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FIRST LIGHT

10 November 2020

RESEARCH

BOB Economics Research | Monthly Chartbook
India's recovery gains traction

BOB Economics Research | Weekly Wrap
Equity markets rejoice US election results

VRL Logistics | Target: Rs 235 | +54% | BUY
Strong quarter; volume growth slated to revive in H2

Ashok Leyland | Target: Rs 44 | –48% | SELL
Weak macros, rich valuations – maintain SELL

Allcargo Logistics | Target: Rs 135 | +12% | ADD
MTO segment spurs robust operating performance

SUMMARY

India Economics: Monthly Chartbook

India's economic recovery gained steam as seen in improvement in GST collections, electicity demand, vehicle sales, freight movement and PMIs. However, government revenues continue to be constrained due to lower tax and non-tax collections thus impacting general government spending, in particular capex spending. State government borrowings are rising to bridge the gap between revenue and expenditure. RBI's SDL OMOs have led to reduction in spread of SDLs over G-sec. Surplus liquidity along with RBI's forward guidance has led to reduction in 10Y yield and sharp contraction in credit risk well below historical levels.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.82	6bps	8bps	(112bps)
India 10Y yield (%)	5.87	1bps	(15bps)	(69bps)
USD/INR	74.20	0.3	(1.0)	(4.1)
Brent Crude (US$/bbl)	39.45	(3.6)	(7.5)	(36.9)
Dow	28,323	(0.2)	2.0	2.3
Shanghai	3,312	(0.2)	2.9	11.7
Sensex	41,893	1.3	5.9	3.9
India FII (US$ mn)	**5 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	30.0	50.1	(14,179.6)	(4,420.1)
FII-E	727.5	1,072.7	7,619.2	14,222.2

Source: Bank of Baroda Economics Research

BOBCAPS Research
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India Economics: Weekly Wrap

Global equity markets surged as results of US Presidential elections indicated a change in guard. However, Senate results will be known only in Jan'21 due to run-offs. Fiscal stimulus will have to wait. US yields and US$ fell. Emerging market currencies and commodity prices went up. US Fed and BoE kept the rates on hold. BoE expanded its QE programme. On the domestic front, with visibility of green shoots (higher GST collection, manufacturing and services PMIs), markets will closely look at inflation. Our estimate is 6.9%.

Click here **for the full report.**

VRL Logistics

VRL Logistics' (VRLL) Q2FY21 print beat our estimates on all fronts. Revenue decline eased to 16% YoY (–20% est.) as the GT segment (–6%) bettered our estimate. Stellar EBITDA margin expansion of 580bps in Q2 alleviates our concerns around VRLL's asset-heavy model. Improving demand traction and market share gains signal a volume revival in H2. Margins are also likely to remain healthy. Baking in the strong beat, we raise our FY22/FY23 EPS by 8% each and roll forward to a revised Dec'21 TP of Rs 235 (vs. Rs 205). BUY.

Click here **for the full report.**

Ashok Leyland

Ashok Leyland's (AL) Q2FY21 revenue and earnings were broadly in line with our estimates. Demand remains tepid as operator utilisation languishes around the 50-60% mark, coupled with difficulty in obtaining financing. Though we assume a strong 75% MHCV volume revival in FY22, we believe AL's valuations are stretched and unsustainable. Inter-corporate deposits in group companies remain a cause for concern. We continue to value the stock at 16x Sep'22E EPS and maintain our price target at Rs 44. Recommend SELL.

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Allcargo Logistics

Allcargo Logistics' (AGLL) Q2FY21 consolidated revenue rose 25% YoY, ahead of our estimate of 15%, augmented by consolidation of Gati (4% ex-Gati) and growth in the MTO segment (+9%). Despite P&E losses and subdued Gati margins, EBITDA swelled 25% YoY (8% est.), aided by MTO and CFS. AGLL's delisting process is on course with approval received from ~87% of shareholders; reverse book building will begin in a few weeks. We raise FY21-FY23 EPS by 9-10% and roll over to a Dec'21 TP of Rs 135 (vs. Rs 130). ADD.

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India's recovery gains traction

India's economic recovery gained steam as seen in improvement in GST collections, electicity demand, vehicle sales, freight movement and PMIs. However, government revenues continue to be constrained due to lower tax and non-tax collections thus impacting general government spending, in particular capex spending. State government borrowings are rising to bridge the gap between revenue and expenditure. RBI's SDL OMOs have led to reduction in spread of SDLs over G-sec. Surplus liquidity along with RBI's forward guidance has led to reduction in 10Y yield and sharp contraction in credit risk well below historical levels.

