

FIRST LIGHT

08 September 2020

RESEARCH

[Initiation] InterGlobe Aviation | Target: Rs 1,750 | +42% | BUY

Market leader advantage - initiate with BUY

BOB Economics Research | Weekly Wrap

Indian yields fall after RBI acts

Greenpanel Industries | Target: Rs 55 | +20% | BUY

MDF segment in strong recovery mode

SUMMARY

InterGlobe Aviation

We believe InterGlobe Aviation (IndiGo) is poised for strong growth given its market leadership (over 50% market share), ready capacity, strong balance sheet and the vulnerability of most of its peers in the domestic aviation industry. Easing of lockdown norms, benign crude prices and a stable INR will aid profitability going forward. Despite the severe impact due to Covid-19, we expect IndiGo's passenger traffic to grow at a 13% CAGR over FY20-FY23, much ahead of the industry CAGR of 8%. Initiate with BUY; Sep'21 TP Rs 1,750.

[Click here for the full report.](#)

India Economics: Weekly Wrap

Chinese yields rose as domestic economic activity continues to show improvement. Even US 10Y yield closed flat with better jobs data. DXY gained some lost ground after Europe saw deflation after 4 years. Global equity markets fell led by US tech stocks. India's 10Y yield fell by 21bps after a record 23.9% decline in GDP, special OMOs and hike in the HTM limit by RBI. In the coming week, ECB policy decision and India's industrial production data are key watchable.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 4,000 |
| Cipla | Buy | 850 |
| GAIL | Buy | 155 |
| Petrojet LNG | Buy | 310 |
| Tech Mahindra | Buy | 910 |

MID-CAP IDEAS

| Company | Rating | Target |
|----------------------------------|--------|--------|
| Alkem Labs | Buy | 3,600 |
| Chola Investment | Buy | 280 |
| Laurus Labs | Buy | 1,200 |
| Transport Corp | Buy | 270 |
| Mahanagar Gas | Sell | 750 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|----------------------------|--------------|------------|----------------|-------------|
| US 10Y yield (%) | 0.72 | 8bps | 21bps | (84bps) |
| India 10Y yield (%) | 5.93 | 3bps | 16bps | (67bps) |
| USD/INR | 73.14 | 0.5 | 2.5 | (2.0) |
| Brent Crude (US\$/bbl) | 42.66 | (3.2) | (4.0) | (30.7) |
| Dow | 28,133 | (0.6) | 4.9 | 5.0 |
| Shanghai | 3,355 | (0.9) | (0.5) | 11.9 |
| Sensex | 38,357 | (1.6) | 1.8 | 3.7 |
| India FII (US\$ mn) | 3 Sep | MTD | CYTD | FYTD |
| FII-D | 85.4 | | 7.4 (15,082.6) | (5,323.1) |
| FII-E | (16.2) | 230.7 | 5,038.1 | 11,641.1 |

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



Greenpanel Industries

Key takeaways from our recent interaction with the management of Greenpanel Industries (GREENP): (1) MDF demand continues to rise steadily following the easing of lockdowns across the country. GREENP has averaged high double-digit YoY sales growth in July and August. (2) While domestic MDF demand has been robust thus far in Q2FY21 with double-digit growth, the company's exports have surged 40-50% YoY. This was due to a sizeable first-time order from a new geography that was delivered during the quarter and also a lower base.

[Click here for the full report.](#)

BUY

TP: Rs 1,750 | ▲ 42%

INTERGLOBE AVIATION

Airlines

07 September 2020

Market leader advantage – initiate with BUY

We believe InterGlobe Aviation (IndiGo) is poised for strong growth given its market leadership (over 50% market share), ready capacity, strong balance sheet and the vulnerability of most of its peers in the domestic aviation industry. Easing of lockdown norms, benign crude prices and a stable INR will aid profitability going forward. Despite the severe impact due to Covid-19, we expect IndiGo's passenger traffic to grow at a 13% CAGR over FY20-FY23, much ahead of the industry CAGR of 8%. Initiate with BUY; Sep'21 TP Rs 1,750.

