BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

28 July 2020

RESEARCH

Supreme Industries | Target: Rs 1,120 | –5% | REDUCE
Demand uncertainty persists; downgrade to REDUCE

Persistent Systems | Target: Rs 740 | –14% | SELL
Good quarter but valuations rich; downgrade to SELL

BOB Economics Research | Weekly Wrap
All eyes on Fed

Tech Mahindra | Target: Rs 780 | +17% | BUY
Performance surpasses expectations

Kotak Mahindra Bank | Target: Rs 1,550 | +17% | BUY
Moratorium share dips; asset quality slips on prudent measures

TCI Express | Target: Rs 840 | +16% | BUY
Asset-light model fortifies margins

Nippon Life India AMC | Target: Rs 210 | –22% | SELL
Margins contract as opex normalises

SUMMARY

Supreme Industries

Supreme Industries (SI) reported above-expected revenue of Rs 10.5bn (–27% YoY) in Q1FY21, with a 19% lockdown-led drop in volumes. EBITDA margins declined less than estimated, by 54bps YoY to 11.1%. EBITDA/PBT fell 30%/49% YoY. Management continued to refrain from giving FY21 guidance due to Covid-led demand uncertainty. We increase FY21 earnings by 5% but leave FY22 estimates unchanged and roll over to a Sep'21 TP of Rs 1,120 (earlier Rs 1,030). Cut from ADD to REDUCE on limited upside.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.59	1bps	(13bps)	(150bps)
India 10Y yield (%)	5.82	1bps	(7bps)	(70bps)
USD/INR	74.83	(0.1)	1.7	(8.3)
Brent Crude (US$/bbl)	43.31	0.1	0.5	(31.7)
Dow	26,652	(0.7)	2.4	(1.8)
Shanghai	3,325	(3.9)	12.1	13.2
Sensex	38,140	(0.0)	9.2	0.8
India FII (US$ mn)	**23 Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	34.4	(151.2)	(14,433.2)	(4,673.7)
FII-E	282.9	577.6	(1,863.9)	4,739.1

Source: Bank of Baroda Economics Research

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Persistent Systems

Persistent Systems (PSYS) reported a surprisingly strong set of numbers, with Q1 dollar revenue growth at 3.1% QoQ. Both the IP-led and services businesses grew QoQ. Operating margin at 10.4% was up 164bps QoQ. We increase FY21/FY22 EPS by 23%/7% and raise our target P/E to 12.5x (vs. 11.3x) to bake in a better revenue and margin outlook. Rolling valuations over, we have a revised Jun'21 TP of Rs 740 (vs. Rs 590). Given IP revenue volatility and heady valuations post a 37% rally in the last one month, we downgrade the stock from REDUCE to SELL.

Click here for the full report.

India Economics: Weekly Wrap

Global economy maintained growth momentum as seen in US home sales and higher flash PMIs. However, rising COVID-19 cases raise the risk of prolonged recovery. US 10Y yield fell and so did DXY. EU's stimulus package led to 2% gain in EUR/USD. US-China tensions suggest DXY may underperform. INR too appreciated. Indian equity markets too gained on the back of revival of the economy, but revival seems to be plateauing. The week will give insight into India's fiscal position and stance of US Fed.

Click here for the full report.

Tech Mahindra

Tech Mahindra (TECHM) posted a 6.8% QoQ dollar revenue decline and 10bps EBITDA margin expansion, bettering our estimates for Q1FY21. Though the communication vertical continued its declining streak (–8.6% QoQ), traction in the technology, media and entertainment segment restricted the fall in revenue. We increase FY21 EPS by 10%, baking in the Q1FY21 beat, and hike our target P/E to 13.8x (from 12.5x). Rolling forward, we move to a new Jun'21 TP of Rs 780 (vs. Rs 690). Reiterate BUY.

Click here for the full report.

Kotak Mahindra Bank

Kotak Bank's (KMB) PAT at Rs 12.4bn declined 8.5% YoY given a 33% drop in fee income and higher Covid-related provisions worth Rs 6.2bn. Despite a 2% YoY dip in loan growth and 30bps QoQ NIM contraction to 4.4%, NII growth held strong at 17% YoY. Loans under moratorium dropped to 9.7% with ~95% of customers rolling over from phase-1. Slippages rose to ~Rs 80bn (vs. Rs 49bn QoQ) as a large account turned NPA and as KMB observed prudence in granting moratorium. Maintain BUY as we roll to a Sep'21 TP of Rs 1,550 (vs. Rs 1,450).

