FIRST LIGHT

06 August 2021

RESEARCH

Mayur Uniquoters | Target: Rs 605 | +15% | BUY

Demand trends improving; upgrade to BUY

Hindustan Petroleum Corp | Target: Rs 345 | +30% | BUY

Q1 muted, project completion the key driver

Apollo Tyres | Target: Rs 140 | –38% | SELL

Dull quarter; maintain SELL

Greenply Industries | Target: Rs 210 | +9% | HOLD

Low base aids Q1; MDF foray to be beneficial in long run

SUMMARY

Mayur Uniquoters

- Standalone Q1 revenue tripled YoY as volumes surged 217% aided by a low base
- Operating margin stood at 18.6% with EBITDA of Rs 237mn vs. a Rs 5mn loss in Q1FY21
- We roll over to a revised Jun'22 TP of Rs 605 (vs. Rs 560) and upgrade from ADD to BUY on healthy upside potential

Click here for the full report.

Hindustan Petroleum Corp

- Q1 reflects weak benchmark refining margin and impact of planned shutdowns but robust marketing margin
- We believe marketing margin could sustain at historical average levels despite the pause on daily revision of petrol/diesel prices
- Prefer HPCL amongst OMCs as it will be the first to deliver on capex-driven earnings growth over FY23-FY24

Click here for the full report.

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.18	1bps	(24bps)	63bps
India 10Y yield (%)	6.20	0bps	13bps	43bps
USD/INR	74.19	0.1	0.8	1.0
Brent Crude (US$/bbl)	70.38	(2.8)	(7.6)	55.8
Dow	34,793	(0.9)	0.0	27.9
Shanghai	3,477	0.8	(1.2)	3.0
Sensex	54,370	1.0	3.6	44.4
India FII (US$ mn)	**03-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	(63.3)	(8.5)	(3,261.7)	(1,234.4)
FII-E	282.4	82.4	6,460.6	(865.8)

Source: Bank of Baroda Economics Research

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Apollo Tyres

- Q1 revenue in line but EBITDA margin disappoints at 12.4% due to gross margin pressure and lower operating efficiency
- Expect sustained gross margin stress from rising commodity prices and inability to fully pass on costs
- Maintain SELL with an unchanged Mar'22 TP of Rs 140, set at 16x FY23E EPS

Click here **for the full report.**

Greenply Industries

- Consolidated Q1 revenue grew 97% YoY backed by a 98% upswing in India business
- Consolidated operating margin was at 5.1% with operating profit at Rs 132mn (vs. Rs 28mn loss in Q1FY21)
- We cut FY22/FY23 PAT by 3%/7% and roll over to a new Jun'22 TP of Rs 210 (vs. Rs 230) - retain HOLD

Click here **for the full report.**

BUY

TP: Rs 605 | ⮝ 15%

MAYUR UNIQUOTERS | Textiles | 05 August 2021

Demand trends improving; upgrade to BUY

- **Standalone Q1 revenue tripled YoY as volumes surged 217% aided by a low base**
- **Operating margin stood at 18.6% with EBITDA of Rs 237mn vs. a Rs 5mn loss in Q1FY21**
- **We roll over to a revised Jun'22 TP of Rs 605 (vs. Rs 560) and upgrade from ADD to BUY on healthy upside potential**

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Strong topline growth off a soft base: MUNI reported standalone Q1FY22 revenue growth of 234% YoY to Rs 1.3bn as volumes increased 217% aided by a weak lockdown-hit base quarter. Per management, Q1 started off strong but tapered down with the resurgence of the pandemic. PU plant volumes picked up during the quarter and are expected to fare better going ahead. Management is targeting PU sales of Rs 250mn-260mn in FY22 and revenue of Rs 1bn from this segment over the next three years. The company aims to double overall revenue over the next 3-4 years.

Demand outlook improving: According to management, April was the best month in the company's history, but May and June were challenging due to the pandemic. Demand has improved in July and the order book for August looks healthy. Offtake from export OEMs is likely to increase as clients expect chip availability to improve from Q2. Footwear demand from the domestic market should also gather pace as the country unlocks. Management believes the remainder of FY22 would be healthy provided the pandemic does not resurface.

