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FIRST LIGHT

30 June 2020

RESEARCH

Oil India | Target: Rs 92 | –4% | REDUCE

Gloomy outlook – cut to REDUCE

BOB Economics Research | Weekly Wrap

COVID spike worries markets

Greenply Industries | Target: Rs 120 | +42% | BUY

Lockdown saps Q4 performance

Century Plyboards | Target: Rs 150 | +25% | BUY

Core business declines but MDF, laminates prop up margins

SUMMARY

Oil India

Oil India's (OINL) Q4FY20 earnings at Rs 9.2bn were boosted by one-off tax writebacks and refunds. Key highlights: (a) EBITDA loss of Rs 11bn due to Rs 17bn in exceptional impairment provisions (ex-provisions, operating cost still high at US$ 10.7/bbl), (b) sales volume underperformed for both oil (0.75mmt, –3.7% YoY) and gas (0.53bcm, –14.4% YoY). We cut FY21/FY22 earnings by 76%/43, revise our Mar'21 TP to Rs 92 (vs. Rs 130), and downgrade from BUY to REDUCE on full valuations at 11.6x FY22E. Low oil prices remain a key worry.

Click here for the full report.

India Economics: Weekly Wrap

Despite global economy gaining positive momentum in the form of improvement in consumer confidence and US home sales, equity markets and yields fell as markets were worried about resurgence in COVID-19 cases. Cases have now crossed 10mn from 8.9mn last week. On the domestic front, Sensex gained 1.3% as activity is inching up. FII inflows of US$ 232mn were supportive for INR. Apart from global and domestic data, domestic COVID-19 cases will be eventful in future course of action by government.

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 (%)	0.64	(4bps)	(4bps)	(137bps)
India 10Y yield (%)	5.92	2bps	16bps	(98bps)
USD/INR	75.65	0	0.1	(9.5)
Brent Crude (US$/bbl)	41.02	(0.1)	18.1	(38.4)
Dow	25,016	(2.8)	(2.1)	(5.7)
Shanghai	2,980	0.3	5.0	(0.6)
Sensex	35,171	0.9	11.3	(11.2)
India FII (US$ mn)	**25 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(16.4)	(379.7)	(14,435.0)	(4,675.5)
FII-E	(68.9)	2,871.0	(2,043.6)	4,559.4

Source: Bank of Baroda Economics Research

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Greenply Industries

Greenply Industries' (GIL) consolidated Q4FY20 revenue declined 12% YoY, with India sales dropping 13.6% (volumes down 14.6%) due to the lockdown, whereas Gabon subsidiary revenue was flat YoY. Operating margins shrank 365bps YoY, translating to EBITDA/PBT contraction of 38%/49% YoY. Given Covid-led unknowns, management has refrained from guiding for FY21. We reduce FY21/FY22 PAT estimates by 29%/17% and maintain BUY with a revised Mar'21 TP of Rs 120 (earlier Rs 145).

Click here for the full report.

Century Plyboards

Century Plyboards' (CPBI) standalone Q4FY20 revenue growth disappointed with a 10% YoY drop, marked by 14% declines in the plywood/laminate segments. Higher MDF margins aided operating margin expansion of 245bps YoY to 13.4% (standalone), fuelling a 10%/6% YoY rise in EBITDA/PBT. Management did not offer FY21 guidance but is hopeful of normalcy in sales from Q3FY20. We tweak PAT estimates for FY21/FY22 by –1%/–2% and lower our Mar'21 TP slightly to Rs 150 (earlier Rs 155). Retain BUY.

