BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

29 June 2021

RESEARCH

BOB Economics Research | Weekly Wrap

Global and Indian yields inching up

BOB Economics Research | Government stimulus measures

Stimulus to boost growth

Finolex Industries | Target: Rs 175 | –4% | HOLD

Higher PVC prices boost profitability

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.52	3bps	(3bps)	84bps
India 10Y yield (%)	6.03	2bps	6bps	14bps
USD/INR	74.20	0.0	(2.0)	1.9
Brent Crude (US$/bbl)	76.18	0.8	11.0	85.6
Dow	34,434	0.7	0.4	33.7
Shanghai	3,608	1.1	0.7	21.1
Sensex	52,925	0.4	4.5	51.9
India FII (US$ mn)	**24-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(49.0)	(380.7)	(2,961.3)	(934.0)
FII-E	(105.1)	1,388.3	7,974.4	648.1

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Weekly Wrap

Global economic activity remained buoyant. Consumer sentiment in US and Germany improved. US 10Y rose by 9bps on the back of tilt in US monetary policy. However, Fed Chair downplayed inflation as transitory. Even, BoE said it is transient. On the domestic front, weekly economic activity tracker has improved to 89 from 88 last week (Feb'20=100). Indian 10Y yield is gradually inching up. Rising oil prices, core retail inflation and higher than estimated borrowing by government implies upward trajectory to continue. However, normal monsoon is positive.

Click here **for the full report.**

India Economics: Government stimulus measures

FM today announced stimulus package for sectors most impacted by second wave: MSMEs, health, farm, tourism and MFIs. MSMEs will get a big boost by way of increase in ECLGS by Rs 1.5tn. Exports too will benefit. The total cash payout is limited to less than 1% of GDP. Economic activity continues to rebound as visible in our economic tracker (now 11% below Feb'20 from 19% in May'21). We expect GDP to rebound by 9.7% in FY22 led by gradual opening up of restrictions.

Click here **for the full report.**

BOBCAPS Research
researchreport@bobcaps.in

Finolex Industries

- FNXP reported strong Q4FY21 revenue growth of 63% YoY as PVC prices surged 68% YoY, driving up realisations
- Operating margin beat estimates, expanding 20ppt YoY to 32.8% primarily due to a higher gross margin (+14ppt)
- We raise FY22/FY23 PAT ~18% and increase our TP to Rs 175 (vs. Rs 135). Realign from ADD to HOLD (as per our new rating scale) on full valuations

Click here for the full report.

WEEKLY WRAP

28 June 2021

Global and Indian yields inching up

Global economic activity remained buoyant. Consumer sentiment in US and Germany improved. US 10Y rose by 9bps on the back of tilt in US monetary policy. However, Fed Chair downplayed inflation as transitory. Even, BoE said it is transient. On the domestic front, weekly economic activity tracker has improved to 89 from 88 last week (Feb'20=100). Indian 10Y yield is gradually inching up. Rising oil prices, core retail inflation and higher than estimated borrowing by government implies upward trajectory to continue. However, normal monsoon is positive.

Sameer Narang | Dipanwita Mazumdar
chief.economist@bankofbaroda.com

Markets

- **Bonds:** US 10Y yield rose by 9bps (1.52%) as markets price in front-loading of rate hikes by FOMC. Germany's 10Y yield rose by 5bps (-0.16%) as macro prints (flash PMI, consumer sentiment index) remained buoyant. Crude prices rose by 3.6% (US$ 76/bbl) ahead of OPEC+ meeting scheduled on 1 Jul 2021. India's 10Y yield rose by 2bps (6.03%). Higher inflation print and subsequent devolvement on PDs explains the move. System liquidity surplus rose to Rs 4.6tn as on 25 Jun 2021 from Rs 4.2tn last week.

- **Currency:** After rising to a 2-month high last week, DXY fell by 0.4% in the week as Fed Chair played down rising inflation as transitory. EUR rose by 0.6% led by positive data (consumer confidence, manufacturing and services PMI). INR depreciated by 0.4% as oil prices firmed up. FII outflows were US$ 372mn.

