

RESEARCH
Supreme Industries | Target: Rs 1,030 | +5% | ADD

Lockdown erodes volumes; cut to ADD on limited upside

BOB Economics Research | Monetary Policy Review

RBI cuts rates, extends measures to ease financial stress

UPL | Target: Rs 600 | +62% | BUY

Margin miss but resilient outlook in tough environment

IDFC First Bank | Target: Rs 20 | +6% | ADD

Retailisation trend continues

DCB Bank | Target: Rs 65 | +8% | ADD

Continued overhang on asset quality

Banking

Relief measures by RBI extended further

SUMMARY
Supreme Industries

Supreme Industries (SI) reported below-estimated Q4FY20 revenues (-7% YoY) due to a 9% lockdown-led volume decline. EBITDA margins beat estimates, rising 590bps YoY to 19.1% on the back of lower RM cost (-10ppt), aiding EBITDA/PBT growth of 35%/44% YoY. Management refrained from giving FY21 guidance but expects business normalcy by September and growth from November. We broadly maintain estimates and keep our Mar'21 TP at Rs 1,030, but cut the stock from BUY to ADD due to limited upside.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.68	0bps	4bps	(170bps)
India 10Y yield (%)	6.03	(1bps)	(31bps)	(122bps)
USD/INR	75.62	0.2	0.8	(8.8)
Brent Crude (US\$/bbl)	36.22	1.3	27.3	(49.6)
Dow	24,474	(0.4)	1.4	(4.7)
Shanghai	2,868	(0.6)	1.6	(0.3)
Sensex	30,933	0.4	(2.4)	(21.2)
India FII (US\$ mn)	20 May	MTD	CYTD	FYTD
FII-D	31.1	(2,350.1)	(13,693.9)	(3,934.4)
FII-E	(224.9)	862.4	(5,771.1)	831.9

Source: Bank of Baroda Economics Research

BOBCAPS Research

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India Economics: Monetary Policy Review

MPC announced another 40bps reduction in policy rate to 4%. Since the pandemic, RBI has reduced policy rate by 115bps. In addition, RBI has extended moratorium and guidelines on asset classification by another 3 months. Exporters too will get additional benefits. Recent trade and electricity data suggests large contraction due to lockdown and social distancing measures. We expect GDP to contract by 4.7% in FY21 and CPI inflation at 3.5% which makes us believe that RBI has room for another 25bps reduction in policy rate.

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

UPL

UPL's Q4 EBITDA was below our estimate at Rs 19bn as stronger revenue growth was offset by gross margin pressure and higher forex loss. Adj. EBITDA was still a 13% miss. Despite Covid-19 and currency headwinds, UPL expects growth and margin expansion in FY21 though specific guidance will be shared only in Q1. We continue to expect UPL to gain market leadership backed by an integrated model and transform into a significantly underlevered company by FY23/FY24. We cut FY21/FY22 EPS 12-15% on a weak Q4 and lower our TP to Rs 600 (vs. Rs 710).

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

IDFC First Bank

IDFC First Bank's (IDFCFB) Q4FY20 PAT at Rs 715mn was driven by 40% YoY growth in NII. The bank has 35% of its loans under moratorium (beneficial impact of 28bps/45bps on headline/retail GNPA ratio) and made Covid-related provisions worth Rs 2.3bn. The legacy stress book dipped to 3.3% of loans. CASA ratio improved to 31.9% (24.1% in Q3) while the share of retail loans improved to 54%. We retain ADD but lower our Mar'21 TP to Rs 20 (vs. Rs 23) as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is book value dilutive.

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

DCB Bank

DCB Bank's (DCBB) Q4FY20 PAT at Rs 0.7bn declined 29% YoY on slower NII growth (8%) and a spike in provisions. The bank has 60% of its portfolio under moratorium and made Rs 0.6bn of Covid-related provisions. GNPA ratio increased 30bps QoQ to 2.5% as slippages remained high at Rs 1.5bn. Barring gold loans and pickup in select corporate loans, overall growth has been muted during the lockdown. We scale back FY21-FY22 EPS by 31-35% on higher credit costs and lower loan growth. Maintain ADD with a revised Mar'21 TP of Rs 65 (vs. Rs 105).

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

Banking

RBI today announced further measures aimed at easing financial stress: (1) loan moratorium and asset impairment relief extended by another three months, (2) group exposure limit raised to 30%, (3) resolution timeline changed to exclude moratorium period, (4) deferred interest on working capital facilities to be converted into funded loan, and (5) policy rates reduced by 40bps.