Operating margin healthy: MUNI reported a standalone operating margin of 18.6% and EBITDA of Rs 237mn in Q1 (vs. a loss of Rs 5mn in the year-ago quarter). Gross margin declined 500bps QoQ due to higher raw material prices. Management indicated that the company has hiked prices during the quarter which should take operating margin back to ~24% levels as sales normalise. Also, higher exports which have better margins should aid profitability.

Upgrade to BUY: We marginally increase our FY22/FY23 PAT estimates by 2%/3% and roll forward to a revised Jun'22 TP of Rs 605 (vs. Rs 560). Our target one-year forward P/E multiple remains unchanged at 20x, in line with the stock's five-year average. We continue to like MUNI given its strong growth prospects and robust balance sheet. Valuations look attractive at 18.2x FY23E EPS and offer healthy upside potential – upgrade from ADD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	MUNI IN/Rs 524
Market cap	US$ 314.9mn
Free float	38%
3M ADV	US$ 0.8mn
52wk high/low	Rs 546/Rs 218
Promoter/FPI/DII	62%/1%/37%

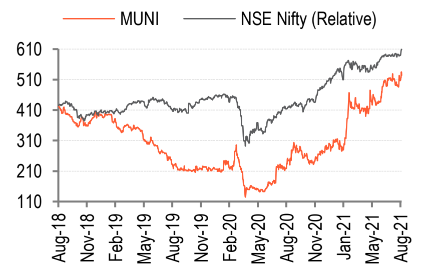
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,127	6,411	7,444
EBITDA (Rs mn)	1,252	1,472	1,778
Adj. net profit (Rs mn)	934	1,051	1,280
Adj. EPS (Rs)	20.9	23.6	28.7
Consensus EPS (Rs)	20.9	25.5	32.9
Adj. ROAE (%)	15.6	15.9	17.3
Adj. P/E (x)	25.0	22.2	18.2
EV/EBITDA (x)	17.2	14.6	11.9
Adj. EPS growth (%)	42.7	12.5	21.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 345 | 30%

HINDUSTAN PETROLEUM CORP | Oil & Gas | 05 August 2021

Q1 muted, project completion the key driver

- **Q1 reflects weak benchmark refining margin and impact of planned shutdowns but robust marketing margin**
- **We believe marketing margin could sustain at historical average levels despite the pause on daily revision of petrol/diesel prices**
- **Prefer HPCL amongst OMCs as it will be the first to deliver on capex-driven earnings growth over FY23-FY24**

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Refining muted: HPCL's Q1FY22 refining EBITDA was at Rs 0.4bn (or US$ 0.3/bbl) including inventory gains and reflected 43% lower QoQ throughput due to planned shutdowns and extension of turnaround at the Mumbai refinery and a muted benchmark refining margin. Mumbai refinery will operate at part capacity in Q2 as well, with the restart of CDU2 planned by end-August. Our FY22 estimates were already factoring in a conservative restart for the Mumbai refinery.

Marketing robust: Marketing EBITDA stood at Rs 28.7bn (or Rs 3,255/t) including inventory gains. This reflects a robust marketing margin, offset by a 14% QoQ decline in domestic sales volume. With OMCs pausing daily revision of petrol/diesel prices since mid-July, the question of sustainability of market-determined margins resurfaces. We expect marketing margin to sustain close to the historical average of Rs 2,400/t through the cycle based on our view that crude price will retract to US$ 65/bbl over H2FY22. We expect the crude balance to turn surplus in CY22 with a gradual lifting of OPEC restrictions and rise in non-OPEC supply.

Prefer HPCL amongst OMCs: We are positive on OMCs given our expectation of a gradual US$ 3.5/bbl improvement in benchmark refining margin over FY22-FY24 (to US$ 3.8/bbl) and delivery on refining and petrochemical expansion/upgrade projects. HPCL is positioned to deliver profit growth over FY23-FY24, ahead of other OMCs, from the completion of capex investments worth Rs 320bn on its books and Rs 212bn by HMEL. Key catalysts for the stock hereon are delivery on its Vizag refinery expansion and Bhatinda polymer addition in FY22 as well as the Vizag residue upgrade project in CY22.

