BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

09 August 2021

RESEARCH

BOB Economics Research | Monetary policy review

Initial signs of normalisation

Cipla | Target: Rs 1,100 | +21% | BUY

Strong quarter

Tata Power | Target: Rs 161 | +19% | BUY

Strong Q1 led by solar business; transmission reentry announced

Somany Ceramics | Target: Rs 820 | +16% | BUY

In-line quarter; outlook stronger

Balkrishna Industries | Target: Rs 1,550 | –37% | SELL

Valuations rich, maintain SELL

Cera Sanitaryware | Target: Rs 4,375 | –5% | HOLD

Growth picks up off a low base

JK Tyre & Industries | Target: Rs 90 | –44% | SELL

Weak Q1; maintain SELL

TVS Srichakra | Target: Rs 1,200 | –47% | SELL

Poor demand and high input cost hit profitability

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.22	4bps	(20bps)	69bps
India 10Y yield (%)	6.21	1bps	12bps	40bps
USD/INR	74.18	0.0	0.2	1.0
Brent Crude (US$/bbl)	71.29	1.3	(7.6)	58.1
Dow	35,064	0.8	0.8	28.0
Shanghai	3,467	(0.3)	(1.9)	2.4
Sensex	54,493	0.2	3.0	43.3
India FII (US$ mn)	**04-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	19.5	10.9	(3,242.3)	(1,215.0)
FII-E	467.4	549.9	6,928.0	(398.3)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Monetary policy review

MPC maintained status quo on rates. While growth forecast was retained, inflation forecast has been increased to 5.7% (5.1% earlier). This perhaps explains 5:1 vote on continuation of accommodative stance as long as necessary to revive growth on a durable basis. Commentary on growth is far more positive than last policy. Rural consumption, government spending, exports and investments are looking up. RBI's growth forecast for Q1FY23 is 17.2%. This sets the base for normalisation of policy.

Click here for the full report.

BOBCAPS Research
researchreport@bobcaps.in

Cipla

- Q1 revenue/EBITDA grew 27%/28% YoY, beating consensus estimates by 7%/19%
- India (+69% YoY) and API (+64% YoY) led the way due to domestic Covid contribution and one-time API supply
- We raise FY22/FY23 EPS by 9% each and roll over to a new Jun'22 TP of Rs 1,100 (vs. Rs 1,000); reiterate BUY

Click here **for the full report.**

Tata Power

- Strong results driven by growth in solar products, award to CGPL under APTEL order and uptick in coal mining associates
- TPWR announced reentry into transmission; expects renewable monetisation to take 0-18 months
- Raise TP to Rs 161 (from Rs 141) driven by 2-15% increase in FY22-FY24 EPS and drop in WACC assumptions due to lower cost of debt

Click here **for the full report.**

Somany Ceramics

- Consolidated Q1 revenue grew 95% YoY with tile volumes up 94% due to a low base.
- Operating margin stood at 7% with EBITDA of Rs 231mn (vs. Rs 116mn loss YoY)
- We raise FY22/FY23 PAT 5%/16% to bake in strong margin guidance and roll to a Jun'22 TP of Rs 820 (vs. Rs 640) – retain BUY

Click here **for the full report.**

Balkrishna Industries

- Q1 revenue beat our estimate at Rs 18.1bn but EBITDA margin dropped to 28.3% on lower gross margin and higher other expense
- Expect 350bps YoY gross margin hit for FY22-FY23 and bake in EBITDA margin at 28.2% vs. guidance of 28-30%
- Maintain TP of Rs 1,550 based on 22x FY23E EPS. Valuations expensive at 36x FY23E; SELL

Click here **for the full report.**

Cera Sanitaryware

- Q1 consolidated revenue grew 56% YoY due to a low base effect with the sanitaryware/faucet segments increasing 54%/66%
- Operating margin expanded 650bps YoY to 9.1%, resulting in EBITDA growth of 450% YoY
- We maintain estimates and have a new Jun'22 TP of Rs 4,375 on rollover (vs. Rs 4,145); maintain HOLD

Click here for the full report.

