FIRST LIGHT

10 August 2021

RESEARCH

BOB Economics Research | Weekly Wrap

Inflation back in focus

Astral | Target: Rs 1,400 | –35% | SELL

Pipe volumes muted; valuations rich

MRF | Target: Rs 67,000 | –16% | SELL

Margins to remain under pressure

Affle (India) | Target: Rs 6,200 | +49% | BUY

Stellar quarter

VRL Logistics | Target: Rs 381 | +27% | BUY

Lower losses; volume recovery and price increase to drive growth

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.30	7bps	(5bps)	73bps
India 10Y yield (%)	6.23	3bps	6bps	40bps
USD/INR	74.15	0.0	0.5	1.0
Brent Crude (US$/bbl)	70.70	(0.8)	(5.1)	59.2
Dow	35,209	0.4	1.8	28.3
Shanghai	3,458	(0.2)	(2.0)	3.1
Sensex	54,278	(0.4)	2.7	42.7
India FII (US$ mn)	**05-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	8.2	19.1	(3,234.1)	(1,206.8)
FII-E	(73.1)	476.7	6,854.9	(471.4)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Weekly Wrap

US yields rose on the back of better than estimated data (payroll, factory orders, services PMI surprised positively). DXY too rose in sync. Global equity indices rebounded and ended in green. Consensus on higher rates in US is yet to emerge. RBI revised its inflation forecast to 5.7% in FY22. Indian yields edged up. Notably, resolution on accommodative stance was passed by 5:1 vote. Thus signs of an eventual turn in monetary policy are emerging. Another wave of Covid-19 remains a risk to this view. India's industrial output and inflation data is to be released this week.

Click here **for the full report.**

Astral

- Consolidated Q1 revenue grew 73% YoY with pipes/adhesives rising 63%/107% due to a low base; pipe volumes grew just 13%
- Operating margin increased 500bps YoY to 18.5% with improvement across segments
- We raise FY22/FY23 PAT by 5% each and roll over to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210). Maintain SELL on rich valuations

Click here **for the full report.**

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MRF

- Q1 revenue fell 13% QoQ, EBITDA margin shrank 400bps on gross margin pressure and adj. PAT fell 49% QoQ to Rs 1.6bn
- EBITDA margin likely to remain stressed led by RM inflation, a higher share of CV tyres and rising OEM share in sales
- Our Mar'22 TP remains at Rs 67,000 based on 22x FY23E P/E – reiterate SELL

Click here for the full report.

Affle (India)

- Q1 revenue increased 70% YoY driven by 89% growth in CPCU business, with a broad-based uptick across E, F, G, H verticals
- EBITDA margin at 23% was slightly subdued due to higher employee and data inventory cost
- Jun'22 TP stands revised marginally to Rs 6,200 (vs. Rs 6,240) – retain BUY

Click here for the full report.

VRL Logistics

- Q1 losses fell to below 10% of last year but declined from strong profits in Q4FY21 as volumes slowed and bus operations continued to bleed
- VRLL expects volume recovery at 15% YoY in FY22 which together with the recent 10% price increase should help earnings rebound
- Retain estimates as Jul-Mar implied earnings are less than that for the same period last year. Retain BUY and TP of Rs 381

Click here for the full report.

WEEKLY WRAP

09 August 2021

Inflation back in focus

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US yields rose on the back of better than estimated data (payroll, factory orders, services PMI surprised positively). DXY too rose in sync. Global equity indices rebounded and ended in green. Consensus on higher rates in US is yet to emerge. RBI revised its inflation forecast to 5.7% in FY22. Indian yields edged up. Notably, resolution on accommodative stance was passed by 5:1 vote. Thus signs of an eventual turn in monetary policy are emerging. Another wave of Covid-19 remains a risk to this view. India's industrial output and inflation data is to be released this week.

