FIRST LIGHT

15 February 2021

RESEARCH

BOB Economics Research | Inflation and IIP

IIP rebounds and food inflation falls

Ashok Leyland | Target: Rs 60 | –56% | SELL

Lacklustre quarter – maintain SELL

Petronet LNG | Target: Rs 330 | +36% | BUY

Valuations disconnected from fundamentals – maintain BUY

SUMMARY

India Economics: Inflation and IIP

India's industrial output improved to 1% in Dec'20 (-2.1% in Nov'20) led by acceleration in manufacturing and electricity output. Consumer durables output rose to a 3-month high of 4.9%. CPI inflation eased to a 16-month low of 4.1% in Jan'21 driven by sharp drop in food inflation to 1.9% in Jan'21 (3.4% in Dec'20). Core inflation remained sticky at 5.7% in Jan'21. We believe inflation is likely to be lower than RBI's revised trajectory of 5-5.2% in H1 FY22. However, government borrowing leaves no room for a decline in yields.

Click here for the full report.

Ashok Leyland

Ashok Leyland (AL) reported a weak Q3FY21 as revenue at Rs 48.1bn fell 5% short of our estimate. Below-expected gross margins weighed on operating performance, muting EBITDA growth at 13% YoY to Rs 2.5bn and capping margins at 5.3% (7.7% est.). Though we assume a healthy 29% volume CAGR over FY21-FY23, near-term headwinds from higher RM prices are likely to erode earnings. Current valuations at 54X FY22E EPS look stretched – maintain SELL with an unchanged Mar'22 TP of Rs 60.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.16	4bps	2bps	(45bps)
India 10Y yield (%)	5.96	(5bps)	4bps	(47bps)
USD/INR	72.86	0	0.7	(2.1)
Brent Crude (US$/bbl)	61.14	(0.5)	9.8	8.5
Dow	31,431	0	1.4	6.8
Shanghai	3,655	1.4	3.5	25.8
Sensex	51,532	0.4	4.6	24.3
India FII (US$ mn)	**10 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(36.0)	(66.9)	(565.2)	(4,658.8)
FII-E	258.7	3,279.0	5,257.2	35,233.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Petronet LNG

Petronet LNG's (PLNG) Q3FY21 EBITDA outperformed estimates at Rs 13.4bn (+21% YoY). Volumes were in line (+1% YoY) and EBITDA/mmbtu surged to Rs 56.8 (+20% YoY). Utilisation remains close to 100% at Dahej and is guided to improve to 30% at Kochi from Q4. With new pipelines connecting Kochi and improved LNG demand from the power sector, the volume outlook remains robust. On rollover to Mar'22, our TP remains at Rs 330. Valuations look undemanding at 9.5x FY23E EPS.

Click here for the full report.

INFLATION AND IIP

12 February 2021

IIP rebounds and food inflation falls

Sameer Narang
Dipanwita Mazumdar | Jahnavi
chief.economist@bankofbaroda.com

India's industrial output improved to 1% in Dec'20 (-2.1% in Nov'20) led by acceleration in manufacturing and electricity output. Consumer durables output rose to a 3-month high of 4.9%. CPI inflation eased to a 16-month low of 4.1% in Jan'21 driven by sharp drop in food inflation to 1.9% in Jan'21 (3.4% in Dec'20). Core inflation remained sticky at 5.7% in Jan'21. We believe inflation is likely to be lower than RBI's revised trajectory of 5-5.2% in H1 FY22. However, government borrowing leaves no room for a decline in yields.

KEY HIGHLIGHTS

- CPI inflation moderated to 4.1% in Jan'21 from 4.6% in Dec'20, led by food inflation.
- Core inflation was sticky at 5.7%.
- IIP growth improves to 1% in Dec'20 after falling by 2.1% in Nov'20.