JK Tyre & Industries

- Q1 revenue in line but gross margin fell short of our estimate, denting operating performance. Adj. PAT a miss at Rs 567mn
- We continue to expect a 300bps YoY gross margin hit in FY22 and FY23. Despite deleveraging efforts, balance sheet concerns persist
- TP maintained at Rs 90 based on a 60% discount to peers to account for high leverage; reiterate SELL

Click here for the full report.

TVS Srichakra

- Q1 revenue in line at Rs 4.8bn but EBITDA margin disappoints at 5.1% due to poor operating efficiency
- High RM cost and limited scope for tyre price hikes will continue to depress profitability
- We maintain our TP of Rs 1,200 based on 14x FY23E P/E and reiterate SELL

Click here for the full report.

MONETARY POLICY REVIEW

06 August 2021

Initial signs of normalisation

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

MPC maintained status quo on rates. While growth forecast was retained, inflation forecast has been increased to 5.7% (5.1% earlier). This perhaps explains 5:1 vote on continuation of accommodative stance as long as necessary to revive growth on a durable basis. Commentary on growth is far more positive than last policy. Rural consumption, government spending, exports and investments are looking up. RBI's growth forecast for Q1FY23 is 17.2%. This sets the base for normalisation of policy.

Key highlights

- RBI maintains status quo on rates, 5:1 vote on accommodative stance.
- CPI projections for FY22 revised upward by 60bps to 5.7% from 5.1% earlier.
- Growth projections retained at 9.5% in FY22.
- Nprmalisation visible in liquidity management framework.

Rates on hold: MPC unanimously voted to keep policy repo rate unchanged at 4%. It also retained its accommodative stance "as long as necessary to revive and sustain growth on a durable basis, while ensuring inflation remains within the target going forward" by a 5:1 vote. Prof. Varma disagreed.

FY22 growth forecast unchanged at 9.5%: While growth forecast for FY22 is unchanged at 9.5%, there is significant inter quarter variation with Q1 growth revised up to 21.4% (18.5% earlier). Forecast for other quarters has been cut. Commentary is far more positive this time with growth expected to revive led by rural demand, improving vaccinations, exports, government spending, in particular capex, and private investments. Notably, growth in Q1FY23 is estimated at 17.2%.

CPI forecasts revised upward: RBI has revised its CPI projection upward to 5.7% in FY22 from 5.1% earlier. The trajectory for Q2FY22 has been revised upward by 50bps (5.9% from 5.4%). For Q3, by 60bps (5.3% from 4.7%) and for Q4 by 50bps (5.8% from 5.3%). Even in Q1FY23, headline CPI is estimated to be above MPC's 4% target at 5.1%. Notably, in Q1FY22 actual print overshot RBI's projection by 40bps to 5.6%. While inflation continues to be supply-led in the form of higher commodity prices and oil prices and the resultant pass-through, inflation in certain food components such as edible oils and pulses have been persistent.

Normalisation on the cards: RBI had re-introduced variable rate reverse repo auctions (VRRR) in Jan'21. The absorption amount under VRRR has now been increased to Rs 4tn from Rs 2tn. This is on the back of reverse repo absorption increasing to Rs 8.5tn in Aug'21. At the long end, RBI will continue to provide liquidity through operation twist and GSAPs. The increase in VRRR auction amount along with change in voting pattern is perhaps inkling upcoming turn in monetary cycle in the coming quarters. We expect RBI to reduce the gap between repo and reverse repo in Q4FY22 before lifting off repo rate in beginning of FY23. Our view is based on limited or no impact of another Covid-19 wave on the economy.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,100 | ▲ 21%

CIPLA | Pharmaceuticals | 07 August 2021

Strong quarter

- **Q1 revenue/EBITDA grew 27%/28% YoY, beating consensus estimates by 7%/19%**
- **India (+69% YoY) and API (+64% YoY) led the way due to domestic Covid contribution and one-time API supply**
- **We raise FY22/FY23 EPS by 9% each and roll over to a new Jun'22 TP of Rs 1,100 (vs. Rs 1,000); reiterate BUY**

