	-5.9%	-15.4%	-27.4%	(12.5%)	(31.1%)	-14.6%	-51.9%
PBT	**NM**	**11.2%**	**-86.8%**	**-231.1%**	**118.0%**	**-7.7%**	**NM**	**NM**	**1.8%**	**-97.4%**
Exceptional Items	-	-	51.6%	-87.5%	NA	NA	NA	NA	-71.3%	-925.7%
Tax	-490.7%	76.3%	-121.4%	-205.8%	125.8%	68.0%	2,454.1%	314.1%	-93.1%	-43.7%
Share of associates	-	-	-160.3%	-109.9%	NA	NA	(94.1%)	(146.4%)	NM	NM
PAT	**NM**	**1.0%**	**-96.4%**	**41.9%**	**115.7%**	**-18.9%**	**(722.2%)**	**(40.0%)**	**-62.3%**	**-477.3%**
PAT Margin	**NM**	**-68 bps**	**NM**	**-24 bps**	**-173 bps**	**-255 bps**	**2284bps**	**-1003bps**	**NM**	**-616 bps**

Source: Company, KRChoksey Research

Agri demand on surge, future readiness key to drive the performance

- Agriculture demand remains stronger. Other sectors demand stable.
- Significant changes in product mix due to evolving demand scenario in the end market.
- Modernization, Automation, Upgradation and Addition of new equipment were the key strategies adopted by players to increase productivity, quality and efficiency.
- Aerospace, renewable energy and defence are the key sectors with potential growth momentum in near future.
- The revival in demand is whether led by festive season or it is a sustainable surge remains to be seen.

Performance overview

- Balkrishna Industries reported highest ever quarterly sales volume in Q2FY21
- Balkrishna Industries remains Long Term Debt Free with Cash and Cash equivalents of INR1,299 crs as on 30th September 2020.
- Bharat Forge CV business impacted by weakness in EU markets. PV business continues to perform well with strong traction on new business wins.

Gearing up new launches and recovery in rural sector

- Rural market led by good monsoon and robust crop output is expected to show strong growth as compared to urban region .
- This will drive the demand for Tractor, Small Commercial Vehicles and Motorcycle in coming quarters.

Companies	Revenue
Minda Corporation	• Minda Corporation Ltd (MCL), reported consolidated revenue of INR 6561 Mn which was up by 17.47% YoY (+268.68% QoQ), It significantly outperformed industry growth driven by increased content per vehicle and new order wins. • Better consolidated revenue for the quarter due to a better-than-expected performance of the Information Driver System segment.
Minda Industries	• Minda Industries Ltd (MIL) reported consolidated revenue increased of 7.8% YoY and (up +251.2% QoQ) to INR 14,650.4 Mn, led by Strong volume growth owing to pent up demand for festive season surge led to growth in topline. • The company's lighting segment has been topping market growth due to a shift towards LED; in the PV segment, the company has received orders worth ₹2bn which will convert to sales from FY23.
Sundaram Fasteners	• SFL Q2FY21 consolidated revenue grew by 0.3% YoY and (138% QoQ) to INR 8635 Mn. Revenue growth was mainly due to better Domestic sales of INR 4839 mn in Q2FY21 as as against INR 4500 mn in Q2FY20. • Exports in Q2FY21 came in at INR 2603 mn as against INR 2909 mn during the same period in the previous year. Export contributed 34% in standalone revenue. • SFL has gradually increased in its factories operation to three shifts to meet the improved demand.
Balkrishna Industries	• Balkrishna Industries reported total revenue from operations of INR 929 Cr, decline of 22.2% YoY (down 31.6% QoQ) owing to sales volume decline of 25.7% YoY/ down 34.3% QoQ at 38,096 units. • Volume decline was partially offset by increase in ASP which grew 4.8% YoY/ +4.1% QoQ. • Volume picked up mainly in May and June. The monthly run rate is gaining momentum and is visible in July and August
Bharat Forge	• For Q1FY21, Bharat Forge reported standalone revenue from operations of INR 4,270 mn, a decline of 68.3% YoY (down 51.5% QoQ). The performance was impacted due to lockdown that last for nearly 2 months in the quarter and company operated at merely 20% capacity in Q1FY21 • Domestic revenue declined 72.3% YoY (down 58.4% QoQ) to INR 1,541 mn owing to lockdown. Export revenue declined 65.6% YoY / down 47.1% QoQ to INR 2,592 mn, largely driven by America and Europe
Endurance Technology	• Endurance Technologies Q1FY21 revenue declined sharply by 68.41% YoY and (-62.23% QoQ) to INR 6031.12 Mn, decline in topline was mainly on account of lockdown which impacted domestic and overseas operations. • The quarter saw a drop of 72.3% in the number of two wheeler sold by OEMs. The drop was much sharper at 78%, in terms of the number of two-wheeler produced in domestic market.

