FIRST LIGHT

14 August 2020

RESEARCH

Eicher Motors | Target: Rs 19,000 | –12% | SELL
Downtrading could dent volumes – cut to SELL

BOB Economics Research | Inflation
Accelerating inflation, RBI to maintain status quo

Aurobindo Pharma | Target: Rs 1,000 | +13% | BUY
In-line Q1; earnings, balance sheet comfort merit higher multiple

GAIL | Target: Rs 155 | +59% | BUY
Marketing losses sink earnings

Ashok Leyland | Target: Rs 44 | –28% | SELL
Weak macros, rich valuations – maintain SELL

Transport Corp of India | Target: Rs 270 | +28% | BUY
Multi-modal capabilities to the fore

Century Plyboards | Target: Rs 160 | +18% | BUY
Tough quarter, potential normalcy by Q4

SUMMARY

Eicher Motors

Eicher Motors (EIM) reported in-line Q1FY21 revenue but dismal operating margins at 0.2%, primarily due to higher input costs and lower operating efficiencies. Given the economic slowdown, we believe Royal Enfield sales could slow significantly as buyers either postpone purchases or downtrade to cheaper models. We now expect EIM to post a 6%/7%/8% CAGR in revenue/ EBITDA/PAT for FY20-FY23. On rollover, our Sep'21 TP stays at Rs 19,000 though we downgrade the stock from REDUCE to SELL post the recent rally.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.67	3bps	3bps	(90bps)
India 10Y yield (%)	5.89	(1bps)	13bps	(74bps)
USD/INR	74.83	(0.1)	0.5	(5.0)
Brent Crude (US$/bbl)	45.43	2.1	5.1	(23.6)
Dow	27,977	1.0	7.3	9.8
Shanghai	3,319	(0.6)	(1.9)	18.2
Sensex	38,370	(0.1)	4.9	2.8
India FII (US$ mn)	**11 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	86.3	50.1	(14,477.6)	(4,718.1)
FII-E	1,572.8	3,084.8	1,796.7	8,399.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

India Economics: Inflation

CPI inflation accelerated to 6.9% in Jul'20 (6.2% in Jun'20) led by higher food and core inflation. Only 3 food items have reported an inflation level below 4%. The drivers of core inflation are personal care at 13.6% and transport and communication at 10%. Housing and recreation are muted and expected to remain so. However, core tends to be sticky and supply bottlenecks are impacting food. This implies that CPI inflation is likely to remain above RBI's target of 4% making further rate cuts difficult for now.

Click here for the full report.

Aurobindo Pharma

Q1 revenue/EBITDA were in line backed by strong US sales and sustained gross margins. Working capital efficiency led to a large US$ 168mn QoQ net debt decline. Injectable sales fell QoQ but expect full normalisation in 6-9 months. Management expects to sustain US momentum on healthy pipeline visibility. New injectable unit commissioning, Unit-7 FDA inspection and depo-injection filings are key near-term events in FY21. We raise FY21/FY22 EPS by 5%. Retain BUY and roll to a Sep'21 TP of Rs 1,000 (vs. Rs 900), set at 11x EV/EBITDA.

Click here for the full report.

GAIL

GAIL's Q1FY21 PAT was below estimates at Rs 2.6bn (–80% YoY). Gross margins underperformed across segments, with EBITDA down 72% YoY. Q1 highlights: (a) gas trading/petchem reported EBITDA losses of Rs 5.2bn/Rs 430mn on low margins and inventory losses, (b) gas transmission EBITDA dipped to Rs 9.5bn (–11% YoY) on lower volumes, (c) LPG production EBITDA beat estimates on low costs. We cut FY21/FY22 earnings by 16.8%/2.4% given weaker gas trading margins and volumes. On rollover, we have a Sep'21 TP of Rs 155 (vs. Rs 150).

Click here for the full report.