Maintain BUY: At 5.4x FY23E EV/EBITDA, HPCL is trading at a discount to BPCL, after adjusting for its investments. Our Mar'22 TP remains at Rs 345 wherein we value the refining and marketing business at 6.0x FY23E EV/EBITDA, in line with our target multiple of 6.0x for OMC peers. For details, please refer to our report **OMCs: Prefer HPCL over BPCL and IOCL, 5 Jul 2021**.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	HPCL IN/Rs 265
Market cap	US$ 5.1bn
Free float	42%
3M ADV	US$ 21.7mn
52wk high/low	Rs 312/Rs 163
Promoter/FPI/DII	55%/16%/29%

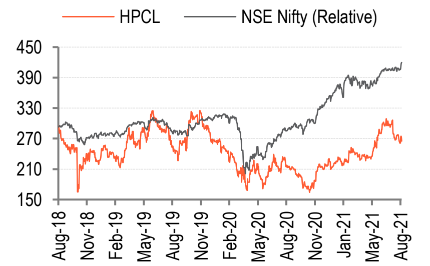
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	23,21,642	30,28,323	31,93,502
EBITDA (Rs mn)	1,49,191	93,158	1,17,631
Adj. net profit (Rs mn)	1,03,856	61,382	82,961
Adj. EPS (Rs)	71.5	42.3	57.1
Consensus EPS (Rs)	71.5	45.1	53.1
Adj. ROAE (%)	30.1	15.4	18.9
Adj. P/E (x)	3.7	6.3	4.6
EV/EBITDA (x)	3.7	6.8	5.4
Adj. EPS growth (%)	139.1	(40.9)	35.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 140 | ⩡ 38%

APOLLO TYRES | Auto Components | 05 August 2021

Dull quarter; maintain SELL

- **Q1 revenue in line but EBITDA margin disappoints at 12.4% due to gross margin pressure and lower operating efficiency**
- **Expect sustained gross margin stress from rising commodity prices and inability to fully pass on costs**
- **Maintain SELL with an unchanged Mar'22 TP of Rs 140, set at 16x FY23E EPS**

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Revenue in line: APTY's Q1FY22 consolidated revenue declined 9% QoQ to Rs 45.8bn, in line with our estimate. India revenue dipped 11% QoQ and Europe sales were flat.

Gross margin weakens: Gross margin slipped further by 240bps QoQ to 42.8%, reflecting the sharp increase in rubber and crude oil prices as well as the inability of tyre companies to take sufficient price hikes to negate cost inflation. EBITDA margin contracted 385bps QoQ to 12.4% (13% est.), leading to a 30% QoQ fall in EBITDA to Rs 5.7bn (Rs 6.4bn est.). Adj. PAT stood at Rs 1.3bn with EPS at Rs 2. EBIT margin was at 5.5% (-645bps QoQ) for the India business and 3.9% (-80bps QoQ) for Europe.

Surge in commodity prices to further undermine margins: Given the 12% QoQ cost increase in the raw material basket during both Q4FY21 and Q1FY21 (per management), together with the inability of tyre companies to fully pass on the burden, we anticipate gross margin deterioration across the sector in FY22. We bake in a further decline of ~300bps in APTY's FY22 gross margin over FY21, resulting in a weaker operating margin.

Estimates unchanged: We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +10%/+2%/-11% for APTY over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 7.9/Rs 9, which is 50%+ less than consensus. We diverge widely from the street as our gross margin assumptions of 43% for both years are ~200bps below consensus.

Maintain SELL: APTY's Q1 gross margin has weakened considerably and we do not see scope for quick recovery in the near term considering the steep increase in input cost and lag in price hikes taken by companies. We maintain our Mar'22 TP of Rs 140, set at an unchanged 16x FY23E EPS, in line with the stock's seven-year average. Reiterate SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	APTY IN/Rs 225
Market cap	US$ 1.7bn
Free float	62%
3M ADV	US$ 16.9mn
52wk high/low	Rs 261/Rs 110
Promoter/FPI/DII	41%/23%/17%

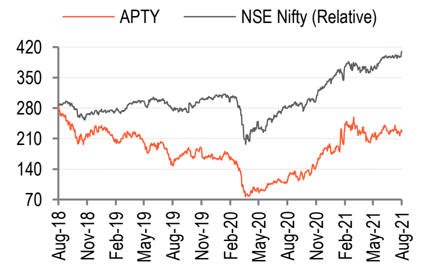
Source: NSE | Price as of 4 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	173,970	194,362	215,347
EBITDA (Rs mn)	27,975	24,288	26,917
Adj. net profit (Rs mn)	9,579	5,031	5,708
Adj. EPS (Rs)	15.1	7.9	9.0
Consensus EPS (Rs)	15.1	14.4	18.0
Adj. ROAE (%)	8.4	3.9	4.3
Adj. P/E (x)	14.9	28.5	25.1
EV/EBITDA (x)	6.4	7.1	6.0
Adj. EPS growth (%)	81.2	(47.5)	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 210 | ⮝ 9%