Companies	Margin
Minda Corporation	• Gross margin, for the quarter turned adverse (at 36.5%, down 210bps YoY) due to the impact of a lag in raw material cost indexation given rising commodity costs and BSVI costs, and an adverse mix (lower CV share) • EBITDA for the quarter stood at INR 665.5 Mn which is down 0.83% YoY. EBITDA margin at 10.1% was impacted by raw material inflation and Covid19-led productivity inefficiencies
Minda Industries	• Gross profit margin for the quarter came in at 39.8%. Consolidated EBITDA margin was at 14.7% up by 282bps YoY and 3184bps QoQ, on account of the cost cutting measures undertaken by the management led to impressive margin expansion. • Profit after tax for Q2FY21 stood at INR 808.3 Mn reported a increase of 63.5% YoY (and up 168.3% QoQ). PAT margin stood at 5.5% which was higher by 185bps YoY
Sundaram Fasteners	• EBTIDA for the quarter stood at INR 1786 mn grew by 18.3% YoY (up 1079.4% QoQ) while EBITDA margin reported at 20.1% as compare to 17% in corresponding quarter last year and 4.1% in Q1FY21. Growth in EBITDA margin led by stable raw material prices and better cost management. • For Q2FY21, SFL reported Net Profit of INR 1024 mn, up 45.1 % YoY and Net loss of INR 267 mn in Q1FY21. PAT margin for the quarter stood at 11.9% as against 8.2% in Q2FY20.
Balkrishna Industries	• EBITDA decreased by 13.9% YoY/down 38.1% QoQ to INR 231 Cr due to lower revenue. EBITDA margin expanded 239 bps YoY/down 262 bps QoQ to 24.8% due to lower COGS. • PAT declined 30.9% YoY/down 52.7% QoQ to INR 122 Cr owing to lower other income which declined 30.9% YoY/down 52.7% QoQ and higher depreciation. PAT margin declined 165 bps YoY/down 586 bps QoQ to 13.1%.
Bharat Forge	• The Company reported Absolute EBITDA loss of INR 28 mn in Q1FY21 vs EBITDA of INR 1,103 mn in previous quarter and INR 3,495 mn in same quarter previous year. Consequently, EBITDA margin contracted to -0.7% vs. 12.5% in Q4FY20 and 26.0% in Q1FY20 due to negative operating leverage • The company expects to continue to post sequential improvement in coming quarters and return to previous margin levels by downsizing cost and controlling capex spends
Endurance Technology	• EBITDA for Q1FY21 declined by 87.48% YoY and (down 82.04% QoQ) to INR 427.26 Mn, while EBITDA margin declined 1080bps YoY and (-781bps QOQ) to 7.08% led by higher cost and lower operating leverage. • ETL reported net loss of INR 249.29 as compare to net profit of INR 1656 Mn in corresponding quarter last year.