Ashok Leyland

Ashok Leyland's (AL) Q1FY21 performance was disappointing despite a strong boost to blended average realisations from BS-VI price upgrades. Demand remains tepid as operator utilisation continues to languish at 50%, coupled with difficulty in obtaining financing. While we assume a strong 44% volume revival in FY22, we believe most optimism is in the price. Inter-corporate deposits in group companies are a cause for concern amid ballooning gross debt over the last three months. We roll over to a Sep'21 TP of Rs 44 (vs. Rs 38). SELL.

Click here for the full report.

Transport Corp of India

Notwithstanding strong industry headwinds, Transport Corp (TRPC) reported a sturdy Q1FY21 print, underscoring the strength of its business model. Multi-modal capabilities cushioned the consolidated revenue decline to 39% YoY, better than peers, despite severe disruptions in road transport. Cost control measures restricted the fall in EBITDA to 48% YoY. TRPC has reached 80-85% of normal operations across segments and expects Q2 to be much better. We maintain our estimates and roll forward to a higher Sep'21 TP of Rs 270 (vs. Rs 240). BUY.

Click here for the full report.

Century Plyboards

Century Plyboards' (CPBI) standalone Q1FY21 revenues contracted 65% YoY, with all major product segments declining by over 60%. Operating profit crashed 99% YoY to Rs 8.4mn due to negative operating leverage, yielding a pre-tax loss of Rs 139mn. June/July sales have returned to 60%/75% of normal levels. Management expects MoM sales improvement to continue and is hopeful of a normal quarter in Q4. We maintain estimates and roll over to a new Sep'21 TP of Rs 160 (earlier Rs 150). Retain BUY.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 19,000 | ∀ 12%

EICHER MOTORS | Auto Components | 13 August 2020

Downtrading could dent volumes – cut to SELL

Eicher Motors (EIM) reported in-line Q1FY21 revenue but dismal operating margins at 0.2%, primarily due to higher input costs and lower operating efficiencies. Given the economic slowdown, we believe Royal Enfield sales could slow significantly as buyers either postpone purchases or downtrade to cheaper models. We now expect EIM to post a 6%/7%/8% CAGR in revenue/ EBITDA/PAT for FY20-FY23. On rollover, our Sep'21 TP stays at Rs 19,000 though we downgrade the stock from REDUCE to SELL post the recent rally.

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

Disappointing Q1: EIM's standalone topline declined 67% YoY (in line with our estimate), led by a 69% YoY drop in quarterly volumes. Unlike peers, EIM reported a jump in input costs, thus shaving 540bps QoQ off gross margins. EBITDA at Rs 12mn (Rs 6.1bn in Q1FY20) came in much lower than estimates (Rs 1.5bn), primarily owing to higher input costs and lower operating efficiencies. Reported PAT declined 98% YoY to Rs 123mn.

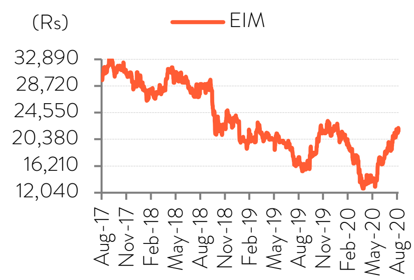
Covid-19 downtrading fears: Due to the significant dent in personal incomes of most salaried as well as self-employed people during the pandemic, we believe Royal Enfield (RE) could be one of the hardest hit companies. RE sales have dropped steadily over the last few quarters amid slower economic activity. We estimate that the company could witness an ~18% YoY volume decline in FY21.

Cut to SELL: We introduce FY23 estimates and now expect EIM to clock a revenue/EBITDA/PAT CAGR of 6%/7%/8% during FY20-FY23. Our SOTP-based TP of Rs 19,000 remains unchanged and is based on Rs 17,700 for RE (21x Sep'22E P/E) and Rs 1,300 for VECV. We, however, downgrade our rating to SELL given the recent rally in stock price which has taken valuations to an expensive 27x FY22E EPS.