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

ADD

TP: Rs 1,030 | ▲ 5%

SUPREME INDUSTRIES

Plastic Products

22 May 2020

Lockdown erodes volumes; cut to ADD on limited upside

Supreme Industries (SI) reported below-estimated Q4FY20 revenues (-7% YoY) due to a 9% lockdown-led volume decline. EBITDA margins beat estimates, rising 590bps YoY to 19.1% on the back of lower RM cost (-10ppt), aiding EBITDA/PBT growth of 35%/44% YoY. Management refrained from giving FY21 guidance but expects business normalcy by September and growth from November. We broadly maintain estimates and keep our Mar'21 TP at Rs 1,030, but cut the stock from BUY to ADD due to limited upside.

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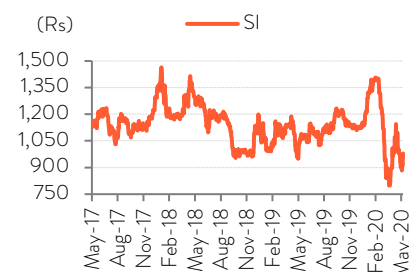
Volumes decline: SI's Q4 blended volume growth dipped 9.4% YoY, inducing a 6.6% YoY decline in revenue to Rs 14.3bn. Per management, the national lockdown had a significant impact on growth in the second half of March, which weighed on the Q4 topline. The company has not put out guidance for FY21 due to the unpredictable environment but is hopeful of business normalcy by Sep'20 and growth from Nov'20. SI has seen brisk demand from agriculture pipes in the current quarter (Q1FY21), though the housing segment remains lacklustre as most dealers are yet to open up outlets.

Ticker/Price	SI IN/Rs 978
Market cap	US\$ 1.6bn
Shares o/s	127mn
3M ADV	US\$ 1.3mn
52wk high/low	Rs 1,413/Rs 773
Promoter/FPI/DII	50%/8%/42%

Source: NSE

Lower RM cost aids margins: SI's operating margins expanded 590bps YoY to 19.1% due to lower raw material cost (-10ppt), which comfortably offset higher employee expenses (+48bps) and other expenses (+332bps), resulting in EBITDA/PBT growth of 35%/44% YoY. RM cost was lower as full-year supplier discounts were accounted for in Q4. Inventory gains from rising PVC prices (till the lockdown began) and increased sales of value-added products also aided margins. Management indicated that Q4 margins were not sustainable.

STOCK PERFORMANCE



Source: NSE

Downgrade to ADD: At current valuations of 25.7x FY22E EPS, stock upsidelook limited – we downgrade our rating from BUY to ADD with an unchanged Mar'21 TP of Rs 1,030 set at 27x FY22E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	49,633	56,086	55,115	44,324	58,403
EBITDA (Rs mn)	7,841	7,812	8,346	6,066	8,633
Adj. net profit (Rs mn)	4,242	3,683	4,674	2,897	4,834
Adj. EPS (Rs)	33.4	29.0	36.8	22.8	38.1
Adj. EPS growth (%)	0.1	(13.2)	26.9	(38.0)	66.9
Adj. ROAE (%)	23.6	18.2	21.2	12.4	19.1
Adj. P/E (x)	29.3	33.7	26.6	42.9	25.7
EV/EBITDA (x)	15.5	15.6	14.7	20.2	14.2

Source: Company, BOBCAPS Research



MONETARY POLICY REVIEW

22 May 2020

RBI cuts rates, extends measures to ease financial stress

MPC announced another 40bps reduction in policy rate to 4%. Since the pandemic, RBI has reduced policy rate by 115bps. In addition, RBI has extended moratorium and guidelines on asset classification by another 3 months.

Exporters too will get additional benefits. Recent trade and electricity data suggests large contraction due to lockdown and social distancing measures. We expect GDP to contract by 4.7% in FY21 and CPI inflation at 3.5% which makes us believe that RBI has room for another 25bps reduction in policy rate.

Sameer Narang

Jahnvi | Aditi Gupta

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MPC reduces rates: As was the case in Mar'20, RBI called for an out-of policy MPC meeting and reduced repo rate by 40bps to 4% with 5:1 majority in favour. One member pitched in for 25bps. In CYTD20 RBI has reduced policy rates by 115bps. Since last year, rates have been reduced by 250bps.

