FIRST LIGHT

25 January 2022

RESEARCH

Supreme Industries | Target: Rs 2,535 | +19% | BUY

Disappointing quarter; structural story intact

BOB Economics Research | FY23 Budget Preview

What to watch for?

Greenpanel Industries | Target: Rs 595 | +31% | BUY

Excellent quarter despite lower MDF volumes

Automobiles | Q3FY22 Preview

Weak volumes, RM headwinds continue to hamper bottomline

Daily macro indicators

Indicator	21-Jan	20-Jan	Chg (%)
US 10Y yield (%)	1.76	1.8	(5)
India 10Y yield (%)	6.63	6.61	1
USD/INR	74.4275	74.51	0.1
Brent Crude (US$/bbl)	87.9	88.4	(0.6)
Dow	34,265	34,715	(1.3)
Hang Seng	24,966	24,952	0.1
Sensex	59,037	59,465	(0.7)
India FII (US$ mn)	**20-Jan**	**19-Jan**	**Chg ($ mn)**
FII-D	5.8	21.9	(16.1)
FII-E	(617.9)	(353.7)	(264.2)

Source: Bank of Baroda Economics Research

SUMMARY

Supreme Industries

- Q3 revenue grew 5.5% YoY led by high realisations (+31%) though volumes declined 18%
- EBITDA margin contracted 545bps YoY to 16.3% as RM-to-sales cost surged 500bps
- We maintain our TP to Rs 2,535 based on 29x FY24E EPS; upgrade from HOLD to BUY given the recent 20% price correction

Click here for the full report.

India Economics: FY23 Budget Preview

Budget for FY23 will see the government walking the tight rope in terms of boosting growth and achieving fiscal consolidation. In view of upcoming state elections and an attempt to boost consumption, we expect changes in tax concessions. To boost investment, PLI scheme may see higher allocation. Also, to avoid bond market volatility we believe, gross borrowing will be maintained at Rs 12-13tn, despite higher repayments. We thus estimate fiscal deficit between 6-6.25% in FY23.

Click here for the full report.

BOBCAPS Research
researchreport@bobcaps.in

Greenpanel Industries

- Q3 revenue climbed 34% YoY to Rs 4.2bn led by 40% growth in MDF and 8% in plywood segment
- Gross margin came in at 57.7% vs. 55.5% in the year-ago quarter; EBITDA margin expanded 420bps to 26.2%
- GREENP trades at 18x FY24E EPS which is attractive given its strong growth prospects. Maintain BUY, TP Rs 595

Click here for the full report.

Automobiles: Q3FY22 Preview

- Dull festive season and muted participation from rural markets led to subdued volumes in Q3
- RM cost inflation and production challenges due to chip shortage to further dent the bottomline
- We await management commentary on semiconductor supply, inventory levels, new launches and RM cost outlook

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BUY

TP: Rs 2,535 | ⮝ 19%

SUPREME INDUSTRIES | Plastic Products | 25 January 2022

Disappointing quarter; structural story intact

- **Q3 revenue grew 5.5% YoY led by high realisations (+31%) though volumes declined 18%**
- **EBITDA margin contracted 545bps YoY to 16.3% as RM-to-sales cost surged 500bps**
- **We maintain our TP to Rs 2,535 based on 29x FY24E EPS; upgrade from HOLD to BUY given the recent 20% price correction**

Ruchitaa Maheshwari
researchreport@bobcaps.in

High realisations but volume decline resulted in weak quarter: SI reported muted Q3FY22 revenue growth of 5.5% YoY to Rs 19.5bn led by a steep fall in the sale of plastic pipe systems, furniture and packaging products. During the quarter, blended realisations increased by 31% YoY to Rs 210/kg. Overall volumes fell 18% YoY and 11% QoQ to 91,363mt driven by lower offtake in the agriculture and housing segments, channel destocking at the dealer level and supply chain disruptions. Segment-wise, volume/value growth was as follows in plastic pipes -26%/+1% YoY, packaging products +6%/+26%, industrial products -1%/+16%, and consumer products -19%/+9%.

