

RESEARCH
State Bank of India | Target: Rs 360 | +28% | BUY

Slippages abate but stressed book remains high

Astral Poly Technik | Target: Rs 1,080 | -4% | REDUCE

Operational performance in line

Supreme Industries | Target: Rs 1,235 | +5% | ADD

Healthy volume growth

SUMMARY
State Bank of India

State Bank of India's (SBIN) Q2FY20 PAT of Rs 30bn beat consensus estimates due to 17% YoY NII growth. Fresh slippages dropped materially to Rs 88bn but stressed assets stayed high at ~Rs 260bn. The bank used a ~Rs 35bn one-time gain from the SBI Life stake sale to make upfront provisions for a failed restructured account and to raise coverage on DHFL exposure to 20%. Its tax rate was high at ~40% as SBIN will decide on migrating to a lower rate in Q4. CET-1 improved 47bps QoQ to 10.1%.

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

Astral Poly Technik

Astral Poly Technik's (ASTRA) consolidated revenue grew 8.5% YoY in Q2FY20, aided by piping segment volume growth of 27% (~17% ex-Rex Poly). Pipe revenues grew 14.9% YoY, whereas adhesives declined 9.5%. EBITDA margins expanded 250bps YoY to 17.5% led by the piping business, resulting in EBITDA/PBT growth of 26% YoY each. We marginally raise FY20-FY22 earnings by ~2% each and roll over to a Sep'20 TP of Rs 1,080 (from Rs 1,005). Valuations remain rich at 48.6x FY21E P/E; retain REDUCE.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.77	0bps	4bps	(135bps)
India 10Y yield (%)*	6.69	0bps	(6bps)	(118bps)
USD/INR	71.02	(0.2)	(0.1)	3.1
Brent Crude (US\$/bbl)	61.67	0.8	(4.8)	(19.8)
Dow	26,806	(0.1)	(0.5)	7.3
Shanghai	2,941	0	(1.2)	12.9
Sensex	39,020	(0.1)	(0.2)	15.8
India FII (US\$ mn)	23 Oct	MTD	CYTD	FYTD
FII-D	(87.1)	63.5	4,036.8	3,492.2
FII-E	(21.0)	581.2	8,741.9	1,896.7

Source: Bank of Baroda Economics Research | *7.26% GS 2029

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Supreme Industries

Supreme Industries' (SI) Q2FY20 revenue grew 2.5% YoY (adj. for property sale last year), coming in slightly below estimates despite a healthy 12% YoY rise in volumes. Adj. EBITDA margins expanded 40bps YoY to 13.6% due to lower RM cost (-187bps) which was partly offset by higher employee/other expense. EBITDA/PBT grew 5.4%/6.9% YoY. Management has guided for volume growth of 10-12% with 13-14% operating margins in FY20. We trim FY20-FY22 earnings by 1-2% and roll to a Sep'20 TP of Rs 1,235 (earlier Rs 1,210).

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

BUY

TP: Rs 360 | ▲ 28%

STATE BANK OF INDIA

Banking

25 October 2019

Slippages abate but stressed book remains high

State Bank of India's (SBIN) Q2FY20 PAT of Rs 30bn beat consensus estimates due to 17% YoY NII growth. Fresh slippages dropped materially to Rs 88bn but stressed assets stayed high at ~Rs 260bn. The bank used a ~Rs 35bn one-time gain from the SBI Life stake sale to make upfront provisions for a failed restructured account and to raise coverage on DHFL exposure to 20%. Its tax rate was high at ~40% as SBIN will decide on migrating to a lower rate in Q4. CET-1 improved 47bps QoQ to 10.1%.

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Slippages abate: SBIN's fresh slippages declined to Rs 88bn vs. Rs 162bn in Q1 with improvement across segments. The stressed book remained elevated at Rs 261bn (vs. Rs 274bn in Q1). Management expects a worst-case slippage ratio of ~2% and 1.4-1.5% to be maintained in the base case. Agri slippages at Rs 30.8bn largely flowed from two states due to debt waivers; SBIN indicated that these accounts have been dealt with and should see lower stress ahead. PCR improved to 63% vs. 61% in Q1; management believes it carries excess provisions on a portfolio level.