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REDUCE
TP: Rs 92 | ∨ 4%

OIL INDIA | Oil & Gas | 29 June 2020

Gloomy outlook – cut to REDUCE

Oil India's (OINL) Q4FY20 earnings at Rs 9.2bn were boosted by one-off tax writebacks and refunds. Key highlights: (a) EBITDA loss of Rs 11bn due to Rs 17bn in exceptional impairment provisions (ex-provisions, operating cost still high at US$ 10.7/bbl), (b) sales volume underperformed for both oil (0.75mmt, –3.7% YoY) and gas (0.53bcm, –14.4% YoY). We cut FY21/FY22 earnings by 76%/43, revise our Mar'21 TP to Rs 92 (vs. Rs 130), and downgrade from BUY to REDUCE on full valuations at 11.6x FY22E. Low oil prices remain a key worry.

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Operating costs elevated: OINL's operating costs were well above estimates at US$ 10.7/bbl (ex-impairment provisions). Recent disruptions in the Baghjan area of Assam due to floods could lead to additional restoration costs of Rs 1.5bn-2bn in H1FY21. This will keep operating costs elevated through FY21, while also marginally disrupting volumes. We accordingly recalibrate our cost assumptions for FY21/FY22 to US$ 9/bbl each, which underpins our earnings downgrade (further exaggerated by low oil prices)

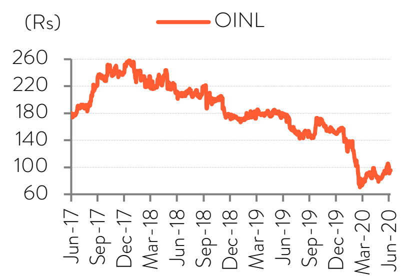
Volume disruptions remain a drag: OINL's oil/gas production continues to decline – down 3.4%/8.3% YoY to 0.76mmt/0.65bcm in Q4. With repeated disruptions afflicting its producing assets in the state of Assam (political turmoil, natural calamities), the company may struggle to maintain current levels of production over FY21-FY22. We accordingly cut our oil and gas production/ sales estimates by ~5% each over this period.

Upsides capped – cut to REDUCE: OINL's current valuations at 11.6x FY22E EPS look elevated in the wake of rising concerns on production and operating costs. Low oil prices are a primary worry and hence earnings recovery may remain elusive. Post earnings revision, our Mar'21 TP stands revised to Rs 92 (from Rs 130) and we downgrade the stock to REDUCE (from BUY).

Ticker/Price	OINL IN/Rs 96
Market cap	US$ 1.4bn
Shares o/s	1,084mn
3M ADV	US$ 2.8mn
52wk high/low	Rs 182/Rs 64
Promoter/FPI/DII	57%/7%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	106,565	137,350	121,285	81,572	105,283
EBITDA (Rs mn)	41,013	54,838	25,905	16,007	29,722
Adj. net profit (Rs mn)	26,679	36,169	21,662	1,629	8,844
Adj. EPS (Rs)	24.6	33.4	20.0	1.5	8.2
Adj. EPS growth (%)	12.1	35.6	(40.1)	(92.5)	443.0
Adj. ROAE (%)	9.4	13.0	8.3	0.7	3.6
Adj. P/E (x)	3.9	2.9	4.8	63.7	11.7
EV/EBITDA (x)	2.7	2.5	5.0	8.5	6.4

Source: Company, BOBCAPS Research

WEEKLY WRAP

29 June 2020

COVID spike worries markets

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Despite global economy gaining positive momentum in the form of improvement in consumer confidence and US home sales, equity markets and yields fell as markets were worried about resurgence in COVID-19 cases. Cases have now crossed 10mn from 8.9mn last week. On the domestic front, Sensex gained 1.3% as activity is inching up. FII inflows of US$ 232mn were supportive for INR. Apart from global and domestic data, domestic COVID-19 cases will be eventful in future course of action by government.

Markets

- **Bonds:** Except India, global 10Y yields closed lower amidst rising COVID-19 cases in the US (0.27mn weekly increase). Macro data continued to improve as seen in consumer confidence and flash PMI. US 10Y yield fell by 5bps (0.64%) and oil prices fell by 2.8% (US$ 41/bbl). India's 10Y yield rose by 7bps (5.92%) as RBI failed to meet market's expectation of OMO purchase announcement. System liquidity surplus rose to Rs 3.7tn as on 26 Jun 2020 compared with Rs 3.3tn in the previous week.

