FIRST LIGHT

29 June 2020

RESEARCH

BOB Economics Research | Interest Rate Outlook
RBI and Banks to finance fiscal deficit

Container Corp of India | Target: Rs 415 | –4% | REDUCE
Decent quarter but headwinds ahead – downgrade to REDUCE

Ashok Leyland | Target: Rs 38 | –28% | SELL
Weak macros, rich valuations – downgrade to SELL

Kajaria Ceramics | Target: Rs 425 | +6% | ADD
Lockdown hits hard – downgrade to ADD

Somany Ceramics | Target: Rs 140 | +11% | ADD
Disappointing performance – downgrade to ADD

V-Mart Retail | Target: Rs 1,560 | –9% | REDUCE
Management meet takeaways – lower footfalls, higher purchases

SUMMARY

India Economics: Interest Rate Outlook

Indian yields have fallen in-line with global yields even as general government issuances are estimated to increase to ~9.5% of GDP. This has been possible as RBI and SCBs will emerge as large buyers of government securities in FY21 at 23% and 32% of net issuances (9% and 42% in FY20). Hence, 10Y yield is likely to remain in 5.5-6% range in FY21. Other factors supporting 10Y yield are expected decline in food inflation, rate cuts and excess liquidity by RBI, current account surplus and low global yields.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
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 (%)	0.69	1bps	3bps	(133bps)
India 10Y yield (%)	6.00	(4bps)	25bps	(90bps)
USD/INR	75.67	0.1	0	(9.6)
Brent Crude (US$/bbl)	41.05	1.8	15.5	(38.3)
Dow	25,746	1.2	3.0	(2.9)
Shanghai	2,980	0.3	5.7	(0.6)
Sensex	34,842	(0.1)	13.8	(12.0)
India FII (US$ mn)	**24 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	14.8	(363.3)	(14,418.6)	(4,659.1)
FII-E	144.0	2,939.8	(1,974.7)	4,628.2

Source: Bank of Baroda Economics Research

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Container Corp of India

Container Corp's (CCRI) Q4 topline plunged 10% YoY as volumes/realisation fell 4%/7%. But stringent cost control scripted an impressive 24% YoY rise in EBITDA. Absence of SEIS income dragged adj. PAT down 11% YoY. A subdued demand outlook – 20% volume drop guided for FY21 – and rise in land licensing fee are near-term headwinds. We cut FY21/FY22 earnings 18%/2% and pare our Mar'21 TP to Rs 415 (vs. Rs 420). After a 20%+ rally in the past month, CCRI is trading at 20x FY22E EPS. Cut from ADD to REDUCE on limited valuation comfort.

Click here for the full report.

Ashok Leyland

AL's Q4FY20 performance was lacklustre despite the boost to blended average realisations from BS-VI price upgrades. Demand remains tepid as operator utilisation continues to languish below 50%. While we assume a 5% GDP revival in FY22, we believe most optimism is in the price. Inter-corporate deposits in group companies are a cause for concern amidst ballooning gross debt over the last three months. We downgrade the stock from REDUCE to SELL with a revised Mar'21 TP of Rs 38 (from Rs 43).

Click here for the full report.

Kajaria Ceramics

Kajaria Ceramics (KJC) posted a below-expected Q4FY20 with revenue down 20% YoY as tile volumes fell 19%. Operating margins contracted 75bps YoY to 14.3% due to negative operating leverage, causing EBITDA/PBT to decline 24%/36%. Management has not given FY21 guidance due to Covid-19 vagaries but expects cost rationalisation to cushion the margin impact. We cut FY21/FY22 earnings by 9%/1% and keep our Mar'21 TP unchanged at Rs 425. At current valuations of 24.9x FY22E EPS, we see limited upside. Cut from BUY to ADD.

Click here for the full report.

Somany Ceramics

Somany Ceramics (SOMC) reported a dull Q4FY20 as consolidated revenue contracted 31% YoY to Rs 3.6bn, with tile volumes down 28% YoY. Consolidated operating margins shrank 970bps YoY to 3.9%, lower than estimates, and EBITDA slumped 80% YoY. Management did not provide any guidance for FY21 due to Covid-19 but indicated a possible 20-25% topline decline, despite which it expects to be profitable. We cut FY21-FY22 PAT estimates by 96%/18% and revise our Mar'21 TP to Rs 140 (vs. Rs 165). Downgrade from BUY to ADD.

Click here for the full report.