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Companies	Industry Outlook / Strategy
Minda Corporation	• Lifetime order worth ~INR 5.4bn won in the quarter for locksets, die-casting, alternator division, etc. • Order book has increase largely due to OEMs have started to clear the order book. Company is having very good production scheduled for festive season and healthy order book for Q3 and Q4. • Company to issue 11.8mn preference share (~5% equity dilution) up to Rs.830mn which will help the company to win new business, advisory for cost optimization and identification of new investment opportunity. Management is looking at long-term benefit of this operational partnership.
Minda Industries	• Consistent new order inflows across all the businesses, quarter after quarter and that too in value added products presents excellent growth opportunity for the company as demand scenario normalizes • Recently new orders bagged in high value switches, new orders from Maruti Suzuki, Daimler and Audi in LED lighting business, combined with acquisition of Harita Seating will help to significantly scale up both topline and profitability going ahead.
Sundaram Fasteners	• Diversification into Aerospace and Defence sectors; expect to see better growth from non-auto segment in future • The company had set up a SEZ Unit at Sri City, Andhra Pradesh with an initial investment of INR 100 Cr. The new Unit has received an order from a leading European manufacturer to manufacture and export high precision engineering components
Balkrishna Industries	• The demand is strong in Agriculture segment across geographies which will lead to Balkrishna Industries gaining market share. Non-Agriculture segment is moving slow, on-account of low commodity prices and end user demand however, company expects gradual uptick as economic activity increases across the globe
Bharat Forge	• The Indian government recent announcement to restrict the import of 101 defence equipment's under the Make in India platform enhance the order procurement visibility for BFL's artillery guns • On the Aerospace the company has already set the target to reach INR 1000cr by FY2023 from current INR 400cr. • Going forward, the management expect domestic revenues to be flat as compared to Q2FY20 while the exports will be lower than levels witnessed in Q2FY20
Endurance Technology	• OEMs are now witnessing demand pick-up and product is expected to return to pre-COVID levels. Management states that sales trends/ forecasts suggest a rebound in Europe's passenger car sales.

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Particulars (INR Cr)	Minda Corporation	Minda Industries	Sundaram Fasteners	Balkrishna Industries	Bharat Forge	Endurance Technology
Sales	**656**	**1,465**	**889**	**929**	**4,270**	603.10
Total Expenditure	590	1,250	711	**698**	**3,262**	560.40
EBITDA	**67**	**215**	**179**	**231**	**(28)**	42.70
EBITDA Margin (%)	10.2%	15%	20.1%	24.8%	- 0.7%	7.1%
Depreciation	25	81	45	100	808	85.60
EBIT	**49**	**147**	**134**	**131**	**(837)**	(42.80)
Interest Expense	11	18	3	2	299	4.2
Other income	7	13	8	33	420	10.9
Exceptional items	0	0	0	-	-	-
PBT	**38**	**129**	**139**	**162**	**(716)**	(36.1)
Tax	11	44	35	40	(153)	(11.2)
Share of Associates/Minorities	-2	-	1	-	-	0
PAT	**26**	**81**	**103**	**122**	**(563)**	(24.9)
PAT Margin	3.9%	6%	11.9%	13.1%	-13.2%	(4.1%)
Adj. PAT	**26**	**81**	**103**	**122**	**(563)**	(24.9)
Adj. PAT Margin	3.9%	6%	11.9%	13.1%	-13.2%	(4.1%)
EPS	**1.1**	**3**	5	**6.29**	**(1.21)**	(1.8)
Adj. EPS	1.1	**3**	5	**6.29**	**(1.21)**	(1.8)