- **Currency:** Global currencies closed mixed this week. Fears of a second wave of COVID-19 and US-China trade tensions continued to weigh on investor sentiment. However, improvement in global flash manufacturing and services PMIs were seen as positive. JPY and DXY fell by 0.3% and 0.2% respectively. INR appreciated by 0.7% on the back of FII inflows.

- **Equity:** Global indices ended the week mixed as investors continued to monitor the resurgence in COVID-19 cases. Dow (3.3%) declined the most followed by FTSE (2.1%) and Dax (2%). On the other hand, Sensex (1.3%) ended in green for the second straight week and was pushed higher by cap goods and power stocks.

- **Upcoming key events:** In current week, markets will closely watch global PMIs including China, FOMC minutes and macro prints from the US such as non-farm payroll, factory orders and unemployment rate. On the domestic front, apart from new unlock rules and spike in COVID cases, market will also track PMIs, BoP, core sector and fiscal data.

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BUY
TP: Rs 120 | ⮝ 42%

GREENPLY INDUSTRIES | Construction Materials | 29 June 2020

Lockdown saps Q4 performance

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Greenply Industries' (GIL) consolidated Q4FY20 revenue declined 12% YoY, with India sales dropping 13.6% (volumes down 14.6%) due to the lockdown, whereas Gabon subsidiary revenue was flat YoY. Operating margins shrank 365bps YoY, translating to EBITDA/PBT contraction of 38%/49% YoY. Given Covid-led unknowns, management has refrained from guiding for FY21. We reduce FY21/FY22 PAT estimates by 29%/17% and maintain BUY with a revised Mar'21 TP of Rs 120 (earlier Rs 145).

India's plywood volumes decline 15% YoY: GIL's consolidated revenue decreased 12% YoY to Rs 3.4bn as India plywood revenue fell 13.6% to Rs 3bn (volumes down 14.6%) due to the lockdown; subsidiaries – primarily Gabon face-veneer operations – posted a flat topline YoY at Rs 475mn. Management pegs the revenue loss from the lockdown at Rs 600mn. Demand has improved post easing of restrictions with revenue returning to ~70% of normal levels in June vs. 50% in May.

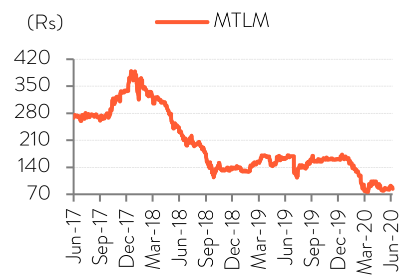
EBITDA/PBT contract: GIL's consolidated operating margins contracted 365bps YoY to 8.7%, resulting in EBITDA/PBT declines of 38%/49% YoY. India plywood margin fell 213bps YoY to 7.7% due to negative operating leverage as sales declined, whereas Gabon margins decreased by 1.5ppt to 14.6% (–345bps QoQ) on higher RM cost (+830 bps YoY) and employee expense (+635bps YoY). Management expects cost savings of ~Rs 200mn which shall cushion margins to some extent. The company has provided for Rs 499.7mn towards the SC order on area-based excise exemption.

Maintain BUY: Poor Q4 results and continued Covid-related weakness in major metros where GIL has a strong presence lead us to cut earnings estimates and lower our TP to Rs 120, set at an unchanged 18x FY22E P/E.