Saad Shaikh
researchreport@bobcaps.in

Strong quarter led by India, SA and API: Cipla's robust Q1FY22 performance was led by India sales (+69% YoY) due to contribution of Covid products (+47% sans this portfolio). Covid-led sales share of domestic business was in the high single digits. All three segments of India business (prescription, trade generics and consumer) saw healthy demand traction. API business grew 64% YoY due to one-off sales while SAGA grew 10% YoY due to strong pandemic-led demand in the sub-Saharan region and market-beating growth in the South Africa business.

US growth to accelerate from FY23 onwards: US business grew 2% QoQ to US$ 141mn in Q1. With key new launches planned in the near term, we expect growth momentum in the US market to kick in from FY23 onwards. Significant US launches include gAdvair, gRevlimid, and gAbraxane.

EBITDA margin intact; gross margin declines: Increased revenue share of the lower-margin Covid portfolio affected Cipla's gross margin, which declined 100bps YoY to 62.4%. Lower employee cost (-164bps YoY) and stable R&D spend (4.8% of sales) supported EBITDA margin at 24.5% (+30bps YoY). Management expects FY22 EBITDA margin at ~22.5%.

Raise estimates and target: Cipla is currently trading at 13x one-year forward EV/EBITDA and 23x P/E. We raise FY22/FY23 EPS by 9% each and roll forward to a new Jun'22 TP of Rs 1,100 (vs. Rs 1,000), valuing the stock at 17x EV/EBITDA (earlier 16x), which is in line with the five-year average and implies a P/E of 28x. We expect 14% EPS growth over FY21-FY24, supported by continued traction in the domestic business, key new launches in the US and margins holding at current levels.

Reiterate BUY: We like Cipla for its strong India franchise, rich US pipeline and leadership in complex respiratory products. Operating leverage in the US business would be a key margin driver in the next two years. We believe Cipla's future investments will have a sharper focus on opportunities in high-value/complex assets but not at the expense of current margins. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	CIPLA IN/Rs 911
Market cap	US$ 9.9bn
Free float	63%
3M ADV	US$ 47.6mn
52wk high/low	Rs 997/Rs 704
Promoter/FPI/DII	37%/25%/16%

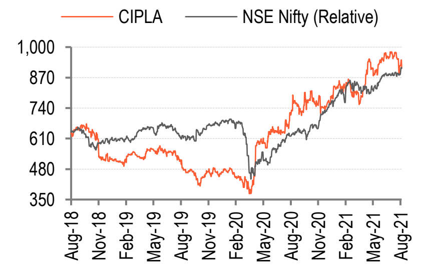
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,91,595	2,16,263	2,35,667
EBITDA (Rs mn)	42,524	47,567	50,362
Adj. net profit (Rs mn)	24,048	27,604	29,733
Adj. EPS (Rs)	29.8	34.3	36.9
Consensus EPS (Rs)	29.8	34.6	41.3
Adj. ROAE (%)	14.1	14.2	13.5
Adj. P/E (x)	30.5	26.6	24.7
EV/EBITDA (x)	17.5	15.3	14.0
Adj. EPS growth (%)	55.6	14.8	7.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 161 | ⮝ 19%

TATA POWER | Power | 06 August 2021

Strong Q1 led by solar business; transmission reentry announced

- **Strong results driven by growth in solar products, award to CGPL under APTEL order and uptick in coal mining associates**
- **TPWR announced reentry into transmission; expects renewable monetisation to take 0-18 months**
- **Raise TP to Rs 161 (from Rs 141) driven by 2-15% increase in FY22-FY24 EPS and drop in WACC assumptions due to lower cost of debt**

Tarun Bhatnagar | Someel Shah
researchreport@bobcaps.in

Robust Q1: TPWR's reported Q1FY22 net income grew 89% YoY driven by EBITDA growth of 12% (ex-other income) and associate income growth of 107%. EBITDA growth was led by the standalone business (higher dividend income from TERPL), CGPL (due to a 2.49bn tariff order from APTEL), Odisha discoms and Tata Power Solar segments while associate income was driven by Indonesian coal mining associates as a result of stronger prices. QoQ net income was flat despite EBITDA rising 39%. Pretax income grew 124% QoQ owing to a tax credit in Q4FY21 versus a tax debit this year. Net gearing rose to 1.57x due to repayment of perpetual securities which also reduced equity and increased debt in Tata Power Solar.