Gradual recovery continues: Indian economy's gradual recovery continued with improvement in electricity demand (+5.3%), GST collections (+10.2%), 4-wheeler output (+28.9%), rail freight along with uptick in non-oil-non-gold imports. Manufacturing and services PMI too are showing acceleration in underlying activity in Oct'20. Consumers also seem to be more confident a year ahead, as seen in RBI's consumer confidence. Terms of trade for farm produce, domestic as well as international, continues to improve. Farm wages are accelerating. The risk to recovery remains any inching up of Covid-19 cases.

Fiscal deficit sticky on the higher end: General government fiscal deficit (12M sum basis) fell to 10.5% in Sep'20 from 10.7% in Aug'20 with deceleration in general government spending. Most of the easing was seen in Sep'20 as spending eased to 5.4% in Sep'20 from 10.7% in Aug'20 (12MMA basis). Centre's spending is now lower by 0.6% and spending by states is up by only 1%. While capital spending by centre has fallen by 11.6%, that of states has dropped by 23.1%. Revenues continue to be under pressure with centre seeing 38.6% decline in net revenue and states reporting a 21.1% fall in tax revneues.To meet the gap, gross market borrowings of centre and states (dated securtites) have risen by ~49% on FYTD basis (till Oct'20). Centre's short term borrowings are also significantly up.

Inflationary pressures persist: CPI inflation edged up further to an 8-month high at 7.34% in Sep'20 led by higher vegetable prices. RBI expects inflation to soften to 5.4% in Q3FY21 and to 4.5% in Q4, above its target, with risks tilted to the upside. Inflation in Oct'20 is estimated at 6.9% (BoB estimate). High negative real rates imply limited room for RBI to cut policy rate. India's 10Y yield fell by 13bps in Oct'20 following RBI's forward guidance of accommodative stance well into next year and additional liquidity support for centre and state borrowings.

Appreciating bias for INR: INR depreciated by 0.5% in Oct'20 even as FII inflows picked up to US$ 3bn. Oil prices were also on an average lower in Oct'20. The decline in INR was on the back of a stronger US$ amidst uncertainty over US elections, fiscal stimulus and rising Covid-19 cases globally. Notwithstanding the volatility seen in Nov'20, we expect an appreciating bias for INR in the near-term supported by rangebound trade deficit, lower oil prices and strong FII/FDI inflows.

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WEEKLY WRAP

09 November 2020

Equity markets rejoice US election results

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Global equity markets surged as results of US Presidential elections indicated a change in guard. However, Senate results will be known only in Jan'21 due to run-offs. Fiscal stimulus will have to wait. US yields and US$ fell. Emerging market currencies and commodity prices went up. US Fed and BoE kept the rates on hold. BoE expanded its QE programme. On the domestic front, with visibility of green shoots (higher GST collection, manufacturing and services PMIs), markets will closely look at inflation. Our estimate is 6.9%.

Markets

- **Bonds:** US 10Y yield fell by 6bps amidst uncertainty surrounding US Presidential and Senate elections and its impact on fiscal policy. UK 10Y yield also rose by 1bps (0.27%) even as BoE stepped up its asset purchase program. Oil prices rose by 5.3% (US$ 39/bbl) with improving macro data. India's 10Y yield fell by 1bps (5.87%), supported by RBI's announcement of special OMOs of Rs 100bn. System liquidity surplus was higher at Rs 4.9tn as on 6 Nov 2020 compared with Rs 4.5tn in the previous week.

- **Currency:** Except INR, other global currencies closed higher against the dollar. DXY fell sharply by 1.9% in the week to a 2-month low amidst political uncertainty. With Democrats not controlling the Senate, hopes of large fiscal stimulus are lower. GBP rose by 1.6%. BoE left policy rate unchanged and scaled up its bond purchases by more than expected. INR depreciated by 0.1% as oil prices increased. FII inflows were US$ 1.1bn.

- **Equity:** Global equity indices ended the week higher as investors turned their focus towards US elections result, central banks holding the rates steady and acceleration in China's exports and Germany's industrial production. Dax (8%) surged the most followed by Dow (6.9%).Sensex (5.8%) too climbed up led by advancement in banking and metal stocks.

- **Upcoming key events:** In the current week, markets will closely monitor industrial production of Euro Area, CPI print of China. In addition, Japan's machine tool orders, US non-farm payrolls and Germany's Zew business index will be released. On the domestic front, CPI and industrial production will be released.