V-Mart Retail

We discussed consumptions trends in the wake of Covid-19 with the management of V-Mart Retail (VMART). Key takeaways are: VMART has opened 80-90% of its stores post lockdown. These are operational for an average of 8-9 hours daily vs. 10-12 hours earlier. Footfalls are at ~30% of normal levels but conversion to buying customers is high as only those with immediate needs are stepping into stores. The number of items purchased by customers has risen ~40% on average. While ASPs are down ~25%, the average bill size has increased 10-15%.

Click here for the full report.

INTEREST RATE OUTLOOK

26 June 2020

RBI and Banks to finance fiscal deficit

Indian yields have fallen in-line with global yields even as general government issuances are estimated to increase to ~9.5% of GDP. This has been possible as RBI and SCBs will emerge as large buyers of government securities in FY21 at 23% and 32% of net issuances (9% and 42% in FY20). Hence, 10Y yield is likely to remain in 5.5-6% range in FY21. Other factors supporting 10Y yield are expected decline in food inflation, rate cuts and excess liquidity by RBI, current account surplus and low global yields.

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Yields heading south: India's 10Y yield has a high 0.8 correlation with the US 10Y paper and has fallen in tandem with the latter, shedding 56bps over Jan-Jun'20 to 6%. Global yields have declined because of steep policy rate cuts by central banks and quantitative easing via purchase of government and corporate credit as well as debt securities.

India's fiscal response: India's fiscal response to the pandemic has been an increase in general government issuances to Rs 19.4tn – including the Centre's Rs 12tn – which translates to ~9.5% of GDP. Nonetheless, yields have seen downward momentum as banks and RBI are expected to emerge as large buyers.

RBI to buy Rs 3.5tn of bonds: After a 32% increase in 2019-20 (Jul-Jun), we expect RBI's balance sheet to expand by 9% in 2020-21. This will be led by a Rs 4tn rise in notes and Rs 2.9tn increase in other liabilities. On the asset side, international and domestic securities are estimated to rise by Rs 3.1tn and Rs 3.5tn respectively. OMOs to be seen in H2 when FX intervention is lower.

Banks' liquidity to boost buying: Banks will have a large surplus by way of estimated deposits at Rs 147tn in FY21 (Rs 136tn in FY20), which can be deployed in government securities. In FY20, banks bought G-Secs worth Rs 4.4tn as credit deployment opportunities dried up. The incremental investment-deposit ratio is currently elevated at 105%. Insurance companies and provident funds will also remain large investors in bonds.

Muted outlook on yields: Apart from demand and supply side dynamics, we believe other economic factors support lower yields, including falling inflation, RBI rate cuts, excess liquidity and the current account surplus. Thus, yields are projected to remain in the the 5.5-6% range in the near term.

KEY HIGHLIGHTS

- 10Y yield is expected to be in the 5.5-6% range.
- RBI and SCBs will be large buyers of government securities.
- Net OMO purchase of Rs 3.5tn is likely in FY21
- Lower inflation, rate cuts and current account surplus also support lower yield.

REDUCE
TP: Rs 415 | ⋎ 4%

CONTAINER CORP OF INDIA | Logistics | 26 June 2020

Decent quarter but headwinds ahead – downgrade to REDUCE

Container Corp's (CCRI) Q4 topline plunged 10% YoY as volumes/realisation fell 4%/7%. But stringent cost control scripted an impressive 24% YoY rise in EBITDA. Absence of SEIS income dragged adj. PAT down 11% YoY. A subdued demand outlook – 20% volume drop guided for FY21 – and rise in land licensing fee are near-term headwinds. We cut FY21/FY22 earnings 18%/2% and pare our Mar'21 TP to Rs 415 (vs. Rs 420). After a 20%+ rally in the past month, CCRI is trading at 20x FY22E EPS. Cut from ADD to REDUCE on limited valuation comfort.

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Volumes under pressure: Handling/originating volumes dropped 4%/12% amid weak EXIM trade. Realisations also fell 7% YoY/1% QoQ. CCRI's decision to not pursue low-margin, short-lead cargo and its aversion to discounts yielded ~600bps market share loss in FY20, but seems to have steadied lead distance. The company aims to regain market share through better service levels vs. rivals.

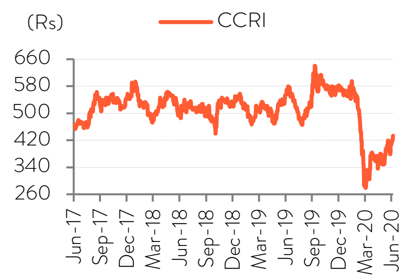
Strong margin print: EBITDA margin expanded 840bps YoY to 30% despite tepid volumes. Lower originating volumes and empty costs aided a 16% YoY decline in freight expense, while a write-back of Rs 300mn catalysed a 27% YoY drop in other operating expense. Staff cost was lower YoY and QoQ as higher provisions were made in 9M but actual cost in FY20 was lower due to attrition.

