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MODEL PORTFOLIO

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Midcaps – hunting for value amidst uncertainty

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The recent rally in broad market indices – reminiscent of a classic V-shaped recovery – has been restricted to select stocks. Divergence in midcap index performance vs. the Nifty has stretched to all-time highs. In our view, this could be the right time to hunt for value in the small and midcap universe. We introduce our Midcap Model Portfolio, with an intent to tap the rare opportunity presented by the mispricing of various midcaps. At 14.3x one-year forward P/E, the Nifty Midcap 50 is trading well below its long-term average of 21x.

Most prominent, extended bear run since Jan'18: The bear run in the Nifty Midcap 50 (M50) Index is far more pronounced than that in the broader market, given that its performance divergence versus the Nifty 50 has expanded to a historical high of ~55% (from Jan'18 levels).

The M50 is currently trading at a P/E of ~14.3x one-year forward earnings, much below long-term average levels of ~21x. While the index is up 47% from Mar'20 lows, it still has a lot of catching up to do in terms of multiples to qualify as a sustained uptrend. Q1 and Q2FY21 earnings trends will be the primary inflection point for multiples to either expand or remain sideways.

Focusing on V-shaped recovery: Midcap index recovery from Mar'20 lows was driven by sectors that largely benefit from the pandemic – pharma, chemicals, gold finance, IT and consumer. While these continue to form key overweights in our BOBCAPS Midcap Model Portfolio (BMP-M50), we see value in some auto ancillary (tyre, battery), building material, logistic and gas utility stocks.

Key picks: We follow a bottom-up approach towards stock picking, focusing on companies with resilient earnings or scope for faster earnings recovery as the economic lockdown eases. Additionally, most of our picks are a culmination of fundamental inputs from our research team.

Pharma, agrochemicals, gas utilities and IT are our largest sector overweights, carrying attributes of resilient earnings through the pandemic and an improved fundamental outlook. Financials (mostly midsize banks) and autos (mostly OEMs) remain our primary underweights. That said, we remain optimistic on select NBFCs (gold and MSME financiers) that have delivered a robust operating performance.

BMP-M50: TOP BETS

TOP 5 Overweight	TOP 5 Underweight
PI Industries	Ashok Leyland
Aarti Industries	TVS Motor
Gujarat State Petronet	Mahanagar Gas
L&T Infotech	Mindtree
Laurus Labs	Canara Bank

Source: BOBCAPS Research

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Portfolio allocation

FIG 1 – SECTOR-WISE PORTFOLIO ALLOCATION

Sector	NIFTY 50 MIDCAP WEIGHT	BMP MIDCAP WEIGHT	Stance
Automobiles	17.41	15.50	⬇
Building Materials	0.00	1.50	⬆
Cement	2.28	2.28	⬌
Chemicals	0.00	4.00	⬆
Construction	3.41	1.00	⬇
Consumers	16.08	16.08	⬌
Financial Services	25.33	19.93	⬇
Healthcare Services	3.65	3.00	⬇
Industrial Manufacturing	10.86	9.31	⬇
IT	2.10	3.00	⬆
Logistics	0.00	1.00	⬆
Media & Entertainment	1.12	1.00	⬇
Metals	3.52	3.43	⬇
Oil & Gas	4.37	6.10	⬆
Pharmaceuticals	1.90	5.00	⬆
Power	5.57	4.17	⬇
Telecom	2.41	3.70	⬆

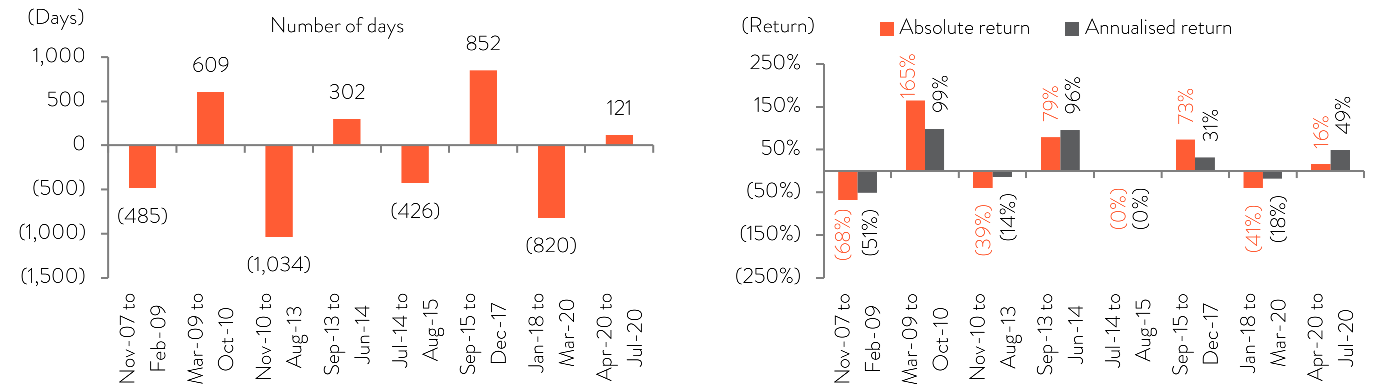
Source: NSE, BOBCAPS Research

Midcap bearish trend more pronounced

Midcap stocks have been under pressure since Jan'18, with the initial phase of correction triggered by withdrawal of the tax exemption on long-term capital gains. The next phase of correction from Sep'18 onward was fuelled by the NBFC liquidity crisis (stemming from the IL&FS imbroglio), followed by earnings downgrades (initially due to the economic slowdown, then aggravated by the pandemic-induced lockdown).

The bear run in midcaps has been more pronounced than that in the broader market, as reflected in a historically high ~58% performance divergence between the Nifty Midcap 50 index (M50) and the Nifty 50 (from Jan'18 levels).

FIG 2 – NIFTY MIDCAP 50: BEAR AND BULL RUNS



Source: Bloomberg, BOBCAPS Research

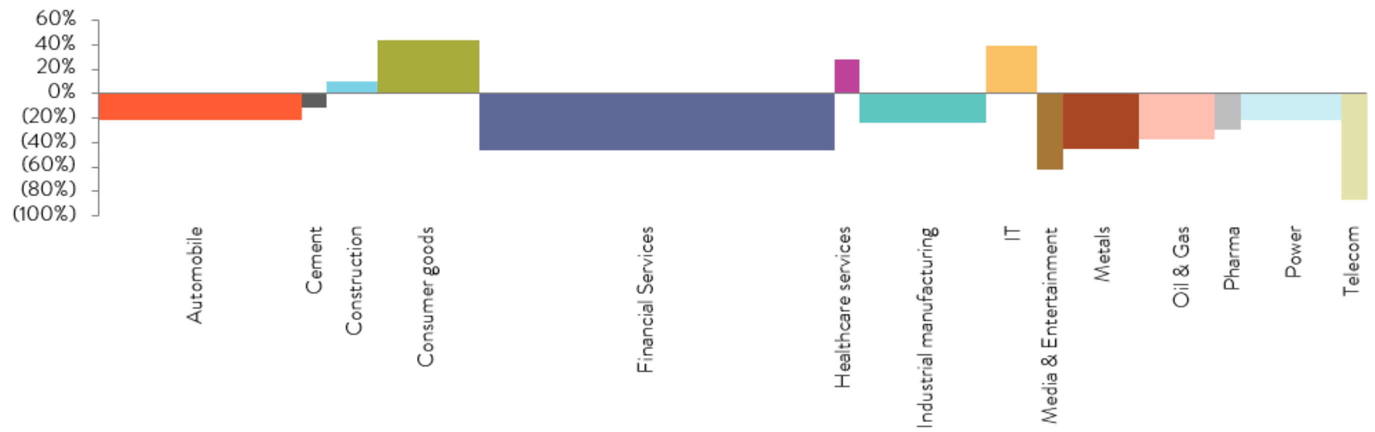
Rebounding off Mar'20 lows but bearish tone persists

While the M50 is up 47% from Mar'20 lows, it still has a lot of catching up to do in terms of multiples to qualify as a sustained uptrend. The index is currently trading at a P/E of ~14.3x one-year forward earnings, well below long-term average levels of ~21x. Q1 and Q2FY21 earnings trends will be the primary inflection point for multiples to either expand or remain sideways.

Looking at M50 trends from Jan'18, we are still caught in a bear run. Consumer and IT are the clear outliers having significantly outperformed, with their M50 constituents delivering annualised returns of 44% and 40%. Financials, telecom, media & entertainment and financial services have been the biggest laggards.