Robust solar products business: TPWR's non-regulated solar EPC (revenue up 4x YoY), rooftop solar (4x YoY) and solar pump (8x YoY) segments did well. Wind PLF increased from 20% to 23%. Renewable monetisation may take anywhere from 0-18 months as the company wishes to carefully consider all options.

Discom operations: AT&C losses at Odisha discom were higher than targeted as weak collections due to the cyclone and Covid-19 led to higher commercial losses even as technical loss reduction is on course.

Entry into transmission: TPWR announced its reentry into transmission projects in collaboration with associate Tata Projects as the market has fewer players now.

PAT estimates raised 5-15%; TPWR remains our top pick: We raise our FY22-FY24 net income estimates by 5-15% driven by a strong outlook for Tata Power Solar and above-estimated profit at Odisha dscom. Our Jun'22 TP rises from Rs 141 to Rs 161. We like TPWR due to (1) IPO / investment into renewable business at a premium, (2) deleveraging through IPO and sale of other assets, (3) growth in distribution income from new Odisha concessions and further wins post passing of the Electricity Act. Reiterate BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	TPWR IN/Rs 135
Market cap	US$ 5.8bn
Free float	53%
3M ADV	US$ 74.8mn
52wk high/low	Rs 137/Rs 49
Promoter/FPI/DII	47%/12%/21%

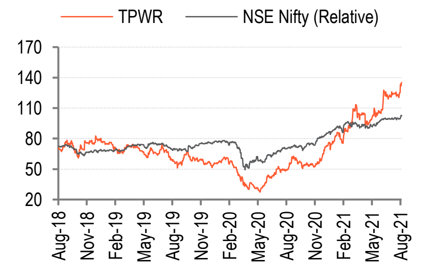
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	3,24,681	4,68,987	5,22,023
EBITDA (Rs mn)	75,387	75,358	95,054
Adj. net profit (Rs mn)	11,119	16,102	27,500
Adj. EPS (Rs)	3.5	5.0	8.6
Consensus EPS (Rs)	3.5	5.9	7.2
Adj. ROAE (%)	5.3	7.2	11.8
Adj. P/E (x)	38.8	26.8	15.7
EV/EBITDA (x)	11.6	11.1	8.5
Adj. EPS growth (%)	(8.6)	44.8	70.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 820 | ⮝ 16%

SOMANY CERAMICS | Construction Materials | 06 August 2021

In-line quarter; outlook stronger

- **Consolidated Q1 revenue grew 95% YoY with tile volumes up 94% due to a low base.**
- **Operating margin stood at 7% with EBITDA of Rs 231mn (vs. Rs 116mn loss YoY)**
- **We raise FY22/FY23 PAT 5%/16% to bake in strong margin guidance and roll to a Jun'22 TP of Rs 820 (vs. Rs 640) – retain BUY**

Arun Baid
researchreport@bobcaps.in

Strong growth aided by a soft base: SOMC reported consolidated Q1FY22 revenue growth of 95% YoY to Rs 3.3bn with tile volumes rising 94% aided by a lockdown-hit base quarter. Bathware segment revenue grew 52% YoY due to the soft base. Management stated that the quarter began well but demand was severely affected in May due to renewed lockdowns, with an estimated loss of Rs 1.4bn-1.5bn in sales during the month.

Healthy FY22 outlook: Per management, demand trends have started to improve since mid-June and the company achieved 100% of its sales target in July. Management has guided for tile volume growth in the high-teens for FY22. Bathware growth guidance remains at 35-40%. SOMC expects FY23 to be a better year as expanded capacities at all three tile plants will become operational by end-Q4FY22 (at a total cost of ~Rs 1.8bn).

