

FIRST LIGHT

RESEARCH

Top picks

- Large-cap ideas** – Eicher Motors replaced by **Tech Mahindra**
 (see [Deep Dive 2: Telecom tech spends resilient – upgrade TECHM, 18Jun20](#))

BOB Economics Research | Weekly Wrap

Equity markets and oil prices resist rising COVID cases

VRL Logistics | Target: Rs 205 | +33% | BUY

Inspid quarter

SUMMARY

India Economics: Weekly Wrap

Global short-end yields (apart from Germany) were lower as IMF cautioned of sharper downturn and COVID-19 cases increased. Fed officials too warned of risk to economic recovery. Equity markets however rose as US Fed initiated its corporate bond purchases. Fitch downgraded India's outlook from stable to negative and border dispute with China escalated. Despite a trade deficit of US\$ 3.2bn, INR fell. Equity markets remained buoyant as unlocking of the economy continued and 10Y yield rose marginally.

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

VRL Logistics

VRL Logistics' (VRL) Q4FY20 print was weak. Revenue/EBITDA (ex. Ind-AS 116) declined 3%/48% YoY, induced by the lockdown. PAT plummeted 85% YoY to Rs 31mn. Though a dismal quarter, some positives indicate steady recovery for VRL, viz. 50-60% truck utilisation in June, apparent market share gain visible from new client wins, and a comfortable liquidity position. We slash our FY21/FY22 EPS estimates by 79%/12% and lower our Mar'21 TP to Rs 205 (vs. Rs 230) set at an unchanged 20x FY22E EPS. Maintain BUY.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	140
Petronet LNG	Buy	330
Tech Mahindra	Buy	690

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 (%)	0.70	(1bps)	0bps	(137bps)
India 10Y yield (%)	6.00	2bps	(3bps)	(86bps)
USD/INR	76.19	(0.1)	(0.7)	(9.5)
Brent Crude (US\$/bbl)	25,871	(0.8)	6.9	(3.2)
Dow	2,968	1.0	2.4	(1.1)
Shanghai	34,732	1.5	15.0	(11.4)
Sensex	42.74	5.1	23.3	(34.4)
India FII (US\$ mn)	18 Jun	MTD	CYTD	FYTD
FII-D	(89.7)	(524.6)	(14,579.9)	(4,820.4)
FII-E	(41.9)	2,444.8	(2,469.7)	4,133.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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WEEKLY WRAP

22 June 2020

Equity markets and oil prices resist rising COVID cases

Global short-end yields (apart from Germany) were lower as IMF cautioned of sharper downturn and COVID-19 cases increased. Fed officials too warned of risk to economic recovery. Equity markets however rose as US Fed initiated its corporate bond purchases. Fitch downgraded India's outlook from stable to negative and border dispute with China escalated. Despite a trade deficit of US\$ 3.2bn, INR fell. Equity markets remained buoyant as unlocking of the economy continued and 10Y yield rose marginally.

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Markets

- Bonds:** Global 10Y yields closed mixed with rising cases in US, Latin America and China. US 10Y yield fell a tad by 1bps (0.7%) as Fed officials flagged concerns over economic recovery. China's 10Y yield rose the most by 11bps as Beijing put in restrictions amidst rising new cases of COVID-19. Oil prices rose by 10.4% (US\$ 43/bbl) with OPEC production cut. India's 10Y yield rose by 1bps (6%). System liquidity surplus was at Rs 3.3tn as on 19 Jun 2020 compared with Rs 4tn in the previous week.
- Currency:** Emergence of new COVID-19 cases in China and US states led to risk-off sentiment. As a result, JPY rose by 0.5%. DXY closed flat. GBP depreciated the most by 1.5% in the week. AUD fell by 0.5% as Australia's unemployment rate rose to a 19-year high in May'20. INR too closed lower by 0.5% amidst US-China trade dispute. FII outflows were US\$ 726mn in the week.
- Equity:** Global indices ended higher as investors continued to monitor spread of COVID-19 cases. Fed's announcement of corporate bond purchase and EU's € 750bn stimulus plan kept equity indices higher. Dax (3.2%) rose the most followed by FTSE (3.1%). Sensex (2.8%) too ended in green for the 3rd straight week supported by strong global cues and unlocking of domestic economy.
- Upcoming key events:** In current week, markets will track fresh COVID-19 cases (India and global), flash global manufacturing and services PMIs and central bank decisions in New Zealand, Thailand and Philippines. In addition, US new home sales, jobless claims and third estimate of Q1 GDP print will be released. India-China tensions will also have a bearing.