Ticker/Price	MTLM IN/Rs 85
Market cap	US$ 137.4mn
Shares o/s	123mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 195/Rs 73
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	14,204	11,694	13,817
EBITDA (Rs mn)	715	1,507	1,556	1,156	1,524
Adj. net profit (Rs mn)	253	852	853	517	827
Adj. EPS (Rs)	2.1	6.9	7.0	4.2	6.7
Adj. EPS growth (%)	NA	236.1	0.2	(39.4)	60.0
Adj. ROAE (%)	3.1	14.0	23.9	12.9	18.1
Adj. P/E (x)	40.9	12.2	12.2	20.1	12.5
EV/EBITDA (x)	NA	NA	9.6	11.1	8.3

Source: Company, BOBCAPS Research

BUY
TP: Rs 150 | ⮝ 25%

CENTURY PLYBOARDS | Construction Materials | 29 June 2020

Core business declines but MDF, laminates prop up margins

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Century Plyboards' (CPBI) standalone Q4FY20 revenue growth disappointed with a 10% YoY drop, marked by 14% declines in the plywood/laminate segments. Higher MDF margins aided operating margin expansion of 245bps YoY to 13.4% (standalone), fuelling a 10%/6% YoY rise in EBITDA/PBT. Management did not offer FY21 guidance but is hopeful of normalcy in sales from Q3FY20. We tweak PAT estimates for FY21/FY22 by –1%/–2% and lower our Mar'21 TP slightly to Rs 150 (earlier Rs 155). Retain BUY.

Lockdown depresses revenue: CPBI's standalone revenue declined 10% YoY to Rs 5.2bn, with the core plywood/laminate businesses both slipping 14% (volumes down 7%/12%) whereas MDF grew at 11% (volumes up 5%). The lockdown coincided with the busy Q4 season, leading to revenue loss of ~Rs 900mn, per management. On easing of the lockdown, CPBI clocked ~30% of normal sales in May and ~50% in June. In FY20, the company reduced debt by ~Rs 3bn and improved working capital days by ~19 days to 67.

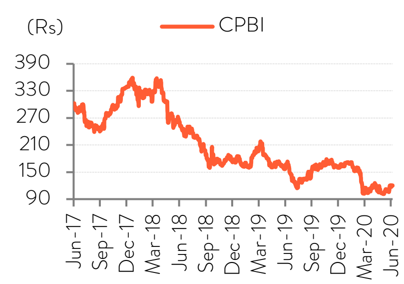
Healthy margins led by MDF: CPBI's gross margins increased 304bps YoY and other expenditure dipped 159bps whereas employee cost rose 218bps – this led to 245bps YoY expansion in operating margins to 13.4%, aiding EBITDA/PBT growth of 10%/6% YoY. Laminate EBITDA margins rose 620bps YoY (+120bps QoQ) to 15.1% on lower RM cost. MDF saw a 1ppt YoY surge to 25.4% (–50bps QoQ) owing to higher utilisation and a better product mix. Management stated that cost rationalisation measures should cushion FY21 margins to some extent.

Maintain BUY: We tweak FY21/FY22 PAT estimates and move to a new Mar'21 TP of Rs 150. We like CPBI for its comprehensive product portfolio, strong brand and wide distribution reach, but remain cognizant of near-term demand challenges arising from the Covid-19 situation.

Ticker/Price	CPBI IN/Rs 120
Market cap	US$ 354.1mn
Shares o/s	223mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 182/Rs 95
Promoter/FPI/DII	73%/7%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	20,239	22,804	23,170	18,835	22,635
EBITDA (Rs mn)	3,334	3,124	3,307	2,334	3,360
Adj. net profit (Rs mn)	1,598	1,542	1,647	968	1,678
Adj. EPS (Rs)	7.2	6.9	7.4	4.4	7.6
Adj. EPS growth (%)	(5.4)	(3.5)	6.8	(41.2)	73.3
Adj. ROAE (%)	20.4	16.9	16.0	8.5	13.4
Adj. P/E (x)	16.7	17.3	16.2	27.6	15.9
EV/EBITDA (x)	9.5	10.3	9.7	13.0	8.4

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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