Of late, however, we have seen a sharp rally across sectors ranging from 21% to 184% since the Mar'20 bottom. Our **preference for low leveraged companies** continues, though we do make exceptions for telecom players and gas utilities.

FIG 3 – NIFTY MIDCAP 50: SECTORAL PERFORMANCE SINCE JAN 2018

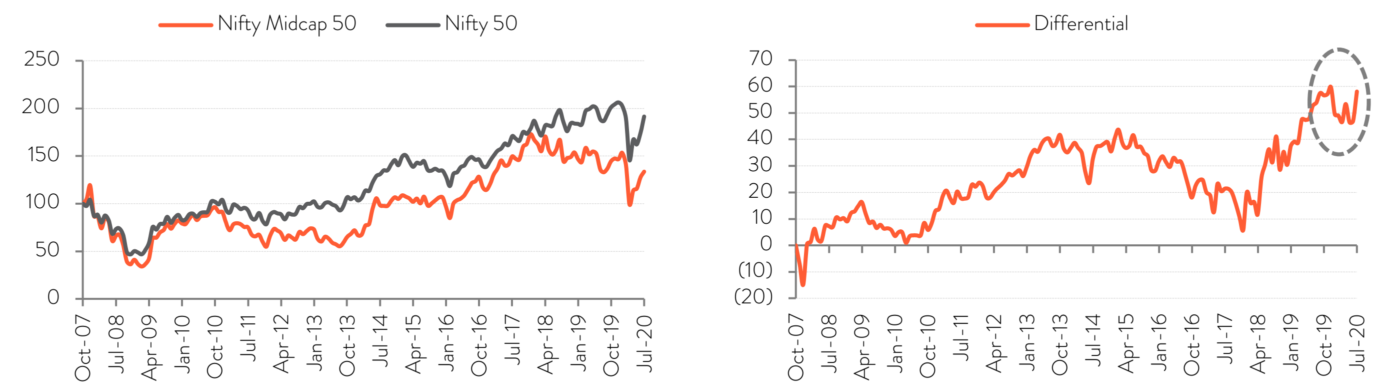


Source: Bloomberg, BOBCAPS Research Note: the width of the bar represents the no. of companies in the respective sector

M50–Nifty divergence may continue

The biggest divergence between the M50 and Nifty 50 was witnessed in Dec'19, when the M50 underperformed the market by 58%. This divergence is primarily driven by the oil & gas, financials, IT, telecom (Bharti Airtel), and auto (OEMs). However, looking at composition of M50, bridging of the valuation gap would be difficult without a rally in financials, auto, capital goods and power sector stocks - all of which are unlikely to outperform considering fundamentals. We, however, remain underweight on the financials and auto sectors.

FIG 4 – RELATIVE PERFORMANCE



Source: Bloomberg, BOBCAPS Research

Midcap model portfolio – the hunt for value

We introduce our BOBCAPS Midcap Model Portfolio (BMP-M50), wherein we follow a bottom-up approach towards stock picking, focusing on companies with resilient earnings or scope for faster earnings recovery as the economic lockdown eases. Most of our picks are a culmination of fundamental inputs from our research team.

Pharma, agrochemicals, gas utilities and IT are our largest sector overweights, carrying attributes of resilient earnings through the pandemic and an improved fundamental outlook. Financials (mostly midsize banks) and auto (mostly OEMs) remain our primary underweights. That said, we remain optimistic on select NBFCs (gold and MSME financiers) that have delivered a robust operating performance.

Our model portfolio picks are based on the following parameters:

- **Improved earnings outlook given pandemic-led benefits** – Pharma, IT, Gold Finance, Telecom
- **Resilient earnings** – Agrochemicals
- **Faster earnings recovery as economic lockdown eases** – Gas Utilities, MSME Financiers
- **Robust business models available at value** – Building Materials, Logistics

FIG 5 – TOP PORTFOLIO PICKS

Company	Weights (%)			Profitability			P/E		
	NIFTY 50 MIDCAP WEIGHT	BMP MIDCAP WEIGHT	Difference	FY20-23 Earnings CAGR (%)	ROE (FY20)	ROCE (FY20)	FY21E	FY22E	FY23E
Apollo Tyres	1.03	1.50	0.47	12.49	4.8	4.6	36.8	13.4	9.0
Balkrishna Industries	2.89	3.00	0.11	14.61	19.9	16.9	26.8	22.4	18.1
Exide Industries	1.92	2.00	0.08	7.00	12.4	13.0	18.3	14.9	12.9
MRF	3.94	4.50	0.56	11.13	12.3	12.8	26.0	20.0	17.8
Greenpanel Ind	0.00	0.75	0.75	6.59	0.0	0.0	88.2	11.6	-
Century Plyboards	0.00	0.75	0.75	1.00	14.6	10.6	26.0	16.4	14.4
PI Industries	0.00	2.00	2.00	23.03	18.6	17.3	41.9	32.4	26.3
Aarti Industries	0.00	2.00	2.00	17.30	19.1	13.0	30.8	23.3	18.8
Mahindra & Mahindra Financial Services	1.40	2.00	0.60	7.13	9.3	1.4	10.0	5.8	4.8
Manappuram Finance	2.34	2.50	0.16	14.43	28.6	5.9	10.8	9.0	7.8
L&T Infotech	0.00	1.50	1.50	14.17	29.5	28.2	25.6	22.1	19.1
TCI Express	0.00	1.00	1.00	2.76	29.5	29.0	32.6	25.2	26.3
Inox	0.00	1.00	1.00	5.87	1.9	1.8	-	22.6	16.0
Gujarat Gas	0.00	1.10	1.10	4.37	43.4	29.0	24.8	17.4	16.0
Gujarat State Perronet	0.00	2.00	2.00	(0.88)	42.3	29.7	12.7	11.5	11.7
Laurus Labs	0.00	1.50	1.50	34.70	15.3	12.0	24.8	20.7	15.7
Alembic Pharma	0.00	1.00	1.00	0.03	27.9	19.0	22.6	21.9	-
Syngene	0.00	1.00	1.00	16.79	19.9	17.3	49.4	39.5	30.6
Vodafone Idea	2.41	3.70	1.29	(28.07)	(225.2)	(43.9)	-	-	-

Source: Bloomberg consensus estimates, NSE, BOBCAPS Research

Key sectoral arguments

Automobiles

M&HCVs – Bleak outlook

Within the auto industry, the M&HCV segment has been the hardest hit by Covid-19. After registering a negative 20% CAGR during the last three years, we expect the segment to contract further by 18-20% in FY21.

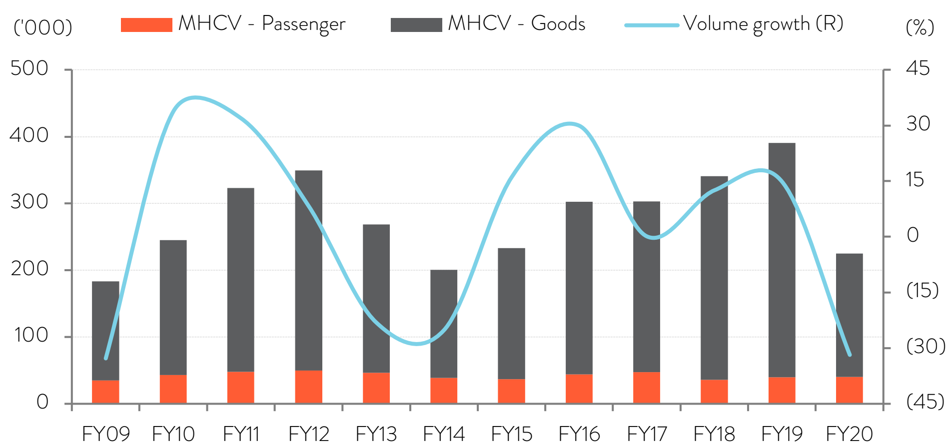
Economic slowdown and sluggish revival are primary demand headwinds. The impact of increased vehicle prices due to changes in emission norms (from BS-IV to BS-VI), lower freight rates, rising fuel prices and uncertainty regarding the scrappage policy has further added to the woes of fleet operators. Our channel checks indicate that current fleet utilisation is sub-50%, which means demand revival is a long way off. Owing to the above factors, we pick Ashok Leyland as our top SELL.

