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FIRST LIGHT

11 May 2021

RESEARCH

[#3 Meeting of Minds] Automobiles

Gearing up for EV battery technology

DCB Bank | Target: Rs 100 | +10% | ADD

Recoveries to improve gradually – upgrade to ADD

BOB Economics Research | Weekly Wrap

Local restrictions impact economic activity

SUMMARY

Automobiles

We hosted Stefan Louis, CEO of Nexcharge – a technology-based JV between Exide Industries and Leclanché of Switzerland – catering to lithium-ion tech in India. The company is eyeing business in the domestic 2W, 3W, bus and telecom segments. Per Stefan, the complex nature of battery technology would warrant JVs between auto OEMs and battery manufacturers. He expects the Indian lithium-ion battery industry to grow to Rs 40bn-50bn in four years and Nexcharge to capture 25% of the market with double-digit margins once local manufacturing begins.

Click here **for the full report.**

DCB Bank

DCB Bank's (DCBB) Q4FY21 PAT of Rs 0.8bn (+13% YoY) beat our estimate on below-expected provisions. FY21 slippages held at FY20 levels and collections post moratorium have risen across products, viz. home (97%), LAP (95%) and CV loans (86%). Non-NPA provisioning stands at 1.4% of loans and the restructured book at 3.7% is within the guided 3-5% range. Management expects growth to pick up in H2FY22. We maintain our Mar'22 TP of Rs 100 but upgrade DCBB from SELL to ADD on a better growth outlook and current low valuations of 0.7x FY23E P/BV.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	1bps	(8bps)	94bps
India 10Y yield (%)	6.02	4bps	(11bps)	(1bps)
USD/INR	73.51	0.3	(0.1)	3.0
Brent Crude (US$/bbl)	68.28	0.3	8.8	131.8
Dow	34,778	0.7	4.0	45.7
Shanghai	3,419	(0.7)	(1.8)	19.1
Sensex	49,206	0.5	0.0	56.5
India FII (US$ mn)	**6 May**	**MTD**	**CYTD**	**FYTD**
FII-D	38.5	131.8	(2,260.6)	(233.3)
FII-E	146.9	(376.3)	5,460.9	(1,865.4)

Source: Bank of Baroda Economics Research

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India Economics: Weekly Wrap

Global yields closed lower led by US where economic data was weaker than anticipated. With restrictions being removed from Europe, EUR rose by 1.2%. Global equity and commodity markets too were stronger on the anticipation that activity will improve. Indian yields too fell on the back of announcements by RBI and rising Covid-19 cases. Our weekly economy tracker has fallen by 7% from the previous week as local restrictions bite. In the coming week, markets will look at domestic inflation and production.

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AUTOMOBILES | **#3 Meeting of Minds: An Expert Perspective** | 10 May 2021

Gearing up for EV battery technology

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"Exclusive" JV created to address lithium-ion batteries: Nexcharge is an exclusive 80:20 joint venture between Exide Industries and Swiss-based Leclanché that began in Sep'18 to cater to the lithium-ion (Li-ion) battery market in India. Sale of these batteries in the country by either partner will be routed exclusively through this JV. The partnership will enable Leclanché to cater to the growing Indian market and achieve raw material procurement scale on a global level while Exide gains access to technological knowhow.

Technology-ownership model for sustained growth: Leclanché, the original owner of the Li-ion technology, has transferred the same to Nexcharge. There will be no element of royalty payment for its use which would ensure that Nexcharge is able to compete efficiently with peers.

Three-phase local manufacturing strategy: Phase I (2018-20) – Nexcharge imported batteries to be traded in India with near-zero margins to better understand the domestic market. Phase II (current) – The company is procuring battery cells from Leclanché or China (75% of market) and then adding value via mechanical design of enclosures, thermal management of packs, wire harnessing, printed circuit boards (PCB), and electronic & software development. The plant has a 1.5GWh assembly capacity.

Phase III – This will involve setup of a local cell manufacturing plant that will be triggered once 1GWh of demand visibility is achieved, which is expected in the next 2-3 years. The current assembly plant in Gujarat is designed to be flexible with any chemistry and has seven production lines, including various lines for cylindrical, prismatic and pulse cells, with a low-voltage/high-voltage battery pack line and one that provides a charge to all the cells after assembly.

Meeting of Minds
– An Expert Perspective

This is the third in our 'Meeting of Minds' series where we host experts and leaders in various fields to discuss key events and trends in the Auto and Aviation sectors.

REPORTS IN THIS SERIES

SN	Title
#1	**Auto:** Rubber prices headed for a structural bull run
#2	**Aviation:** Time for airline fleet consolidation; near-term pain to persist

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ADD
TP: Rs 100 | ⮝ 10%

DCB BANK | Banking | 10 May 2021

Recoveries to improve gradually – upgrade to ADD

DCB Bank's (DCBB) Q4FY21 PAT of Rs 0.8bn (+13% YoY) beat our estimate on below-expected provisions. FY21 slippages held at FY20 levels and collections post moratorium have risen across products, viz. home (97%), LAP (95%) and CV loans (86%). Non-NPA provisioning stands at 1.4% of loans and the restructured book at 3.7% is within the guided 3-5% range. Management expects growth to pick up in H2FY22. We maintain our Mar'22 TP of Rs 100 but upgrade DCBB from SELL to ADD on a better growth outlook and current low valuations of 0.7x FY23E P/BV.