Click here for the full report.

TCI Express

Though TCI Express's (TCIEXP) topline nosedived 65% YoY in Q1FY21 amidst challenging externalities, it posted a remarkable 715bps YoY expansion in gross margin to 35%, underpinning the strength of its asset-light business model. This coupled with lower fixed costs enabled the company to achieve breakeven, with EBITDA/PAT at Rs 20mn/Rs 1mn. Demand is recovering gradually, and we expect TCIEXP's topline to grow from H2 onwards. We roll over valuations to Sep'22 and revise our TP to Rs 840 (vs. Rs 750). BUY.

Click here for the full report.

Nippon Life India AMC

Nippon Life Asset Management (NAM) reported a Rs 250bn sequential increase in Q1FY21 AUM, largely due to the MTM effect. Lower AUM in Q4FY20 had a lag effect on investment income – this coupled with normalising opex led to EBITDA and PBT margin contraction. We cut FY21/FY22 EPS estimates by 10%/9% as the high-yielding equity business is likely to clock muted growth. Rolling valuations over, our Jun'21 TP remains unchanged at Rs 210 – maintain SELL.

Click here for the full report.

REDUCE
TP: Rs 1,120 | ⮟ 5%

SUPREME INDUSTRIES | Plastic Products | 27 July 2020

Demand uncertainty persists; downgrade to REDUCE

Supreme Industries (SI) reported above-expected revenue of Rs 10.5bn (–27% YoY) in Q1FY21, with a 19% lockdown-led drop in volumes. EBITDA margins declined less than estimated, by 54bps YoY to 11.1%. EBITDA/PBT fell 30%/49% YoY. Management continued to refrain from giving FY21 guidance due to Covid-led demand uncertainty. We increase FY21 earnings by 5% but leave FY22 estimates unchanged and roll over to a Sep'21 TP of Rs 1,120 (earlier Rs 1,030). Cut from ADD to REDUCE on limited upside.

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Lockdown hits volumes: SI's Q1 blended volume/realisation declined 19%/9% YoY, resulting in revenue dropping 27% YoY to Rs 10.5bn. Revenue came primarily from the pipes/packaging segments which declined 15%/23% YoY, whereas the industrial/consumer segments fell 63%/71%. Demand for pipes came from the agriculture sector; the housing segment was lacklustre. SI's rural portfolio grew 15% YoY in Q1. Management did not proffer guidance as uncertainty over construction activity continues, given the extended lockdown in many states and labour migration. July has been slow with lower volume growth MoM and YoY.

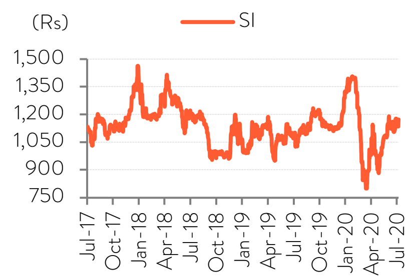
Margins decline: Operating margins contracted 54bps YoY to 11.1% due to higher raw material cost/employee cost of 180bps/145bps YoY, partly offset by lower other expenses (–220bps). EBITDA/PBT thus dropped 30%/49% YoY. RM cost increased (as a % of sales) due to higher sales of agri pipes in Q1 which have lower margins, whereas other expense reduced due to cost initiatives.

Downgrade to REDUCE: We lower our rating from ADD to REDUCE due to the ~20% rally in stock price over the past two months, which leaves limited upside. Rolling valuations forward, we move to a Sep'21 TP of Rs 1,120, set at an unchanged one-year forward P/E of 27x.

Ticker/Price	SI IN/Rs 1,173
Market cap	US$ 2.0bn
Shares o/s	127mn
3M ADV	US$ 1.0mn
52wk high/low	Rs 1,413/Rs 773
Promoter/FPI/DII	49%/8%/43%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,115	47,417	58,151	65,160
EBITDA (Rs mn)	7,812	8,346	6,364	8,629	9,915
Adj. net profit (Rs mn)	3,683	4,674	3,043	4,831	5,678
Adj. EPS (Rs)	29.0	36.8	24.0	38.0	44.7
Adj. EPS growth (%)	(13.2)	26.9	(34.9)	58.7	17.5
Adj. ROAE (%)	18.2	21.2	13.0	19.0	20.2
Adj. P/E (x)	40.5	31.9	49.0	30.9	26.2
EV/EBITDA (x)	18.8	17.7	23.2	17.1	15.0