Easing financial stress: RBI extended the moratorium on term and working capital loans by another 3 months to Aug'20. Interest payment on working capital loans can be converted into funded term loan, to be repaid by Mar'21. Bank exposure to corporates under large exposure framework increased to 30% which will allow banks to lend to corporates. The earlier guidelines on asset classification and higher working capital provision also extended.

GDP to contract in FY21: MPC noted that impact of pandemic is more severe than anticipated because of which GDP growth in FY21 is likely to be negative. However, agriculture sector has shown resilience and remains a bright spot with a spurt in kharif sowing. Our forecast also shows a sharp contraction in GDP growth in FY21 at 4.7% (previous forecast of 0.5%), with a recovery in FY22 to 7.2%. Our downward revision is based on the fact that discretionary demand will be impacted severely because of social distancing norms and dip in consumer confidence. Hence, this round of reduction is largely on the back of contraction in services sector to 5.2%.

CPI to remain below 4% target: Food inflation did increase in Apr'20 to 10.5% from 8.8% due to supply side restriction because of lockdown. However, both food and core inflation is likely to see a sharp dip due to higher supply and lower demand in the coming months. We expect CPI inflation to average at 3.5% in FY21 which will give RBI headroom for another 25bps reduction in policy rate.

KEY HIGHLIGHTS

- Policy rate reduced by 40bps to 4.0%.
Reverse repo rate at 3.35%.
- Moratorium extended and measures to ease stress on exports and imports also announced.
- GDP growth expected to contract in FY21.
Inflation expected to remain below 4%.



BUY

TP: Rs 600 | ▲ 62%

UPL

| Agrochemicals

| 23 May 2020

Margin miss but resilient outlook in tough environment

UPL's Q4 EBITDA was below our estimate at Rs 19bn as stronger revenue growth was offset by gross margin pressure and higher forex loss. Adj. EBITDA was still a 13% miss. Despite Covid-19 and currency headwinds, UPL expects growth and margin expansion in FY21 though specific guidance will be shared only in Q1. We continue to expect UPL to gain market leadership backed by an integrated model and transform into a significantly underlevered company by FY23/FY24. We cut FY21/FY22 EPS 12-15% on a weak Q4 and lower our TP to Rs 600 (vs. Rs 710).

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Good revenue growth but margin miss; long-term sales growth guidance of 7-10%:

Strong 31% YoY revenue growth in Q4 was mainly driven by volumes (+29% YoY) while realisations/currency had a negative impact of 2%/2%. Sales across N. America/India/ROW were robust at 62%/39%/39% YoY, indicating continued market share gains. Brazil was lower than expected at 33% YoY due to stiff currency headwinds (INR/BRL down 20% YoY on average). EBITDA margin slipped 650bps QoQ to 17.1% due to an adverse regional mix (2ppt impact on gross margin) and forex loss (2ppt impact). Over 3-8 years, UPL expects 7-10% sales growth and monetisation of the higher margin Rs 200bn R&D pipeline.

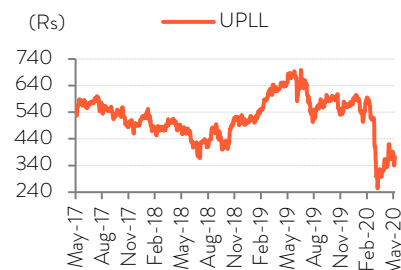
Gradual progress toward balance sheet comfort: Net working capital has reduced to 80 days (from 119 in FY19) and management expects more improvement in coming years. UPL does not expect to make any debt repayment in the next 15 months but retains its commitment of achieving ~2x net debt/EBITDA by FY21 (from 2.7x in FY20). In the current climate, we think this goal can get deferred to FY22.

Earnings call takeaways: (1) Draft notification to ban 27 formulations to have limited impact. (2) UPL could gain on its RM platform as MNCs exit China. (3) Price hike to set-off BRL devaluation impact in Q1. (4) FY21 capex at US\$ 270mn.

Ticker/Price	UPLL IN/Rs 371
Market cap	US\$ 3.7bn
Shares o/s	765mn
3M ADV	US\$ 30.7mn
52wk high/low	Rs 709/Rs 240
Promoter/FPI/DII	28%/44%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	357,560	381,968	421,409	459,804
EBITDA (Rs mn)	38,110	66,910	75,912	89,197	101,318
Adj. net profit (Rs mn)	18,140	23,782	26,082	33,809	41,750
Adj. EPS (Rs)	23.7	31.1	34.1	44.2	54.6
Adj. EPS growth (%)	0.6	31.1	9.7	29.6	23.5
Adj. ROAE (%)	13.5	13.1	13.4	15.8	17.4
Adj. P/E (x)	15.7	11.9	10.9	8.4	6.8
EV/EBITDA (x)	8.4	6.5	6.9	5.7	4.9