Operating margin at 7%: Consolidated Q1 operating margin stood at 7% with an operating profit of Rs 231mn (vs. a Rs 116mn loss YoY). Management has maintained guidance of 12-13% margins in FY22 despite a tepid first quarter based on the price increase of 1-1.5% taken in Q1 and a further hike of 3-3.5% in July that will offset the higher raw material prices. For FY23, SOMC believes margins can increase by a further 150-200bps due to the commissioning of new facilities that will have higher value-added sales.

Maintain BUY: We raise FY22/FY23 PAT estimates by 5%/16% due to the above-expected margin guidance and roll over to a revised Jun'22 TP of Rs 820 (earlier Rs 640), set at an unchanged 22x one-year forward P/E, in line with the stock's five-year average. We continue to like SOMC for its improving balance sheet, rising return ratios and strong growth prospects. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SOMC IN/Rs 709
Market cap	US$ 405.4mn
Free float	45%
3M ADV	US$ 1.2mn
52wk high/low	Rs 745/Rs 129
Promoter/FPI/DII	55%/3%/42%

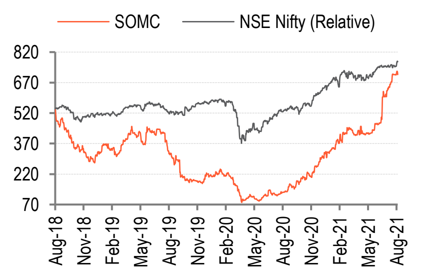
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	16,505	19,467	22,781
EBITDA (Rs mn)	1,908	2,315	3,031
Adj. net profit (Rs mn)	711	966	1,436
Adj. EPS (Rs)	16.8	22.8	33.9
Consensus EPS (Rs)	16.8	24.3	32.2
Adj. ROAE (%)	11.3	13.8	17.6
Adj. P/E (x)	42.3	31.1	20.9
EV/EBITDA (x)	18.1	14.3	10.8
Adj. EPS growth (%)	223.3	35.9	48.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 1,550 | ∀ 37%

BALKRISHNA INDUSTRIES | Auto Components | 06 August 2021

Valuations rich, maintain SELL

- **Q1 revenue beat our estimate at Rs 18.1bn but EBITDA margin dropped to 28.3% on lower gross margin and higher other expense**
- **Expect 350bps YoY gross margin hit for FY22-FY23 and bake in EBITDA margin at 28.2% vs. guidance of 28-30%**
- **Maintain TP of Rs 1,550 based on 22x FY23E EPS. Valuations expensive at 36x FY23E; SELL**

Mayur Milak | Nishant Chowhan, CFA
researchreport@bobcaps.in

Healthy Q1FY22: BIL's Q1FY22 revenue was ahead of our expectations at Rs 18.1bn (Rs 15.7bn est.), rising 4% QoQ on a combination of higher volumes and better realisations. Despite this, gross margin slipped 180bps QoQ to 56.9%, reflecting the upswing in rubber and crude oil prices. Higher other expenses further weakened EBITDA margin to 28.3% (28.5% est.), down 275bps QoQ. Other income of Rs 782mn included a forex gain of Rs 384mn. Adj. PAT stood at Rs 3.3bn (vs. Rs 2.9bn est.) with EPS at Rs 17.1. The board has declared an interim dividend of Rs 4/sh, leading to a total cash outgo of Rs 773mn.

RM cost pressures to continue: Management is seeing strong demand tailwinds across geographies and segments. However, the company cautioned on rising input costs and believes margins may continue to witness pressure in the near term. The increase in logistic costs have also impacted profitability. Management has guided for EBITDA margin in the range of 28-30% in the near term.