RESULT REVIEW

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BUY
TP: Rs 235 | ⮝ 54%

VRL LOGISTICS | Logistics | 09 November 2020

Strong quarter; volume growth slated to revive in H2

Sayan Das Sharma
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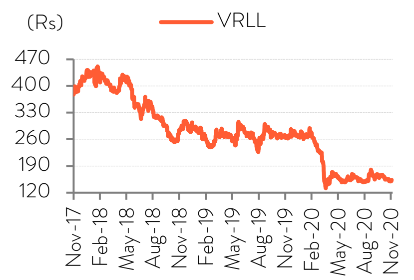
VRL Logistics' (VRLL) Q2FY21 print beat our estimates on all fronts. Revenue decline eased to 16% YoY (–20% est.) as the GT segment (–6%) bettered our estimate. Stellar EBITDA margin expansion of 580bps in Q2 alleviates our concerns around VRLL's asset-heavy model. Improving demand traction and market share gains signal a volume revival in H2. Margins are also likely to remain healthy. Baking in the strong beat, we raise our FY22/FY23 EPS by 8% each and roll forward to a revised Dec'21 TP of Rs 235 (vs. Rs 205). BUY.

Ticker/Price	VRLL IN/Rs 153
Market cap	US$ 186.1mn
Shares o/s	90mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 295/Rs 130
Promoter/FPI/DII	68%/3%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

GT realisation strong, volume growth likely in H2: VRLL's goods transport (GT) revenue fell 6% YoY but outperformed other road LTL operators such as TCI Express (–21% YoY) and Gati (–19%). GT volumes were down ~15% YoY, but price hikes catalysed a 10% YoY rise in realisations. After a muted July-August, volumes were flat YoY in September and higher in October. This combined with a low base should drive higher YoY GT volumes in H2, barring any economic shocks. The bus segment, however, posted a 78% YoY decline in revenue, affected by restrictive regulations.

Stellar margin expansion: Despite its asset-heavy model, VRLL managed EBITDA margin expansion of 580bps YoY to 20%. An uptick in GT realisation, higher bio-diesel usage (53% vs. 33% in Q2FY20), and higher share of owned trucks (~93% vs. 90%) lifted gross margins 430bps YoY, while salary cuts led to a 22% decline in staff costs. Management expects some cost savings to continue and guided for 15-16% EBITDA margin in H2 (~13% in H2FY20).

Market gains sustainable: Operational issues faced by unorganised truckers have helped VRLL gain new clients (stable at ~8% of revenue). These clients are likely to remain with VRLL given its better service and compliance. LTL consolidation in favour of organised players should be a key volume driver ahead.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	18,127	21,646	23,810
EBITDA (Rs mn)	2,440	2,983	2,067	3,230	3,567
Adj. net profit (Rs mn)	919	901	116	932	1,093
Adj. EPS (Rs)	10.2	10.0	1.3	10.3	12.1
Adj. EPS growth (%)	(0.7)	(2.0)	(87.1)	701.7	17.3
Adj. ROAE (%)	14.8	14.3	1.9	14.4	15.8
Adj. P/E (x)	15.0	15.3	118.7	14.8	12.6
EV/EBITDA (x)	6.2	5.0	7.5	4.8	4.4

Source: Company, BOBCAPS Research

SELL
TP: Rs 44 | ⋎ 48%

ASHOK LEYLAND | Automobiles | 09 November 2020

Weak macros, rich valuations – maintain SELL

Ashok Leyland's (AL) Q2FY21 revenue and earnings were broadly in line with our estimates. Demand remains tepid as operator utilisation languishes around the 50-60% mark, coupled with difficulty in obtaining financing. Though we assume a strong 75% MHCV volume revival in FY22, we believe AL's valuations are stretched and unsustainable. Inter-corporate deposits in group companies remain a cause for concern. We continue to value the stock at 16x Sep'22E EPS and maintain our price target at Rs 44. Recommend SELL.

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Q2 performance along expected lines: AL's topline declined 28% YoY to Rs 28.4bn due to a 33% drop in volumes during the quarter while ASP improved 7%, reflective of BSVI dispatches. The company reported EBITDA of Rs 804mn (–65% YoY), with margins at 2.8%, but an adjusted net loss of Rs 1.5bn (vs. Rs 1bn profit in Q2FY20).

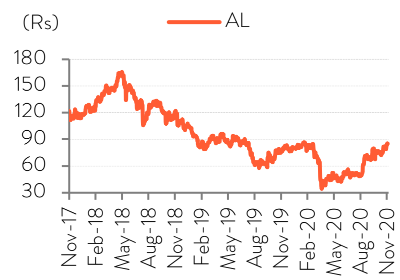
Optimistic growth assumptions for FY22: Our channel checks suggest that current utilisation at fleet operators continues to hover at 50-60% and financing remains tight, which will dent demand. In addition, we believe the pending scrappage policy will fail to trigger a substantial demand push till the economy revives significantly. We have assumed strong 75% YoY volume growth in AL's MHCV segment in FY22 due to a low base (two years of negative growth in FY20/FY21E of 45%/~30%) and expectations of a strong economic revival in FY22.