Ticker/Price	EIM IN/Rs 21,673
Market cap	US$ 7.8bn
Shares o/s	27mn
3M ADV	US$ 67.8mn
52wk high/low	Rs 23,450/Rs 12,450
Promoter/FPI/DII	49%/32%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	78,483	99,094	108,390
EBITDA (Rs mn)	29,269	22,038	18,240	24,676	27,024
Adj. net profit (Rs mn)	20,544	21,234	16,631	24,636	27,122
Adj. EPS (Rs)	758.3	697.9	521.1	805.7	887.1
Adj. EPS growth (%)	20.7	(8.0)	(25.3)	54.6	10.1
Adj. ROAE (%)	28.8	24.5	16.8	21.0	19.7
Adj. P/E (x)	28.6	31.1	41.6	26.9	24.4
EV/EBITDA (x)	19.5	24.9	30.7	23.3	21.0

Source: Company, BOBCAPS Research

INFLATION

13 August 2020

Accelerating inflation, RBI to maintain status quo

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

CPI inflation accelerated to 6.9% in Jul'20 (6.2% in Jun'20) led by higher food and core inflation. Only 3 food items have reported an inflation level below 4%. The drivers of core inflation are personal care at 13.6% and transport and communication at 10%. Housing and recreation are muted and expected to remain so. However, core tends to be sticky and supply bottlenecks are impacting food. This implies that CPI inflation is likely to remain above RBI's target of 4% making further rate cuts difficult for now.

CPI accelerates further: CPI surprised negatively at 6.9% in Jul'20 compared with 6.2% in Jun'20. Notably, Jun'20 estimate has been revised upwards from 6.1%. Both food and core inflation inched up. While food inflation went up 80bps MoM, core increased by 50bps MoM.

Food inflation picks up: Food inflation increased to 9.6% in Jul'20 from 8.7% in Jun'20 led by higher vegetable prices (11.3% from 4% in Jun'20). One can see a broad based increase in food inflation. Out of 12 food and beverages items, as many as 5 are showing double digit growth led by meat and fish at 18.8% and pulses at 15.9%. Egg at 8.8%, cereals at 7%, milk at 6.6% and beverages at 4.4% are in the range of 4-10%. Only 3 items, have reported an inflation less than 4%. Given the above backdrop, we see relatively elevated food inflation in coming months before easing in winter when base effect plays out.

Core inflation also rises: CPI excluding food and fuel rose by 50bps to 5.9% in Jul'20 from 5.4% in Jun'20. The upward momentum was led by household goods and services (3.1% from 1.8%), transport and communication (10% from 8.3% in Jun'20), education (3.2% from 2.6%) and personal care items (13.6% from 12.9%). Rising crude (6% in Jul'20), gold (6.3%) and other commodity prices (4.9%), contributed towards higher core. In the last 8 years, core inflation has been at 4% or less only once, that too in FY20. The current trajectory shows it is unlikely to average 4% this year.

Further easing difficult: The current trajectory of inflation implies a low probability of any further rate cut. CPI inflation for this and next year is estimated at 5.5% and 4.5% which is higher than RBI's target of 4%. Only a sharp fall in both core and food inflation can change our view. We believe, supply side bottlenecks are likely to ensure food inflation remains elevated in the near-term. Core inflation is also expected to remain sticky.

KEY HIGHLIGHTS

- CPI rose to 6.9% in Jul'20 from 6.2% in Jun'20.
- Led by food inflation, fuel and light and core inflation.
- RBI's rate cut cycle seems to be behind us.

RESULT REVIEW

BUY
TP: Rs 1,000 | 13%

AUROBINDO PHARMA | Pharmaceuticals | 13 August 2020

In-line Q1; earnings, balance sheet comfort merit higher multiple

Q1 revenue/EBITDA were in line backed by strong US sales and sustained gross margins. Working capital efficiency led to a large US$ 168mn QoQ net debt decline. Injectable sales fell QoQ but expect full normalisation in 6-9 months. Management expects to sustain US momentum on healthy pipeline visibility. New injectable unit commissioning, Unit-7 FDA inspection and depo-injection filings are key near-term events in FY21. We raise FY21/FY22 EPS by 5%. Retain BUY and roll to a Sep'21 TP of Rs 1,000 (vs. Rs 900), set at 11x EV/EBITDA.