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Particulars (INR Cr)	Minda Corp.		Minda Ind.		Sundaram Fast.		Balkrishna Ind.		Bharat Forge		Endurance Tech.	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	269%	17%	**251%**	**8%**	**138%**	0%	**(31.6%)**	**(22.2%)**	***(51.5%)***	***(68.3%)***	(62.2)	(68.4)
Total Expenditure	197%	20%	**156%**	**4%**	99%	-4%	**(29.1%)**	**(24.6%)**	(44.5%)	(38.5%)	(58.8)	(64.3)
EBITDA	-428%	-1%	**401%**	**33%**	1079%	18%	**(38.1%)**	**(13.9%)**	***(102.6%)***	***(100.8%)***	(82.0)	(87.5)
Change in EBITDA Margin (bps)	(187) Bps	-	3185bps	282bps	1602 bps	310 bps	(262 bps)	239 bps	(1318bps)	(2662bps)	NM	NM
Depreciation	22%	16%	19%	10%	1%	10%	1.4%	18.4%	*(4.6%)*	*(8.8%)*	(30.4)	(7.7)
EBIT	-255%	-9%	**-208%**	**59%**	-	22%	**(52.2%)**	**(28.7%)**	***(426.8%)***	***(132.1%)***	(137.3)	(112.5)
Interest Expense	43%	20%	-8%	-24%	-77%	-85%	28.0%	35.2%	(27.9%)	(22.9%)	62.6	(28.5)
Other income	-11%	-16%	236%	147%	-11%	31%	(49.8%)	(53.5%)	*33.3%*	*4.6%*	(37.8)	60
Exceptional items	-	-	-	-	-	-	NM	NM	NM	NM	NM	0
PBT	-197%	-15%	**183%**	**87%**	-	40%	**(52.2%)**	**(36.2%)**	***(8.6%)***	***(127.3%)***	(127.8)	(114.5)
Tax	-221%	127%	221%	159%	639%	27%	(50.7%)	(48.2%)	*205.9%*	*(117.4%)*	(148.8)	(113.3)
Share of Associates/Minorities	-72%	-157%	-	-	-4%	63%	NM	NM	NA	NA	NM	NM
PAT	-171%	-40%	**168%**	**64%**	-	45%	**(52.7%)**	**(30.9%)**	***(23.2%)***	***(132.3%)***	(123.3)	(115.1)
Change in PAT Margin (bps)	(272) bps	-	3389bps	188bps	-	366 bps	(586 bps)	(165 bps)	(487bps)	(2612bps)	NM	NM

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Our top picks remain Bajaj Auto, Sundaram Fasteners and Minda Corporation

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Tata Motors	ACCUMULATE	ACCUMULATE	4,05,895	131	133	104	1.2%	13.1	16.2
Maruti Suzuki	ACCUMULATE	ACCUMULATE	19,63,393	6,501	7,182	5,569	10.5%	29.8	28.6
Bajaj Auto	HOLD	ACCUMULATE	9,42,206	3,305	3,410	3,051	3.2%	19.3	16.2
Ashok Leyland	ACCUMULATE	BUY	214,255	94	99	85	5.3%	27	16
Eicher Motors	UR	UR	6,56,112	2,546	UR	UR	-	41.8	26.6
Minda Corporation	HOLD	BUY	19,842	88	90	92	2.3%	21	11
Minda Industries	HOLD	ACCUMULATE	102,958	386	403	377	4.4%	27	25
Sundaram Fasteners	ACCUMULATE	BUY	113,135	544	570	526	4.8%	25	23
Balkrishna Industries	ACCUMULATE	ACCUMULATE	2,60,318	1,349	1,417	1,349	5.0%	27.5	24.3
Bharat Forge	HOLD	HOLD	2,08,139	447	465	504	4.0%	33.3	31.4
Endurance Technology	UR	UR	148540	1061	-	-		34	26

Note: UR – Under Review
Source: Company, KRChoksey Research

Holding Companies

Revenue witnessed recovery, driven by improved performance of underlying holdings

- Holding companies witnessed recovery in revenue growth, led by economic recovery and growth performance of their underlying holdings and investments
- EID Parry, Ramco Industries and Pilani Investments witnessed a recovery in revenue growth on YoY as well as QoQ, while revenue declined for Bajaj Holdings
- EID Parry was least impacted in H1FY21, on account of lockdown as its product fell into essential product category and impact was limited only to few days of shutdown in operation in initial period of lockdown

