FIRST LIGHT

27 January 2020

RESEARCH

BOB Economics Research | FY21 Budget Preview

Investment revival a priority

ICICI Bank | Target: Rs 625 | +17% | BUY

Core profitability remains strong

Supreme Industries | Target: Rs 1,385 | +5% | ADD

Margins surprise positively, volumes disappoint

SUMMARY

India Economics: FY21 Budget Preview

We believe reviving growth and investments will take centre stage in FY21 Budget. The government has been undertaking structural reforms to encourage investments. While government and foreign investments have increased, private sector NPA cycle has been holding back private investments. We believe private sector investments can be started with asset monetisation program which will give room to government to spend on infra assets and restrict fiscal deficit to 3.6% and 3.3% of GDP in FY20 and FY21.

Click here for the full report.

ICICI Bank

ICICI Bank's (ICICIBC) Q3FY20 PAT at Rs 41bn was driven by 24% YoY growth in NII and lower provisions. Slippages increased to Rs 44bn due to two corporate accounts, while the retail business saw higher slippages from the Kisan credit card and CV portfolios. However, GNPA ratio declined to 6% given recoveries from Essar Steel resolution. The bank's BB-&-below pool increased to Rs 174bn (2.7% of loans) led by downgrades in the telecom sector. We broadly maintain estimates and roll over to a revised Mar'21 TP of Rs 625 (vs. Rs 525).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,390

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.73	(4bps)	(20bps)	(98bps)
India 10Y yield (%)	6.60	(4bps)	3bps	(71bps)
USD/INR	71.27	(0.1)	(0.1)	(0.3)
Brent Crude (US$/bbl)	62.04	(1.9)	(6.6)	1.6
Dow	29,160	(0.1)	2.1	18.8
Shanghai	2,977	(2.8)	0.5	14.8
Sensex	41,386	0.7	(0.6)	14.3
India FII (US$ mn)	**22 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	130.2	(1,591.4)	(1,591.4)	1,352.7
FII-E	4.0	1,940.4	1,940.4	9,329.6

Source: Bank of Baroda Economics Research

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Supreme Industries

Supreme Industries (SI) reported below-estimated Q3FY20 revenue (–2.6% YoY) owing to flat volumes. EBITDA margins beat estimates, expanding 360bps YoY to 16.1% YoY on the back of lower RM cost (–430bps) – this aided healthy EBITDA/PBT growth of 26%/24% YoY. Management has maintained guidance of 10-12% volume growth in FY20 but increased operating margin guidance from 13-14% to 14-14.5%. We raise FY20-FY22 earnings estimates by 2-4% and roll to a Mar'21 TP of Rs 1,385 (earlier Rs 1,235).

Click here for the full report.

FY21 BUDGET PREVIEW

24 January 2020

Investment revival a priority

We believe reviving growth and investments will take centre stage in FY21 Budget. The government has been undertaking structural reforms to encourage investments. While government and foreign investments have increased, private sector NPA cycle has been holding back private investments. We believe private sector investments can be started with asset monetisation program which will give room to government to spend on infra assets and restrict fiscal deficit to 3.6% and 3.3% of GDP in FY20 and FY21.

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FY20 fiscal deficit at 3.6%: Given the backdrop of a slowing economy and muted revenue growth along with reduction in corporate tax rate to boost investments, the Centre is expected to report fiscal deficit of 3.6% (BE: 3.3%). Out of the 0.3% expansion, 10bps is owing to lower nominal GDP growth. The remaining is on account of lower revenue collections. We believe this slippage can be managed by increase in inflows from short-term borrowing and National Small Savings Fund (NSSF).