EBITDA margin contracts 545bps: Gross margin declined 500bps YoY to 32% owing to high volatility in raw material prices. The company's product price hikes have gone into effect with a time lag (Jan'22). EBITDA margin dropped 545bps YoY to 16.3% and was flattish QoQ.

Expansion plans delayed: SI maintained its capex guidance of Rs 5.2bn (of which Rs 3.4bn has been invested), which it believes can add Rs 9bn to the topline. As per plan, plastic product capacity is slated to increase from ~7kt to ~7.5kt, with major capacity additions coming onstream in piping and industrial products. The upcoming plants at Guwahati, Cuttack and Erode are progressing smoothly and are scheduled to become operational between April to August. Capex has been delayed to some extent due to supply chain disruptions.

Growth outlook steady; upgrade to BUY on recent correction: We remain positive on SI's growth and margin prospects supported by incremental capacity as well as improving housing demand, benefits from government schemes such as 'Nal Se Jal', infrastructure development, its net debt-free balance sheet and healthy return ratios. The stock has corrected 21% from its 52-week high (19 Jan 2022) and is trading at a P/E of 24.4x on FY24E, which is a ~29% discount to its five-year median of 34.2x. We value SI at 29x on FY24E and arrive at a TP of Rs 2,535 – upgrade to BUY from HOLD on attractive valuations.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	SI IN/Rs 2,130
Market cap	US$ 3.6bn
Free float	51%
3M ADV	US$ 3.3mn
52wk high/low	Rs 2,694/Rs 1,720
Promoter/FPI/DII	49%/16%/35%

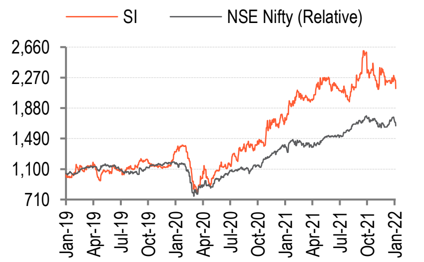
Source: NSE | Price as of 24 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	63,496	78,647	84,963
EBITDA (Rs mn)	12,786	13,504	14,575
Adj. net profit (Rs mn)	9,592	9,490	10,252
Adj. EPS (Rs)	75.5	74.7	80.7
Consensus EPS (Rs)	75.5	72.5	76.8
Adj. ROAE (%)	35.3	28.0	26.7
Adj. P/E (x)	28.2	28.5	26.4
EV/EBITDA (x)	21.0	20.0	18.7
Adj. EPS growth (%)	97.1	(1.1)	8.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

FY23 BUDGET PREVIEW

24 January 2022

What to watch for?

Budget for FY23 will see the government walking the tight rope in terms of boosting growth and achieving fiscal consolidation. In view of upcoming state elections and an attempt to boost consumption, we expect changes in tax concessions. To boost investment, PLI scheme may see higher allocation. Also, to avoid bond market volatility we believe, gross borrowing will be maintained at Rs 12-13tn, despite higher repayments. We thus estimate fiscal deficit between 6-6.25% in FY23.

Madan Sabnavis
Chief Economist

Dipanwita Mazumdar
Economist

Sonal Badhan
Economist

FY23 fiscal deficit at 6-6.25%: In line with a 13% increase in nominal GDP, Centre's net revenues are estimated to rise by 12.2% and spending is also likely to increase by 4.5% in FY23. Assuming that a large part of disinvestment target for FY22 will be met, we expect only Rs 750bn as disinvestment in FY23. Next year too, most of the fiscal deficit will be financed through market borrowings.