Significant market share gains in testing times: IndiGo leads the domestic aviation industry with ~52% market share. In Jul'20, it reported over 60% share. Following the Jet Airways fiasco, which led to a jump in IndiGo's market share in FY20 (from 42% to 48%), the pandemic has also helped it gain further ground due to the vulnerability of other players in the segment and its own strong balance sheet and capabilities (cash balance of Rs 108bn as of Mar'20).

Favourable macroeconomic conditions to boost position: Benign crude prices along with a stable INR, vulnerability of most of its peers (negative net worth and massive cash burn), a strong balance sheet, and cost-benefit advantage over the railways are some of the key factors that have put IndiGo in a sweet spot.

Initiate with BUY: IndiGo has smartly seized market share over the last few years. In the next three years, we expect it to outperform the industry and gain further share of 300-400bps. We factor in a CAGR of 13% and 21% in revenue and EBITDA respectively over FY20-FY23, culminating in an EPS of Rs 70 by FY23. The stock is trading at 9.6x/6.5x FY22/23E EV/EBITDAR. We value the stock at 9x Sep'22E EV/EBITDAR and recommend BUY with a Sep'21 TP of Rs 1,750.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|----------|---------|---------|
| Total revenue (Rs mn) | 284,968 | 357,560 | 280,996 | 424,002 | 524,066 |
| EBITDA (Rs mn) | (5,354) | 40,382 | (45,829) | 46,516 | 71,842 |
| Adj. net profit (Rs mn) | (2,283) | (2,482) | (59,704) | 9,001 | 26,939 |
| Adj. EPS (Rs) | (5.9) | (6.4) | (155.2) | 23.4 | 70.0 |
| Adj. EPS growth (%) | NA | NA | NA | NA | 199.3 |
| Adj. ROAE (%) | (3.3) | (4.2) | 5531.0 | 3994.1 | 172.5 |
| Adj. P/E (x) | (207.0) | (190.6) | (7.9) | 52.6 | 17.6 |
| EV/EBITDA (x) | (76.7) | 9.6 | (8.3) | 8.9 | 6.3 |

Source: Company, BOBCAPS Research

Mayur Milak | Nishant Chowhan, CFA
 research@bocaps.in

| | |
|------------------|--------------------|
| Ticker/Price | INDIGO IN/Rs 1,229 |
| Market cap | US\$ 6.4bn |
| Shares o/s | 385mn |
| 3M ADV | US\$ 48.5mn |
| 52wk high/low | Rs 1,899/Rs 771 |
| Promoter/FPI/DII | 75%/15%/7% |

Source: NSE

STOCK PERFORMANCE



Source: NSE



WEEKLY WRAP

07 September 2020

Indian yields fall after RBI acts

Chinese yields rose as domestic economic activity continues to show improvement. Even US 10Y yield closed flat with better jobs data. DXY gained some lost ground after Europe saw deflation after 4 years. Global equity markets fell led by US tech stocks. India's 10Y yield fell by 21bps after a record 23.9% decline in GDP, special OMOs and hike in the HTM limit by RBI. In the coming week, ECB policy decision and India's industrial production data are key watchable.