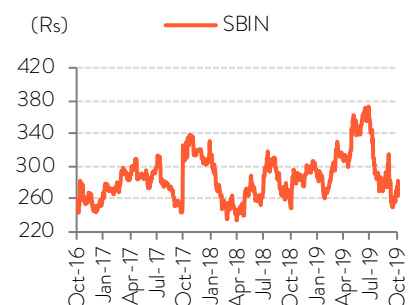
Loan growth moderates: Overall loan growth slipped to 9.6% YoY given the rundown in corporate and SME portfolios. Retail loan growth remained strong at ~19% YoY. Corporate credit growth was weak given that utilisation of working capital limits remains low at 30-31%. Domestic NIM increased 21bps QoQ to 3.2% due to lower interest reversal on slippages and reduced cost of deposits. We do not see much room for NIM to expand from current levels.

Maintain BUY: We view SBIN as one of the prime beneficiaries of the ongoing/anticipated revival in corporate loan cycle, but a lot hinges upon the resolution of stressed assets. We stay positive on the stock; Sep'20 TP retained at Rs 360.

Ticker/Price	SBIN IN/Rs 282
Market cap	US\$ 35.4bn
Shares o/s	8,925mn
3M ADV	US\$ 146.5mn
52wk high/low	Rs 374/Rs 244
Promoter/FPI/DII	59%/9%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	748,537	883,489	1,026,587	1,229,730	1,493,796
NII growth (%)	21.0	18.0	16.2	19.8	21.5
Adj. net profit (Rs mn)	(65,474)	8,622	317,639	348,833	419,751
EPS (Rs)	(7.7)	1.0	35.6	39.1	47.0
P/E (x)	(36.3)	291.4	7.9	7.2	6.0
P/BV (x)	1.1	1.1	1.0	0.9	0.8
ROA (%)	(0.2)	0.0	0.8	0.8	0.8
ROE (%)	(3.2)	0.4	13.2	12.7	13.8

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 1,080 | ▼ 4%

ASTRAL POLY TECHNIK

Plastic Products

25 October 2019

Operational performance in line

Astral Poly Technik's (ASTRA) consolidated revenue grew 8.5% YoY in Q2FY20, aided by piping segment volume growth of 27% (~17% ex-Rex Poly). Pipe revenues grew 14.9% YoY, whereas adhesives declined 9.5%. EBITDA margins expanded 250bps YoY to 17.5% led by the piping business, resulting in EBITDA/PBT growth of 26% YoY each. We marginally raise FY20-FY22 earnings by ~2% each and roll over to a Sep'20 TP of Rs 1,080 (from Rs 1,005). Valuations remain rich at 48.6x FY21E P/E; retain REDUCE.

Arun Baid

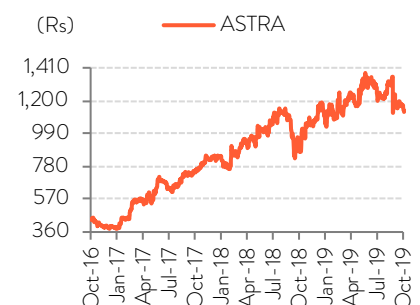
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Rex acquisition spurs volumes: ASTRA's Q2 consolidated revenue grew 8.5% YoY to Rs 6.8bn, aided by growth in the piping segment. PVC pipe standalone revenues increased 14.1% YoY, but the adhesives business slipped 9.5% due to a change in distribution model that was completed during the quarter. Pipe volumes increased 27% YoY spurred by the Rex acquisition in Q2FY19 (~17% growth ex-Rex). Management retained its FY20 outlook of ~15% volume growth in pipes now with an upward bias, but reduced adhesive guidance to low single digits (from double digits earlier) citing the distribution transition.

Ticker/Price	ASTRA IN/Rs 1,124
Market cap	US\$ 2.4bn
Shares o/s	151mn
3M ADV	US\$ 2.5mn
52wk high/low	Rs 1,380/Rs 852
Promoter/FPI/DII	56%/20%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Piping business bolsters margins: ASTRA's operating margins swelled 250bps YoY to 17.5% aided by a superior showing in the piping segment, which fuelled EBITDA/PBT growth of 26% YoY each. Pipe margins increased ~300bps YoY to 18.3% backed by a price hike taken in CPVC during Q2; management expects profitability to remain robust. Adhesive margins fell ~130bps to 13.8% as some inventory sold earlier was repurchased as part of the distribution shift.

