

RESEARCH

BOB Economics Research | Inflation and IIP

Inflation moves up, growth lower

Astral Poly Technik | Target: Rs 1,195 | -1% | REDUCE

Pipe segment continues to lead growth

Greenply Industries | Target: Rs 205 | +43% | BUY

Gabon operations disappoint

SUMMARY

India Economics: Inflation and IIP

CPI inflation jumped to 7.6% in Jan'20 (7.4% in Dec'19) led by acceleration in pulses, protein and cereal inflation. Core also rose by more than 40bps to 4.2% in Jan'20. Given the above backdrop, inflation is likely to remain high in the near term. We expect RBI to remain on hold till inflation remain above its target level in Q3FY21. Additionally, IIP surprised negatively at (-) 0.3% in Dec'19 from 1.8% in Nov'19. Capital goods (-18.2%) contracted the most followed by consumer durables (-6.7%). Growth uptick to be visible in FY21.

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Astral Poly Technik

Astral Poly Technik's (ASTRA) Q3FY20 consolidated revenue grew 5.4% YoY, aided by pipe segment volume growth of 15% (~6.5% ex-Rex). Pipe revenue grew 6.5% YoY whereas adhesive revenue was flat YoY. EBITDA margins expanded 290bps YoY to 17.8% led by the pipe business, resulting in EBITDA/PBT growth of 26%/30% YoY. We marginally raise FY20-FY22 earnings by 1-3% and roll to a Mar'21 TP of Rs 1,195 (from Rs 1,080). Maintain REDUCE as current valuations at 42.5x FY22E P/E offer limited upside.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.60	3bps	(22bps)	(109bps)
India 10Y yield (%)	6.47	2bps	(12bps)	(89bps)
USD/INR	71.29	0	(0.5)	(0.9)
Brent Crude (US\$/bbl)	29,276	0	1.6	15.1
Dow	2,902	0.4	(6.2)	8.6
Shanghai	41,216	0.6	(0.9)	14.0
Sensex	54.01	1.4	(16.9)	(13.5)
India FII (US\$ mn)	10 Feb	MTD	CYTD	FYTD
FII-D	301.4	1,428.0	(140.9)	2,803.2
FII-E	(70.5)	1,773.7	3,146.3	10,535.5

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



Greenply Industries

Greenply Industries' (GIL) consolidated Q3FY20 revenue slipped 1% YoY, coming in below estimates. India operations grew 2.4% YoY (volumes up 5%), whereas Gabon subsidiary revenue fell 29% due to lower demand for face veneer in key markets such as India. Operating margins and EBITDA were flat YoY. Management has cut FY20 revenue growth guidance for India to ~4-4.5% from 8% and now expects Gabon revenues of ~Rs 1.5bn (from Rs 2bn). We lower FY20-FY22 PAT by 3-8% and roll to a Mar'21 TP of Rs 205 (vs. Rs 210).

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

INFLATION AND IIP

12 February 2020

Inflation moves up, growth lower

CPI inflation jumped to 7.6% in Jan'20 (7.4% in Dec'19) led by acceleration in pulses, protein and cereal inflation. Core also rose by more than 40bps to 4.2% in Jan'20. Given the above backdrop, inflation is likely to remain high in the near term. We expect RBI to remain on hold till inflation remain above its target level in Q3FY21. Additionally, IIP surprised negatively at (-) 0.3% in Dec'19 from 1.8% in Nov'19. Capital goods (-18.2%) contracted the most followed by consumer durables (-6.7%). Growth uptick to be visible in FY21.

Sameer Narang

Sonal Badhan | Jahnavi

chief.economist@bankofbaroda.com

IIP growth slips: Industrial output slipped back into the contraction at (-) 0.3% in Dec'19 from 1.8% in Nov'19. This was led by drop in manufacturing output and electricity output to (-) 1.2% and (-) 0.1% respectively. Within manufacturing, capital goods dropped sharply by (-) 18.2% compared with (-) 8.2% in Nov'19 and consumer durables slipped to (-) 6.7% in Dec'19 from (-) 1.6% in Nov'19. Even consumer non-durables reported a decline of (-) 3.7% (1.5% in Nov'19). Primary goods inched up to 2.2% in Dec'19 (versus -0.3% in Nov'19) while intermediate goods decelerated to 12.5% in Dec'19 from 16.5% in Nov'19. We expect growth to improve in FY21 as government and consumption spending improves.