Vivek Kumar
research@bobcaps.in

US sales and net debt reduction – positive surprises: US sales at US$ 414mn (flat QoQ) were a good beat, led by Natrol ($51mn, +40% QoQ) which offset a decline in injectables ($51mn, −15% on subdued recovery in hospital segment) and orals ($277mn, −1%). EU and EM sales declined 20-23% QoQ due to the Q4 pre-buying effect. EBITDA margin at 21.2% and gross margin at 59.4% were stable QoQ. Sequential recovery in US injectables, 50 launches for the rest of FY21 (6 in Q1), and new injectables unit commissioning in Q4 are expected to drive >6% US sales growth for FY20-FY22. Net debt reduced on improved US collections; going ahead, the extent of reduction may not be the same.

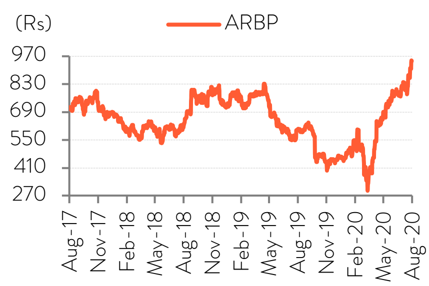
Earnings takeaways: (1) Other expense included Rs 600mn one-time cost on R&D assets. (2) API (non-antibiotics) benefitted from China supply disruption. (3) TLD migration supporting ARV sales. (4) EU margins touching double digits. (5) Unit 7 CAPA submitted; desktop reviews awaited for Units 1, 9, 11.

Strong US execution to support higher valuation: The stock trades at 10x FY22E EBITDA (7Y band: 5-15x), 30% above global peers. Strong US pipeline execution, nimble supply chain and balance sheet comfort can drive upsides to our EPS and FCF, supporting a higher multiple in the next 18 months. Expect near-term consolidation in view of the ~75% stock rally in the last four months.

Ticker/Price	ARBP IN/Rs 881
Market cap	US$ 6.9bn
Shares o/s	586mn
3M ADV	US$ 52.3mn
52wk high/low	Rs 968/Rs 289
Promoter/FPI/DII	52%/19%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	195,634	230,986	245,602	261,144	276,861
EBITDA (Rs mn)	39,519	48,640	51,154	54,314	57,651
Adj. net profit (Rs mn)	24,126	28,911	31,415	32,638	34,973
Adj. EPS (Rs)	41.2	49.3	53.6	55.7	59.7
Adj. EPS growth (%)	(0.4)	19.8	8.7	3.9	7.2
Adj. ROAE (%)	18.8	18.7	17.1	15.3	14.4
Adj. P/E (x)	21.4	17.9	16.4	15.8	14.8
EV/EBITDA (x)	13.9	11.5	10.9	9.9	9.0

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 155 | ▲ 59%

GAIL | Oil & Gas | 13 August 2020

Marketing losses sink earnings

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

GAIL's Q1FY21 PAT was below estimates at Rs 2.6bn (–80% YoY). Gross margins underperformed across segments, with EBITDA down 72% YoY. Q1 highlights: (a) gas trading/petchem reported EBITDA losses of Rs 5.2bn/Rs 430mn on low margins and inventory losses, (b) gas transmission EBITDA dipped to Rs 9.5bn (–11% YoY) on lower volumes, (c) LPG production EBITDA beat estimates on low costs. We cut FY21/FY22 earnings by 16.8%/2.4% given weaker gas trading margins and volumes. On rollover, we have a Sep'21 TP of Rs 155 (vs. Rs 150).