Valuations high; maintain REDUCE: Though we like ASTRA for its strong brand name, wide reach and robust pipe portfolio, valuations at 48.6x FY21E P/E are rich. On rollover, our revised Sep'20 TP is Rs 1,080.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	21,060	25,073	29,726	34,952	40,986
EBITDA (Rs mn)	3,168	3,853	4,851	5,757	6,796
Adj. net profit (Rs mn)	1,697	1,992	2,751	3,484	4,242
Adj. EPS (Rs)	11.3	13.2	18.3	23.1	28.2
Adj. EPS growth (%)	19.9	17.4	38.1	26.6	21.8
Adj. ROAE (%)	18.2	17.4	19.8	21.3	22.0
Adj. P/E (x)	99.8	85.0	61.5	48.6	39.9
EV/EBITDA (x)	54.1	44.3	35.3	29.5	24.8

Source: Company, BOBCAPS Research



ADD

TP: Rs 1,235 | ▲ 5%

SUPREME INDUSTRIES

Plastic Products

25 October 2019

Healthy volume growth

Supreme Industries' (SI) Q2FY20 revenue grew 2.5% YoY (adj. for property sale last year), coming in slightly below estimates despite a healthy 12% YoY rise in volumes. Adj. EBITDA margins expanded 40bps YoY to 13.6% due to lower RM cost (-187bps) which was partly offset by higher employee/other expense. EBITDA/PBT grew 5.4%/6.9% YoY. Management has guided for volume growth of 10-12% with 13-14% operating margins in FY20. We trim FY20-FY22 earnings by 1-2% and roll to a Sep'20 TP of Rs 1,235 (earlier Rs 1,210).

Arun Baid

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Piping segment leads volume growth: Adjusted for a Rs 808.5mn property sale in Q2FY19, SI's revenue grew 2.5% YoY to Rs 12.7bn in Q2. Plastic piping revenues increased 19% YoY, but the industrials/packing products/consumer segments declined 34%/5%/9%. Volume growth came from piping (+19.8%) and packaging (+5.9% YoY), with industrials (-13.1%) and consumer (-5.9% YoY) posting declines – blended growth thus stood at 12.4% YoY. SI saw high demand for plumbing pipes in Q2, whereas the industrial segment was muted. Management has guided for 10-12% volume growth in FY20 (13% in H1).

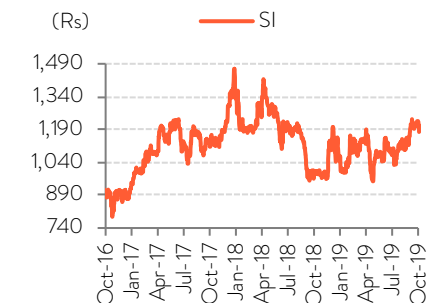
Lower RM cost aids margins: SI's adj. operating margins expanded 40bps YoY to 13.6% due to lower raw material cost (+187bps), partly offset by higher employee/other expenditure (+57bps/+80bps). Gross margins increased on higher sales of plumbing pipes. EBITDA/PBT for the quarter thus rose 5.4%/6.9% YoY (adj. for profit of Rs 531mn from sale of property in Q2FY19).

Maintain ADD: We trim FY20-FY22 earnings estimates by 1-2% and move to a revised Sep'20 TP of 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 1,174
Market cap	US\$ 2.1bn
Shares o/s	127mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 1,255/Rs 938
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	59,402	65,652	73,110
EBITDA (Rs mn)	7,841	7,812	8,028	9,122	10,347
Adj. net profit (Rs mn)	4,242	3,683	4,656	5,393	6,246
Adj. EPS (Rs)	33.4	29.0	36.7	42.5	49.2
Adj. EPS growth (%)	0.1	(13.2)	26.4	15.8	15.8
Adj. ROAE (%)	23.6	18.2	20.5	21.3	22.0
Adj. P/E (x)	35.2	40.5	32.0	27.7	23.9
EV/EBITDA (x)	18.8	18.8	18.4	16.2	14.4

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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