IIP improves: Industrial output surprised positively at 1% in Dec'20 from a decline of 2.1% in Nov'20. This was led by manufacturing sector which reported an increase of 1.6% in Dec'20 from a contraction of 2% in Nov'20. Electricity output rose to a 10-month high of 5.1% in Dec'20 from 3.5% in Nov'20. Broad based improvement was seen across all the sectors with consumer durables output rising to 3-month high of 4.9% in Dec'21 (-3.4% in Nov'20). FMCG output too improved to 2% in Dec'20 (-1.3% in Nov'20). High frequency indicators show recovery is expected to sustain in Q4FY21 and FY22.

CPI is at a 16-month low: CPI inflation slipped to its lowest level since Sep'19 at 4.1% in Jan'21 from 4.6% in Dec'20. This was led by 150bps drop in food inflation (1.9% from 3.4%). Vegetable inflation declined sharply by 15.8% from 10.5% in Dec'20. Except fruits (+5% in Jan'21 versus +2.7% in Dec'20), all items of food showed moderation/decline. Cereal prices moderated to 0.1% from 1% in Dec'20. Meat and fish inflation moderated to 12.5% from 15.2% in Dec'20. Eggs prices increased by 12.8% from 16% in Dec'20 driven by impact of Avian flu. We see benign food inflation scenario to prevail in the coming months due to absent of any supply side disruption from monsoon.

Core inflation remains sticky: Core inflation was stable at 5.7% in Jan'21. Clothing and footwear (3.8% from 3.5%), health (6% from 5.9%), recreation and amusement (5.5% from 5.1%) inched up. Household goods and services (2.8% from 2.9%) and personal care and effects (10.6% from 11.7%) moved down. Retail fuel prices (petrol 4.3%, diesel +4.7% in Feb'21 MoM) continue to edge up as international oil prices have moved higher. Opening up of economy in coming months is likely to put upward pressure on core inflation. The recent prints should give RBI room to maintain accommodative liquidity stance. We see more intervention in long-end.

SELL
TP: Rs 60 | ∀ 56%

ASHOK LEYLAND | Automobiles | 12 February 2021

Lacklustre quarter – maintain SELL

Ashok Leyland (AL) reported a weak Q3FY21 as revenue at Rs 48.1bn fell 5% short of our estimate. Below-expected gross margins weighed on operating performance, muting EBITDA growth at 13% YoY to Rs 2.5bn and capping margins at 5.3% (7.7% est.). Though we assume a healthy 29% volume CAGR over FY21-FY23, near-term headwinds from higher RM prices are likely to erode earnings. Current valuations at 54X FY22E EPS look stretched – maintain SELL with an unchanged Mar'22 TP of Rs 60.

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

Weak Q3: AL's topline grew 20% YoY to Rs 48.1bn but was below estimates as ASP fell short due to higher discounts. EBITDA margin was further eroded by soft gross margins (25.6% vs. 28% est.) and contracted 30bps YoY to 5.3%. EBITDA increased 13% YoY to Rs 2.5bn whereas PAT adjusted for one-offs fell 11% to Rs 267mn. AL reported a one-time loss of Rs 853mn owing to rollout of a VRS scheme, which was partially offset by a Rs 393mn gain from discontinuation of certain products in the LCV division.

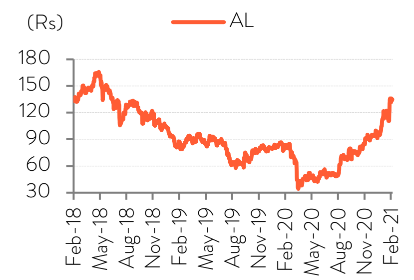
Near-term margin stress: We assume a healthy volume CAGR of 41%/15% for AL's MHCV/LCV divisions over FY21-FY23. But the recent steep increase in steel prices would weigh on margins and offset gains from expected volume growth and product mix improvement. Also, the short supply of semiconductors globally may affect the production of vehicles.

Maintain SELL: We bake in a volume/revenue CAGR of 29%/36% for AL over FY21-FY23. Despite our strong growth assumptions, current valuations look stretched at 54x/44x FY22E/FY23E EPS. We value the stock at an unchanged multiple of 20x one-year forward EPS, maintaining our Mar'22 TP of Rs 60.