Lower gas transmission volumes: Gas transmission volumes at 90mmscmd (–17% QoQ) were below estimates, underperforming the flattish industry consumption trend (~150mmscmd). Management has clarified that volumes are back to >100mmscmd levels in August, though concerns persist on loss of market share for GAIL to other pipelines. The outlook on GAIL's volumes remains buoyant, supported by (a) low spot LNG prices that could accelerate demand recovery, with additional offtake from the power sector, (b) new pipeline commissioning (such as Kochi-Mangaluru and Jagdishpur-Haldia by end-FY22), which could add ~15mmscmd to volumes, and (c) incremental domestic gas production (ONGC/RIL: 20-30mmscmd by FY23/FY24).

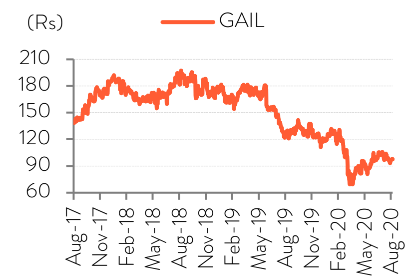
Gas trading margins turn negative: GAIL's worst fears for its gas trading business came true as it reported a loss of Rs 5.2bn (Rs 2.5bn on inventory, rest on margins). While inventory losses may reverse in Q2/Q3 FY21, margin concerns persist – we thus downgrade our LNG margin estimate to nil for FY21.

Reiterate BUY: At 7.4x FY22E EPS, GAIL offers attractive risk-reward, pricing in most of the concerns. Our SOTP target price of Rs 155 builds in worst-case assumptions across segments, especially in gas trading and petrochemicals (which form just ~10% of our valuation).

Ticker/Price	GAIL IN/Rs 97
Market cap	US$ 5.9bn
Shares o/s	4,510mn
3M ADV	US$ 20.7mn
52wk high/low	Rs 149/Rs 65
Promoter/FPI/DII	52%/16%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	802,836	718,710	392,246	521,799	596,284
EBITDA (Rs mn)	95,556	84,710	77,833	92,687	106,713
Adj. net profit (Rs mn)	63,525	49,658	48,430	59,678	67,698
Adj. EPS (Rs)	14.1	11.0	10.7	13.2	15.0
Adj. EPS growth (%)	38.1	(21.8)	(2.5)	23.2	13.4
Adj. ROAE (%)	15.1	11.3	10.8	12.6	13.3
Adj. P/E (x)	6.9	8.8	9.1	7.4	6.5
EV/EBITDA (x)	4.6	5.1	6.0	5.1	4.4

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 44 | ∨ 28%

ASHOK LEYLAND | Automobiles | 13 August 2020

Weak macros, rich valuations – maintain SELL

Ashok Leyland's (AL) Q1FY21 performance was disappointing despite a strong boost to blended average realisations from BS-VI price upgrades. Demand remains tepid as operator utilisation continues to languish at 50%, coupled with difficulty in obtaining financing. While we assume a strong 44% volume revival in FY22, we believe most optimism is in the price. Inter-corporate deposits in group companies are a cause for concern amid ballooning gross debt over the last three months. We roll over to a Sep'21 TP of Rs 44 (vs. Rs 38). SELL.

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

Disastrous Q1FY21: AL's topline declined 89% YoY to Rs 6.5bn led by a 90% YoY drop in volumes during the quarter. Average selling price improved 19% YoY, reflective of BS-VI dispatches and higher non-MHCV sales. The company reported negative EBITDA of Rs 3.3bn, (+Rs 5.4bn in Q1FY20), with margins at –51%. Gross margins improved substantially but higher staff costs and other expenses pulled down EBITDA, leading to a net loss of Rs 3.9bn.

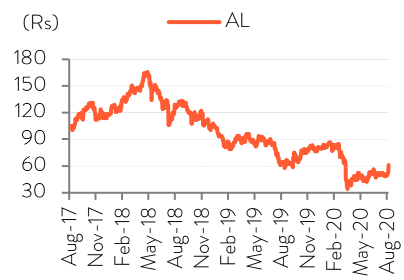
Near-term challenges persist: Our channel checks suggest that current utilisation at fleet operators continues to hover at ~50% and financing remains tight, which will dent demand. In addition, we believe the pending scrappage policy will fail to trigger a substantial demand push till the economy revives significantly. We introduce FY23 estimates and assume a 10% volume CAGR for AL over FY20-FY23; EPS is pegged at Rs 2.1/Rs 3.4 for FY22/FY23.