Expansion in margins on a QoQ basis

- Expect for Pilani Investment, margin expanded for rest of the holding companies under coverage
- Pilani Investment EBITDA margin was impacted due to increase in other expenses as % of revenue. While EBITDA margin improved for EID parry on account of increased gross margin and it improved for Bajaj Holding and Ramco industries due to operational efficiency

Valuation & Outlook

- Bajaj Holdings, EID Parry, Ramco Industries are trading above their five-year Price/NAV discount average, offering upside potential for investor to invest

Companies	Revenue	Margin	Industry Outlook / Strategy
Bajaj Holdings	• Revenue declined YoY by 1.3% while it grew 28.6% QoQ, to INR 116 Cr.	• EBIDTA margin expanded 503 bps YoY / 643 bps QoQ to 81.3% due to lower other expenses as % of revenue.	• The pandemic has considerably impacted the business operations of our associate companies, including their subsidiaries, which impacted consolidated financial results
EID Parry	• Revenue grew 2.8% YoY / 40.9% QoQ to INR 5,836 Cr. Revenue growth was mainly driven by growth in Crop protection and Sugar segment growth.	• EBITDA margin expanded 340 bps YoY / 461 bps QoQ to 15.0% mainly led by gross margin expansion.	• The Group has sanctioned credit facilities which can be used as and when necessary and can repay the debts as and when it falls due.
Ramco Industries	• Revenue grew 18.5% YoY (down 14.2% QoQ) to INR 261 Cr, mainly led by growth in Building products and Textile segment.	• EBITDA margin expanded 625 bps YoY (down 371 bps QoQ) to 16.5%, due reduction in employee and other expenses as % of sales	• Company has an irrevocable option of shifting to a lower tax rale and simultaneously forgo certain tax incentives, deductions and accumulated MAT credit. • The Company has not exercised this option for the FY21 in view of the benefits available under the existing tax regime.
Pilani Investments	• Revenue grew 29.2% YoY / 65.3% QoQ to INR 62 Cr.	• EBITDA margin declined 211 bps / 34 bps QoQ , due to increase in other expenses as % of revenue.	• Extent to which global health pandemic will impact the Company's assessment and resultant provision on investments will depend on future developments, which are highly uncertain.

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YoY revenue growth reported except for Bajaj Holdings

Particulars (INR Cr)	Bajaj Holdings	EID Parry	Ramco Industries	Pilani Investments
Sales	**116**	**5,836**	**261**	**62**
Total Expenditure	**22**	**4,961**	**218**	**3**
EBITDA	**94**	**876**	**43**	**59**
EBITDA Margin (%)	81.3%	15.0%	16.5%	95.5%
Depreciation	8	84	8	0
EBIT	**86**	**792**	**35**	**59**
Interest Expense	1	59	2	13
Other income	16	14	3	0
Exceptional items	0	0	0	0
PBT	**101**	**747**	**36**	**46**
Tax	28	185	14	10
Share of Associates/Minorities	799	-244	56	-5
PAT	**872**	**318**	**79**	**31**
PAT Margin	751.6%	5.4%	30.2%	49.7%
Adj. PAT	**872**	**318**	**79**	**31**
Adj. PAT Margin	751.6%	5.4%	30.2%	49.7%
EPS	**78.4**	**18.0**	**9.4**	**39.0**
Adj. EPS	**78.4**	**18.0**	**9.4**	**39.0**