Markets

- **Bonds:** US 10Y yield rose the most by 7bps (1.3%) supported by better than expected US jobs data and hawkish comments from one of the Fed officials. UK's 10Y yield rose by 5bps (0.61%) as BoE also signalled "modest tightening" on the back of inflationary pressures. Crude prices fell by 7.4% (US$ 71/bbl) due to rising Covid-19 cases globally. India's 10Y yield rose by 3bps (6.23%) as RBI raised inflation projections for FY22. System liquidity surplus rose to Rs 7tn as on 6 Aug 2021 from Rs 6.5tn last week.

- **Currency:** Except AUD and INR (higher), other global currencies closed lower this week. DXY rose by 0.7% as US non-farm payrolls rose more than expected in Jul'21. EUR depreciated by 0.9% as Germany's industrial production fell unexpectedly in Jun'21. INR appreciated by 0.4% supported by lower oil prices and FII inflows (US$ 495.8mn).

- **Equity:** Global indices ended higher this week supported by unchanged policy stance of global central banks (BoE, RBA, BoT) and better than expected US data (ISM services, factory orders and non-farm payrolls). Dow was up by 0.8%, while FTSE rose by 1.3%. Sensex (3.2%) surged the most, led by banking, tech and auto stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 4.4mn versus 4.1mn last week. Fresh cases increased in US (0.75mn versus 0.54mn) and Japan (88K versus 52K). In India, cases rose at a faster pace of 0.284mn versus 0.279mn last week. Our weekly economic activity tracker index fell to 92 (100=Feb'20) from 93. Canada has fully vaccinated 61% of its population, UK at 57% and US at 50%. India is at 8%.

- **Upcoming key events:** Major events include US CPI, UK industrial production and Q2CY21 GDP. In addition investors will track US Jackson Hole meeting for policy cues. India's IIP and CPI data will be released.

SELL

TP: Rs 1,400 | ⮟ 35%

ASTRAL | Plastic Products | 09 August 2021

Pipe volumes muted; valuations rich

- **Consolidated Q1 revenue grew 73% YoY with pipes/adhesives rising 63%/107% due to a low base; pipe volumes grew just 13%**
- **Operating margin increased 500bps YoY to 18.5% with improvement across segments**
- **We raise FY22/FY23 PAT by 5% each and roll over to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210). Maintain SELL on rich valuations**

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Favourable base fuels strong revenue growth: ASTRA's consolidated Q1FY22 revenue grew 73% YoY to Rs 7bn off a soft base on account of the lockdown last year. Standalone revenue in PVC pipes increased 63% YoY (volumes up 13%) and the adhesives business grew 107% YoY as benefits from a change in distribution model kicked in. Per management, resurgence of the pandemic affected demand during the quarter.

Demand climate improving: The company indicated that demand has revived in the month of July with adhesive revenue growing 36% and pipes up 65% YoY. Management has guided for at least double-digit pipe volume growth in FY22 and maintained its adhesive segment revenue target of Rs 10bn for the year, assuming the pandemic doesn't worsen. ASTRA plans to launch one more product in Q3FY21, which will be sold via its existing distribution network.

Robust margins: EBITDA margin increased 500bps YoY to 18.5% in Q1 aided by a superior showing in both segments, which fuelled EBITDA/PBT growth of 138%/296% YoY. Pipe segment margins swelled 515bps YoY to 20% (-350bps QoQ) due to lower raw material (-600bps YoY) and employee costs (-180bps YoY), partly negated by higher other expenses (+265bps YoY). Adhesives margin expanded 540bps to 13.8% on operating leverage. Management guided that current margins in pipes may vary in the near term due to volatile PVC prices, but maintained its target of 16-17% levels in the medium term. Adhesives margin is also guided at 16-17%.