Source: Company, BOBCAPS Research



ADD

TP: Rs 20 | ▲ 6%

IDFC FIRST BANK

Banking

23 May 2020

Retailisation trend continues

IDFC First Bank's (IDFCFB) Q4FY20 PAT at Rs 715mn was driven by 40% YoY growth in NII. The bank has 35% of its loans under moratorium (beneficial impact of 28bps/45bps on headline/retail GNPA ratio) and made Covid-related provisions worth Rs 2.3bn. The legacy stress book dipped to 3.3% of loans. CASA ratio improved to 31.9% (24.1% in Q3) while the share of retail loans improved to 54%. We retain ADD but lower our Mar'21 TP to Rs 20 (vs. Rs 23) as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is book value dilutive.

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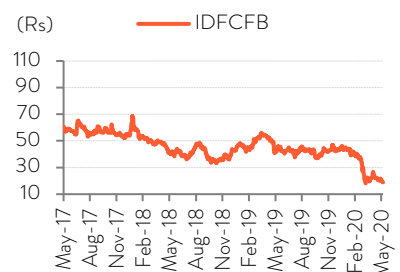
35% of portfolio under moratorium: IDFCFB has 35% of its outstanding book under moratorium, but has offered 100% moratorium to select segments such as rural financing. GNPA's declined by 23bps QoQ to 2.6% but would have been higher by 5bps if we exclude the moratorium impact. Retail GNPA's saw 45bps of moratorium benefit to stand at ~1.8% (vs. ~2.3% in Q3). The bank made Covid-19-related provisions worth Rs 2.3bn, including Rs 2bn towards standard but overdue loans. Its legacy stress book inched down to Rs 32bn (3.3% of loans) and provisioning on the same remains at 49%.

Ticker/Price	IDFCFB IN/Rs 19
Market cap	US\$ 1.2bn
Shares o/s	4,789mn
3M ADV	US\$ 10.3mn
52wk high/low	Rs 39/Rs 18
Promoter/FPI/DII	40%/15%/45%

Source: NSE

Retail trend in assets and liabilities continues: The share of retail deposits swelled further to 52% (vs. 43% in Q3) fuelled by strong growth in CASA deposits coupled with a reduction in CDs. The funded book was stable at Rs 1.1tn while the share of retail funded loans increased to 54% (49% in Q3) spurred by strong growth across subsegments. Moreover, the share of wholesale loans declined to 37% owing to a 24%/30% reduction in corporate/infrastructure loans.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: In our view, current valuations at 0.6x FY22E P/BV reflect concerns over the protracted improvement in profitability. We lower our Mar'21 TP to Rs 20 (from Rs 23) as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is BV-dilutive.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,981	31,991	56,353	65,042	78,982
NII growth (%)	NA	77.9	76.2	15.4	21.4
Adj. net profit (Rs mn)	8,593	(19,442)	(28,642)	(880)	7,112
EPS (Rs)	5.0	(4.8)	(6.0)	(0.2)	1.3
P/E (x)	3.7	(4.0)	(3.2)	(112.3)	15.0
P/BV (x)	0.4	0.5	0.6	0.6	0.6
ROA (%)	1.4	(1.3)	(1.8)	(0.1)	0.4
ROE (%)	11.3	(11.6)	(17.2)	(0.5)	4.1

Source: Company, BOBCAPS Research



ADD

TP: Rs 65 | ▲ 8%

DCB BANK

| Banking

| 23 May 2020

Continued overhang on asset quality

DCB Bank's (DCBB) Q4FY20 PAT at Rs 0.7bn declined 29% YoY on slower NII growth (8%) and a spike in provisions. The bank has 60% of its portfolio under moratorium and made Rs 0.6bn of Covid-related provisions. GNPA ratio increased 30bps QoQ to 2.5% as slippages remained high at Rs 1.5bn. Barring gold loans and pickup in select corporate loans, overall growth has been muted during the lockdown. We scale back FY21-FY22 EPS by 31-35% on higher credit costs and lower loan growth. Maintain ADD with a revised Mar'21 TP of Rs 65 (vs. Rs 105).

