BOBCAPS
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FIRST LIGHT

16 September 2020

RESEARCH

[Initiation] SpiceJet | Target: Rs 85 | +59% | BUY

Deep value BUY despite steep discount to market leader

PVR | Target: Rs 1,220 | –4% | REDUCE

Cost control only positive in washout quarter; cut to REDUCE

BOB Economics Research | Trade

Trade deficit expands on higher gold imports

SUMMARY

SpiceJet

SpiceJet (SJET) ranks second in the domestic aviation industry with ~17% share. Softer yields, rupee depreciation, grounding of its newer Boeing 737 Max, and Covid-19 have weighed heavily on operating metrics and net worth. We believe easing of lockdown norms, benign crude, stable INR and reinstatement of grounded aircraft by Jan'21 will improve profitability. Despite valuing the stock at a steep discount to the industry leader (5.5x vs. 9x Sep'22E EV/EBITDAR for IndiGo), risk-reward looks attractive. Initiate with BUY, Sep'21 TP Rs 85.

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PVR

In a washout first quarter with no meaningful revenue, PVR (PVRL) reported operating and net losses of Rs 1.2bn and Rs 2.3bn respectively. The company, however, managed to contain its cash opex burden (adj. for accounting impact) at Rs 325mn/month in Q1FY21 – 20% lower than guided earlier. Post rights issue, liquidity is comfortable at Rs 5.5bn. PVRL hopes screens will reopen in Oct'20 and believes fresh content can draw patrons. We maintain our Sep'21 TP of Rs 1,220, but downgrade the stock to REDUCE from ADD after 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	310
Tech Mahindra	Buy	910

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	1bps	(4bps)	(117bps)
India 10Y yield (%)	6.03	(1bps)	8bps	(68bps)
USD/INR	73.48	0.1	1.9	(2.6)
Brent Crude (US$/bbl)	39.61	(0.6)	(11.6)	(42.6)
Dow	27,993	1.2	0.2	3.4
Shanghai	3,279	0.6	(2.4)	8.2
Sensex	38,757	(0.3)	2.3	4.4
India FII (US$ mn)	**10 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	(56.3)	167.7	(14,922.3)	(5,162.8)
FII-E	334.5	179.3	4,986.6	11,589.6

Source: Bank of Baroda Economics Research

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India Economics: Trade

India's trade deficit widened to US$ 6.8bn in Aug'20 from US$ 4.8bn in Jul'20 led by higher gold imports. Non-oil-non-gold imports fell on the back of lower electronic and capital goods imports. Exports, in particular, non-oil exports also contracted at a higher rate led by engineering and chemical goods. With global demand picking up, we expect exports to improve. Even imports should pick-up with a lag once India's recovery gains pace. Hence, external outlook remains favourable for INR.

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BUY
TP: Rs 85 | 59%

SPICEJET | Airlines | 15 September 2020

Deep value BUY despite steep discount to market leader

SpiceJet (SJET) ranks second in the domestic aviation industry with ~17% share. Softer yields, rupee depreciation, grounding of its newer Boeing 737 Max, and Covid-19 have weighed heavily on operating metrics and net worth. We believe easing of lockdown norms, benign crude, stable INR and reinstatement of grounded aircraft by Jan'21 will improve profitability. Despite valuing the stock at a steep discount to the industry leader (5.5x vs. 9x Sep'22E EV/EBITDAR for IndiGo), risk-reward looks attractive. Initiate with BUY, Sep'21 TP Rs 85.

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Improved market share but net-worth deficit: Following the Jet fiasco in FY20, SJET ranks second in India's aviation industry with ~17% market share (from ~13%). After staging a significant turnaround since FY16, its marginally negative net worth (–Rs 0.6bn at Mar'18) was battered by the grounding of Boeing Max aircraft and also Covid-19 in FY20. It ended the year with negative net worth of Rs 16bn. We expect profitability to improve as lockdown norms are eased, crude and currency have turned favourable, and grounded aircraft are scheduled to resume by Jan'21.

