FIRST LIGHT

12 January 2021

RESEARCH

BOB Economics Research | RBI Financial Stability Report (FSR)

RBI's FSR points to higher NPAs

BOB Economics Research | Weekly Wrap

Global yields inch up led by US

GNA Axles | Target: Rs 450 | +29% | BUY

Strong Q3; estimates upgraded

Building Material | Q3FY21 Preview

Improving trends across the board

SUMMARY

India Economics: RBI Financial Stability Report (FSR)

RBI's FSR noted increase in GNPA of SCBs to 13.5% in base case and 14.8% under severe stress. However, it does point out that SCBs are in much better position with CRAR of 15.6% (from 14.7% as of Mar'20) and PCR of 72.4% (from 66.2%). SMA2 (as % of advances) for large corporates shows increase of 5.5% from Sep'20, indicating higher stress. Better quality corporates are also deleveraging, driving credit growth lower. While PSBs are witnessing an increase in market share in consumer credit, PVBs are seeing an increase in MSMEs.

Click here for the full report.

India Economics: Weekly Wrap

US 10Y yield inched up by 20bps in the week after Democratic party regained control of the Senate. Higher yields supported US$. Global equity markets too rose led by FTSE. Global manufacturing activity continues to gain traction, but services activity is yet to normalise. Indian equity markets too rose as economic activity is gaining ground. Yield curve is likely to flatten with RBI resuming normal liquidity operations. This week, inflation, industrial production and RBI's FSR will be released. Inflation is estimated at 4.9%.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

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 (%)	1.12	4bps	21bps	(70bps)
India 10Y yield (%)	5.88	2bps	3bps	(71bps)
USD/INR	73.25	0.1	0.6	(3.3)
Brent Crude (US$/bbl)	55.99	3.0	11.4	(13.8)
Dow	31,098	0.2	3.7	7.9
Shanghai	3,570	(0.2)	5.8	15.5
Sensex	48,783	1.4	6.1	17.3
India FII (US$ mn)	**7 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(145.3)	6.4	6.4	(4,087.2)
FII-E	109.7	575.5	575.5	30,551.3

Source: Bank of Baroda Economics Research

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GNA Axles

GNA Axles (GNA) posted a strong set of results in Q3FY21 with revenue up 29% YoY. Operating margin expanded 630bps YoY, leading to 102% YoY growth in EBITDA. We expect the North American heavy truck market to bolster exports and likely CV market revival to aid domestic growth ahead. We revise FY22/23 earnings estimates up by ~20% to factor in a better revenue and operating performance. On rolling valuations forward, we move to a new Mar'22 TP of Rs 450 (vs. Rs 350 for Sep'21), set at an unchanged 12x P/E. BUY.

Click here for the full report.

Building Material: Q3FY21 Preview

We expect most of our building material coverage to clock YoY growth aided by demand revival. MDF companies look set for strong revenues backed by higher volumes. Tiling players are also likely to log near-double-digit volume growth, and we model for robust revenues in the pipes segment led by higher volumes and realisations. We forecast margin expansion across the board arising from volume (MDF/plywood/tiles) and inventory (pipes) gains. Management commentary on expected business pickup in FY22 will be a key monitorable.

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RBI FINANCIAL STABILITY REPORT (FSR)

11 January 2021

RBI's FSR points to higher NPAs

RBI's FSR noted increase in GNPA of SCBs to 13.5% in base case and 14.8% under severe stress. However, it does point out that SCBs are in much better position with CRAR of 15.6% (from 14.7% as of Mar'20) and PCR of 72.4% (from 66.2%). SMA2 (as % of advances) for large corporates shows increase of 5.5% from Sep'20, indicating higher stress. Better quality corporates are also deleveraging, driving credit growth lower. While PSBs are witnessing an increase in market share in consumer credit, PVBs are seeing an increase in MSMEs.

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Stress to build-up: RBI's FSR pointed out that GNPA ratio of SCBs is likely to shoot up to 13.5% in base case and 14.8% under severe stress compared with 7.5% as of Sep'20. This will be led by PSBs whose GNPA ratio under base case and severe stress would rise to 16.2% and 17.6% respectively. CRAR of SCBs would also deteriorate to 14% in base case and 12.5% under severe stress scenario compared with 15.6% as of Sep'20.