Maintain SELL: Despite strong growth assumptions, current valuations look stretched at 29x FY22E EPS. A steep increase in net debt since Mar'20 to Rs 43bn and inter-corporate deposits within group companies do not augur well. We value the stock at 16x EPS (vs. 18x earlier) and roll valuations forward to Sep'22, yielding a revised Sep'21 TP of Rs 44 (from Rs 38). Reiterate SELL.

Ticker/Price	AL IN/Rs 61
Market cap	US$ 2.4bn
Shares o/s	2,936mn
3M ADV	US$ 30.9mn
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	174,675	163,997	240,336	267,206
EBITDA (Rs mn)	30,748	11,737	10,240	17,914	23,258
Adj. net profit (Rs mn)	19,832	3,953	1,151	6,163	9,965
Adj. EPS (Rs)	6.8	0.8	0.4	2.1	3.4
Adj. EPS growth (%)	15.1	(80.1)	(70.9)	435.3	61.7
Adj. ROAE (%)	23.8	5.4	1.6	8.1	11.6
Adj. P/E (x)	9.0	74.9	155.8	29.1	18.0
EV/EBITDA (x)	6.1	15.0	18.0	11.2	8.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 270 | ⮝ 28%

TRANSPORT CORP OF INDIA

| Logistics | 13 August 2020

Multi-modal capabilities to the fore

Notwithstanding strong industry headwinds, Transport Corp (TRPC) reported a sturdy Q1FY21 print, underscoring the strength of its business model. Multi-modal capabilities cushioned the consolidated revenue decline to 39% YoY, better than peers, despite severe disruptions in road transport. Cost control measures restricted the fall in EBITDA to 48% YoY. TRPC has reached 80-85% of normal operations across segments and expects Q2 to be much better. We maintain our estimates and roll forward to a higher Sep'21 TP of Rs 270 (vs. Rs 240). BUY.

Sayan Das Sharma
research@bobcaps.in

Alternative modes cushioned topline: TRPC's consolidated revenue decline of 39% YoY (est. 65% drop) was better than road logistics peers TCI Express (–65%) and Mahindra Logistics (–54%). Though road operations were severely disrupted, freight revenue (–32% YoY) was cushioned by rail-linked operations of the TCI Concor JV (+81% YoY). Seaways (–13.5% YoY) benefitted as competition waned amidst tough demand conditions. Supply chain revenue fell 53% YoY, hit by demand slump in the key auto vertical (80% of revenue).

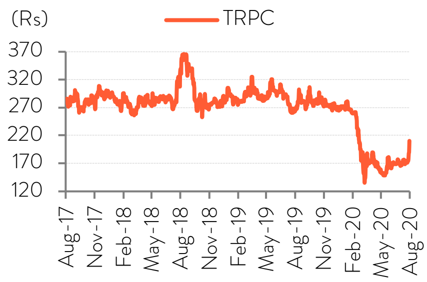
Efficient cost control: Cost reduction measures that lowered staff cost/other expenses by 22%/46% YoY yielded above-estimated EBITDA of Rs 306mn (est. loss of Rs 194mn) and a healthy EBITDA margin of 7.5% (–130bps). EBIT margin for freight/SCS contracted 90bps/410bps YoY, while seaways EBIT margin fell by a sharper 14ppt due to higher operating costs.

Green shoots visible: TRPC's freight and supply chain segments have trudged back to 80-85% of normal operations, after a dismal April/May. Seaways has attained normalcy and is expected to post YoY growth in Q2, with TRPC also planning the opportunistic acquisition of a vessel available at distressed valuations. Growing traction in several user industries – agri-products, tractors, 2Ws, FMCG, tiles – should hold the company in good stead till demand recovers fully.