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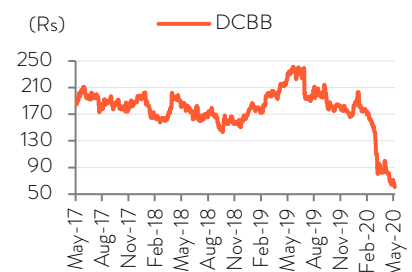
60% of portfolio under moratorium: Barring NBFCs, corporates and large-ticket customers, DCBB has offered an 'opt-out' moratorium option to all retail customers. The bank has 60% of its overall portfolio, 52% of home loans, 56% of business loans (LAP), and 60% of the SME portfolio under moratorium. The share is higher for small-ticket and CV loans. DCBB made Rs 630mn of Covid-19-related provisions, including Rs 90mn (entire 10% of provisioning mandated by RBI) towards accounts worth ~Rs 0.9bn that have availed of moratorium and asset classification standstill benefits.

Ticker/Price	DCBB IN/Rs 60
Market cap	US\$ 246.8mn
Shares o/s	310mn
3M ADV	US\$ 1.9mn
52wk high/low	Rs 245/Rs 60
Promoter/FPI/DII	15%/25%/61%

Source: NSE

Asset quality deteriorates further: GNPA ratio rose to 2.5% (2.2% in Q3) as slippages remained elevated at ~Rs 1.5bn and recoveries/upgrades were lower at Rs 0.7bn (Rs 1.7bn in Q3). The bank conservatively classified accounts worth Rs 427mn as NPA in Mar'20 and avoided claiming forbearance benefits on these accounts, which belonged to the mortgage (Rs 261mn), CV (Rs 65mn), SME (Rs 40mn) and corporate (Rs 34mn) segments. Outstanding floating provisions totalled ~Rs 1bn (0.4% of loans).

STOCK PERFORMANCE



Source: NSE

Maintain ADD: We scale back our FY21-FY22 earnings estimates by 31-35% to reflect slower growth and higher credit costs. Maintain ADD with a reduced Mar'21 TP of Rs 65 set at 0.6x FY22E P/BV.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	9,954	11,493	12,649	12,594	13,658
NII growth (%)	24.9	15.5	10.1	(0.4)	8.4
Adj. net profit (Rs mn)	2,453	3,254	3,379	2,235	2,893
EPS (Rs)	8.2	10.5	10.9	7.2	9.3
P/E (x)	7.3	5.8	5.6	8.4	6.5
P/BV (x)	0.7	0.7	0.6	0.6	0.5
ROA (%)	0.9	1.0	0.9	0.6	0.7
ROE (%)	9.8	11.0	10.3	6.3	7.6

Source: Company, BOBCAPS Research



 **BANKING**

22 May 2020

Relief measures by RBI extended further

Loan moratorium extended by another three months: RBI has permitted lending institutions to continue offering moratorium on term loan instalments for another three months till 31 Aug 2020. Currently, the loan portfolio under moratorium for banks under our coverage varies between 25% and 40% – with the share being higher for retail loans (especially micro credit, agri loans, CV loans and unsecured retail credit), given that most banks offered the relief measure by default and customers had to opt out. With this extension, we expect a further rise in borrowers (corporate/SME/retail) availing moratorium.

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Asset impairment relief also extended: RBI has permitted the asset classification standstill benefit for standard accounts to continue till 31 Aug 2020, including for those which are overdue but yet to be classified as NPA. We believe banks will continue to build higher provisions (above those mandated by the regulator) to strengthen their balance sheets.

Group exposure limit raised to 30%: In order to facilitate the flow of resources to corporates and enable them to raise more funds from banks, RBI has raised the group exposure limit of banks from 25% of their net worth to 30% till 30 Jun 2020. In our view, public sector banks are more likely to make use of this relaxation as risk aversion or cherry picking of loans by private banks will continue.

Resolution timeline to exclude moratorium period: At present, banks are required to hold an additional 20% provision in case of large accounts under default if a resolution plan is not implemented within 210 days. The central bank has allowed banks to exclude the 6-month moratorium period from calculation of the 30-day review period or 180-day resolution period, thereby deferring the 20% provision requirement by a period of 180 days.

Deferred interest on working capital to be converted into funded loan: The regulator had earlier stated that the interest accumulated on working capital facilities during the moratorium had to be repaid in one installment. However, to ease the cash flow burden, especially of MSMEs and small corporates, the accumulated interest (up to 31 Aug 2020) can now be converted into a funded interest term loan and be repaid in FY21.

Policy rates reduced by 40bps: Providing comfort via interest rate measures, the central bank has reduced the policy repo/reverse repo rates by 40bps each to 4%/3.35%.



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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