- **Equity:** Global indices ended higher as global economy continues to show improvement. BoE decided to continue monetary stimulus amidst rising Covid-19 cases. Dow (3.4%) and Shanghai Comp (2.3%) rose the most. Sensex (1.1%) too gained, led by capital goods and metal stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 2.6mn this week versus 2.5mn last week. Fresh cases increased in UK (0.1mn versus 64k). In India, cases rose by 0.35mn versus 0.4mn in the previous week. Our weekly economic activity tracker index rose to 89 (100=Feb'20) from 88. Israel has fully vaccinated 60% of its population, UK at 48% and US at 46%. India is at 4%.

- **Upcoming key events:** Major data release this week includes US non-farm payrolls and final global manufacturing PMIs. On the domestic front, fiscal, BoP and core industry data is due for release. Monsoon is progressing well and is 18% above LPA as of now.

GOVERNMENT STIMULUS

28 June 2021

Stimulus to boost growth

Sameer Narang | Jahnavi
Aditi Gupta
chief.economist@bankofbaroda.com

FM today announced stimulus package for sectors most impacted by second wave: MSMEs, health, farm, tourism and MFIs. MSMEs will get a big boost by way of increase in ECLGS by Rs 1.5tn. Exports too will benefit. The total cash payout is limited to less than 1% of GDP. Economic activity continues to rebound as visible in our economic tracker (now 11% below Feb'20 from 19% in May'21). We expect GDP to rebound by 9.7% in FY22 led by gradual opening up of restrictions from Q2FY22.

Key highlights

- Government announces stimulus of Rs 4.5tn to mitigate the impact of second wave.
- ECLGS scheme extended to Rs 4.5tn, loan guarantee scheme of Rs 1.1tn for contact intensive sectors.
- We maintain our GDP growth forecast of 9.7% FY22 led by opening up of economy.

Focus on employment and growth: Centre has extended PLI scheme for Large Scale Electronic Manufacturing by 1 year to FY26. For exports, government has provided Rs 880bn for export insurance cover with Rs 330bn for project exports through National Export Insurance Account (NEIA) (over 5 years). To improve digital infrastructure, Rs 190bn is provided for broadband to each village through BharatNet PPP Model (over 2 years). For power sector, Reform Based Result Linked Power Distribution Scheme has been revamped with state governments allowed additional borrowing of 0.5% of GDP. Centre's share is Rs 976bn (5 years). Centre has also extended Atmanirbhar Bharat Rozgar Yojana from 30 Jun 2021 to 31 Mar 2022.

Credit relief to MSME, health and tourism: Centre has extended the ongoing Emergency Credit Line Guarantee Scheme (ECLGS) by Rs 1.5tn to Rs 4.5tn. Existing disbursal is Rs 2.69tn. In addition, Rs 1.1tn loan guarantee scheme has been announced to support the contact intensive sectors: Rs 500bn for health and Rs 600bn for others, including tourism. Further to support tourism sector, 100% credit guarantee will be given for loans to registered travel agencies (loan up to Rs 1mn) and tourist guides (Rs 0.1mn). A new credit guarantee scheme to facilitate loans through MFIs has also been announced, guaranteeing 75% of the loan amount (loan upto Rs 0.13mn). This scheme will cost Rs 75bn to the government.

Boost for health, farm sector: Government has announced a new health scheme to the tune of Rs 150bn per year focusing on short term emergency preparedness. The scheme is expected to provide higher availability of ICU beds and oxygen supply at central, state and even sub-district level. Pradhan Mantri Gareeb Kalyan Anna Yojana (PMGKAY) has been extended till Nov'21. Additional outlay for this scheme is Rs 939bn. Further, fertilizer subsidy has also been extended with an additional amount of Rs 148bn in FY22.

We retain our 9.7% growth for FY22: Today's fiscal stimulus will be most beneficial for MSMEs, health, tourism and rural economy. These sectors have been impacted by second wave the most. Our activity tracker continues to show rapid improvement in economic activity. Normal monsoon will also boost rural growth.