Source: Company, BOBCAPS Research

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SELL
TP: Rs 740 | ∀ 14%

PERSISTENT SYSTEMS | IT Services | 28 July 2020

Good quarter but valuations rich; downgrade to SELL

Persistent Systems (PSYS) reported a surprisingly strong set of numbers, with Q1 dollar revenue growth at 3.1% QoQ. Both the IP-led and services businesses grew QoQ. Operating margin at 10.4% was up 164bps QoQ. We increase FY21/FY22 EPS by 23%/7% and raise our target P/E to 12.5x (vs. 11.3x) to bake in a better revenue and margin outlook. Rolling valuations over, we have a revised Jun'21 TP of Rs 740 (vs. Rs 590). Given IP revenue volatility and heady valuations post a 37% rally in the last one month, we downgrade the stock from REDUCE to SELL.

Ruchi Burde | Seema Nayak
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Strong traction in IP business: Despite Covid-19 challenges, PSYS' Q1FY21 revenue grew 3.1% QoQ vs. an expected decline of 4.8%. Outperformance was driven by recovery in both services/IP-led revenues which grew 1.8%/9.8% QoQ. Alliance business increased 6.6% as well. Improved traction in the reseller business (due to partnership with IBM 'Cloud Pak') aided a strong IP showing, while royalty revenues were steady sequentially. Management indicated success in bundling services along with most reseller deals. EBIT margin stood at 10.4% vs. 8.3% estimated, with a 180bps decline in SGA as a percentage of revenue.

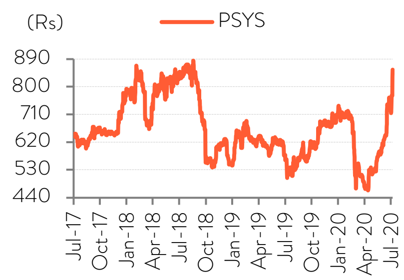
Healthy deal wins: The deal pipeline looks healthy going into FY21 with several multimillion-dollar engagements across the BFSI, healthcare and technology verticals. PSYS won a vendor consolidation deal in BFSI, a multimillion-dollar contract from a US-based healthcare provider, and a US$ 50mn data virtualization deal with a software company.

Promising Q2 outlook: Digital and cloud-related projects gained momentum in Q1FY21. IP business is looking up due to improved engagement with IBM. Management maintains a cautiously positive growth and margin outlook and expects margin recovery from here on led by declining pricing discounts and lower subcontracting costs.

Ticker/Price	PSYS IN/Rs 856
Market cap	US$ 915.3mn
Shares o/s	80mn
3M ADV	US$ 1.5mn
52wk high/low	Rs 919/Rs 420
Promoter/FPI/DII	30%/26%/44%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	33,659	35,658	41,190	46,708	51,767
EBITDA (Rs mn)	5,805	4,930	6,513	7,809	8,901
Adj. net profit (Rs mn)	3,516	3,403	3,715	4,486	5,237
Adj. EPS (Rs)	43.9	42.7	46.6	56.2	65.7
Adj. EPS growth (%)	8.8	(2.9)	9.2	20.8	16.7
Adj. ROAE (%)	15.7	14.1	14.3	15.7	16.5
Adj. P/E (x)	19.5	20.1	18.4	15.2	13.0
EV/EBITDA (x)	11.5	13.5	10.3	8.5	7.2

Source: Company, BOBCAPS Research

WEEKLY WRAP

27 July 2020

All eyes on Fed

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Global economy maintained growth momentum as seen in US home sales and higher flash PMIs. However, rising COVID-19 cases raise the risk of prolonged recovery. US 10Y yield fell and so did DXY. EU's stimulus package led to 2% gain in EUR/USD. US-China tensions suggest DXY may underperform. INR too appreciated. Indian equity markets too gained on the back of revival of the economy, but revival seems to be plateauing. The week will give insight into India's fiscal position and stance of US Fed.

Markets

- **Bonds:** US 10Y yield fell by 4bps (0.59%) as jobless claims surged raising concerns of employment scenario. More fiscal stimulus is in the offing ahead of elections. Macro data in Eurozone (flash PMIs) and China was better at the margin. Oil prices rose by 0.4% (US$ 43/bbl) on hopes of reviving demand. India's 10Y yield rose by 1bps (5.82%). System liquidity surplus was lower at Rs 3tn as on 24 Jul 2020 compared with Rs 3.4tn in the previous week.