Top Sell – Ashok Leyland (AL)

Apart from low fleet utilisation in FY21, we believe that even the pending scrappage policy will fail to trigger a significant demand push, till the economy revives significantly. We anticipate healthy economic revival only in FY22, which should aid volume growth of 44% and operating margin expansion to 7.5% for AL. We pencil in EPS of Rs 2.1 for the company in FY22.

AL has witnessed a ~38% rally since Apr'20. Despite strong growth assumptions, current valuations look stretched at 23.4x FY22E EPS. A steep increase in gross debt over the past three months from ~Rs 30bn to Rs 50bn and inter-corporate deposits within group companies do not augur well.

FIG 6 – MHCV INDUSTRY – DOMESTIC SALES TREND



Source: Company, BOBCAPS Research, SIAM

Two-wheelers – Demand on a declining trend

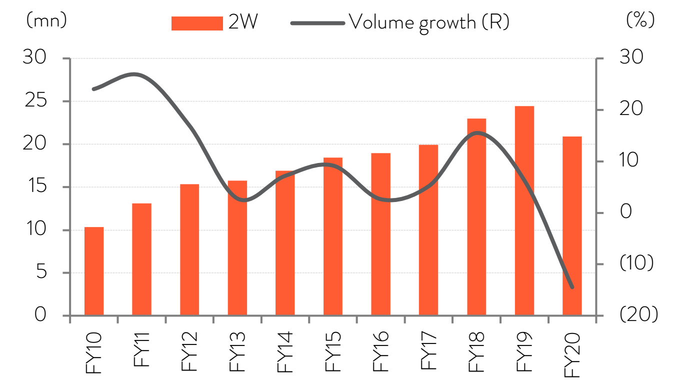
Expectations of a shift from public mobility to personal mobility along with hopes of a strong rural demand recovery have been the key drivers behind bullish sentiment in the two-wheeler (2W) segment. Our channel checks suggest that while the personal mobility theory may be accurate, it is more visible in the second-hand market. As per dealers, demand in the second-hand 2W market has more than tripled in recent months and prices have increased by 8-10%.

The motorcycle, scooter and moped segments have declined at a CAGR of –3%, –8% and –14% respectively during the last three years. We expect the 2W segment to decline by ~25% YoY in FY21.

Top Sell – TVS Motor (TVSL)

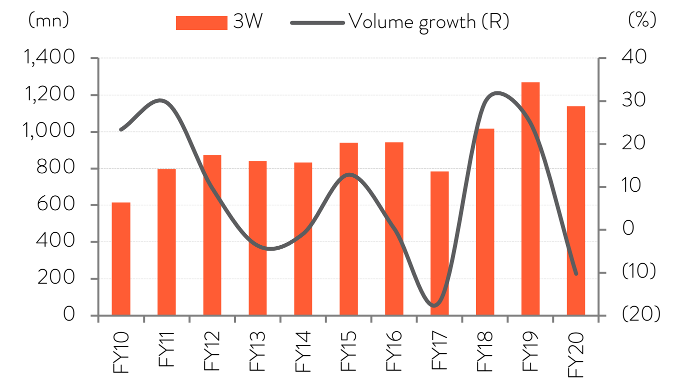
Scooters contribute ~33% to TVSL's portfolio. Being an urban product, we expect slower recovery in this segment. In the motorcycle segment, TVSL continues to dominate the 200cc (rather than entry-level) segment. Owing to the economic slowdown and reduced personal incomes, we expect significant downtrading in motorcycles, which may prove detrimental for the company. In the three-wheeler segment too, we anticipate slower revival owing to the pandemic impact on TVSL's domestic as well as export markets.

FIG 7 – 2W INDUSTRY TREND



Source: Company, BOBCAPS Research, SIAM

FIG 8 – 3W INDUSTRY TREND



Source: Company, BOBCAPS Research, SIAM

Auto components – Replacement demand to aid growth

Apollo Tyres (APTY)

We are positive on APTY given its product profile spanning MHCV, LCV and PV tyres, strong brand and high exposure to the domestic replacement market, which we expect will aid a brisk 9% volume CAGR over FY20-FY22. Raw material prices, especially for natural rubber and crude derivatives, are forecast to remain soft – this coupled with high replacement market exposure (>70% of revenue) should sustain operating margins at 13% levels through to FY22.

Balkrishna Industries (BIL)

BIL mainly caters to the higher-margin segments (off-road vehicle, agri tyres) and benefits from a range of SKUs, an export focus, price advantage over rivals and better margins than domestic peers. A bulk of revenue (~80%) arises from exports, largely to replacement markets in Europe and the US. BIL leverages cost benefits from its India manufacturing base to price products ~25% cheaper than other leading brands while retaining ~27% EBITDA margins. We expect margins to hold at this level and are positive on growth prospects, baking in an 8% volume CAGR through FY22.

MRF

MRF is India's largest tyre manufacturer commanding ~25% market share. We expect a 9% revenue CAGR over FY20-FY22, anchored by a strong brand, high replacement market share and expected recovery in auto sector demand. We estimate a healthy volume CAGR of 10% in MHCV and LCV tyres (60% of domestic revenues) and 9% in PV tyres (21% share) for the company, alongside stable EBITDA margins of ~14%. MRF is one of our top picks in the tyre segment.

Exide Industries (EXID)

EXID is the market leader in India's organised automotive battery segment. Correction in lead prices will benefit the company in the near term. We believe EXID has gained some market share in the replacement market. The current slowdown in OEM sales and greater replacement segment focus should support higher blended margins in the long run. We are positive on the company.

Amara Raja (AMRJ)

AMRJ is the second largest battery manufacturer in the organised automotive battery segment in India. However, since parting ways with its technology partner Johnson Controls in early 2019, there have been serious concerns about the company's technological advancements. We believe it will continue to underperform till clarity emerges.

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Agrochemicals

Favourable dynamics despite Covid-19 crisis

We remain positive on the agrochemicals space due to resilient demand dynamics despite the Covid-19 disruption. A growing population, declining arable land, low commodity prices, longer product development cycles, high discovery costs and rising demand for adjacent technologies are key macro drivers for the industry. Further, recent agriculture market reforms (removal of interstate trade barriers, launch of e-trading) should increase farmer income and support overall domestic agrochem market growth.

In addition, outsourcing opportunities emerging from manufacturing dislocation out of China by major global companies hold excellent prospects in the long term. While these would take time to translate into large upsides, companies with better resources/infrastructure, strong chemistry and execution capabilities, along with integrated operations will be better placed to capitalise on the opportunity.

That said, Covid-19 could pose a risk of demand slowdown in the end consumer market, especially non-pharma and non-agri-centric industries, which can derail earnings. Volatile weather, higher raw material prices and economic slowdown are other key risks. We thus prefer agrochem stocks that have (1) exposure to the agri/pharma business, yielding better earnings and margin stability, (2) strong chemistry/process capabilities, and (3) relatively attractive valuations.

Top picks – PI Industries, Aarti Industries

PI Industries (PI)

PI's differentiated chemistry capability in the custom synthesis (CSM) export segment (order book of US$ 1.4bn) and well-established India franchise with an exciting new launch pipeline could drive superior >20% EPS growth and >30% ROIC over the next two years – supporting premium valuations, in our view.

The company is seeking inorganic opportunities in pharma and fine chemicals (successfully raised Rs 20bn via QIP recently). We believe this can set up strong growth momentum in coming years given targeted acquisitions in the high chemistry space and robust margins in specialty/pharma CSM. At CMP, the stock is trading at 36x FY22E EPS.

Aarti Industries (ARTO)

ARTO has solid chemistry and process efficiency skills in benzene and toluene derivatives which find application across industries (including pharma, agri and FMCG). The company has been investing heavily in downstream products for the last few years and can emerge as a key beneficiary of the anticipated China manufacturing dislocation, in our view. It has won several large supply contracts from MNC companies in the last five years.

ROCE has remained strong at ~22% and can improve further given a rising share of novelty products. At CMP, the stock is trading at a P/E of 23.3x on consensus FY22 EPS (consensus EPS CAGR at 22% over next 2-3 years).

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Banking

Heightened risk to asset quality

Covid-19 could exacerbate stress in vulnerable sectors

The banking sector's asset quality was already facing pressure due to weak macros and refinancing issues. Covid-related disruptions can further exacerbate woes in vulnerable segments such as microfinance loans, unsecured retail loans, SME, real estate, hospitality, transportation and tourism-linked sectors. Banks with higher exposure to self-employed customers versus salaried segments are at greater risk. Moreover, the economic disruption induced by the lockdown will intensify asset quality deterioration and elongate the recovery period, in our view.