Sameer Narang | Dipanwita Mazumdar
chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except China, global long end yields closed lower. US 10Y yield was stable in the week at 0.72% supported by better jobs data. UK 10Y yield fell by 5bps as BoE expressed growth concerns. Crude prices fell by 5.3% (US \$ 43/bbl) amidst concerns of muted demand led by dip in US services ISM and European and Japanese services PMIs. India's 10Y yield fell the most by 21bps (5.93%) supported by RBI's special OMO announcements and hike in the HTM limit. System liquidity surplus was at Rs 4.1tn against Rs 4tn in the previous week.
- **Currency:** Except INR and CNY other global currencies closed lower. DXY recovered and rose by 0.4% as US manufacturing activity rebounded in Aug'20. GBP fell by 0.6% as BoE officials warned of a much bigger impact of COVID-19 crisis on growth. EUR depreciated by 0.5% as ECB officials raised concerns over its recent surge. INR rose by 0.4%. FII outflows were US\$ 113mn.
- **Equity:** Barring Shanghai Comp, other global equity indices ended lower. Sell-off in equities was triggered by US tech stocks. Sensex and FTSE (2.8%) declined the most, followed by Dow (1.8%). Fed's Beige book pointed to not so rosy economic outlook. Drop in domestic equity market was led by banking and real estate stocks.
- **Upcoming key events:** In the current week, markets will track CPI data of US, China, and Germany and industrial production of European economies. In addition, China and Taiwan's exports and ECB's policy decision is also due. On the domestic front, industrial production data will be released this week.



BUY
 TP: Rs 55 | ▲ 20%

**GREENPANEL
INDUSTRIES**

Construction Materials

07 September 2020

MDF segment in strong recovery mode

We recently interacted with the management of Greenpanel Industries (GREENP). Following are the key takeaways:

- MDF demand continues to rise steadily following the easing of lockdowns across the country. GREENP has averaged high double-digit YoY sales growth in July and August.
- While domestic MDF demand has been robust thus far in Q2FY21 with double-digit growth, the company's exports have surged 40-50% YoY. This was due to a sizeable first-time order from a new geography that was delivered during the quarter and also a lower base.
- In FY20, MDF exports accounted for ~22% of segmental revenues; management expects the share to remain similar in FY21.
- Tier-2 towns and below have been demand drivers in domestic markets during the initial lockdown period. GREENP is hopeful of gradual pick-up from urban centres alongside progressive unlocking.
- The company has been focusing on domestic distribution and now has over 1,530 dealers across India (vs. ~1,420 as on Mar'20). It plans to continue scaling up its reach and targeting smaller cities to widen the market.
- GREENP has seen no pricing pressure in the MDF segment in either domestic or export markets.
- The industry's demand for a countervailing duty (CVD) on MDF imports is currently under scrutiny by authorities. Management is hopeful of CVD by Dec'20 which will be beneficial for domestic players. About 60-65% of total imports comprise thick MDF where the import price is 6-8% lower than that of domestic manufacturers.
- Management believes it is on track to achieve guidance of at least flattish revenues YoY in Q2FY21.
- Demand for plywood has also improved with the company witnessing ~90% of year-ago sales thus far in Q2 (vs. ~70% in June).
- GREENP has scheduled debt repayment of Rs 510mn for FY21 and Rs 720mn each for FY22 and FY23.

Arun Baid

research@bobcaps.in

| | |
|------------------|-----------------|
| Ticker/Price | GREENP IN/Rs 46 |
| Market cap | US\$ 76.9mn |
| Shares o/s | 123mn |
| 3M ADV | US\$ 0.0mn |
| 52wk high/low | Rs 61/Rs 24 |
| Promoter/FPI/DII | 53%/11%/36% |

Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 7,726 | 10,188 | 11,465 |
| EBITDA (Rs mn) | 1,181 | 1,614 | 1,857 |
| Adj. net profit (Rs mn) | 119 | 429 | 605 |
| Adj. EPS (Rs) | 1.0 | 3.5 | 4.9 |
| Adj. EPS growth (%) | (53.1) | 262.1 | 40.9 |
| Adj. ROAE (%) | 1.8 | 6.2 | 8.1 |
| Adj. P/E (x) | 47.4 | 13.1 | 9.3 |
| EV/EBITDA (x) | 9.4 | 6.6 | 5.3 |

Source: Company, BOBCAPS Research

STOCK PERFORMANCE


Source: NSE

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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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