Centre's Gross borrowing at Rs 12-13tn: We expect gross borrowing to be in the range of Rs 12-13tn in FY23 against Rs 12.05tn in FY22 (BE) (Actual: Rs 10.34tn - till 21 Jan 2021). As repayment is piling up with a quantum of Rs 3.8tn in FY23 against Rs 2.9tn in FY22, gross borrowing is unlikely to go down. This is likely to put pressure on the yields (10 year currently at 6.6%) which is expected to touch the 7% mark in FY23, albeit in a gradual manner. Interest cost is likely to be ~Rs 9.3tn in FY23 against Rs 8.1tn in FY22BE.

Revenues buoyant: Gross tax revenue to GDP ratio is expected to remain broadly unchanged in FY23 (10.1%) compared with from FY22 (10%). Higher nominal GDP will imply that gross revenues will increase to Rs 26.5tn in FY23 from Rs 22.2tn as per FY22 BE. We expect FY22 BE numbers also to be revised upwards by at least Rs 1tn, when FY22 RE numbers are presented in the budget.

Cheers in the Budget: Upcoming budget may focus on increasing standard deduction of salaried class by Rs 50,000. Apart from this, increased allocation for PLI scheme, and Covid booster shots is also expected. ECLGS scheme may also be expanded especially for sectors severely hit by the pandemic. A waiver of capital gain tax will also be a welcome move as it would help India's inclusion in global bond index. Overall, we expect a balance of consumption and investment centric policies.

BUY
TP: Rs 595 | ⮝ 31%

GREENPANEL INDUSTRIES | Construction Materials | 24 January 2022

Excellent quarter despite lower MDF volumes

- **Q3 revenue climbed 34% YoY to Rs 4.2bn led by 40% growth in MDF and 8% in plywood segment**
- **Gross margin came in at 57.7% vs. 55.5% in the year-ago quarter; EBITDA margin expanded 420bps to 26.2%**
- **GREENP trades at 18x FY24E EPS which is attractive given its strong growth prospects. Maintain BUY, TP Rs 595**

Ruchitaa Maheshwari
researchreport@bobcaps.in

Strong growth aided by higher MDF realisation: GREENP's consolidated Q3FY22 revenue grew 34% YoY to Rs 4.2bn, with MDF up 40% as blended realisations increased 44% YoY and 19% QoQ. However, plywood revenue grew just 8% YoY. EBITDA margin stood at 26.2% vs. 22% in the year-ago quarter due to a superior product mix, cost optimisation and operating leverage.

Lower MDF volumes: During the quarter, the company shut down its Uttarakhand plant for capacity expansion (via debottlenecking) from 0.18mn cbm to 0.26mn cbm. However, this caused a volume loss of 80,000cbm valued at Rs 580mn, which led to a 55% QoQ decline in export volumes (though realisation grew 11.6% QoQ). MDF EBITDA margin improved 100bps QoQ to 32.4% due to higher realisations. We expect margins to improve as the new capacity will come onstream in Q4.

Plywood margin declines due to higher RM cost: Plywood earned lower EBITDA margins at 10% (-470bps YoY) due to higher raw material cost and a 2% dip in volumes. Management indicated that the company took a 4% price hike in plywood in Nov22' and was implemented in Dec'21 and, hence, the full benefit was not visible during Q3. Another 3% hike taken in Jan22' will be implemented from Feb'22.

On a high growth and profit trajectory…: GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market, improving balance sheet and return ratios. With growth momentum likely to continue and no more significant capex, we expect the company to turn net debt-free in FY23. We model for a revenue/EBITDA/PAT CAGR of 26%/37%/58% over FY21-FY24 aided by better utilisation at the MDF facility and a higher EBIDTA margin arising from operating leverage.