- **Currency:** Except CNY, other global currencies closed higher against the dollar. DXY fell sharply by 1.6% to a 22-month low in the week, as US-China tensions escalated. CNY too depreciated by 0.4%. EUR rose by 2% buoyed by EU's stimulus. INR rose by 0.3% supported by FII inflows of US$ 1bn in the equity segment.

- **Equity:** Barring Dow and FTSE, other global indices ended the week higher as global manufacturing PMI rebounded. Shanghai Comp (3.5%) was the biggest gainer, amongst other indices even as tensions rose between China and US. Sensex (3%) continued its weekly gains for the 6th week, led by global cues.

- **Upcoming key events:** In the current week, GDP and consumer confidence data in the US and Euro area will be released. Apart from this, retail sales in Germany and Japan as well as Fed's rate decision is also awaited. On the domestic front, India's fiscal data and eight core data will also be released.

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BUY
TP: Rs 780 | ⮝ 17%

TECH MAHINDRA | IT Services | 28 July 2020

Performance surpasses expectations

Tech Mahindra (TECHM) posted a 6.8% QoQ dollar revenue decline and 10bps EBITDA margin expansion, bettering our estimates for Q1FY21. Though the communication vertical continued its declining streak (–8.6% QoQ), traction in the technology, media and entertainment segment restricted the fall in revenue. We increase FY21 EPS by 10%, baking in the Q1FY21 beat, and hike our target P/E to 13.8x (from 12.5x). Rolling forward, we move to a new Jun'21 TP of Rs 780 (vs. Rs 690). Reiterate BUY.

Ruchi Burde | Seema Nayak
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Tight cost control: Q1 was expected to bear the brunt of pandemic headwinds, supply-side issues and Comviva seasonality impact. In contrast, TECHM beat estimates with revenue down 6.8% QoQ vs. our/consensus forecast of an 8.5%/8.3% decline. A third of the decline was supply-led and the rest demand-led. BPS recovery commenced in Q1 despite supply-side issues. EBIT margin at 10.1% was flattish QoQ, outperforming our/consensus estimates of 8.3%/8.9%. This was the result of redesigned processes (increased automation) and reduced discretionary costs, which helped margins by 200bps.

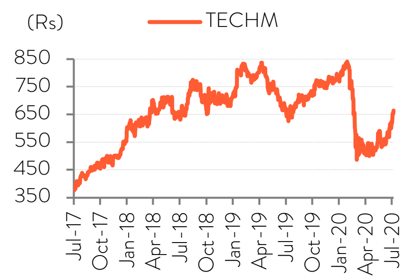
Strong deal pipeline: TCV at US$ 290mn was down sharply from US$ 513mn in Q4FY20 as deal activity slackened in the beginning of the quarter due to the pandemic. Management indicated that deal signing gained pace in the second half of Q1. TECHM's deal pipeline is healthy across the communication and enterprise verticals. Moreover, its enterprise pipeline in the US is at a three-year high. Management expects TCV to bounce back in Q2 and Q3.

Cautious outlook: TECHM expects Q1 to be the trough and is hopeful of growth recovery. It is targeting continued operating margin improvement through FY21 on the back of cost rationalisation, delivery efficiency, portfolio entity synergy, and pruning of business in low-yield geographies.

Ticker/Price	TECHM IN/Rs 665
Market cap	US$ 7.8bn
Shares o/s	873mn
3M ADV	US$ 39.4mn
52wk high/low	Rs 846/Rs 471
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	347,421	368,677	374,963	422,619	468,176
EBITDA (Rs mn)	63,368	57,261	59,255	76,422	83,954
Adj. net profit (Rs mn)	42,975	42,505	41,294	48,444	54,083
Adj. EPS (Rs)	47.7	48.3	47.0	55.1	61.5
Adj. EPS growth (%)	11.9	1.2	(2.8)	17.3	11.6
Adj. ROAE (%)	21.4	19.8	17.7	18.8	18.9
Adj. P/E (x)	13.9	13.7	14.2	12.1	10.8
EV/EBITDA (x)	9.1	10.1	9.7	7.3	6.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,550 | ⮝ 17%

KOTAK MAHINDRA BANK | Banking | 27 July 2020

Moratorium share dips; asset quality slips on prudent measures

Kotak Bank's (KMB) PAT at Rs 12.4bn declined 8.5% YoY given a 33% drop in fee income and higher Covid-related provisions worth Rs 6.2bn. Despite a 2% YoY dip in loan growth and 30bps QoQ NIM contraction to 4.4%, NII growth held strong at 17% YoY. Loans under moratorium dropped to 9.7% with ~95% of customers rolling over from phase-1. Slippages rose to ~Rs 80bn (vs. Rs 49bn QoQ) as a large account turned NPA and as KMB observed prudence in granting moratorium. Maintain BUY as we roll to a Sep'21 TP of Rs 1,550 (vs. Rs 1,450).