Headwinds ahead: Management expects a sharp 20% decline in FY21 volumes as EXIM trade is sluggish and gradual normalcy in truck operation is likely to enhance competition. Further, under the new land license fee regime, CCRI will now have to pay Rs 4.5bn p.a. to the Indian Railways vs. Rs 1.4bn in FY20. Though CCRI is confident of maintaining margins, passing on the cost rise in the current weak climate looks difficult. We bake in a lower volume decline of 13% YoY, but also forecast 320bps margin contraction in FY21. Volumes are expected to rebound strongly (+22%) in FY22 boosted by DFC commissioning.

Ticker/Price	CCRI IN/Rs 434
Market cap	US$ 3.5bn
Shares o/s	609mn
3M ADV	US$ 10.4mn
52wk high/low	Rs 666/Rs 263
Promoter/FPI/DII	55%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,427	64,738	58,807	75,689
EBITDA (Rs mn)	12,067	14,408	16,749	13,331	19,457
Adj. net profit (Rs mn)	10,619	12,154	10,317	8,172	12,986
Adj. EPS (Rs)	17.4	19.9	20.6	13.4	21.3
Adj. EPS growth (%)	12.4	14.5	3.5	(35.0)	58.9
Adj. ROAE (%)	11.7	12.3	12.3	7.9	11.7
Adj. P/E (x)	24.9	21.7	21.0	32.3	20.4
EV/EBITDA (x)	20.2	17.1	15.3	19.2	12.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 38 | ⮟ 28%

ASHOK LEYLAND | Automobiles | 26 June 2020

Weak macros, rich valuations – downgrade to SELL

AL's Q4FY20 performance was lacklustre despite the boost to blended average realisations from BS-VI price upgrades. Demand remains tepid as operator utilisation continues to languish below 50%. While we assume a 5% GDP revival in FY22, we believe most optimism is in the price. Inter-corporate deposits in group companies are a cause for concern amidst ballooning gross debt over the last three months. We downgrade the stock from REDUCE to SELL with a revised Mar'21 TP of Rs 38 (from Rs 43).

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Weak Q4: AL's topline declined 57% YoY to Rs 38bn due to weak volumes. Average selling price improved 1% YoY, reflective of BS-VI dispatches. EBITDA dropped 81% YoY to Rs 1.8bn, with margins at 4.8%. Adjusting for a one-time write-off of Rs 687mn towards impairment of investments, PAT stood at Rs 114mn, down 98% YoY – this only with a 13-day lockdown in March.

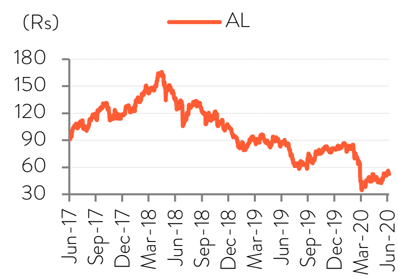
Key assumptions: Our channel checks with fleet operators suggest that their current utilisation continues to be at sub-50% levels, which will dent demand. In our view, even the pending scrappage policy will fail to trigger a significant demand push till the economy revives significantly. For FY22, we conservatively assume GDP growth of 5% (against 6.7% estimated by our chief economist), which should aid volume growth of 44% and operating margin expansion to 7.5% for AL. We pencil in EPS of Rs 2.1 for FY22.

Downgrade to SELL: Stock has witnessed ~40% rally since Apr'20. Despite strong growth assumptions, current valuations look stretched at 25x FY22E EPS. A steep increase in gross debt over the past three months from ~Rs 30bn to Rs 50bn and inter-corporate deposits within group companies do not augur well. We value the stock at the four-year average P/E multiple of 18x on FY22E (vs. 8x FY22E EBITDA earlier), translating to a revised TP of Rs 38. Cut to SELL.