BUY

TP: Rs 205 | ▲ 33%

VRL LOGISTICS

| Logistics

| 22 June 2020

Inspid quarter

VRL Logistics' (VRL) Q4FY20 print was weak. Revenue/EBITDA (ex. Ind-AS 116) declined 3%/48% YoY, induced by the lockdown. PAT plummeted 85% YoY to Rs 31mn. Though a dismal quarter, some positives indicate steady recovery for VRL, viz. 50-60% truck utilisation in June, apparent market share gain visible from new client wins, and a comfortable liquidity position. We slash our FY21/FY22 EPS estimates by 79%/12% and lower our Mar'21 TP to Rs 205 (vs. Rs 230) set at an unchanged 20x FY22E EPS. Maintain BUY.

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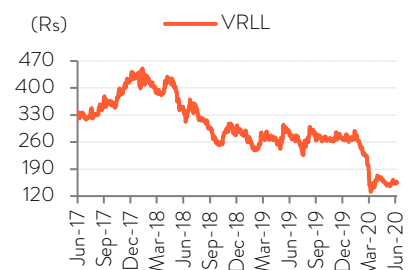
GT revenue flat, PT plunges: Goods transport (GT) revenue was flat YoY as 1% tonnage growth was offset by a slight drop in realisation. People transport (PT) revenue plunged 21% YoY despite a 5% increase in realisation, as passenger numbers declined 25% due to fewer buses in operation (337 vs. 381 in Q4FY19). Management estimates revenue/EBITDA loss of Rs 500mn/Rs 300mn in Q4.

Ticker/Price	VRL IN/Rs 155
Market cap	US\$ 183.9mn
Shares o/s	90mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 302/Rs 130
Promoter/FPI/DII	68%/5%/21%

Source: NSE

Sharp margin contraction: EBITDA margin (adj. for Ind-AS 116) contracted 540bps YoY to 6.3% as freight expenses/staff costs rose 380bps/155bps YoY. VRL did not generate any revenue during the last few days of Q4FY20, but incurred fixed expenses towards salaries, vehicle taxes, and compensation to drivers and labourers which contributed to margin contraction. Diesel procurement cost also increased slightly, exerting further pressure on margins.

STOCK PERFORMANCE



Source: NSE

Key positives: In this tumultuous period, we draw comfort from (1) the gradual pick-up in demand – utilisation at 50-60% of normal levels in June, (2) addition of new customers (6-8% increase) – indicative of market share gain, (3) easing operational hurdles – such as better driver and labour availability, and (4) comfortable liquidity – reflected in its decision to not opt for moratorium. VRL's balance sheet remains strong as well (net debt/EBITDA of 0.6x). We expect a weak FY21 marred by a dismal Q1, followed by strong recovery in FY22.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	19,223	21,095	21,185	19,190	22,158
EBITDA (Rs mn)	2,342	2,440	2,983	2,070	3,227
Adj. net profit (Rs mn)	926	919	901	127	919
Adj. EPS (Rs)	10.2	10.2	10.0	1.4	10.2
Adj. EPS growth (%)	32.7	(0.7)	(2.0)	(86.0)	626.1
Adj. ROAE (%)	16.3	14.8	14.3	2.0	14.3
Adj. P/E (x)	15.1	15.2	15.5	110.4	15.2
EV/EBITDA (x)	6.9	6.3	5.1	7.5	4.8

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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