HOLD

TP: Rs 175 | ⩔ 4%

FINOLEX INDUSTRIES | Plastic Products | 28 June 2021

Higher PVC prices boost profitability

- **FNXP reported strong Q4FY21 revenue growth of 63% YoY as PVC prices surged 68% YoY, driving up realisations**
- **Operating margin beat estimates, expanding 20ppt YoY to 32.8% primarily due to a higher gross margin (+14ppt)**
- **We raise FY22/FY23 PAT ~18% and increase our TP to Rs 175 (vs. Rs 135). Realign from ADD to HOLD (as per our new rating scale) on full valuations**

Arun Baid
researchreport@bobcaps.in

Strong revenue growth aided by higher PVC prices: FNXP reported revenue growth of 63% YoY as PVC prices surged 68% YoY and PVC pipe realisation increased 48%. PVC resin volumes grew 25% YoY whereas pipe volumes declined 4%. Management stated that Q4 was its best-ever quarter aided by record PVC resin realisations which offset the negative impact of higher prices on agriculture PVC pipe demand. For FY21, revenue grew 16% YoY with PVC resin/pipe volumes declining 1%/17% YoY whereas realisation increased 37%/24% YoY.

Agri pipe demand softens: Q1FY22 which is a busy season for agriculture pipes has been affected by both the higher PVC prices and the pandemic. The non-agri segment continues to do well (~37% of revenue in FY21) and management is hopeful of better volumes from agri pipes in H2FY22.

Operating margin swells 20ppt YoY: FNXP's standalone EBITDA margin increased 20ppt YoY to 32.8% aided by a higher gross margin (14ppt) from better PVC realisations, as well as lower other expenses (-500bps). EBITDA/PBT thus grew 296%/421% YoY. Similarly, for FY21, the company reported a 14ppt rise in operating margin to 28.6%, resulting in EBITDA/PBT growth of 121%/148% YoY.

PVC prices have begun to correct: The average PVC-EDC delta was at US$ 877/mt (+53% YoY) in Q4, US$ 711 (+27% YoY) in FY21 and currently stands at US$ 715/mt. As per management, PVC prices have started to correct in Q1FY22 whereas EDC prices have remained firm, resulting in margin pressure. While PVC resin margins are difficult to forecast, those in the pipe segment are more predictable and should sustain at ~Rs 10/kg according to FNXP.

Valuations full, HOLD: We raise FY22/FY23 PAT estimates 18%/19% given the Q4 margin beat. FNXP has a strong balance sheet and its focus on non-agri pipes could aid further margin gains. While we like the company, we find current valuations full at 24.9x FY23E P/E. We realign to HOLD (from ADD) as per our new rating scale. Post estimate revision, we raise our Mar'22 TP to Rs 175 (from Rs 135), set at 24x FY23E P/E – a 30% premium to the five-year average vs. 20% earlier.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 182
Market cap	US$ 1.5bn
Free float	48%
3M ADV	US$ 2.0mn
52wk high/low	Rs 198/Rs 27
Promoter/FPI/DII	52%/3%/45%

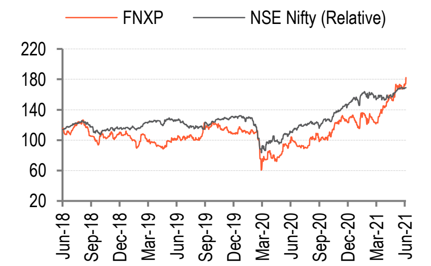
Source: NSE | Price as of 28 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	34,628	34,395	35,344
EBITDA (Rs mn)	9,893	5,962	6,281
Adj. net profit (Rs mn)	7,378	4,209	4,537
Adj. EPS (Rs)	11.9	6.8	7.3
Consensus EPS (Rs)	9.4	7.4	8.2
Adj. ROAE (%)	28.8	12.9	13.0
Adj. P/E (x)	15.3	26.9	24.9
EV/EBITDA (x)	11.4	18.5	16.9
Adj. EPS growth (%)	121.8	(43.0)	7.8

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

Stock performance



Source: NSE

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.

Rating distribution

As of 31 May 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 19 have ADD* ratings, 6 are rated REDUCE* and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.