Ticker/Price	AL IN/Rs 52
Market cap	US$ 2.0bn
Shares o/s	2,936mn
3M ADV	US$ 28.1mn
52wk high/low	Rs 91/Rs 34
Promoter/FPI/DII	52%/17%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	267,586	294,439	174,675	164,483	240,662
EBITDA (Rs mn)	26,818	30,748	11,737	9,987	17,967
Adj. net profit (Rs mn)	17,177	19,832	3,953	696	6,228
Adj. EPS (Rs)	5.8	6.8	0.8	0.2	2.1
Adj. EPS growth (%)	36.5	15.1	(80.1)	(82.4)	794.6
Adj. ROAE (%)	23.7	23.8	5.4	1.0	8.4
Adj. P/E (x)	9.0	7.7	64.3	221.2	24.7
EV/EBITDA (x)	6.1	5.2	12.9	15.9	9.8

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 425 | ▲ 6%

KAJARIA CERAMICS | Construction Materials | 27 June 2020

Lockdown hits hard – downgrade to ADD

Kajaria Ceramics (KJC) posted a below-expected Q4FY20 with revenue down 20% YoY as tile volumes fell 19%. Operating margins contracted 75bps YoY to 14.3% due to negative operating leverage, causing EBITDA/PBT to decline 24%/36%. Management has not given FY21 guidance due to Covid-19 vagaries but expects cost rationalisation to cushion the margin impact. We cut FY21/FY22 earnings by 9%/1% and keep our Mar'21 TP unchanged at Rs 425. At current valuations of 24.9x FY22E EPS, we see limited upside. Cut from BUY to ADD.

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Lockdown erodes volume growth: KJC's Q4 revenue declined 20% YoY to Rs 6.5bn as realisations slipped 1.1% YoY and volumes dropped 19% YoY. As per management, volume growth was hit hard as the Covid-19 lockdown in the second half of March coincided with a seasonally busy period for the company. KJC has not provided any guidance for FY21 due to pandemic-related uncertainties, but stated that demand traction has improved post easing of the lockdown – revenues are back to ~25% of normal levels in May and 60-70% in June.

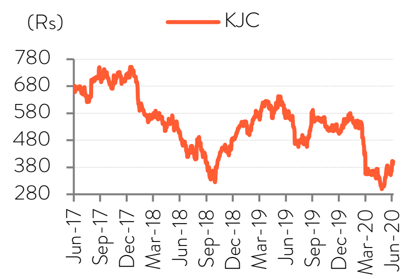
Operating margins decline: Despite a 270bps YoY increase in gross margin, operating margins contracted 75bps YoY to 14.3% (–70bps QoQ) as employee cost/other expenses increased 240bps/195bps YoY due to negative operating leverage. Consequently, EBITDA/PBT decreased 24%/36% YoY. KJC expects cost rationalisation to aid savings of Rs 750mn-900mn in FY21 and thus cushion the impact of lower sales on margins.

Downgrade to ADD: Given the below-expected Q4 performance, we prune FY21/FY22 PAT estimates by 9%/1%. We see limited upside potential and hence downgrade the stock to ADD with an unchanged Mar'21 TP of Rs 425.

Ticker/Price	KJC IN/Rs 401
Market cap	US$ 843.6mn
Shares o/s	159mn
3M ADV	US$ 2.2mn
52wk high/low	Rs 606/Rs 296
Promoter/FPI/DII	48%/23%/29%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	27,106	29,562	28,080	22,857	28,158
EBITDA (Rs mn)	4,564	4,495	4,159	3,005	4,420
Adj. net profit (Rs mn)	2,342	2,314	2,553	1,551	2,565
Adj. EPS (Rs)	14.7	14.6	16.1	9.8	16.1
Adj. EPS growth (%)	(7.4)	(1.2)	10.3	(39.3)	65.4
Adj. ROAE (%)	18.5	15.8	15.5	8.7	13.3
Adj. P/E (x)	27.2	27.6	25.0	41.1	24.9
EV/EBITDA (x)	14.4	14.4	15.2	20.8	13.9

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 140 | 11%

SOMANY CERAMICS | Construction Materials | 26 June 2020

Disappointing performance – downgrade to ADD

Somany Ceramics (SOMC) reported a dull Q4FY20 as consolidated revenue contracted 31% YoY to Rs 3.6bn, with tile volumes down 28% YoY. Consolidated operating margins shrank 970bps YoY to 3.9%, lower than estimates, and EBITDA slumped 80% YoY. Management did not provide any guidance for FY21 due to Covid-19 but indicated a possible 20-25% topline decline, despite which it expects to be profitable. We cut FY21-FY22 PAT estimates by 96%/18% and revise our Mar'21 TP to Rs 140 (vs. Rs 165). Downgrade from BUY to ADD.

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Sharp volume decline: SOMC's consolidated topline decreased 31% YoY, with tiles segment revenue slipping 30% (volumes/realisations down 28%/3% YoY) and sanitaryware & allied revenue dropping 40% YoY. Management believes that but for sales losses incurred due to the lockdown in the second-half of March – historically a busy period – SOMC would have grown at 4.5-5% in Q4. FY21 revenue could decline 20-25%, per management, but a reworking of the cost structure should shield profitability. Post lockdown, sales in May returned to 45-50% of normal levels, rising to 55-60% in June.