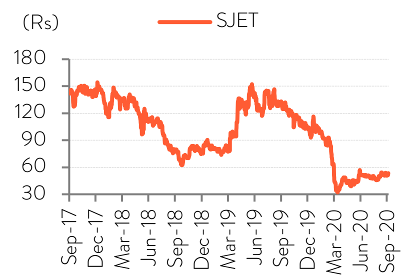
Delay in aircraft acquisition stifling growth: Apart from grounding of the existing fleet, new aircraft deliveries have also been delayed due to the technical issues at Boeing – this has not only derailed SJET's growth in annual available seat kilometres (ASK) to 40% from 80% targeted earlier, but also led to higher fuel and maintenance costs due to lower efficiency of existing aircraft. Management expects deliveries of the new 737 Max to start in Q4FY21.

Initiate with BUY: Despite aircraft utilisation being the highest amongst peers, higher lease rentals, maintenance costs and a heavy interest burden continue to impact SJET's profitability. We factor in a 13%/70% revenue/EBITDA CAGR (IndiGo: 13%/21%) over FY20-FY23, resulting in EPS of Rs 16 by FY23. BUY for a Sep'21 TP of Rs 85, based on 5.5x Sep'22E EV/EBITDAR.

Ticker/Price	SJET IN/Rs 53
Market cap	US$ 435.4mn
Shares o/s	600mn
3M ADV	US$ 3.0mn
52wk high/low	Rs 136/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	91,215	123,586	98,608	148,004	180,426
EBITDA (Rs mn)	(572)	4,964	(18,733)	19,499	24,289
Adj. net profit (Rs mn)	(3,024)	(9,348)	(34,820)	3,135	9,394
Adj. EPS (Rs)	(5.0)	(15.6)	(58.0)	5.2	15.7
Adj. EPS growth (%)	NA	NA	NA	NA	199.6
Adj. ROAE (%)	86.4	59.2	68.8	(6.6)	(24.7)
Adj. P/E (x)	(10.6)	(3.4)	(0.9)	10.2	3.4
EV/EBITDA (x)	(56.1)	6.7	(2.1)	2.3	2.0

Source: Company, BOBCAPS Research

RESULT REVIEW

REDUCE
TP: Rs 1,220 | ∀ 4%

PVR | Media | 15 September 2020

Cost control only positive in washout quarter; cut to REDUCE

In a washout first quarter with no meaningful revenue, PVR (PVRL) reported operating and net losses of Rs 1.2bn and Rs 2.3bn respectively. The company, however, managed to contain its cash opex burden (adj. for accounting impact) at Rs 325mn/month in Q1FY21 – 20% lower than guided earlier. Post rights issue, liquidity is comfortable at Rs 5.5bn. PVRL hopes screens will reopen in Oct'20 and believes fresh content can draw patrons. We maintain our Sep'21 TP of Rs 1,220, but downgrade the stock to REDUCE from ADD after the recent rally.

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Tight leash on cost: A slew of stringent cost control measures – reduction in headcount (~33% over Mar-Jun), temporary salary cuts (25-50%), and overheads reduction – helped PVRL contain opex burn at Rs 325mn/month in Q1, a commendable ~78% YoY decline and ~20% lower than guided earlier. Staff costs in Q2 may fall by another Rs 100mn/month, led by a further 15% cut in headcount. While some of these costs are likely to shoot up once operations resume, PVRL estimates 15-20% sustainable savings on fixed costs.

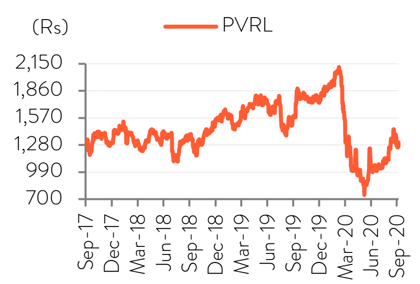
Pinning hopes on October reopening: PVRL has made several representations to government authorities and is hopeful that screens will be permitted to open from Oct'20. Per the company, the content slate is healthy, with 'Sooryavanshi', '83', 'Tenet' and 'Master' lined up, which should drive footfalls, akin to trends observed globally. For instance, PVRL's nine screens in Sri Lanka have reached 65-70% of pre-Covid occupancies, led by the 'Tenet' and 'Mulan' releases.