Source: Company, KRChoksey Research

YoY EBITDA margin expansion across the company except for Pilani Investments

Particulars	Bajaj Holdings		EID Parry		Ramco Industries		Pilani Investments	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**28.6%**	**-1.3%**	**40.9%**	**2.8%**	**-14.2%**	**18.5%**	**65.3%**	**29.2%**
Total Expenditure	**-4.4%**	**-22.3%**	**33.7%**	**-1.1%**	**-10.2%**	**10.2%**	**78.9%**	**145.0%**
EBITDA	**39.6%**	**5.2%**	**103.3%**	**33.0%**	**-29.9%**	**90.6%**	**64.8%**	**26.4%**
Change in EBITDA Margin (bps)	**643 bps**	**503 bps**	**461 bps**	**340 bps**	**-371 bps**	**625 bps**	**-34 bps**	**-211 bps**
Depreciation	0.0%	1.7%	-0.2%	3.0%	1.2%	7.0%	0.3%	21.6%
EBIT	**45.2%**	**5.5%**	**128.4%**	**37.2%**	**-34.6%**	**133.4%**	**65.0%**	**26.4%**
Interest Expense	2.1%	-62.4%	-33.9%	-49.0%	-39.0%	-35.1%	81.5%	18.5%
Other income	3.2%	19.4%	-11.6%	-39.4%	88.2%	-83.1%	NA	NA
Exceptional items	NA	NA	NA	NA	NA	NA	NA	NA
PBT	**37.1%**	**9.4%**	**173.1%**	**54.2%**	**-30.3%**	**3.8%**	**60.6%**	**28.9%**
Tax	-2.8%	15.6%	27.5%	78.1%	-19.1%	103.0%	46.8%	361.8%
Share of Associates/Minorities	26.0%	-16.8%	146.9%	22.6%	109.6%	150.1%	-64.7%	-121.2%
PAT	**28.4%**	**-15.2%**	**983.5%**	**75.0%**	**27.5%**	**55.8%**	**273.4%**	**-44.2%**

Source: Company, KRChoksey Research

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Bajaj Holdings, EID Parry, and Ramco Industries are top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/NAV Discount	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	Current
Bajaj Holdings	BUY	BUY	34,078	3,062	4,166	4,166	36.1%	53%	64%
EID Parry	BUY	BUY	5,998	339	463	463	36.6%	32%	62%
Ramco Industries	BUY	BUY	1,923	222	280	280	26.1%	52%	59%
Pilani Investments	ACCUMULATE	BUY	1,910	2,415	2,541	2,293	5.2%	74%	70%

Source: Bloomberg, KRChoksey Research

Miscellaneous

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Companies	Revenue	Margin	Industry Outlook / Strategy
Emmbi	• Emmbi revenue decline 29.4% YoY (up 12.3% QoQ) on account of exodus of laborers to their native places at beginning of the quarter. • Though performance of exports was better, domestic packaging was worst affected.	• Contraction in EBITDA margin to 10.9% in Q2FY21 (-123 bps YoY) can be attributed to lower revenue which pushed employee cost & overheads towards higher side. • Company incurred an additional cost of transportation to the tune of INR ~7.0 mn to bring back its worker from different part of the country.	• Exports performed well & have a strong orderbook of ~12 weeks. • Apart from ongoing capex (INR 10 Cr for FY21) currently company has no other further expansion plan.
Solar	• Explosives sales volume grew 8.8% YoY (down 1.6% QoQ) to 69,194 MT, though realization declined 5.7% YoY / 6.3% QoQ to INR 32,074/MT. • Exports and overseas revenue contribution in Q2FY21 rose to 45% of revenue compared to 40% in Q2FY20.	• GPM expanded 257 bps YoY / 575 bps QoQ to 50.8% in Q2FY21. • EBITDA margin improved 36 bps YoY / 272 bps QoQ mainly on account of higher revenue and GPM.	• With focused efforts, along with the ease of business and normalcy returning, company believe that FY21 to be better compared to FY20 despite the slowdown in the 1st quarter.
ABB	• Total revenue declined 7.6% YoY due to continued stress and slower order book conversion in sector like conventional power generation, metals, cement and mining. • Electrification business declined 16.2% YoY (up 66.2% QoQ), Motion business grew 3.7% YoY / 60.0% QoQ, Robotics and Discrete Automation declined 24.6% YoY (up 82.6% QoQ), while industrial Automation business declined 9.2% YoY (up 54.8% QoQ).	• EBITDA margin expanded 46 bps YoY / 515 bps QoQ to 7.5% due to improved capacity utilization, resulting in operational efficiency gain. • Net profit from continued operations grew 8.5% YoY to INR 85.5 Cr. Net profit margin improved 76 bps YoY / 360bps QoQ to 5.3%.	• Orders remain impacted given uncertainty in the economic environment and extended decision-making cycles. • Export orders continued to experience limited momentum. • Service and maintenance orders witnessed a decline with customers postponing. • The company continues to focus its efforts on cash collections and in maintaining a lean asset base.