Maintain SELL: We increase FY22/FY23 PAT estimates by 5% each and roll forward to a new Jun'22 TP of Rs 1,400 (vs. Rs 1,210), set at a revised one-year forward P/E of 50x (vs. 48x) which is in line with the stock's five-year average. Though we like ASTRA for its strong growth prospects, wide distribution, broad product portfolio, robust balance sheet and impressive return ratios, current valuations look rich at 81.5x FY23E P/E and we thus await a better entry point.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ASTRA IN/Rs 2,150
Market cap	US$ 5.8bn
Free float	44%
3M ADV	US$ 8.2mn
52wk high/low	Rs 2,294/Rs 767
Promoter/FPI/DII	56%/21%/24%

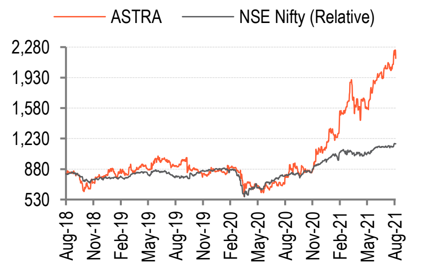
Source: NSE | Price as of 9 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	31,763	39,026	45,073
EBITDA (Rs mn)	6,445	6,816	8,228
Adj. net profit (Rs mn)	4,059	4,282	5,299
Adj. EPS (Rs)	20.2	21.3	26.4
Consensus EPS (Rs)	20.2	23.1	29.3
Adj. ROAE (%)	23.9	21.3	23.5
Adj. P/E (x)	106.4	100.9	81.5
EV/EBITDA (x)	67.2	63.1	52.0
Adj. EPS growth (%)	62.5	5.5	23.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 67,000 | ⋎16%

MRF | Auto Components | 09 August 2021

Margins to remain under pressure

- **Q1 revenue fell 13% QoQ, EBITDA margin shrank 400bps on gross margin pressure and adj. PAT fell 49% QoQ to Rs 1.6bn**
- **EBITDA margin likely to remain stressed led by RM inflation, a higher share of CV tyres and rising OEM share in sales**
- **Our Mar'22 TP remains at Rs 67,000 based on 22x FY23E P/E – reiterate SELL**

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Gross margin downtrend continues: MRF's Q1FY22 revenue was 8% lower than our estimate at Rs 41.3bn (-13% QoQ). Gross margin declined by 60bps QoQ (-250bps est.) but was offset by flattish staff and other expenses despite lower volumes. EBITDA margin came in at 11.8% (13.1% est.) and EBITDA fell 35% QoQ to Rs 4.9bn. Adj. PAT declined 49% QoQ to Rs 1.6bn.

Margin headwinds ahead: Natural rubber prices have increased from Rs 120/kg in Q2FY21 to Rs 175/kg currently while crude derivatives have moved up ~40% over same period. This has resulted in gross margin contraction of ~600bps from Q2FY21 levels. The increase in rubber prices appears structural in nature, and we expect a further rise to Rs 200-210/kg as the economy revives. Crude price is forecast to remain rangebound at US$ 65-70/bbl.

Adverse sales mix to further dampen profitability: We believe MRF's product mix will weaken as the share of OEM sales rises. Expected strong growth in the CV segment may help volumes but will be EBITDA margin-dilutive.

Expect muted 6% EPS CAGR: We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +14%/+8%/+6% over FY21-FY24. Our FY22/FY23 EPS estimates stand at Rs 2,769/Rs 3,080. While our revenue estimates for these years are in line with consensus, we are ~12% below on EBITDA as we bake in 200bps lower gross margins due to raw material cost pressure and the inability of tyre companies to fully pass on the cost. Our EPS estimates remain 25-30% below the street.

Maintain SELL: We maintain our Mar'22 TP at Rs 67,000, based on an unchanged 22x FY23E P/E. Our target multiple is in line with the stock's long-term average as well as the premium it has historically commanded against peers. Historically, input cost pressures have caused a derating in the Indian tyre industry and we believe this risk is elevated at present. SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRF IN/Rs 80,051
Market cap	US$ 4.5bn
Free float	72%
3M ADV	US$ 15.4mn
52wk high/low	Rs 98,600/Rs 55,300
Promoter/FPI/DII	28%/5%/14%