FIG 9 – EXPOSURE TO RISKY SEGMENTS HIGH AMONG SMALL BANKS

As a % of loan book	DCBB	FB	RBK	AXSB	ICICIBC	HDFCB
Unsecured retail	-	1.2	18.1	9.6	9.4	17.4
SME/business banking	11.0	18.3	2.2	13.0	7.7	6.5
MFI	-	-	11.1	-	-	-
CV/CE	10.0	-	-	-	-	2.9
LAP	26.0	5.7	13.1	4.8	-	-
Total	**47.0**	**25.2**	**44.5**	**27.4**	**17.1**	**26.8**

Source: Company, BOBCAPS Research

Early trends in phase-2 of moratorium reassuring

RBI on two occasions has provided three-month moratoriums (1 Mar to 31 May and 1 Jun to 31 Aug) on all term loans given by banks and NBFCs. Under phase-1 (1 Mar to 31 May), leading private banks had ~30% of loans under moratorium while the share was higher for select public sector (ex-SBI) and smaller banks. The moratorium book is dominated by SME and retail customers while the proportion of larger corporates is relatively lower.

FIG 10 – MORATORIUM UPTAKE

Particulars	HDFCB	AXSB	ICICIBC	IIB	KMB	RBK	DCBB	FB	YES	CBK
Moratorium option	Opt-in	Opt-in	Largely opt-in; Opt-out in select	Opt-in for corporates; Opt-out for retail		Opt-in	Opt-out (ex-NBFCs & Corporates)	Opt-in/opt-out depending on segment	Opt-in	Opt-out
as a % of customers	5	10-12	NA	Large chunk of retail under moratorium but very few corporates opted in		~30	-	-	~20	19
as a % of loans	-	25-28	30	-	26	33	60	35	40-45	17

Source: Company, BOBCAPS Research

Early indicators for phase-2 look reassuring as our checks suggest a decline in the share of loans under moratorium. Given the relaxation in lockdown and limited white-collar job losses, banks are encouraging borrowers to service their loans and avoid opting for moratorium. However, it is too early to extrapolate the figures as customers have time until the end of August to opt for the moratorium.

Stress recognition could extend over FY21 and FY22

Even as the nationwide lockdown is being gradually lifted and initial signs point to reduced moratorium uptake, economic activity is still well below pre-Covid levels. RBI has provided a complete standstill on asset classification from 1 March to 31 August. Thus, loans that were 60 days overdue as of 29 February this year could start slipping into NPAs in Q2FY21. Further, assuming no extension of moratorium, banks would start recognising stress in Q3FY21 (90 days from end-August).

Also, payment of interest on working capital facilities has been deferred from 1 March to 31 August. Accumulated interest for the period has to be paid by Mar'21. As a result, the stress recognition and provisioning will be spread over FY21 and FY22.

System credit growth to come under pressure in FY21

The slowdown in economic activity will squeeze systemic credit growth for a protracted period. Nevertheless, large private banks and top-PSBs (ex-those undergoing merger) are expected to grow and cater to most of the credit demand given their strong liability franchises and capital adequacy ratios.

Small private banks at higher risk – DCB Bank our top SELL

In our view, small/mid-sized banks may find it difficult to grow in the current environment considering their presence in a limited range of lending segments. Lower diversification implies that a revival in growth and return to normalcy would take relatively longer than larger peers. Also, as highlighted above, small/mid-sized banks have higher exposure to vulnerable segments and would thus be in capital conservation/risk aversion mode until clarity over the risk on asset quality emerges.

After the Yes Bank debacle, large banks are in a better position to grow deposits and contain cost of funds. Currently, term deposit rates offered by small banks are ~150bps higher than larger banks on average.

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Building Materials

Vulnerable to discretionary spend slowdown

Building materials such as tiles, sanitaryware, plywood, MDF and pipes primarily belong to the discretionary category where purchases can be postponed to a large extent. Also, due to Covid-19 fears, consumers may decide to limit or restrict the entry of outsiders into their homes for renovations, which will dampen demand in the near term. Further, a lack of skilled labour availability due to large-scale migration from major cities/towns will keep demand tepid in the short run.

Tiles & sanitaryware – Muted outlook

Real estate sales in major cities are expected to be subdued for the foreseeable future amid the pandemic, in turn muting demand for building material products, especially tiles and sanitaryware. As per industry participants, tiles and sanitaryware are primarily used in new construction projects, which form ~80% of demand. However, individual house buyers from smaller cities/towns can be a demand driver for these products in an otherwise subdued environment.

We believe organised players with robust balance sheets, wide distribution networks and strong brand names will be able to capture market share from informal/small organised players. Consequent to the pandemic, the working capital cycle and incomes of unorganised players have been eroded, which may prompt many to vacate or limit operations, thereby conceding market share to organised players.

Pipes – Best placed for growth

Despite headwinds in the building material space, we believe pipe players are best placed to grow given the large replacement demand along with varied usage in areas such as infrastructure and agriculture, besides housing. We prefer players with a diversified product portfolio catering to both the housing and agriculture segments, thus generating good volumes in an otherwise tepid market. Here too, we veer towards companies with strong brand names, a wide distribution reach, comprehensive product portfolios and robust balance sheets.

We prefer **Finolex Industries** (FNXP, 16.6x FY22E P/E) which derives ~70% of revenues from agriculture pipes and is one of the major players in this industry. Agri pipes are expected to log good demand due to increased rural incomes, forecasts of a normal monsoon and high water reserves.

Wood – MDF likely to gain share

In the wood space, we believe consumers will shift towards readymade furniture in the near term due to ease of procurement amid the pandemic. With increasing acceptance of readymade furniture, MDF demand will rise and companies that have a significant presence in this segment will benefit. Also, as MDF furniture is more affordable than plywood and has a reasonable shelf life, it will find more takers as consumers turn price conscious in an environment where income levels are expected to be subdued.

In India, ~30% of the MDF market is catered to by imports. The government is investigating these imports and may impose a countervailing duty– if this happens, it will be highly beneficial for Indian manufacturers as it will create a level playing field with imported goods.

We prefer **Greenpanel Industries** (GREENP, 11.6x FY22E P/E) which is the largest MDF player in the country and is ramping up its capacity, and also **Century Plyboards** (CPBI, 16.4x FY22E P/E) which is one of the major players in plywood, MDF and laminates.

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IT Services

Recovery expected from Q2FY21

Positive surprise on deal activity

While total contract value (TCV) has declined sequentially thus far in Q1FY21, deal size has been resilient. Infosys (INFO) is a positive outlier, reporting 6% QoQ growth in TCV for the quarter. Most companies have indicated a better-than-expected deal pipeline for FY21 despite the downturn. Large-caps in particular have reported a YoY increase in order book for FY21.

Revenue decline has bottomed out

As expected, Q1FY21 has seen a sequential drop in revenue. Apart from INFO, other IT players have reported mid-to-high single-digit QoQ declines. Management commentary across the board indicates that Q1 is the trough and recovery should ensue from here on. Guidance from INFO and HCL Tech indicates reasonable improvement in demand for the rest of FY21.

Most firms have also begun hiring based on the healthy deal pipeline for FY21. However, in the near term, we expect a drop in capex spends, on-premise technology upgrades and digital spends due to the pandemic. Client demands for deal repricing and increased efficiency in the legacy business will hurt margins. Companies with exposure to the BPO business are expected to see slower recovery and supply issues.

Retail vertical slumps; telecom resilient

The travel and hospitality verticals have been the worst affected by Covid-19 and are facing an immediate fallout caused by payment delays and defaults. Nevertheless, we do not expect a significant impact on large Indian IT players due to their limited revenue exposure (~5%) to these segments.

Indeed, a sharp decline in the retail vertical has dented revenues the most in Q1FY21. This vertical forms a much larger portion of Indian IT revenues at 14% and will see a more severe, prolonged impact. Apart from the Covid-19 outbreak, widespread protests across the US will also make recovery difficult. (See our May'20 report: **Deep Dive 1 – Retail vertical to bear the brunt; SELL Wipro**.)

We expect telecom to emerge as one of the resilient verticals as 5G rollout remains on track in the US, South Korea, Japan and China. (See our Jun'20 report: **Deep Dive 2 – Telecom tech spends resilient; upgrade TECHM**.) Among segments, consulting and BPO could see the biggest setbacks in terms of spending due to in-sourcing, automation and supply-side issues. Despite apprehensions at the Big-3, BFSI has been resilient due to low/negative interest rates.