CPI inflation at 68-month high: CPI inflation accelerated further to 7.6% in Jan'20 from 7.4% in Dec'19. Food inflation remains stubbornly high at 13.6% vs 14.1% in Dec'19, and the marginal decline is only on account of vegetable prices (50.2% in Jan'20 vs 60.5% in Dec'19). However, prices of all other components have inched up with oil, spices, eggs and milk taking the lead. Pulses and cereal inflation also picked further to 16.7% and 5.3% in Jan'20 from 15.4% and 4.4% in Dec'19 respectively. The current trajectory of food inflation suggests decline in food inflation will be slower than earlier anticipated.

Core inflation sticky: Core inflation rose by more than 40bps to 4.2% in Jan'20 compared with 3.7% in Dec'19. The increase was broad-based with only housing inflation seeing a dip (4.2% in Jan'20 vs 4.3% in Dec'19). Transport and communication prices continued to accelerate at 6.1% in Jan'20 from 4.8% in Dec'19. Higher telecom tariffs weighed into the increase. In addition, average international oil prices were also higher by 5.7% in Jan'20 on YoY basis. Apart from this, personal care and effects (7.2% vs 6.3% in Dec'19), recreation and amusement (4.5% vs 4%) and health (4.2% vs 3.8%) inched up the most.

KEY HIGHLIGHTS

- CPI inflation in Jan'20 jumps to 68month high at 7.6% from 7.4% in Dec'19%.
- Core inflation rises to 4.2 % in Jan'20.
- IIP growth at (-) 0.3% in Dec'19 versus 1.8% in Nov'19.



REDUCE

TP: Rs 1,195 | ▼ 1%

ASTRAL POLY TECHNIK

Plastic Products

12 February 2020

Pipe segment continues to lead growth

Astral Poly Technik's (ASTRA) Q3FY20 consolidated revenue grew 5.4% YoY, aided by pipe segment volume growth of 15% (~6.5% ex-Rex). Pipe revenue grew 6.5% YoY whereas adhesive revenue was flat YoY. EBITDA margins expanded 290bps YoY to 17.8% led by the pipe business, resulting in EBITDA/PBT growth of 26%/30% YoY. We marginally raise FY20-FY22 earnings by 1-3% and roll to a Mar'21 TP of Rs 1,195 (from Rs 1,080). Maintain REDUCE as current valuations at 42.5x FY22E P/E offer limited upside.

Arun Baid

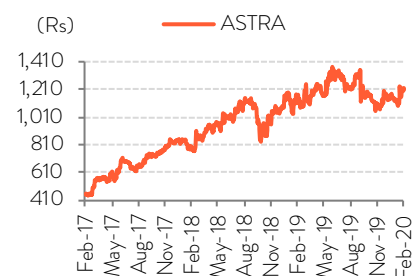
research@bobcaps.in

Decent volume growth: ASTRA's Q3 consolidated revenue grew 5.4% YoY to Rs 6.6bn, aided by growth in the pipe segment. PVC pipe standalone revenues increased 6.5% YoY, whereas the adhesives business was flat YoY due to a change in distribution model. Pipe volumes grew 15% YoY (~6.5% ex-Rex Poly). Management expects 10-15% volume growth in pipes and at least double-digit growth in adhesives in FY21.

Ticker/Price	ASTRA IN/Rs 1,211
Market cap	US\$ 2.6bn
Shares o/s	151mn
3M ADV	US\$ 1.9mn
52wk high/low	Rs 1,380/Rs 951
Promoter/FPI/DII	56%/18%/27%

Source: NSE

Pipe business bolsters margins: ASTRA's operating margins swelled 290bps YoY to 17.8% aided by a superior showing in the pipe segment, which fuelled EBITDA/PBT growth of 26%/30% YoY. Pipe margins expanded 315bps YoY (90bps QoQ) to 19.2% backed by a price hike taken in CPVC. Lower raw material cost aided a 120bps increase in adhesive margins to 12%. Management expects profit growth to remain higher than revenue growth in FY21 as well.