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Moratorium share in line with large private banks: Overall moratorium share declined from ~26% of loans under phase-1 to 9.7% as on 30 June, which is in line with Axis and HDFC Bank. The share of KMB's wholesale book under moratorium is in low single digits but this is higher for SME loans. Collection from moratorium phase-1 customers improved in June-July but is yet to reach pre-pandemic levels. The bank has Covid-related provisions worth Rs 12.7bn (0.6% of loans).

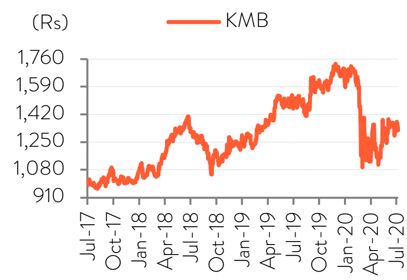
Higher slippages dent asset quality: GNPA rose 45bps QoQ to 2.7% as slippages were higher at Rs 79.6bn. KMB prudently focused on the fundamental viability of borrowers and businesses before granting moratorium under phase-2, which led to some accounts turning NPA. This apart, a large account also slipped into NPA. Management highlighted that collection efficiency in June/July has improved for the CV, CE, agri and tractor segments. The bank has cumulative specific, standard and Covid provisions worth 107% of GNPAs.

Maintain BUY: We like KMB for its proven and stable leadership, substantial improvement in liability franchise, best-in-class margins and sound underwriting standards. Maintain BUY as we roll forward to a Sep'21 TP of Rs 1,550 (vs. Rs 1,450).

Ticker/Price	KMB IN/Rs 1,323
Market cap	US$ 35.0bn
Shares o/s	1,979mn
3M ADV	US$ 103.1mn
52wk high/low	Rs 1,740/Rs 1,001
Promoter/FPI/DII	30%/40%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	112,590	134,997	148,390	168,584	190,791
NII growth (%)	1812.1	1990.2	992.1	1360.9	1317.2
Adj. net profit (Rs mn)	36,116	59,472	64,525	75,869	87,296
EPS (Rs)	25.5	31.1	33.2	38.4	44.1
P/E (x)	51.8	42.5	39.9	34.5	30.0
P/BV (x)	6.0	5.2	4.2	3.8	3.4
ROA (%)	1.7	1.8	1.7	1.8	1.8
ROE (%)	12.2	13.1	11.7	11.5	11.9

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 840 | 16%

TCI EXPRESS | Logistics | 27 July 2020

Asset-light model fortifies margins

Though TCI Express's (TCIEXP) topline nosedived 65% YoY in Q1FY21 amidst challenging externalities, it posted a remarkable 715bps YoY expansion in gross margin to 35%, underpinning the strength of its asset-light business model. This coupled with lower fixed costs enabled the company to achieve breakeven, with EBITDA/PAT at Rs 20mn/Rs 1mn. Demand is recovering gradually, and we expect TCIEXP's topline to grow from H2 onwards. We roll over valuations to Sep'22 and revise our TP to Rs 840 (vs. Rs 750). BUY.

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Revenue fell steeply…: Revenue declined sharply by 65% YoY to Rs 887mn, owing to a 67% drop in volumes. Realisation, however, rose ~5% YoY as the company took a calibrated price hike. After a washout in April, utilisation gradually ticked up to 35%/70%/80% in May/June/July, augmented by a gradual easing of lockdown restrictions. Management expects to reach pre-Covid levels in August/September and to end FY21 with a flattish topline, implying 35-40% YoY growth in H2. We, however, assume a 9% drop in topline, baking in a more measured ~20% growth rate in H2FY21.

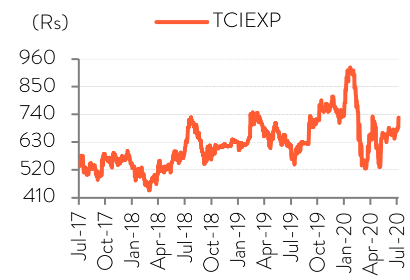
…but EBITDA breakeven impressive: Notwithstanding the topline plunge, TCIEXP achieved operating breakeven, through lower operating expenses (–715bps YoY) and tight control on fixed costs (–30% YoY). Better route optimisation boosted YoY utilisation of hired trucks (~90% vs. ~84%); this coupled with a rate hike catalysed gross margin expansion. Management estimates a ~20% cut in fixed costs in FY21 and expects a 14% EBITDA margin. We build in a 11.4% margin due to lower topline estimates.