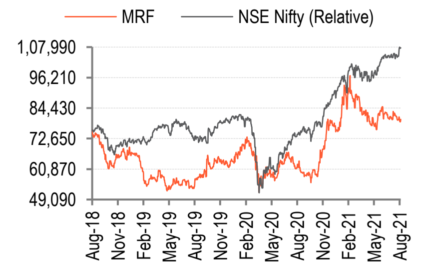
Source: NSE | Price as of 9 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	159,214	192,643	213,721
EBITDA (Rs mn)	28,947	28,662	32,381
Adj. net profit (Rs mn)	12,491	11,741	13,060
Adj. EPS (Rs)	2,945.9	2,769.2	3,080.1
Consensus EPS (Rs)	2,945.9	3,514.0	4,332.0
Adj. ROAE (%)	9.5	8.2	8.4
Adj. P/E (x)	27.2	28.9	26.0
EV/EBITDA (x)	11.9	11.8	10.6
Adj. EPS growth (%)	(10.5)	(6.0)	11.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 6,200 | ⮝ 49%

AFFLE (INDIA) | Internet | 09 August 2021

Stellar quarter

- **Q1 revenue increased 70% YoY driven by 89% growth in CPCU business, with a broad-based uptick across E, F, G, H verticals**
- **EBITDA margin at 23% was slightly subdued due to higher employee and data inventory cost**
- **Jun'22 TP stands revised marginally to Rs 6,200 (vs. Rs 6,240) – retain BUY**

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Strong revenue show: AFFLE reported stellar Q1FY22 revenue growth of 70% YoY led by peak growth of 89% in the CPCU (cost per converted user) business which contributed 87.7% of the topline. The CPCU rate stood at a record Rs 42. Growth was broad-based across the company's E, F, G and H verticals. EBITDA margin stood at 23%, down 130bps QoQ and 220bps YoY, as data inventory and employee cost increased 100bps and 300bps respectively. PAT was up 88% YoY.

International business to ramp up: Management expects its international business (50.3% of Q1 revenue) to grow faster than the India business as revenue from the Jampp acquisition starts coming through (no flowthrough in Q1). AFFLE is also looking to expand volumes and reach in the international market, especially in newer geographies such as LATAM, Africa and China. It further aims to raise penetration in developed markets to increase its CPCU rate and improve margins.

Strategic roadmap: AFFLE's near-term strategy is to: (1) focus on building strong partnerships with OEMs to deeply integrate its platform with the device interface and get first-party data, (2) deepen its vernacular component of the 4V strategy, (3) concentrate on topline and bottomline improvement at Jampp by shifting it from a cost-per-impression model to a CPCU model, (4) drive organic growth by deploying more feet on the ground, and (5) expand into emerging and developed markets.

Privacy concerns remain: Though concerns over privacy issues persist with Apple's iOS blocking cookies, AFFLE clarified that its business will remain unaffected as its delivery is independent of web browsers. Also, Google's decision to push back cookie-blocking to 2023 provides relief to the company. However, to derisk its business from user privacy-related concerns, it is focusing on strengthening partnerships with the OEM/carrier ecosystem to get first-party data.

Retain BUY: We raise our FY22 EPS estimate by ~4% post Q1 and reset our target one-year forward P/E from 62.5x to 61.8x, in line with the stock's post Covid average. Our Jun'22 TP moves to Rs 6,200 (from Rs 6,240). Marquee clientele, strong growth and robust margins are key positive growth drivers.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	AFFLE IN/Rs 4,161
Market cap	US$ 1.5bn
Free float	40%
3M ADV	US$ 3.7mn
52wk high/low	Rs 6,286/Rs 1,825
Promoter/FPI/DII	60%/20%/20%