Traction in cloud migration

While most verticals reported a subdued sequential performance, the hi-tech and technology segments performed comparatively better. Cloud has emerged as an essential and high-demand technology in a Covid-hit world. INFO's largest-ever deal worth US$ 1.5bn-2bn is a cloud migration contract with Vanguard. The sector is also seeing increased demand for cybersecurity and collaborative tools, with most clients shifting to a work-from-home model.

Margin resilience a common theme

In Q1FY21, most supply-side delivery issues abated as companies had transitioned 99-100% of employees to the work-from-home mode. Revenue contraction in Q1 was mostly demand-led, induced by lower utilisation and reduced discretionary/ digital spends. Most players have shown strong operational efficiency with QoQ margin growth – revenue contraction, delayed deal transition, higher bench cost and repricing pressures were cushioned by tailwinds from INR depreciation, delayed promotions, absence of salary hikes and low marketing/travel costs.

L&T Infotech our mid-cap pick

We prefer large-caps over mid-caps in the Indian IT services space due to vendor consolidation risk, lumpy revenue mix and high top-client concentration in the latter. L&T Infotech is our top mid-cap picks, while we are negative on Mindtree and Hexaware.

L&T Infotech (LTI)

LTI is our top pick among mid-caps because of its strong sales force, favourable offshore presence and large array of Fortune-500 clients. Q1FY21 revenue was in line with estimates, with a 4.7% QoQ CC decline due to a drop in the manufacturing and energy/utilities verticals. Operating margins bettered expectations backed by tight SG&A cost control. Our Jun'21 forward P/E multiple of 24x is justified by LTI's best-in-class fundamentals among IT mid-caps.

Mindtree (MTCL)

MTCL's operating margin recovery post change of ownership is tracking ahead of expectations. The company has substantial exposure to the technology vertical (~51% of revenue with a chunk coming from the top client), which is less vulnerable to Covid-19 headwinds – this lends it relative resilience in current difficult times. However, valuations at 18.1x/16.3x FY22E/FY23E P/E limit upside.

Hexaware (HEXW)

Multiple Covid-related challenges such as demand contraction, pricing discounts, payment term concessions and supply/delivery constraints render HEXW's near-term growth outlook bleak and unpredictable. But due to the company's delisting by Baring PE entity HT Global, near-term stock price movements will hinge on evolution of the delisting process and developments at the promoter entity. Fundamentals will take a backseat. In our view, the promoter's urgency increases the likelihood of HEXW's delisting and adds further impetus for a higher exit offer price.

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Logistics

On shaky ground

Covid takes toll on logistics operations, especially trucking

The nationwide lockdown since 25 March has translated into a slump in economic activity. Merchandise EXIM trade nosedived 60%/45% YoY in April/May; manufacturing IIP was down an unprecedented 64% YoY. Being a cyclical sector dependent on domestic and EXIM trade, logistics has been hit hard by the economic disruption.

The road transportation sector has borne the brunt of the impact – trucks were stranded on the road for weeks as drivers left for safe shelters while confusion over demarcation of essential and non-essential commodities led to hinderances by local administrations, virtually stalling road transport. Trucking activity plunged to <20% of pre-lockdown levels after national movement restrictions were announced.

Rail faced relatively fewer disruptions and gained modal share from road, especially in EXIM trade. However, it has conceded some gains as road transporters have gradually resumed operations. Warehousing operations are also less affected.

Recovery hinges on economic uptick

We expect the industry to recover in line with a pickup in the manufacturing economy and EXIM trade. With gradual easing of restrictions in late April and May, trucking activity has risen to 60-70% of normal levels, as per channel checks. E-way bill collection till 22 June is already 15% higher than May and ~60% of normal.

Despite improvement in utilisation, truckers – especially the small and mid-sized ones – continue to face scarce driver availability, lack of return loads, and increasing fuel prices. Gradual opening up of the economy may give a boost to transportation demand as supply chain gaps are filled across the country, but a steady recovery to pre-Covid levels appears to be a couple of quarters away.

Pandemic could be a blessing in disguise for organised segment

Over the past few years, demand has shifted towards organised players across segments of the logistics industry. The pandemic could further hasten the shift. We see three key themes playing out –

- **Trucking consolidation:** Small freight operators (SFO: 1-5 truck owners, 80-85% market share) are bearing the brunt of the lockdown. Already reeling under a consumption slowdown, the economic slump may translate into loan default by some SFOs, forcing them to shut operations. This, in turn, may usher in a wave of consolidation towards larger players.

- **Supply chain outsourcing:** Large-scale supply chain disruptions may prompt some manufacturers to outsource logistics activities to specialist, organised 3PL players, freeing entities to focus on core activities. Faster consolidation of the supply chain augurs well for these 3PL players.
- **Faster adoption of technology:** Enhanced use of technology has been at the forefront during the supply chain disruption phase. Many manufacturers have shifted to automated billing processes and other tech-enabled systems for transport functions. Even when normalcy returns, adoption of technology in the logistics function is likely to continue. Since organised players have an edge in technology adoption, they are better equipped to benefit from this trend.

Recommend asset-light companies with strong balance sheet

Over a medium-term investment horizon, we recommend that investors stick to logistics companies that are (1) asset-light and (2) have a strong balance sheet. Asset-light companies typically have lower operating leverage, which will curb the impact of sluggish revenue on EBITDA. A sturdy balance sheet paves the way for absorbing losses during the turmoil, or raise funding from financial institutions. Companies with a strong balance sheet can also capitalise on the favourable structural industry trends once the demand climate improves. TCI Express is our top pick in the sector.

Top pick – TCI Express (TCIEXP)

TCIEXP is our top pick in the sector due to its competitive moats and robust balance sheet.

- **Bleak near-term outlook…:** The lockdown-induced demand slump is likely to drive a 45-50% YoY decline in TCIEXP's Q1FY21 topline. H2 will also be weak, with gradual recovery projected to begin from Q3 onwards. Expected uptick in economic activity and a benign base should aid a strong recovery in FY22 (+25% rise in topline).
- **…but business model strength to help minimise damage:** Though operating performance is bound to be affected, we believe TCIEXP is likely to be relatively shielded vis-à-vis peers due to (1) low operating leverage stemming from its asset-light model, (2) a strong, debt-free balance sheet, and (3) its diversified presence across industries and clients, which mitigates concentration risks. The company is also taking several measures – reduction in travel and stationery expenses, voluntary cut in MD's salary – to reduce costs in FY21.

- **Long-term growth foundations intact:** We continue to believe that TCIEXP has fitting attributes for long-term success in India's express logistics industry, given its (1) focus on the fast-growing surface express and B2B verticals, (2) wide and diverse clientele, (3) vast network of 800 branches, 28 hubs, and 40,000+ pickup and delivery locations covering ~95% of pin codes in India, and (4) industry-leading ROE/ROCE (30%+). These attributes should hold the company in good stead till demand recovers.

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NBFC

Tough FY21 but gold finance a bright spot

We believe both credit supply and demand will remain constrained for the next 9-12 months as a fallout of Covid-19. While borrowers would want to deleverage, lenders are likely to require higher equity contribution from customers. Most players are now focusing on collections rather than disbursals. We expect gold finance NBFCs to be in a sweet spot as borrowers will require bridge finance for various needs. In our view, Manappuram Finance is well placed to gain from a potential spike in gold loan demand, making it our top pick in the sector.

Focus on collections rather than business growth in FY21

With the lockdown being gradually lifted, 60-80% of NBFC branches are now operational, but the focus is on collections, not disbursals. Companies under our coverage have taken 30-90bps of additional contingency provisions against Covid-19. Moratorium granted to customers ranges from 30-35% of loan portfolios for diversified NBFCs to 70%+ for vehicle financiers. Notably, managements have refrained from providing guidance on growth or credit costs for FY21.

Funding a constraint

Mutual funds are now curbing exposure to NBFCs, limiting their access to funding from the domestic debt market. Securitisation and ECBs – a large source of liquidity for companies rated AAA and above in the past 18 months – are also drying up. Further, RBI's extension of the loan moratorium by another three months will add to ALM challenges as much of NBFCs' debt servicing obligations (ex-banks) remain unchanged even as they grant moratorium to borrowers. Balance sheet liquidity will be key to navigate ALM pitfalls and avoid default.

The government's Rs 300bn special liquidity window for purchasing the securities of NBFCs is for short-term paper and available to investment-grade entities, which dilutes its effectiveness. The Rs 450bn partial credit guarantee scheme for NBFCs and MFIs focuses on lower-rated players (AA or below) but is only applicable to funding from PSU banks and hence the benefit would be limited.