Investment revival a priority: Investment demand is estimated to have increased at 1% in FY20 (10% in FY19). Even consumption has slowed down to 5.8% in FY20 (8.1% in FY19). Thus reviving investment takes a priority. The government has taken a number of steps to improve India's Ease of Doing Business rankings. Corporate tax rate is now globally competitive. The government has also laid out an infra pipeline which aims to double investments in the next five years. The resources to fund infra investments can come from asset monetisation. It will also boost private sector capex and credit off-take to takeover these assets. Real estate sector can be given a boost through tax incentive to buy a house.

FY21 fiscal deficit at 3.3% of GDP: We expect direct and indirect tax revenues to increase by 10.1% and 7% in FY21 respectively. Non-tax revenues should increase on account of AGR and 5G auction receipts from telecom sector. On the expenditure front, capital spending is likely to increase by 8.5%. Focus will be on roads and railways. EBR spending will also accelerate in-line with infra pipeline. On the revenue expenditure front, PM-KISAN will see higher allocation. This translates to fiscal deficit of Rs 7.4tn or 3.3% of GDP in FY21, implying gross and net borrowing of Rs 8.2tn (Rs 7.1tn in FY20) and Rs 5.1tn (Rs 4.7tn in FY20) respectively.

KEY HIGHLIGHTS

- Agriculture, infrastructure and asset monetisation to be key focus areas of FY21 Budget
- Fiscal deficit for FY20/FY21 estimated at 3.6%/3.3% of GDP
- Gross/net borrowings in FY21 estimated at Rs 8.2tn/Rs 5.1tn

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BUY
TP: Rs 625 | ⮝ 17%

ICICI BANK | Banking | 25 January 2020

Core profitability remains strong

ICICI Bank's (ICICIBC) Q3FY20 PAT at Rs 41bn was driven by 24% YoY growth in NII and lower provisions. Slippages increased to Rs 44bn due to two corporate accounts, while the retail business saw higher slippages from the Kisan credit card and CV portfolios. However, GNPA ratio declined to 6% given recoveries from Essar Steel resolution. The bank's BB-&-below pool increased to Rs 174bn (2.7% of loans) led by downgrades in the telecom sector. We broadly maintain estimates and roll over to a revised Mar'21 TP of Rs 625 (vs. Rs 525).

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Recoveries aid lower GNPA: Slippages increased to Rs 44bn in Q3 (vs. Rs 25bn in Q2) as two corporate accounts – one broking sector (100% provided) and one industrials – slipped into NPA. Retail slippages were higher due to the Kisan credit card (KCC) and CV portfolios. However, the bank's GNPA ratio declined 40bps QoQ to 6% on recoveries from Essar Steel.

The BB-&-below rated pool increased to Rs 174bn (2.7% of loans) vs. Rs 161bn (2.6%) in Q2, given downgrades worth Rs 27bn across sectors (largely telecom). Asset quality divergence from RBI's audit for FY19 was below threshold levels. Barring the KCC and CV segments, risks in most retail segments including unsecured personal loans and credit cards are within acceptable limits for the bank.

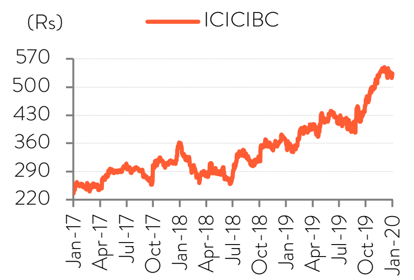
Loan growth stable; NIMs increase: Loan growth at ~13% YoY was largely aided by 19% growth in retail while the SME book (~3% of loans) grew 34%. The bank's overseas portfolio declined 16% YoY and now forms ~9% of loans. NIM increased to 3.77% (3.64% in Q2) and included a 10bps (6bps in Q2) impact from interest reversals.

Maintain BUY: We believe ICICIBC is well placed to play the turning asset quality cycle. Maintain BUY with a revised TP of Rs 625 on rollover.