Reiterate BUY: We lower our FY21/FY22 EPS estimates by 3% each, baking in below-estimated revenue in Q1. We marginally raise target P/E to 25x (vs. 24x) and roll-forward valuations to Sep'22. Our TP stands revised to Rs 840.

Ticker/Price	TCIEXP IN/Rs 727
Market cap	US$ 372.2mn
Shares o/s	38mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/2%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	9,427	11,788	13,720
EBITDA (Rs mn)	1,190	1,213	1,070	1,591	1,907
Adj. net profit (Rs mn)	728	891	781	1,166	1,404
Adj. EPS (Rs)	19.0	23.2	20.4	30.4	36.6
Adj. EPS growth (%)	24.7	22.3	(12.3)	49.3	20.4
Adj. ROAE (%)	30.7	29.5	21.2	26.1	25.6
Adj. P/E (x)	38.2	31.3	35.7	23.9	19.9
EV/EBITDA (x)	23.6	23.0	25.8	17.3	14.4

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 210 | ⮟ 22%

NIPPON LIFE INDIA ASSET MANAGEMENT

| Diversified Financials | 28 July 2020

Margins contract as opex normalises

Nippon Life Asset Management (NAM) reported a Rs 250bn sequential increase in Q1FY21 AUM, largely due to the MTM effect. Lower AUM in Q4FY20 had a lag effect on investment income – this coupled with normalising opex led to EBITDA and PBT margin contraction. We cut FY21/FY22 EPS estimates by 10%/9% as the high-yielding equity business is likely to clock muted growth. Rolling valuations over, our Jun'21 TP remains unchanged at Rs 210 – maintain SELL.

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AUM increased largely due to MTM: AUM (end of period) increased ~Rs 250bn on a sequential basis in Q1, primarily due to the mark-to-market (MTM) effect, and not redemptions. Though SIP flows were steady at Rs 7bn, we expect the high-yielding equity business to slow down in the wake of Covid-19. We also argue that gaining market share in debt looks difficult for NAM given FY19-FY20 debt write-offs.

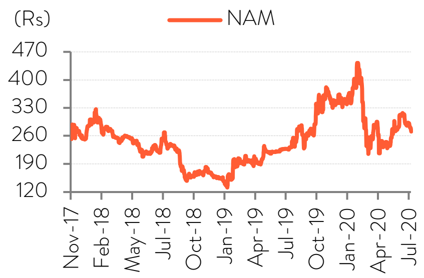
Contraction in EBITDA and PBT margins: As argued earlier, we believe NAM has exhausted its opex control levers in Q4FY20. In Q1, investment income decreased 28% YoY to Rs 2.3bn largely due to the lag effect of reduced AUM in Q4FY20. Opex declined slower than investment income at 26% YoY, leading to a 100bps YoY increase in cost-to-core income ratio. EBITDA margin and PBT margin contracted by 100bps and 320bps YoY respectively. PAT grew 24% YoY to Rs 1.6bn, largely driven by other income of Rs 1bn.

Maintain SELL: Not only will gaining market share in debt prove challenging, but we believe NAM also faces a tough balancing act to add equity market share and maintain profitability. We retain our SELL rating with a Jun'21 TP of Rs 210 (unchanged), as we cut our FY21/FY22 earnings estimates by 10%/9% to bake in the pandemic impact.

Ticker/Price	NAM IN/Rs 270
Market cap	US$ 2.2bn
Shares o/s	612mn
3M ADV	US$ 4.8mn
52wk high/low	Rs 453/Rs 208
Promoter/FPI/DII	76%/6%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Core PBT (Rs mn)	5,290	5,696	5,047	6,229	7,610
Core PBT (YoY)	6.1	7.7	(11.4)	23.4	22.2
Adj. net profit (Rs mn)	4,871	4,158	5,255	6,213	7,324
EPS (Rs)	8.0	6.8	8.6	10.2	12.0
P/E (x)	34.0	39.8	31.5	26.6	22.6
MCap/AAAUM (%)	6.9	7.9	7.5	6.8	5.9
RoAAAUM (in bp)	20.4	19.9	23.8	25.4	26.1
ROE (%)	19.7	16.1	19.9	22.8	25.9

Source: Company, BOBCAPS Research

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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