Gold finance demand to improve in FY21

The lockdown will severely constrain disbursals across segments, viz: (1) HFCs – HDFC, LIC Housing, PNB Housing, Can Fin Homes, Aavas Financiers, Repco; (2) vehicle financiers – Cholamandalam Finance, M&M Finance, Sundaram Finance, Shriram Transport Finance, Magma Fincorp; (3) SME financiers – MAS Financials, Shriram City Union; (4) diversified financiers – Bajaj Finance, L&T Finance; and (5) MFIs.

Gold financiers such as Muthoot Finance and Manappuram Finance are likely to fare better as collateral assessment is simpler and 30-50% of their disbursements are digital.

Top picks – Manappuram Finance, M&M Finance

Manappuram Finance (MGFL) – Well-placed to gain from secular gold loan demand

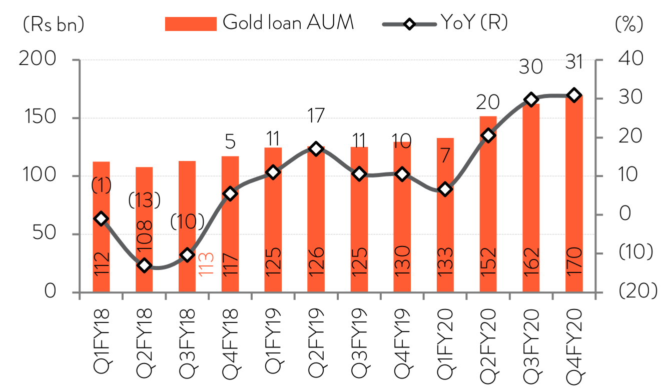
MFGL is focusing on lower ticket sizes and on reshaping customer attitudes towards gold finance in non-south geographies. Diversification into allied businesses is also likely to meaningfully contribute to the bottomline in the near term. MFI arm Asirvad Microfinance is among the top-5 MFIs in the country and has leading productivity metrics compared to peers. MGFL will incrementally allocate capital towards growing new businesses.

Covid-19 could be an overhang on Asirvad MFI

We believe the MFI business will see a spike in delinquencies post-lockdown as the company has voluntarily extended the moratorium to all MFI customers. Collections will take 4-6 months to scale up and hence management has taken Rs 550mn of Covid-19 provisions. The MFI business remains well capitalised at ~25% to absorb any increased provisioning from event risks.

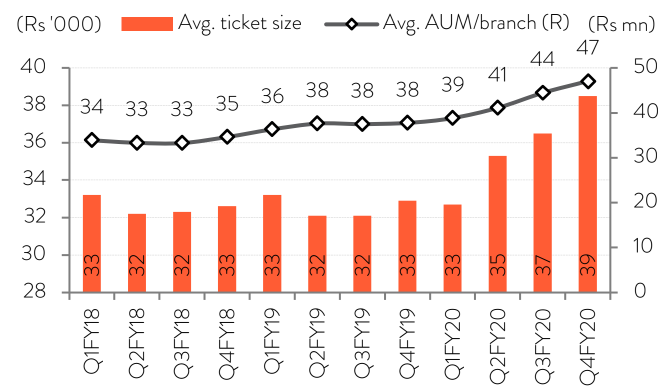
The company has retained its market share in gold finance during FY15-FY19, and we expect the business to yield steady-state ROA of ~5% and remain low-levered at ~4x over FY21-FY22. MGFL is trading at 1.7x/1.5x FY21E/FY22E BV for ROE of 23.2%/21.3%.

FIG 11 – MGFL'S GOLD LOAN AUM GREW 31% YOY…



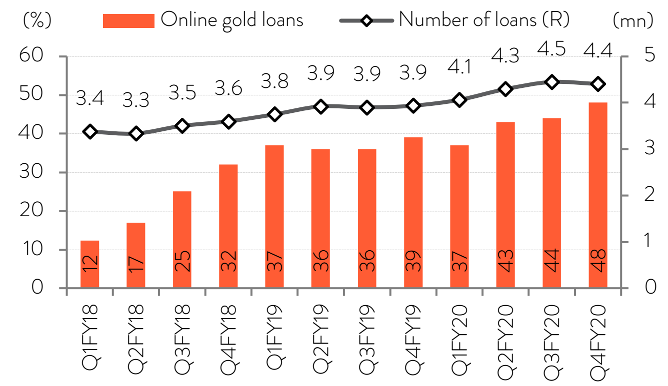
Source: Company, BOBCAPS Research

FIG 12 – …DUE TO INCREASING BRANCH PRODUCTIVITY AND TICKET SIZE



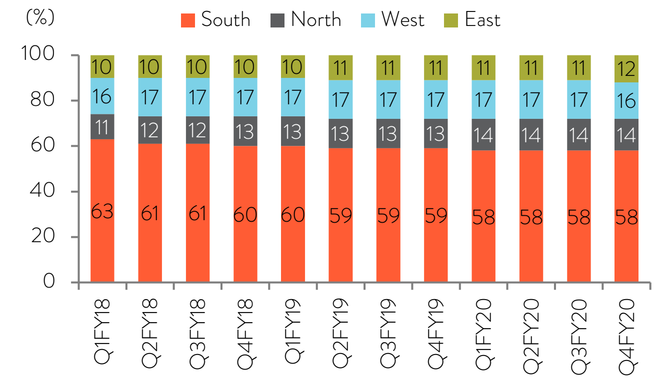
Source: Company, BOBCAPS Research

FIG 13 – ONLINE GOLD LOANS (OGL) NOW CONTRIBUTE HALF OF GOLD LOAN AUM



Source: Company, BOBCAPS Research

FIG 14 – GOLD LOAN AUM MIX REMAINS LARGELY UNCHANGED



Source: Company, BOBCAPS Research

Mahindra & Mahindra Finance (MMFS) – Buoyant rural activity, fund raising brighten outlook

MMFS has demonstrated strong opex control in Q1FY21. This gives us comfort for discretionary opex reduction in FY21/FY22. Collections are picking up pace and rural activity looks buoyant as loans under moratorium reduced to 40% in June vs. 75% as of April. This apart, management plans to raise funds of Rs 35bn in Jul'20 which will add to the present liquidity of Rs 85bn. MMFS also has Rs 20bn of working capital lines from several banks and has positive ALM in the less-than-one-year bucket. We expect incremental credit costs to be catered to by strong capital buffers post fund raising.

We remain bullish on the company's earnings outlook given the heathy performance in the recent quarter, marked by strong opex control, good liquidity buffers, fund raising in the near term and buoyant rural activity.

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Pharmaceuticals

In a sweet spot

We remain constructive on the pharma sector given its defensive nature and its likelihood of being a strong relative outperformer amid current Covid-led macroeconomic distress. Key factors supporting our view are (1) resilient margins and strong earnings momentum – 18% core EPS growth through FY23E for our coverage stocks, (2) an improving outlook on US generics (led by lower price erosion), a steady domestic market and good visibility in the CDMO space, and (3) healthy balance sheet and return ratio profile. Moreover, an easing of USFDA woes as more manufacturing sites receive clearance would support investor sentiment.

Though the pharma sector is in a sweet spot, investors must be cautious on valuations which have turned a bit expensive following a strong rally versus the start of the year – large-caps/mid-caps are now trading at 25x/20x on FY22E P/E. We, therefore, prefer Laurus Labs which offers a high-margin CDMO play, transitioning FCF and strong valuation comfort. We also like Alembic Pharma as we remain more optimistic on US-centric companies. Both stocks offer a compelling multi-year growth story, in our view.

US generics – emerging tailwinds; India growth to resume from H2

We believe the worst of the price erosion headwinds have receded (from 10%+ to 5%). Increasing drug shortages and tailwinds of faster approvals due to Covid-19, reduced compliance issues and INR depreciation should continue to benefit Indian companies. Even though the industry remains competitive, the pandemic is ushering in a greater focus on supply security and quality by global companies – this should ease pricing pressure further for generic suppliers. On the domestic front, we believe growth would resume from H2FY21 as the impact of the extended lockdown normalises.

CDMO outlook strong – better infrastructure and compliance key

The demand outlook for contract development and manufacturing (CDMO) is robust, both from big pharma and biotech companies (9% CAGR over next five years, per Technavio). Some of the drivers include increasing R&D costs in developed markets, low productivity and poor bottomlines. India has a cost advantage of 40–50% as compared to regulated markets, and companies with strong R&D infrastructure and better compliance will be well equipped to gain from synthesis and generic API opportunities.