Ticker/Price	TRPC IN/Rs 210
Market cap	US$ 215.2mn
Shares o/s	77mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 313/Rs 122
Promoter/FPI/DII	67%/2%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	25,098	29,510	32,935
EBITDA (Rs mn)	2,495	2,405	2,067	2,686	3,111
Adj. net profit (Rs mn)	1,460	1,531	953	1,404	1,673
Adj. EPS (Rs)	19.0	19.9	12.4	18.3	21.8
Adj. EPS growth (%)	17.7	4.6	(37.8)	47.4	19.2
Adj. ROAE (%)	17.7	16.0	8.9	11.9	12.8
Adj. P/E (x)	11.0	10.6	17.0	11.5	9.7
EV/EBITDA (x)	8.0	8.5	9.9	7.5	6.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 160 | 18%

CENTURY PLYBOARDS | Construction Materials | 13 August 2020

Tough quarter, potential normalcy by Q4

Century Plyboards' (CPBI) standalone Q1FY21 revenues contracted 65% YoY, with all major product segments declining by over 60%. Operating profit crashed 99% YoY to Rs 8.4mn due to negative operating leverage, yielding a pre-tax loss of Rs 139mn. June/July sales have returned to 60%/75% of normal levels. Management expects MoM sales improvement to continue and is hopeful of a normal quarter in Q4. We maintain estimates and roll over to a new Sep'21 TP of Rs 160 (earlier Rs 150). Retain BUY.

Arun Baid
research@bobcaps.in

Lockdown depresses revenue: CPBI's standalone revenue declined 65% YoY to Rs 2bn, with all its core business segments of plywood, laminate and MDF slumping by 60-68% YoY due to the lockdown. As per management, while April was a washout and May saw some demand, June and July recovered to 60% and 75% of year-ago sales respectively. MDF demand momentum has remained strong. Management stated that cash collection has been much better than expected in Q1 and the working capital cycle should improve as sales pick up. Demand during Q1 was driven more by upcountry markets.

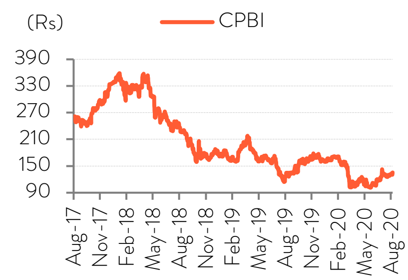
Margin decline leads to pre-tax loss: EBITDA plunged 99% YoY to Rs 8.4mn due to negative operating leverage from lower sales – this caused a pre-tax loss of Rs 139mn. Management expects margins to improve as sales gather traction and cost-cutting initiatives yield results.

Maintain BUY: We expect CPBI's performance to improve QoQ as unlocking progresses. We remain positive on the company given its comprehensive product portfolio, strong brand and wide distribution reach. On rollover, we move to a Sep'21 TP of Rs 160 (earlier Rs 150), based on an unchanged 20x one-year forward P/E multiple.

Ticker/Price	CPBI IN/Rs 136
Market cap	US$ 403.9mn
Shares o/s	223mn
3M ADV	US$ 1.1mn
52wk high/low	Rs 182/Rs 95
Promoter/FPI/DII	73%/6%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,804	23,170	18,835	22,635	25,305
EBITDA (Rs mn)	3,124	3,307	2,334	3,360	3,840
Adj. net profit (Rs mn)	1,542	1,647	968	1,678	1,881
Adj. EPS (Rs)	6.9	7.4	4.4	7.6	8.5
Adj. EPS growth (%)	(3.5)	6.8	(41.2)	73.3	12.1
Adj. ROAE (%)	16.9	16.0	8.5	13.4	13.4
Adj. P/E (x)	19.6	18.3	31.2	18.0	16.0
EV/EBITDA (x)	11.4	10.7	14.5	9.5	8.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

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)

Rating distribution

As of 31 July 2020, out of 96 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 46 have BUY ratings, 20 have ADD ratings, 11 are rated REDUCE and 19 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

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.

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.