Newer capex planned: BIL plans to add ~50,000mtpa of capacity to its existing 285,000mtpa through brownfield expansion at the Bhuj facility by end-FY23 at an estimated capex of Rs 8bn. It also intends to increase carbon black capacity from the current 115,000mtpa to 200,000mtpa by end-FY23 at an estimated Rs 6.5bn. Further capex of Rs 4.5bn is planned toward modernisation, automation and technology upgrades at its existing facilities at Rajasthan and Bhuj. Overall, we raise our cumulative capex outflow assumptions for FY22 and FY23 from Rs 15bn to Rs 19bn.

Maintain SELL: We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +11%/+8%/+9% over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 64/ Rs 68. We continue to value BIL at 22x FY23E EPS – at par with the five-year average, for our Mar'22 TP of Rs 1,550. Valuations look rich at 36x FY23E – SELL.

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	BIL IN/Rs 2,449
Market cap	US$ 6.4bn
Free float	42%
3M ADV	US$ 15.0mn
52wk high/low	Rs 2,559/Rs 1,238
Promoter/FPI/DII	58%/12%/18%

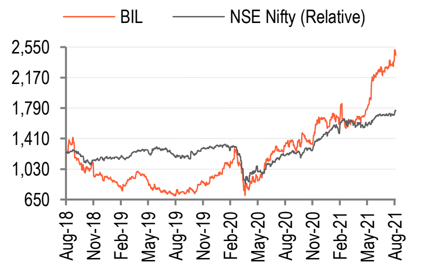
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	57,579	68,594	72,709
EBITDA (Rs mn)	17,855	19,332	20,492
Adj. net profit (Rs mn)	11,554	12,373	13,138
Adj. EPS (Rs)	59.8	64.0	68.0
Consensus EPS (Rs)	59.8	72.9	83.8
Adj. ROAE (%)	19.2	17.7	16.3
Adj. P/E (x)	41.0	38.3	36.0
EV/EBITDA (x)	27.0	24.9	23.5
Adj. EPS growth (%)	22.3	7.1	6.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 4,375 | ▼ 5%

CERA SANITARYWARE | Construction Materials | 06 August 2021

Growth picks up off a low base

- **Q1 consolidated revenue grew 56% YoY due to a low base effect with the sanitaryware/faucet segments increasing 54%/66%**
- **Operating margin expanded 650bps YoY to 9.1%, resulting in EBITDA growth of 450% YoY**
- **We maintain estimates and have a new Jun'22 TP of Rs 4,375 on rollover (vs. Rs 4,145); maintain HOLD**

Arun Baid
researchreport@bobcaps.in

Low base aids revenue growth: CRS reported a 56% YoY rise in consolidated Q1FY22 revenue to Rs 2.3bn due to a low base amid the lockdown last year. The sanitaryware segment grew 54% YoY, faucets 66% and tiles 54%. Management stated that demand was healthy till April but slowed thereafter due to renewed lockdowns, especially in its major markets in tier-3-and-below cities. Working capital days increased by 18 days QoQ to 70 as CRS built up inventory to meet future demand, and management expects this trend to continue.

Demand outlook healthy: Demand has started to pick up from mid-June post unlocking and July has been strong as well, per management. CRS expects to see strong demand traction in coming quarters. Also, some of its sanitaryware peers who were dependent on sourcing from China are now facing supply issues which should be beneficial for the company. CRS indicated that it is on track to achieve its aspirational revenue target of ~Rs14.5bn in FY22 despite a tepid Q1.

Operating margin expands: Gross margin expanded 1,140bps YoY and 835bps QoQ in Q1 due to a better product mix and benefits from price hikes taken earlier. Other expenses increased 740bps YoY owing to negative operating leverage. Overall, this translated to a 650bps YoY expansion in operating margin to 9.1% and EBITDA growth of 450% YoY. Management expects operating margin to revert to 13.5-14.5% going ahead as it has taken price hikes to cover the higher raw material cost.