Healthy balance sheet, improving ROCE

We expect strong earnings growth (18%) and FCF generation for our coverage pharma companies through FY23, which should help them build sturdy balance sheets, with net debt/EBITDA moving into negative territory across the board. ROCE recovery is likely to be protracted, rising to an estimated 20% on average by FY22 (from 15% in FY20).

Top picks – Laurus, Alembic Pharma, Syngene

Laurus Labs (LAURUS)

We remain upbeat on Laurus Labs and believe that a consistent increase in EBITDA share from high-margin businesses (synthesis/CMDO, formulations, other APIs ex-ARV) and sharp turnaround in return ratios could rerate the stock in coming years. These high-margin segments are expected to drive >80% of incremental EBITDA over the next two years, alongside ROCE of >16% from ~13% in FY20. Incremental capex on formulations would not be FCF-dilutive, in our view.

Laurus has rallied 70% from the recent Mar'20 bottom and is trading at 20.7x FY22E EBITDA, which is still below the three-year historical mean of 12x one-year forward. Strong earnings growth of ~22% expected through FY23 should support multiple expansion.

Alembic Pharma (ALPM)

Alembic Pharma (ALPM) is a good US-centric structural growth story for the next 3-5 years given (1) its US pipeline where the company is best placed to participate in US$ 20bn worth of LOE (loss of exclusivity) over the next five years – 80% of this comprises products with sizeable markets and the opportunity size gets even better after 2025, (2) capex worth Rs 16bn will turn productive from FY22E. This should support >20% EPS growth through FY25 over FY21 base earnings.

While stock valuations are expensive at 15x FY22E EV/EBITDA, we believe stronger earnings growth, high FCF generation, stable 25-30% ROIC (vs. a 15% average for large and midsized generic-focused companies), and a nimble supply chain can fuel earnings upgrades and a further stock rerating in coming years.

Syngene International (SYNG)

We expect Indian contract research organisations (CRO) to gain market share from global players, led by strong IP protection, significant cost arbitrage and a full-service model in coming years. SYNG is an integrated CDMO play with a strong focus on the high-margin discovery segment. Its efforts towards vertical integration through API and biologics production lines and investment in research infrastructure should support strong earnings acceleration over the mid-to-long term.

At CMP, the stock is trading at a P/E of 40x FY22 consensus EPS. SYNG's consistent track record on sales growth, profitability and returns ratios relative to peers is one of the important reasons why the scarcity premium on the stock's valuation is likely to hold.

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Gas utilities

Challenging year ahead

Prefer B2B gas utilities

We prefer B2B gas utilities considering their demand resilience. In the near term, city gas distribution (CGD) players would be adversely affected on account of the Covid-19 outbreak. We do expect a sharp fall in demand in H1FY21 owing to travel restrictions and the shutdown of industrial and commercial establishments. However, we anticipate a return to pre-Covid demand levels for the PNG, industrial and commercial segments in Q2FY21 as unlocking of the economy continues, followed by a V-shaped recovery post-lockdown.

Low prices to drive demand

We see increased prospects for natural gas demand in India (+35% to 212mmscmd in FY22E, from FY20 levels) on sustained low gas prices. Primary demand drivers would be the power, fertiliser and refinery sectors as these have remained operational during the current lockdown and reached ~90% of pre-Covid utilisation levels.

Key factors:

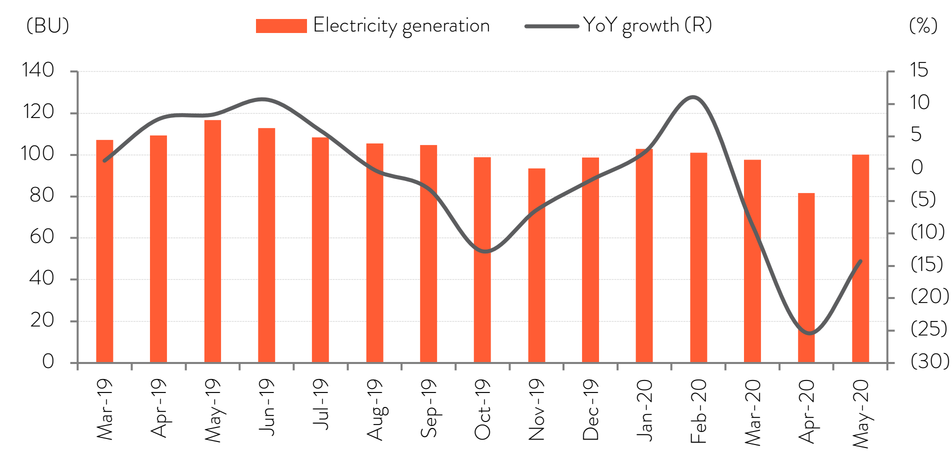
- **Urea sales:** Natural gas accounts for 75-80% of the cost for fertiliser plants. In line with our expectations of depressed LNG prices in the medium term, demand from fertiliser plants may continue to increase given the rise in agri output.
- **Power plants:** Low spot LNG prices would drive up PLFs for gas-based power plants given favourable gas pricing versus imported coal.

FIG 15 – GAS CONSUMPTION

Actual Consumption (mmscmd)	FY18	FY19	FY20	FY21E	FY22E
Power	32.9	32.5	33.0	44.0	52.75
Fertilizer	40.1	41.2	43.0	47.8	52.6
City Gas	23.4	25.2	30.0	40.0	50.0
Others & Industrial	15.5	18.0	15.7	16.7	17.7
Petrochemicals / Refineries / Internal Consumption	28.4	31.0	30.5	32.5	34.5
Sponge Iron / Steel	3.4	3.9	4.4	4.4	4.4
Total	**143.8**	**151.8**	**156.6**	**185.4**	**212.0**

Source: MoPNG, BOBCAPS Research

FIG 16 – ELECTRICITY CONSUMPTION



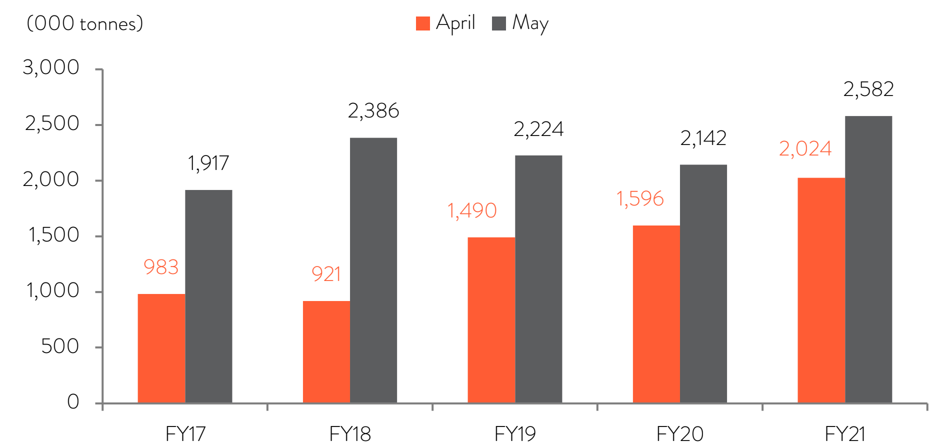
Source: Industry, BOBCAPS Research

Urea sales at all-time high

Natural gas forms 75-80% of the cost for fertiliser plants

With expectations of depressed LNG prices in the medium term, fertiliser plant demand may continue to rise given higher agri output

FIG 17 – UREA SALES



Source: CMIE, BOBCAPS Research

Top picks

Gujarat Gas (GUJGA)

GUJGA's unique positioning in the CGD space makes it one of the best plays on gas volume growth potential. Key drivers are:

- access to over 80% of CGD potential in Gujarat
- strategic expansion into new areas (such as Dahej in Gujarat, Rajasthan, Western Maharashtra and Punjab) that are contiguous to its parent Gujarat State Petronet's pipeline networks
- expansion plans unlikely to be affected by the lockdown as a bulk of its capex usually occurs in H2 each year. The company plans to continue entering newer areas and has maintained capex guidance at Rs 6bn-7bn p.a.

We believe GUJGA is better placed than Indraprastha Gas (IGL) and Mahanagar Gas (MAHGL) to tackle the post Covid situation. Also, a substantial section of the stranded gas-based power plants is in Gujarat (~26% of the private ones), giving GUJGA an edge. At 17.4x FY22E EPS, valuations remain attractive versus CGD peers (17-20x for IGL/MAHGL). Expected volume and margin stability could narrow this gap.