…maintain BUY: GREENP is trading at ~18x FY24E P/E, 40% lower than Century Ply (~30x). We believe the trading multiple-gap will narrow going forward given strong growth prospects led by domestic and export sales of MDF. We retain our TP of Rs 595 set at 23x FY24E P/E and reiterate BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 453
Market cap	US$ 744.0mn
Free float	47%
3M ADV	US$ 2.2mn
52wk high/low	Rs 493/Rs 150
Promoter/FPI/DII	53%/4%/43%

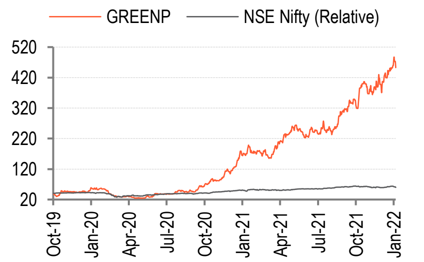
Source: NSE | Price as of 24 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,208	15,266	18,347
EBITDA (Rs mn)	2,077	3,751	4,684
Adj. net profit (Rs mn)	808	1,966	2,662
Adj. EPS (Rs)	6.6	16.0	21.7
Consensus EPS (Rs)	6.6	11.6	16.5
Adj. ROAE (%)	11.6	24.6	27.7
Adj. P/E (x)	68.7	28.2	20.9
EV/EBITDA (x)	29.4	16.0	12.5
Adj. EPS growth (%)	219.4	143.3	35.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

AUTOMOBILES | Q3FY22 Preview | 24 January 2022

Weak volumes, RM headwinds continue to hamper bottomline

- **Dull festive season and muted participation from rural markets led to subdued volumes in Q3**
- **RM cost inflation and production challenges due to chip shortage to further dent the bottomline**
- **We await management commentary on semiconductor supply, inventory levels, new launches and RM cost outlook**

Tarun Bhatnagar | Someel Shah
researchreport@bobcaps.in

Lacklustre festive season derails auto volumes: Amongst our coverage, all OEMs barring AL have posted negative-to-flattish YoY volume growth in Q3FY22. The decline in volumes was primarily due to weak festive demand, semiconductor shortages, sluggish recovery in rural markets as well as a high base from pent-up demand seen in Q3FY21. 2W volumes remain the hardest hit during the quarter, while some green shoots were seen in the CV market.

Topline to remain soft: Factoring in poor volumes, we expect revenue growth to be in the range of -22% to +18% YoY for our coverage. AL's revenue is forecast to grow the most by 18% YoY primarily due to recovery in HCVs coupled with higher price realisations and a better product mix. At the other end, HMCL, which has seen a 30% YoY drop in volumes, is likely to post the largest fall in topline by 22% YoY.

PAT likely to bottom out: We expect a YoY PAT decline for our entire coverage barring EIM. For EIM, we estimate a 10% rise in PAT led by stronger price realisations and a better product mix. In our view, lower volumes, production challenges due to semiconductor issues coupled with a surge in raw material cost have dented auto OEM profitability. However, we expect input cost to normalise hereon and hence believe PAT will improve in coming quarters, provided volumes move up.

What to watch for in Q3: (1) Near-term impact of Omicron, (2) Rising raw material prices and semiconductor shortage issues, (3) Inventory levels both wholesale as well as retail, (4) New product pipeline.

Mid-to-long-term outlook choppy: The auto industry has been facing a slew of difficulties in recent years due to emission norms, the pandemic and now the chip shortage. The industry also stands at the cusp of a shift from traditional fuel to EVs. Newer players in the 2W, 3W and bus segments are posing stiff competition to incumbents. Many incumbents have delayed launches in FY22 and hence FY23 will see a large product pipeline for market leaders such as MSIL and Hyundai, which should help them regain market share. In 2Ws, we expect sales to remain choppy, though motorcycle players are likely to be less impacted by electrification than scooters.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	138	121	HOLD
BJAUT IN	3,420	4,231	BUY
EIM IN	2,711	2,981	HOLD
ESC IN	1,869	2,201	BUY
HMCL IN	2,750	3,191	BUY
MM IN	875	1,011	BUY
MSIL IN	8,190	7,771	HOLD
TVSL IN	631	681	HOLD
VSTT IN	2,899	2,300	HOLD

Price & Target in Rupees | Price as of 21 Jan 2022

Disclaimer

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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