SMA movement shows stress increasing: RBI's FSR shows that for large corporate accounts (non-PSU non-financial obligors, Rs 22.39tn as of 31 Aug'20), the proportion of assets in SMA2 has increased to 7.2% as of Nov'20 compared with 1.7% as of Sep'20. This is the leading indicator of build-up of stress in wholesale portfolio category. However, proportion of assets under SMA0 has fallen to 7.5% as of Nov'20 from 11.8% as of Sep'20 and under SMA1, it has remained stable at 3.3%.

Credit and deposit growth: Credit growth of SCBs moderated to 5% in Sep'20 from 5.7% in Mar'20. Easing was visible in private bank credit (7.1% from 10.4%). However, for PSBs it noted a pick up from 3% to 4.6%. PSBs are gaining market share in consumer credit with inquiry volumes at 5% as of Sep'20 compared with a decline of 10% and 25% for PVBs and NBFCs respectively. On the other hand, in MSME segment, PVBs are reporting a much higher increase in inquiry volumes at 14% compared with a decline of 20.2% for NBFCs and 2% for PSBs. On an overall basis, NBFCs' credit grew at a tepid pace of 4.4% on YoY basis compared with 22% a year ago.

KEY HIGHLIGHTS

- Stress test shows GNPA ratio is likely to shoot up to 14.8% under severe stress and CRAR would deteriorate to 12.5%.
- SMA2 data of corporates have increased which shows rising stress.
- PSBs are gaining market share in consumer credit with inquiry volumes at 5% as of Sep'20.

WEEKLY WRAP

11 January 2021

Global yields inch up led by US

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US 10Y yield inched up by 20bps in the week after Democratic party regained control of the Senate. Higher yields supported US$. Global equity markets too rose led by FTSE. Global manufacturing activity continues to gain traction, but services activity is yet to normalise. Indian equity markets too rose as economic activity is gaining ground. Yield curve is likely to flatten with RBI resuming normal liquidity operations. This week, inflation, industrial production and RBI's FSR will be released. Inflation is estimated at 4.9%.

Markets

- **Bonds:** Except China (stable), global 10Y yields closed higher.US 10Y yield rose the most by 20bps (1.12%-highest since Mar'20) supported by Democrat's winning Senate run-off. India's 10Y yield closed flat at 5.88%. RBI is resuming normal liquidity operation and announced variable rate repo auction of Rs 2tn, after a gap of 9 months. System liquidity surplus fell to Rs 5.6tn as on 8 Jan 2020 versus Rs 6.2tn in the previous week.

- **Currency:** Global currencies closed mixed. DXY rose by 0.2% on hopes of further stimulus as Democrats won control of the Senate. GBP depreciated by 0.8% as more stringent lockdown measures raised bets of a rate cut by BoE. INR fell by 0.2% as oil prices climbed to an 11-month high at US$ 56/bbl. FII inflows were also lower at US$ 427mn.

- **Equity:** Global indices ended the week higher with FTSE (6.4%) and Shanghai Comp (2.8%) gaining the most. Vaccine roll out in Europe and additional stimulus by Biden administration drove equity markets higher. Sensex too rose by 1.9% as GDP is estimated to contract less sharply in FY21. Metal and capital good stocks surged the most.

- **Covid-19 tracker:** Global cases rose by 5.2mn in the week ending 10 Jan 2021 compared with 4.2mn in the previous week, led by surge in US and UK. India added 126k cases this week compared with 136k in earlier week.

- **Upcoming key events:** In the current week, macro prints from US (CPI, PPI, retail sales, industrial production) will be in focus. UK industrial production and Germany's CY20 GDP print are also awaited. On the domestic front, CPI, WPI and IIP data are scheduled for release.

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BUY
TP: Rs 450 | ⮝ 29%

GNA AXLES | Auto Components | 11 January 2021

Strong Q3; estimates upgraded

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Robust Q3: GNA's topline grew 29% YoY to Rs 2.8bn, reflecting strong volume growth in both tractors and CVs during the quarter. The company reported EBITDA of Rs 482mn (+102% YoY) with margins at 17.4%, despite higher input cost pressures. The strong topline and steady margins reflected in its quarterly earnings with PAT surging 249% YoY to Rs 266mn.