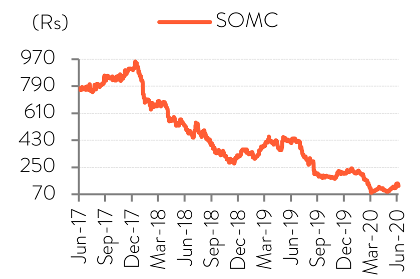
Operating margins shrink: SOMC's operating margins contracted 970bps YoY to 3.9% as gross margin declined 235bps, while other expenses/employee expense increased by 525bps/685bps due to negative operating leverage. This led to EBITDA slumping 80% YoY and a PBT loss of Rs 108mn.

Downgrade to ADD: SOMC's results has been lower than estimated and the demand outlook is far worse than earlier modelled. We thus scale back FY21-FY22 PAT estimates by 96%/18% and downgrade the stock from BUY to ADD – our revised Mar'21 TP of Rs 140 (earlier Rs 165) is set at an unchanged FY22E P/E multiple of 12x.

Ticker/Price	SOMC IN/Rs 126
Market cap	US$ 70.4mn
Shares o/s	42mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 454/Rs 77
Promoter/FPI/DII	51%/2%/46%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	17,119	17,110	16,101	13,107	16,483
EBITDA (Rs mn)	1,878	1,576	1,314	994	1,638
Adj. net profit (Rs mn)	730	490	234	12	485
Adj. EPS (Rs)	17.2	11.6	5.5	0.3	11.4
Adj. EPS growth (%)	(24.7)	(32.9)	(52.2)	(95.0)	4027.3
Adj. ROAE (%)	13.2	8.2	3.8	0.2	7.7
Adj. P/E (x)	7.3	10.9	22.7	453.4	11.0
EV/EBITDA (x)	4.4	6.1	7.3	9.9	5.8

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

REDUCE
TP: Rs 1,560 | ⋎ 9%

V-MART RETAIL | Retail | 27 June 2020

Management meet takeaways – lower footfalls, higher purchases

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We discussed consumptions trends in the wake of Covid-19 with the management of V-Mart Retail (VMART). Following are the key takeaways:

- VMART has opened 80-90% of its stores post lockdown. These are operational for an average of 8-9 hours daily vs. 10-12 hours earlier.
- Footfalls are at ~30% of normal levels but conversion to buying customers is high as only those with immediate needs are stepping into stores.
- The number of items purchased by customers has risen ~40% on average. While ASPs are down ~25%, the average bill size has increased 10-15%.
- Purchases mostly comprise regular-use products such as trackpants, t-shirts and shorts. Demand for kids wear has also been high.
- Like-to-like sales growth is currently at 60-70% YoY though full-month growth would be far lower due to the fewer number of operational days.
- Uttar Pradesh markets have shown stronger demand traction in the wake of the lockdown but Bihar, West Bengal and Assam are still sluggish.
- Rental renegotiations are underway and ~60% of the landlords have agreed to a rent waiver for the lockdown period. VMART is also negotiating for rent cuts and targeting cost savings of 12-15% in FY21.
- Employee cost rationalisation initiatives should save 5-10% of staff costs in FY21.
- VMART is not undertaking new purchases, and sales are currently from the high inventory built up in March. New inventory will be purchased from August for the festival period in Q3.
- The company has used just ~15% of its working capital limits so far. It was net debt-free till FY20.
- VMART has no plans to open new stores for the next few months till clarity emerges on the demand situation post pandemic.

Ticker/Price	VMART IN/Rs 1,710
Market cap	US$ 410.8mn
Shares o/s	18mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	52%/23%/25%

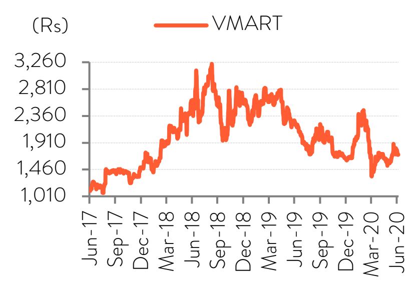
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs mn)	16,620	14,622	21,872
EBITDA (Rs mn)	2,138	2,021	3,020
Adj. net profit (Rs mn)	493	357	942
Adj. EPS (Rs)	27.2	19.7	51.9
Adj. EPS growth (%)	(31.8)	(27.6)	163.7
Adj. ROAE (%)	11.4	7.5	17.5
Adj. P/E (x)	62.9	87.0	33.0
EV/EBITDA (x)	14.3	15.2	10.1

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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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)

Rating distribution

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