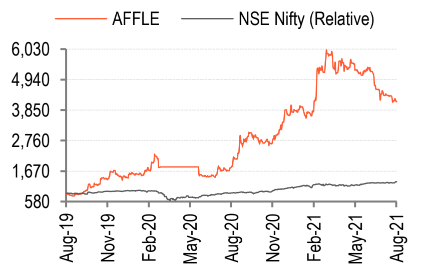
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	5,169	8,807	11,747
EBITDA (Rs mn)	1,300	1,930	2,794
Adj. net profit (Rs mn)	1,350	1,638	2,484
Adj. EPS (Rs)	53.0	61.5	93.3
Consensus EPS (Rs)	53.0	57.9	77.5
Adj. ROAE (%)	37.6	14.6	18.1
Adj. P/E (x)	78.6	67.7	44.6
EV/EBITDA (x)	85.4	57.7	39.3
Adj. EPS growth (%)	102.7	16.1	51.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BUY
TP: Rs 381 | ⮝ 27%

VRL LOGISTICS | Logistics | 09 August 2021

Lower losses; volume recovery and price increase to drive growth

- **Q1 losses fell to below 10% of last year but declined from strong profits in Q4FY21 as volumes slowed and bus operations continued to bleed**
- **VRLL expects volume recovery at 15% YoY in FY22 which together with the recent 10% price increase should help earnings rebound**
- **Retain estimates as Jul-Mar implied earnings are less than that for the same period last year. Retain BUY and TP of Rs 381**

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Losses due to Covid-19: VRLL reported a Q1FY22 net income loss of Rs 60mn vs. a loss of Rs 627mn in Q1FY21. The lower loss was due to a milder Covid impact this quarter which allowed the company to achieve EBIT breakeven (margin of -0.4% vs. -47.3% in Q1FY21). Bus operations continued to bleed with a negative adjusted EBIT of -Rs 71mn vs. -Rs 108mn in Q1FY21. Sequentially, overall results were weak as the company had made a decent 9.6% EBIT margin and Rs 372mn in net income in Q4FY21.

Volume and price-led recovery ahead: VRLL expects over 15% YoY volume growth in FY22 which together with a 10% increase in pricing from June-end should result in a strong recovery in earnings. The bus segment has also started to improve as restrictions in the company's key market of Karnataka have reduced. The FY22 capex budget of Rs 500mn is less than half of the average for FY16-FY20 and capacity utilisation is not that high. The company will increase this budget only when volumes start improving consistently for a few quarters.

Retain estimates: We retain our FY22 net income estimate at Rs 948mn as implied earnings over Jul'21-Mar'22 are actually lower than the figure reported over Jul'20-Mar'21. Given expected volume and pricing growth, our forecast looks achievable.

Trading at discount to peers: VRLL is trading close to its two-year peak forward P/E and P/B multiples. However, valuations have fallen steadily over the last two years due to declining earnings and remain at a discount to peers. Based on our reverse DCF analysis with a terminal growth estimate of 5%, the stock is implying 10-year FCF growth of just ~5% which is lower than the historical mean.

Retain BUY: Our Jun'22 DCF-based TP stands at Rs 381, implying an FY23E P/E of 25.3x – a 20% premium to the two-year mean. With growth expected to accelerate in FY22-FY23, we believe the above-mean valuation is justified and maintain our BUY rating.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VRLL IN/Rs 300
Market cap	US$ 357.7mn
Free float	30%
3M ADV	US$ 2.1mn
52wk high/low	Rs 324/Rs 148
Promoter/FPI/DII	70%/3%/19%

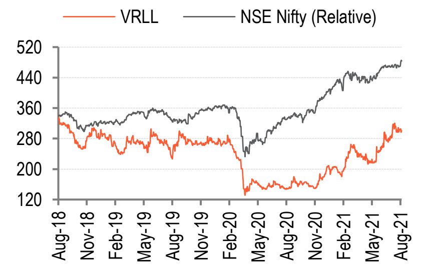
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	17,629	21,886	25,251
EBITDA (Rs mn)	2,475	3,192	3,762
Adj. net profit (Rs mn)	451	948	1,328
Adj. EPS (Rs)	5.1	10.7	15.0
Consensus EPS (Rs)	5.1	9.1	13.1
Adj. ROAE (%)	7.4	14.7	17.5
Adj. P/E (x)	58.9	28.0	20.0
EV/EBITDA (x)	11.8	9.6	7.8
Adj. EPS growth (%)	(48.9)	110.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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