Maintain HOLD: We roll forward to a revised Jun'22 TP of Rs 4,375 (earlier Rs 4,145) and continue to value the stock at 30x FY23E P/E, in line with the five-year average. Though we like CRS for its strong brand, wide distribution, comprehensive portfolio and robust balance sheet, current valuations appear full at 33.4x FY23E P/E. We thus continue with our HOLD rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CRS IN/Rs 4,616
Market cap	US$ 809.4mn
Free float	46%
3M ADV	US$ 1.2mn
52wk high/low	Rs 4,895/Rs 2,121
Promoter/FPI/DII	54%/15%/30%

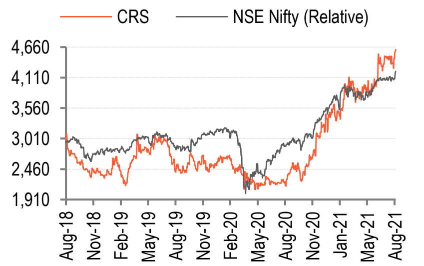
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	12,243	14,436	16,500
EBITDA (Rs mn)	1,581	2,178	2,538
Adj. net profit (Rs mn)	1,008	1,501	1,796
Adj. EPS (Rs)	77.5	115.4	138.1
Consensus EPS (Rs)	77.5	113.7	141.6
Adj. ROAE (%)	12.3	16.2	17.1
Adj. P/E (x)	59.6	40.0	33.4
EV/EBITDA (x)	37.5	27.2	23.4
Adj. EPS growth (%)	(0.6)	49.0	19.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 90 | ⋎ 44%

JK TYRE & INDUSTRIES | Auto Components | 06 August 2021

Weak Q1; maintain SELL

- **Q1 revenue in line but gross margin fell short of our estimate, denting operating performance. Adj. PAT a miss at Rs 567mn**
- **We continue to expect a 300bps YoY gross margin hit in FY22 and FY23. Despite deleveraging efforts, balance sheet concerns persist**
- **TP maintained at Rs 90 based on a 60% discount to peers to account for high leverage; reiterate SELL**

Mayur Milak | Nishant Chowhan, CFA
researchreport@bobcaps.in

Operating performance disappoints: At Rs 26.1bn (-11% QoQ), JKI's Q1FY22 revenue was in line with our estimate, but EBITDA margin came in 160bps lower at 10.7% led by a below-estimated gross margin. EBITDA declined 39% QoQ to Rs 2.8bn and an above-expected tax rate (at 41%) further pulled down adj. PAT to Rs 567mn (Rs 1bn est.).

High commodity prices to depress margins: Given the 12% QoQ cost increase in the raw material basket during both Q4FY21 and Q1FY21 (per management), along with the inability of tyre companies to fully pass on the burden, we anticipate gross margin deterioration across the sector in FY22. We model for a decline of ~300bps in JKI's FY22 gross margin over FY21 levels, eroding its operating margin.

Balance sheet concerns persist: JKI's leverage remains high at 1.5x D/E, which is ~4x the industry average. Though improved working capital management aided a reduction of Rs 9.3bn in net debt to Rs 45bn in FY21 along with a 15% decline in interest cost, we expect overall debt reduction of only Rs 1bn in FY22, much lower than the Rs 6bn cut targeted by management.

Maintain SELL: We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24. Our revenue/EBITDA/adj. PAT CAGR projections stand at +11%/+1%/+8% over FY21-FY24, with FY22/FY23 EPS estimates at Rs 8/Rs 13. Given gross margin weakness and persisting balance sheet concerns, we continue to value the stock at a steep ~60% discount to peers – i.e. at 7x FY23E EPS, in line with JKI's 10-year mean. We maintain our Mar'22 TP of Rs 90 and reiterate SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKI IN/Rs 161
Market cap	US$ 534.4mn
Free float	44%
3M ADV	US$ 5.9mn
52wk high/low	Rs 166/Rs 55
Promoter/FPI/DII	56%/3%/1%