STOCK PERFORMANCE

Source: NSE

Valuations high; maintain REDUCE: ASTRA has a strong brand name, wide reach and robust pipe portfolio. But current valuations at 42.5x FY22E P/E offer little upside; we thus maintain REDUCE with a revised target price of Rs 1,195 set at 42x PER FY22E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	21,060	25,073	29,005	33,921	39,561
EBITDA (Rs mn)	3,168	3,853	4,919	5,816	6,828
Adj. net profit (Rs mn)	1,697	1,992	2,796	3,578	4,317
Adj. EPS (Rs)	11.3	13.2	18.6	23.7	28.7
Adj. EPS growth (%)	19.9	17.4	40.3	28.0	20.7
Adj. ROAE (%)	18.2	17.4	20.1	21.8	22.2
Adj. P/E (x)	107.5	91.5	65.2	51.0	42.3
EV/EBITDA (x)	58.1	47.8	37.4	31.5	26.6

Source: Company, BOBCAPS Research



BUY

TP: Rs 205 | ▲ 43%

GREENPLY INDUSTRIES

Construction Materials

12 February 2020

Gabon operations disappoint

Greenply Industries' (GIL) consolidated Q3FY20 revenue slipped 1% YoY, coming in below estimates. India operations grew 2.4% YoY (volumes up 5%), whereas Gabon subsidiary revenue fell 29% due to lower demand for face veneer in key markets such as India. Operating margins and EBITDA were flat YoY. Management has cut FY20 revenue growth guidance for India to ~4-4.5% from 8% and now expects Gabon revenues of ~Rs 1.5bn (from Rs 2bn). We lower FY20-FY22 PAT by 3-8% and roll to a Mar'21 TP of Rs 205 (vs. Rs 210).

Arun Baid

research@bobcaps.in

Revenues disappoint: GIL's consolidated revenue dipped 1% YoY to Rs 3.5bn. India plywood revenues grew just 2% YoY to Rs 3.2bn due to tough market conditions, whereas subsidiaries – primarily Gabon face veneer operations – posted a 29% YoY decline to Rs 265mn. Management has guided for improvement in Gabon operations due to better traction in new markets such as Southeast Asia and Europe. For India operations, GIL expects lower growth due to tough market conditions and tight working capital control. Management has guided for improvement in working capital cycle by 4-5 days in FY20.

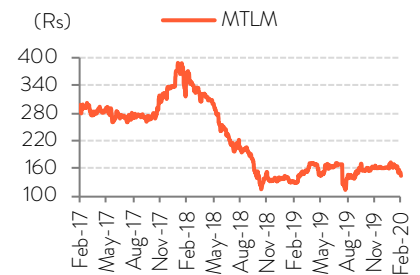
Margins and EBITDA flattish: GIL's consolidated operating margins expanded just 9bps YoY to 11.5%, resulting in flat EBITDA. Plywood margins rose 70bps YoY to 11% due to lower other expenses, whereas Gabon margins decreased by 400bps to 18.1% as lower sales resulted in negative operating leverage. Management has maintained FY20 EBITDA margin guidance for India (~11%) and Gabon (~17.5-18%) operations.

Maintain BUY: Q3 results have been lower than estimated, leading us to cut our earnings forecasts for FY20-FY22 by 3-8%. On rollover, we move to a Mar'21 TP of Rs 205 (earlier Rs 210), set at an unchanged 18x forward P/E.

Ticker/Price	MTLM IN/Rs 143
Market cap	US\$ 246.2mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 195/Rs 112
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	14,764	16,417	18,080
EBITDA (Rs mn)	715	1,507	1,747	1,987	2,208
Adj. net profit (Rs mn)	253	852	996	1,216	1,397
Adj. EPS (Rs)	2.1	6.9	8.1	9.9	11.4
Adj. EPS growth (%)	NA	236.1	16.9	22.2	14.8
Adj. ROAE (%)	3.1	14.0	26.7	26.6	25.1
Adj. P/E (x)	69.3	20.6	17.6	14.4	12.6
EV/EBITDA (x)	NA	NA	12.6	10.0	8.9

Source: Company, BOBCAPS Research



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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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