Solar Industries reported YoY revenue growth; while it declined for Emmbi Industries and ABB

Particulars (INR Cr)	Emmbi Industries	Solar Industries	ABB
Sales	**57**	**587**	**1612**
Total Expenditure	51	461	1491
EBITDA	**6**	**126**	**121**
EBITDA Margin (%)	10.9%	21.4%	7.5%
Depreciation	2	24	25
EBIT	**4**	**102**	**97**
Interest Expense	3	12	20
Other income	0	2	3
Exceptional items	0	0	0
PBT	**2**	**92**	**114**
Tax	0	25	28
Share of Associates/Minorities	0	0	0
PAT	**1**	**65**	**85**
PAT Margin	2.1%	11.1%	5.3%
Adj. PAT	**0**	**65**	**81**
Adj. PAT Margin	2.1%	11.1%	5.0%
EPS	**0.68**	**7.2**	**4.0**
Adj. EPS	**0.68**	**7.2**	**3.8**

Source: Company, KRChoksey Research

EBITDA margin for Emmbi Industries declined

Particulars	Emmbi Industries		Solar Industries		ABB	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**12.3%**	**-29.4%**	**19.6%**	**16.0%**	**63.5%**	**-7.6%**
Total Expenditure	**13.2%**	**-28.4%**	**15.5%**	**15.6%**	**54.9%**	**-8.1%**
EBITDA	**5.8%**	**-36.5%**	**36.9%**	**17.9%**	**417.9%**	**-1.6%**
Change in EBITDA Margin (bps)	-67	-123	272	36	515	46
Depreciation	1.6%	2.5%	4.7%	14.4%	-0.6%	9.2%
EBIT	**7.6%**	**-44.8%**	**47.6%**	**18.8%**	**NM**	**-4.0%**
Interest Expense	-1.3%	-5.2%	-5.1%	-19.1%	-24.5%	22.5%
Other income	44.0%	20.0%	-51.8%	-69.1%	-25.3%	-36.7%
Exceptional items	0.0%	0.0%	0.0%	0.0%	NA	NA
PBT	**27.8%**	**-67.5%**	**51.9%**	**19.0%**	**386.8%**	**1.1%**
Tax	88.7%	-63.7%	46.9%	NM	327.5%	-16.0%
Share of Associates/Minorities	0.0%	0.0%	0.0%	0.0%	NA	NA
PAT	**13.6%**	**-68.8%**	**54.8%**	**-22.7%**	**410.4%**	**8.5%**
Change in PAT Margin (bps)	2	-266	253	-556	360	79

Source: Company, KRChoksey Research

KRChoksey research

Emmbi Industries is our preferred pick in miscellaneous sector

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Cr.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Emmbi Industries	BUY	BUY	138	78	92	84	17.9%	17.5	7.5
Solar Industries	HOLD	HOLD	9,366	1,035	1,071	1,071	3.5%	40.3	28.5
ABB	HOLD	HOLD	24,899	1,176	1,196	894	1.7%	86.1	56.5

Source: Bloomberg, KRChoksey Research
NR – Not Rated

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