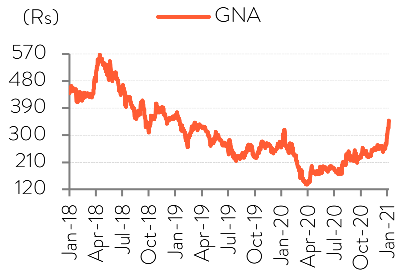
Three-pronged growth outlook: We model for a healthy 12% earnings CAGR for GNA over FY21-FY23 underpinned by three pillars of growth: (1) strong export visibility from the US CV market – per ATA, truck volumes in the US will likely rebound 4.9% next year and then grow 3.2% per year on average through 2026, (2) robust revival prospects for the domestic CV market – we expect a 41% CAGR in MHCVs over FY21-FY23, and (3) steady domestic tractor industry growth – at an estimated 6% volume CAGR through FY23.

Estimates upgraded; maintain BUY: We project a 9% CAGR in rear axle volumes for the company during FY21-FY23, leading to a revenue CAGR of 14%. At ~15% margins, EBITDA is forecast to log a 9% CAGR through FY23. We continue to value the stock at a 12x 1-yr fwd P/E multiple while rolling our valuation over to FY23 estimates, yielding a revised Mar'22 TP of Rs 450.

Ticker/Price	GNA IN/Rs 349
Market cap	US$ 33.1mn
Shares o/s	7mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 365/Rs 126
Promoter/FPI/DII	68%/1%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	9,283	9,090	8,613	10,400	11,229
EBITDA (Rs mn)	1,451	1,245	1,386	1,527	1,648
Adj. net profit (Rs mn)	659	528	649	743	813
Adj. EPS (Rs)	30.7	24.6	30.2	34.6	37.9
Adj. EPS growth (%)	29.4	(19.9)	23.0	14.4	9.5
Adj. ROAE (%)	17.7	12.4	13.6	13.7	13.4
Adj. P/E (x)	11.4	14.2	11.5	10.1	9.2
EV/EBITDA (x)	1.4	2.3	1.9	1.5	1.2

Source: Company, BOBCAPS Research

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BUILDING MATERIALS | Q3FY21 Preview | 11 January 2021

Improving trends across the board

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Tiles & Sanitaryware – healthy growth trajectory: Sales have improved in the tiles and sanitaryware business aided by unlocking of markets. Revenue growth for Kajaria Ceramics and Somany Ceramics is expected to be near double-digit driven primarily by volumes, whereas Cera Sanitaryware could clock low-digit topline growth as traction in the faucet/tile segments is offset by a modest performance in sanitaryware due to production issues. Operating margins are projected to improve or remain stable for all players under coverage aided by cost control and lower raw material cost.

Plywood – improving trends; MDF – strong growth YoY: We expect plywood sales to grow YoY for Century Plyboards but to decline for Greenply Industries due to tighter working capital discipline. Plywood margins for both companies are forecast to improve due to operating leverage. In MDF, we project ~40% YoY revenue growth for Greenpanel Industries but a flattish showing from Century Ply due to full capacity utilisation. Both players should deliver higher MDF margins led by better utilisation and an improving sales mix.

Pipes & Adhesives –YoY uptick: Demand from the housing sector and higher PVC resin prices are expected to aid revenue growth in the pipe segment. Operating margins are projected to expand for all players under our coverage – Supreme Industries, Astral Poly (ASTRA) and Finolex Industries – due to cost control and inventory gains on account of rising PVC resin prices. In adhesives, we anticipate strong topline growth for Pidilite Industries and ASTRA aided by a tepid base YoY and pent-up demand, with margin expansion arising from lower RM cost.

What to watch for: We await management commentary on the FY22 demand outlook and impact on margins from rising input prices.

RECOMMENDATION SNAPSHOT

Ticker	Rating
KJC IN	REDUCE
SOMC IN	BUY
CRS IN	ADD
PIDI IN	SELL
MTLM IN	BUY
CPBI IN	ADD
ASTRA IN	REDUCE
FNXP IN	ADD
SI IN	SELL
GREENP IN	BUY

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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