Maintain SELL: Despite strong growth assumptions, current valuations look stretched at 24x FY22E EPS. A steep increase in net debt since Mar'20 to Rs 30bn and inter-corporate deposits within group companies do not augur well. We value the stock at 16x one-year forward EPS, maintaining our Sep'21 TP of Rs 44. SELL.

Ticker/Price	AL IN/Rs 85
Market cap	US$ 3.4bn
Shares o/s	2,936mn
3M ADV	US$ 51.0mn
52wk high/low	Rs 88/Rs 34
Promoter/FPI/DII	52%/17%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	294,439	178,847	159,611	250,550	278,562
EBITDA (Rs mn)	30,748	11,736	9,406	19,673	22,506
Adj. net profit (Rs mn)	19,798	3,953	469	7,306	8,946
Adj. EPS (Rs)	6.8	0.8	0.2	2.5	3.0
Adj. EPS growth (%)	14.9	(80.0)	(88.1)	1458.5	22.5
Adj. ROAE (%)	23.8	5.4	0.6	15.0	15.5
Adj. P/E (x)	12.6	104.2	532.3	34.2	27.9
EV/EBITDA (x)	8.3	21.0	27.2	13.7	12.5

Source: Company, BOBCAPS Research

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ADD
TP: Rs 135 | 12%

ALLCARGO LOGISTICS | Logistics | 09 November 2020

MTO segment spurs robust operating performance

Allcargo Logistics' (AGLL) Q2FY21 consolidated revenue rose 25% YoY, ahead of our estimate of 15%, augmented by consolidation of Gati (4% ex-Gati) and growth in the MTO segment (+9%). Despite P&E losses and subdued Gati margins, EBITDA swelled 25% YoY (8% est.), aided by MTO and CFS. AGLL's delisting process is on course with approval received from ~87% of shareholders; reverse book building will begin in a few weeks. We raise FY21-FY23 EPS by 9-10% and roll over to a Dec'21 TP of Rs 135 (vs. Rs 130). ADD.

Sayan Das Sharma
research@bobcaps.in

MTO segment continues to drive topline: Ex-Gati, revenue grew 4% YoY led mainly by the MTO segment (+9%). MTO volumes (+4% YoY) maintained an above-industry growth trajectory, aided by higher specialised cargo transport (e.g. PPE). Better freight rates lifted MTO realisations by 4% YoY. CFS volumes fell 34% YoY owing to blank sailing and container shortage, but realisations leaped 22% as ground rent remained elevated due to delayed container clearance – this cushioned the fall in revenue to 19%. P&E revenue dropped 9% YoY owing to lower crane utilisation and subdued project logistics demand.

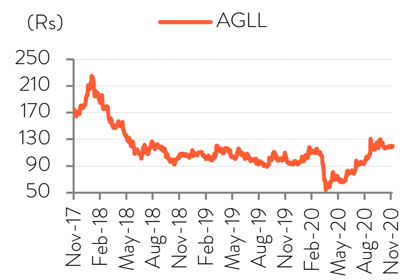
Stable margin despite P&E losses: MTO (+16bps YoY) and CFS (+915bps) reported healthy EBIT margin expansion, negating higher EBIT losses in the P&E segment (Rs 111mn vs. Rs 54mn in Q2FY20) and subdued EBIT margins in the Gati business (1.5%). Consolidated EBITDA margin was flat YoY at 6.9%. EBITDA growth of 25% was negated by higher depreciation and interest costs stemming from Gati consolidation, dragging adj. PAT down by 13% YoY.

Retain ADD: We raise our FY21-FY23 EPS estimates by 9-10% factoring in the Gati integration (as the consolidated balance sheet is now available), and the above-expected Q2FY21 performance. On rollover, we have a revised Dec'21 TP of Rs 135 (Rs 130 earlier). Retain ADD.

Ticker/Price	AGLL IN/Rs 120
Market cap	US$ 398.2mn
Shares o/s	246mn
3M ADV	US$ 0.8mn
52wk high/low	Rs 140/Rs 49
Promoter/FPI/DII	70%/13%/4%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	68,949	73,462	91,199	1,02,917	1,17,160
EBITDA (Rs mn)	4,485	5,035	6,235	7,755	8,996
Adj. net profit (Rs mn)	2,478	2,010	2,114	2,932	3,802
Adj. EPS (Rs)	10.1	7.3	8.6	11.9	15.5
Adj. EPS growth (%)	42.5	(27.5)	17.7	38.7	29.7
Adj. ROAE (%)	12.5	8.7	9.6	12.4	14.9
Adj. P/E (x)	11.9	16.4	14.0	10.1	7.8
EV/EBITDA (x)	7.1	6.3	6.1	5.8	5.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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