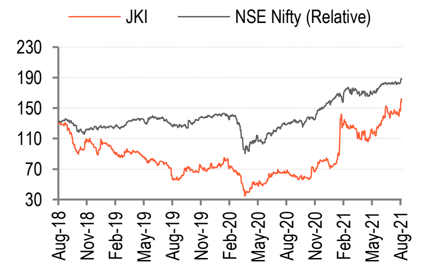
Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	91,022	104,021	115,831
EBITDA (Rs mn)	13,064	10,678	12,133
Adj. net profit (Rs mn)	2,819	1,960	3,070
Adj. EPS (Rs)	11.4	8.0	12.5
Consensus EPS (Rs)	11.4	12.7	19.1
Adj. ROAE (%)	10.1	6.6	9.5
Adj. P/E (x)	14.1	20.2	12.9
EV/EBITDA (x)	7.1	7.8	6.4
Adj. EPS growth (%)	9.8	(30.5)	56.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,200 | ∀ 47%

TVS SRICHAKRA | Auto Components | 06 August 2021

Poor demand and high input cost hit profitability

- **Q1 revenue in line at Rs 4.8bn but EBITDA margin disappoints at 5.1% due to poor operating efficiency**
- **High RM cost and limited scope for tyre price hikes will continue to depress profitability**
- **We maintain our TP of Rs 1,200 based on 14x FY23E P/E and reiterate SELL**

Mayur Milak | Nishant Chowhan, CFA
researchreport@bobcaps.in

Lacklustre quarter: TVSS's Q1FY22 revenue declined 65% QoQ to Rs 4.8bn, in line with our expectations. Gross margin contracted 330bps QoQ to 44.2%, reflecting the spike in rubber and crude oil prices and the inability of tyre companies to take adequate price hikes to mitigate the cost inflation. Lower operating efficiency and above-expected other expenses further weakened EBITDA margin to 5.1% (-825bps QoQ). Adj. PAT stood at Rs 2mn with EPS at Rs 0.3.

Surge in commodity prices to erode margins: Given the 12% QoQ cost increase in the raw material basket during both Q4FY21 and Q1FY21 (per management), along 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 decline of ~200bps in TVSS's gross margin for FY22 over FY21 levels, resulting in a weaker operating margin.

Estimates intact: We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +13%/+11%/+2% over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 78/Rs 85.

Maintain SELL: We do not see scope for quick recovery in gross margin over the short-term considering the steep increase in input cost and lag in price hikes taken by tyre companies. Further, TVSS has planned capex of Rs 10bn over three years which will add significant pressure on the balance sheet and depress profits due to higher interest cost. We expect a rise in external borrowings to the tune of Rs 3.4bn over FY22-FY23, taking its D/E ratio to 0.5x by FY23 (vs. 0.2x currently). Reiterate SELL with an unchanged Mar'22 TP of Rs 1,200, set at 14x FY23E EPS – at par with peers and the stock's 7-year average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SRTY IN/Rs 2,258
Market cap	US$ 231.4mn
Free float	55%
3M ADV	US$ 0.6mn
52wk high/low	Rs 2,394/Rs 1,327
Promoter/FPI/DII	45%/1%/6%

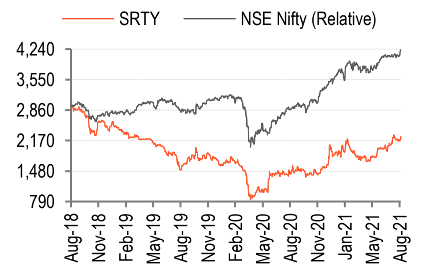
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	18,758	21,804	24,908
EBITDA (Rs mn)	2,235	2,199	2,707
Adj. net profit (Rs mn)	730	600	652
Adj. EPS (Rs)	95.3	78.3	85.2
Consensus EPS (Rs)	95.3	78.3	85.2
Adj. ROAE (%)	8.7	6.8	7.1
Adj. P/E (x)	23.7	28.8	26.5
EV/EBITDA (x)	9.3	8.8	7.2
Adj. EPS growth (%)	(13.6)	(17.8)	8.8

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

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 July 2021, out of 98 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 22 have HOLD ratings, 11 are rated ADD*, 2 are rated REDUCE* and 22 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 CIN Number: U65999MH1996GOI098009.

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.