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Collection efficiency rising consistently: DCBB's GNPA ratio increased 40bps QoQ to 4.1% as slippages stood at Rs 6.6bn (including recognition of erstwhile proforma slippages). We note that total slippages in FY21 stood at Rs 6.8bn, in line with the FY20 level of Rs 6.6bn. Collection efficiency has been steadily improving post moratorium for the home, LAP and CV loan books, standing at 96.8%, 95.2% and 86% respectively. Collections have dipped in Apr'21, but the bank does not anticipate a repeat of the sharp decline seen in FY21.

Asset quality to improve gradually: FY21 recoveries were affected as the court stay on NPA recognition halted the use of the SARFAESI Act. Per management, 90-95% of borrowers settle outside SARFAESI once it is applied. The bank remains cautious on the impact of the second Covid wave on slippages.

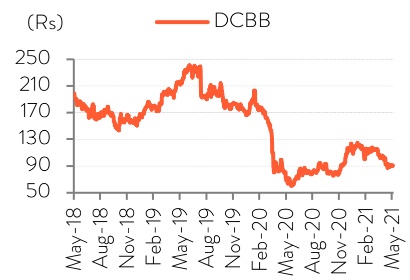
Loan growth guided to pick up: DCBB will continue to focus on LAP, home, gold and MSME/SME working capital loans for growth. The bank believes it can deliver growth in the high teens in FY22.

Upgrade to ADD: We retain estimates but raise the stock from SELL to ADD as the growth slowdown appears to have bottomed out in FY21 and valuations are cheap at 0.7x FY23E P/BV. Our Mar'22 TP remains at Rs 100 (0.8x FY23E).

Ticker/Price	DCBB IN/Rs 91
Market cap	US$ 383.4mn
Shares o/s	310mn
3M ADV	US$ 2.6mn
52wk high/low	Rs 127/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	11,493	12,649	12,866	13,704	15,289
NII growth (%)	15.5	10.1	1.7	6.5	11.6
Adj. net profit (Rs mn)	3,254	3,379	3,455	3,130	3,905
EPS (Rs)	10.5	10.9	11.1	10.0	12.5
P/E (x)	8.6	8.4	8.2	9.0	7.3
P/BV (x)	1.0	0.9	0.8	0.7	0.7
ROA (%)	1.0	0.9	0.9	0.8	0.9
ROE (%)	11.0	10.3	9.6	8.0	9.3

Source: Company, BOBCAPS Research | P – Provisional

WEEKLY WRAP

10 May 2021

Local restrictions impact economic activity

Global yields closed lower led by US where economic data was weaker than anticipated. With restrictions being removed from Europe, EUR rose by 1.2%. Global equity and commodity markets too were stronger on the anticipation that activity will improve. Indian yields too fell on the back of announcements by RBI and rising Covid-19 cases. Our weekly economy tracker has fallen by 7% from the previous week as local restrictions bite. In the coming week, markets will look at domestic inflation and production.

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Markets

- **Bonds:** Global yields closed lower in the week led by US 10Y which fell by 5bps (1.58%) with lower than anticipated PMIs (ISM) and employment data. However, crude prices rose by 1.5% (US$ 68/bbl) on expectation of revival in demand. India's 10Y yield fell by 2bps (6.02%) supported by announcements made by RBI. System liquidity surplus fell to Rs 4.7tn as on 7 May 2020 from Rs 5.1tn in previous week.

- **Currency:** Global currencies closed higher as weaker than expected US payroll data weighed on the dollar. DXY fell by 1.1%. EUR rose by 1.2% amidst opening up of economy after removal of restrictions. INR rose by 0.8% supported by global cues. FII outflows were US$ 122mn.

- **Equity:** Barring Shanghai Comp, other global equity indices went up on the back of removal of restrictions in Eurozone and upbeat earnings. Dow (2.7%) surged the most followed by FTSE (2.3%) and Nikkei (1.9%). Sensex (0.9%) too ended in green led by metal and power stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 5.4mn this week versus 5.6mn last week led by India, which added 2.7mn cases versus 2.6mn WoW. Our weekly economic activity tracker index dipped to 79 (100=Feb'20) from 85 in last week. Israel has vaccinated 63% of its population (single dose), UK at 52% and US at 45%. India is now at 9.7%.

- **Upcoming key events:** Markets await GDP estimates of UK along with US retail sales, PPI and industrial production. On the domestic front, IIP, CPI and WPI data will be released. Progress of vaccination, addition to Covid-19 case load and any change in local restrictions will drive markets.

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Recommendation scale: 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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