Ticker/Price	ICICIBC IN/Rs 534
Market cap	US$ 48.3bn
Shares o/s	6,453mn
3M ADV	US$ 166.0mn
52wk high/low	Rs 552/Rs 336
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	230,258	270,148	325,724	379,336	449,521
NII growth (%)	5.9	17.3	20.6	16.5	18.5
Adj. net profit (Rs mn)	67,774	33,633	119,137	204,931	255,922
EPS (Rs)	11.1	5.2	18.5	31.8	39.7
P/E (x)	48.3	102.2	28.9	16.8	13.4
P/BV (x)	3.3	3.2	3.0	2.6	2.3
ROA (%)	0.8	0.4	1.2	1.7	1.9
ROE (%)	6.6	3.2	10.7	16.8	18.3

Source: Company, BOBCAPS Research

ADD
TP: Rs 1,385 | ⮝ 5%

SUPREME INDUSTRIES | Plastic Products | 24 January 2020

Margins surprise positively, volumes disappoint

Supreme Industries (SI) reported below-estimated Q3FY20 revenue (–2.6% YoY) owing to flat volumes. EBITDA margins beat estimates, expanding 360bps YoY to 16.1% YoY on the back of lower RM cost (–430bps) – this aided healthy EBITDA/PBT growth of 26%/24% YoY. Management has maintained guidance of 10-12% volume growth in FY20 but increased operating margin guidance from 13-14% to 14-14.5%. We raise FY20-FY22 earnings estimates by 2-4% and roll to a Mar'21 TP of Rs 1,385 (earlier Rs 1,235).

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Volumes flat: SI's Q3 revenues dipped 2.6% YoY to Rs 13.7bn with blended volume growth of 0.4%. Value growth was lower than volume growth due to a decline in raw material prices, resulting in lower realisations. During the quarter, plastic piping volumes were flat YoY while packaging and consumer products increased 4.7% and 6.6% respectively; industrial products declined 11%. As per management, demand was slow in the first half of Q3 due to the festival period and extended rains, but revived in the second half. Volume growth guidance has been maintained at 10-12% for FY20 (up ~8.5% YoY in 9MFY20).

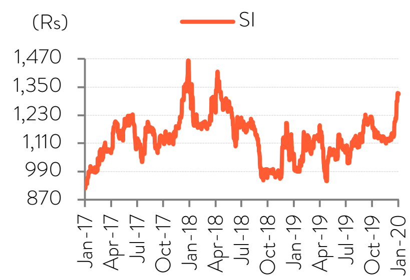
Lower RM cost aids margins: SI's operating margins expanded 360bps YoY to 16.1% due to lower raw material cost (+427bps) and higher value-added product sales (41.5% revenue share vs. 37.7% YoY), which comfortably offset higher employee expenses (+53bps). EBITDA/PBT grew 26%/24% YoY. Management has increased FY20 margin guidance to 14-14.5% (vs. 13-14%).

Maintain ADD: We raise FY20-FY22 earnings estimates by 2-4% to build in the Q3 beat and move to a revised Mar'21 TP of Rs 1,385 (earlier Rs 1,235). Maintain ADD as we continue to like SI for its strong brand, comprehensive portfolio and sound balance sheet.

Ticker/Price	SI IN/Rs 1,321
Market cap	US$ 2.4bn
Shares o/s	127mn
3M ADV	US$ 0.8mn
52wk high/low	Rs 1,350/Rs 946
Promoter/FPI/DII	50%/8%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	49,633	56,086	58,192	65,583	74,071
EBITDA (Rs mn)	7,841	7,812	8,129	9,365	10,662
Adj. net profit (Rs mn)	4,242	3,683	4,731	5,574	6,473
Adj. EPS (Rs)	33.4	29.0	37.2	43.9	51.0
Adj. EPS growth (%)	0.1	(13.2)	28.5	17.8	16.1
Adj. ROAE (%)	23.6	18.2	20.8	21.9	22.7
Adj. P/E (x)	39.6	45.6	35.5	30.1	25.9
EV/EBITDA (x)	21.0	21.2	20.4	17.8	15.7

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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