Gujarat State Petronet (GUJS)

- GUJS has healthy volumes levers in place, viz. planned connectivity to all the five LNG regasification terminals in Gujarat and an improving demand outlook from CGD and power.
- RIL continues to absorb ~9mmscmd (stable QoQ), mostly for its petchem units. While GUJS could see volume loss (4-6mmscmd) once RIL's petcoke gasification plant comes online, this could be made up by incremental power or CGD demand in FY20-FY21.

At 11.5x FY22E EPS, valuations look attractive on better volume visibility in the wake of low gas prices.

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BOBCAPS Midcap Model Portfolio

FIG 18 – BOBCAPS MIDCAP MODEL PORTFOLIO (BMP-M50)

Company	Jun-20 Weights (%)		FY20-23 Earnings CAGR	FY20 ROE (%)	FY20 ROCE (%)	P/E (x)		
	Nifty-M50	BMP-M50				FY21E	FY22E	FY23E
Amara Raja Batteries	1.5	1.0	8.0	18.9	18.7	20.4	16.6	14.5
Apollo Tyres	1.0	1.5	12.5	4.8	4.6	36.8	13.4	9.0
Ashok Leyland	1.9	1.0	46.5	4.1	5.8	-	19.6	10.8
Balkrishna Industries	2.9	3.0	14.6	19.9	16.9	26.8	22.4	18.1
Escorts	2.1	1.5	19.2	16.3	15.8	23.9	17.8	13.2
Exide Industries	1.9	2.0	7.0	12.4	13.0	18.3	14.9	12.9
MRF	3.9	4.5	11.1	12.3	12.8	26.0	20.0	17.8
TVS Motor	2.2	1.0	15.9	19.4	8.2	45.9	26.9	20.5
Automobiles	**17.4**	**15.5**						
Greenpanel Ind	0.0	0.8	6.6	0.0	0.0	88.2	11.6	-
Century Plyboards	0.0	0.8	1.0	14.6	10.6	26.0	16.4	14.4
Building Materials	**0.0**	**1.5**						
Ramco Cements	2.3	2.3	7.1	12.7	9.7	31.2	24.4	23.5
Cement	**2.3**	**2.3**						
PI Industries	0.0	2.0	23.0	18.6	17.3	41.9	32.4	26.3
Aarti Industries	0.0	2.0	17.3	19.1	13.0	30.8	23.3	18.8
Chemicals	**0.0**	**4.0**						
GMR Infrastructure	1.2	0.0	37.2	-	(5.9)	-	-	-
Godrej Properties	2.2	1.0	32.9	7.3	5.5	72.8	58.1	29.8
Construction	**3.4**	**1.0**						
Bata India	2.2	2.2	7.4	18.1	13.5	57.7	37.0	32.9
Jubilant Foodworks	3.7	3.7	15.4	23.5	19.3	106.7	51.0	42.6
Tata Consumer Products	6.6	6.6	13.1	4.3	3.9	48.2	38.6	35.3
Voltas	3.6	3.6	9.8	12.3	11.9	41.2	28.4	25.8
Consumers	**16.1**	**16.1**						
Bank of India	0.5	0.0	199.8	(6.6)	(0.5)*	34.6	9.1	5.3
Canara Bank	0.9	0.0	27.3	(5.0)	(0.3)*	-	9.0	6.9
Cholamandalam Investment and Fin	2.1	2.1	12.4	14.6	1.7*	19.7	11.2	8.8
Federal Bank	2.9	2.5	9.1	11.2	0.9*	11.5	6.7	5.4
IDFC First Bank	1.3	1.0	171.3	(16.9)	(1.8)*	-	22.9	13.0
Indiabulls Housing Finance	1.9	0.0	(22.6)	13.7	1.9*	13.5	10.9	7.6
L&T Finance Holdings	1.2	1.0	6.3	12.1	1.6*	7.7	5.6	5.1
LIC Housing Finance	2.3	1.5	5.8	13.9	1.2*	7.7	5.4	4.6
Mahindra & Mahindra Financial Services	1.4	2.0	7.1	9.3	1.4*	10.0	5.8	4.8
Manappuram Finance	2.3	2.5	14.4	28.6	5.9*	10.8	9.0	7.8
Max Financial Services	3.0	2.5	23.4	6.9	0.2*	30.6	22.9	41.1
RBL Bank	2.3	2.0	39.2	5.5	0.6*	15.6	9.2	5.9
REC	2.8	2.8	12.9	14.2	1.5*	3.1	2.6	2.4
Union Bank of India	0.6	0.0	224.8	(10.3)	(0.6)*	14.1	5.6	5.8
Financial Services	**25.3**	**19.9**						
Apollo Hospitals Enterprise	3.7	3.0	32.5	13.6	11.3	298.8	38.1	25.7
Healthcare Services	**3.7**	**3.0**						

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Company	Jun-20 Weights (%)		FY20-23 Earnings CAGR	FY20 ROE (%)	FY20 ROCE (%)	P/E (x)		
	Nifty-M50	BMP-M50				FY21E	FY22E	FY23E
Bharat Electronics	3.0	2.5	9.7	18.9	18.9	15.4	12.7	11.3
Bharat Forge	2.3	1.5	15.6	6.6	5.1	97.1	26.6	20.1
Bharat Heavy Electricals	1.3	1.0	27.5	(4.9)	(3.3)	-	13.8	10.3
Cummins India	1.5	1.5	1.7	16.2	15.2	20.3	17.3	15.5
SRF	2.8	2.8	16.7	22.5	14.5	26.7	19.7	15.8
Industrial Manufacturing	**10.9**	**9.3**						
Hexaware Technologies	1.1	1.0	6.3	25.2	-	16.8	15.1	15.2
MindTree	1.0	0.5	19.7	22.0	-	21.3	18.1	16.0
L&T Infotech	0.0	1.5	14.2	29.5	28.2	25.6	22.1	19.1
IT	**2.1**	**3.0**						
TCI Express	0.0	1.0	2.8	29.5	29.0	32.6	25.2	26.3
Logistics	**0.0**	**1.0**						
Sun TV Network	1.1	0.0	4.6	24.6	24.8	10.6	9.6	8.8
Inox	0.0	1.0	5.9	1.9	1.8	-	22.6	16.0
Media & Entertainment	**1.1**	**1.0**						
Jindal Steel & Power	1.8	1.8	(247.0)	-0.3	3.7	-	18.6	9.5
National Aluminium Co.	0.8	0.8	101.3	1.3	1.4	30.1	12.0	9.9
Steel Authority of India	0.9	0.8	(232.6)	5.2	5.0	-37.3	10.8	5.8
Metals	**3.5**	**3.4**						
Castrol India	1.7	1.5	14.8	65.3	65.4	13.3	11.5	-
Mahanagar Gas	1.7	1.0	4.5	29.7	29.5	14.4	12.2	11.2
Oil India	1.0	0.5	(9.7)	13.2	10.0	6.8	5.1	4.9
Gujarat Gas	0.0	1.1	4.4	43.4	29.0	24.8	17.4	16.0
GSPL	0.0	2.0	(0.9)	42.3	29.7	12.7	11.5	11.7
Oil & Gas	**4.4**	**6.1**						
Glenmark Pharmaceuticals	1.9	1.5	17.3	12.9	9.9	15.1	12.5	10.4
Laurus Labs	0.0	1.5	34.7	15.3	12.0	24.8	20.7	15.7
Alembic Pharma	0.0	1.0	0.0	27.9	19.0	22.6	21.9	-
Syngene	0.0	1.0	16.8	19.9	17.3	49.4	39.5	30.6
Pharmaceuticals	**1.9**	**5.0**						
Adani Power	0.7	0.0	-	(44.5)	2.5	-	-	-
CESC	1.2	1.2	11.1	14.0	10.7	6.1	5.4	4.5
Tata Power Co	2.2	1.5	24.7	5.4	6.2	10.6	8.4	6.2
Torrent Power	1.5	1.5	2.4	13.0	9.7	12.4	11.0	0.0
Power	**5.6**	**4.2**						
Vodafone Idea	2.4	3.7	(28.1)	(225.2)	(43.9)	-	-	-
Telecom	**2.4**	**3.7**						
Total	**100.0**	**100.0**						

Source: Bloomberg, BOBCAPS Research, NSE | Note: Asterisk represents RoA instead of RoCE

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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