GREENPLY INDUSTRIES | Construction Materials | 06 August 2021

Low base aids Q1; MDF foray to be beneficial in long run

- **Consolidated Q1 revenue grew 97% YoY backed by a 98% upswing in India business**
- **Consolidated operating margin was at 5.1% with operating profit at Rs 132mn (vs. Rs 28mn loss in Q1FY21)**
- **We cut FY22/FY23 PAT by 3%/7% and roll over to a new Jun'22 TP of Rs 210 (vs. Rs 230) – retain HOLD**

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Healthy growth off low base: GIL reported consolidated Q1FY22 revenue growth of 97% YoY to Rs 2.6bn, with India business up 98% as plywood volumes grew 89% off a soft base last year. Gabon subsidiary revenue increased 89% YoY, also aided by a low base. Per management, demand traction was reasonable in April but dropped significantly in May due to lockdowns. The company has seen improvement in June and July, with domestic demand expected to pick up if Covid restrictions continue to ease.

Modest operating margin: Consolidated Q1 operating margin stood at 5.1% and EBITDA was at Rs 132mn (vs. a Rs 28mn loss in the year-ago quarter). India business had a 4.3% EBITDA margin with gross margin rising 170bps YoY (+380bps QoQ) due to a better product mix and price hikes. The company has taken price increases to counter rising raw material prices and has also rationalised costs, which management believes will take it closer to ~13% operating margins in the remainder of FY22. GIL expects to sustain this level of profitability over the longer term despite reinvesting in the business.

MDF foray to cost Rs 5.5bn: GIL has decided to foray into MDF manufacturing with a capacity of 0.24mn CBM per year being set up at a cost of Rs 5.48bn. This capacity is slated to come up in Gujarat by Q4FY23 and will be funded via debt and internal accruals. Per management, this will be the first MDF facility in western India, giving the company a freight advantage as compared to peers when catering to demand in the region. With the entry into MDF, GIL will be able to broaden its wood panel product portfolio and deepen its presence in this growing market.

Maintain HOLD: We cut FY22/FY23 PAT estimates by 3%/7% and roll forward to a revised Jun'22 TP of Rs 210 (vs. Rs 230), set at an unchanged 20x one-year forward P/E – in line with five-year average. We believe GIL's foray into the high-growth MDF segment will benefit the company in the long run by substantially improving its growth trajectory. Also, its strong presence in the plywood industry will facilitate smooth entry into MDF. In the near term, however, we expect the new business to subdue earnings and return ratios till the plant ramps up.

Key changes

Target	Rating
▼	◄►

Ticker/Price	MTLM IN/Rs 193
Market cap	US$ 319.6mn
Free float	48%
3M ADV	US$ 1.8mn
52wk high/low	Rs 225/Rs 74
Promoter/FPI/DII	52%/2%/46%

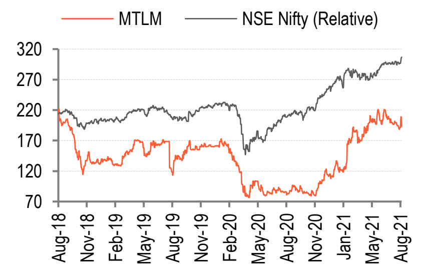
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	11,653	14,221	16,234
EBITDA (Rs mn)	1,167	1,761	2,127
Adj. net profit (Rs mn)	609	1,091	1,290
Adj. EPS (Rs)	5.0	8.9	10.5
Consensus EPS (Rs)	5.0	8.8	11.8
Adj. ROAE (%)	15.0	22.4	21.5
Adj. P/E (x)	38.9	21.7	18.4
EV/EBITDA (x)	22.4	14.4	11.7
Adj. EPS growth (%)	(27.6)	79.2	18.2

Source: Company, Bloomberg, BOBCAPS Research

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

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