Ticker/Price	AL IN/Rs 135
Market cap	US$ 5.4bn
Shares o/s	2,936mn
3M ADV	US$ 49.5mn
52wk high/low	Rs 139/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	153,878	257,361	286,134
EBITDA (Rs mn)	30,748	11,736	4,839	19,986	22,694
Adj. net profit (Rs mn)	19,798	3,953	(4,341)	7,392	9,028
Adj. EPS (Rs)	6.8	0.8	(1.6)	2.5	3.1
Adj. EPS growth (%)	14.9	(80.0)			22.1
Adj. ROAE (%)	23.8	5.4	(6.4)	10.5	12.3
Adj. P/E (x)	20.0	165.5	(82.0)	53.6	43.9
EV/EBITDA (x)	13.1	33.5	83.2	21.1	18.7

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 330 | ⮝ 36%

PETRONET LNG | Oil & Gas | 12 February 2021

Valuations disconnected from fundamentals – maintain BUY

Rohit Ahuja
research@bobcaps.in

Petronet LNG's (PLNG) Q3FY21 EBITDA outperformed estimates at Rs 13.4bn (+21% YoY). Volumes were in line (+1% YoY) and EBITDA/mmbtu surged to Rs 56.8 (+20% YoY). Utilisation remains close to 100% at Dahej and is guided to improve to 30% at Kochi from Q4. With new pipelines connecting Kochi and improved LNG demand from the power sector, the volume outlook remains robust. On rollover to Mar'22, our TP remains at Rs 330. Valuations look undemanding at 9.5x FY23E EPS.

Volume outlook improving: Q3 volumes were muted at 235tbtu (–7.5% QoQ), hit by the surge in LNG prices. Last month, spot LNG prices had risen to >US$ 20/mmbtu (which has now normalised to ~US$ 7 for Apr'21), but long-term prices remain benign at ~US$ 7. PLNG's long-term contracts (from Dahej and Gorgon) have thus become extremely attractive. Kochi volumes could improve further from Q4 as GAIL has commissioned its Kochi-Mangaluru pipeline. PLNG plans to expand the Dahej capacity in two phases to 22.5mmt (from 17.5mmt) by FY24. It is also pursuing a new LNG import terminal at Gopalpur in the eastern Odisha state and looking at a floating terminal.

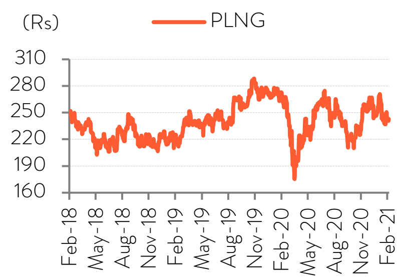
EBITDA margins improve: EBITDA/mmbtu outperformed at Rs 56.8 (+20% YoY) due to inventory gains and higher spot-LNG marketing margins. Q4 could be better given the steady LNG price rise and 5% annual hikes at Dahej.

High earnings visibility: PLNG's earnings visibility remains robust backed by long-term contracts and expected volume ramp-up at Kochi. Further, the company will continue to expand capacity (by ~4mmtpa) through the addition of storage tanks and a jetty at Dahej terminal over FY23-FY25. Negotiations for Kochi terminal tariffs are likely to be completed by Q4 which could ease some concerns over earnings growth.

Ticker/Price	PLNG IN/Rs 243
Market cap	US$ 5.0bn
Shares o/s	1,500mn
3M ADV	US$ 17.7mn
52wk high/low	Rs 281/Rs 170
Promoter/FPI/DII	50%/28%/22%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	383,954	354,520	221,117	267,439	273,524
EBITDA (Rs mn)	32,935	39,895	45,020	52,445	56,892
Adj. net profit (Rs mn)	21,554	27,697	28,766	34,554	38,242
Adj. EPS (Rs)	14.4	18.5	19.2	23.0	25.5
Adj. EPS growth (%)	3.7	28.5	3.9	20.1	10.7
Adj. ROAE (%)	21.8	26.4	25.7	29.3	29.7
Adj. P/E (x)	16.9	13.1	12.7	10.5	9.5
EV/EBITDA (x)	11.4	9.0	7.5	6.2	5.6

Source: Company, BOBCAPS Research

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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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