Downgrade to REDUCE: We expect a gradual, arduous recovery for PVRL even after screens reopen. Limits on capacity, pandemic apprehensions and depleted content will weigh on occupancies, while probable discounts could cap ATP and SPH. We expect recovery only in FY22. We maintain our Sep'21 TP of Rs 1,220 but cut our rating to REDUCE on limited near-term upside.

Ticker/Price	PVRL IN/Rs 1,265
Market cap	US$ 947.8mn
Shares o/s	55mn
3M ADV	US$ 34.7mn
52wk high/low	Rs 2,087/Rs 705
Promoter/FPI/DII	19%/37%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,856	34,144	13,072	31,666	38,106
EBITDA (Rs mn)	5,863	10,766	1,876	10,191	13,198
Adj. net profit (Rs mn)	1,898	273	(5,823)	562	2,652
Adj. EPS (Rs)	40.6	5.3	(105.5)	10.2	48.1
Adj. EPS growth (%)	51.5	(85.6)	(2233.1)	(109.6)	372.1
Adj. ROAE (%)	12.7	1.8	(48.6)	4.5	18.3
Adj. P/E (x)	31.1	237.9	(12.0)	124.2	26.3
EV/EBITDA (x)	13.3	7.4	43.1	7.9	6.1

Source: Company, BOBCAPS Research

TRADE

15 September 2020

Trade deficit expands on higher gold imports

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India's trade deficit widened to US$ 6.8bn in Aug'20 from US$ 4.8bn in Jul'20 led by higher gold imports. Non-oil-non-gold imports fell on the back of lower electronic and capital goods imports. Exports, in particular, non-oil exports also contracted at a higher rate led by engineering and chemical goods. With global demand picking up, we expect exports to improve. Even imports should pick-up with a lag once India's recovery gains pace. Hence, external outlook remains favourable for INR.

KEY HIGHLIGHTS

- Exports decline by 12.7% versus a decline of 10.2% in Jul'20.
- Imports contract by 26% versus a decline of 28.4% in Jul'20.
- Trade deficit widens to US$ 6.8bn from US$ 4.8bn in Jul'20.

Export recovery moderates: India's exports contracted by 12.7% in Aug'20 compared with 10.2% drop in Jul'20. The decline in momentum is on account of engineering and chemical goods which contracted by 7.7% and 4.7% in Aug'20 compared with an increase of 8.5% and decline of 0.1% in Jul'20 respectively. Pharma and agri exports maintained growth momentum at 17.3% and 8.8% respectively (19.5% and 10.0% respectively in Jul'20). In Q2 so far, exports are down by 11.4% compared with 36.6% decline seen in Q1FY21. With further recovery in global demand, export growth is likely to recover.

Gold driving imports higher: Imports contracted by 26% in Aug'20 compared with a decline of 28.4% in Jul'20. This was driven by a sharp increase in gold imports at 171.1% in Aug'20 compared with 4.2% in Jul'20. The decline in oil imports accelerated to 41.6% in Aug'20 compared with 32% in Jul'20. Domestic demand as measured by non-oil-non-gold imports was stable with a decline of 29.6% in Aug'20 (29.2% in Jul'20). Notably, recovery visible in iron and steel, electronic and capital goods imports in Jul'20 seems to have stalled with these categories showing higher contraction than last month. Coal imports have shown an improvement in-line with electricity demand.

Favorable external outlook: India's trade deficit increased to US$ 6.8bn in Aug'20 compared with US$ 4.8bn in Jul'20 as imports, in particular gold, picked up while exports decelerated. Gold imports are likely to accelerate further in the coming months to meet domestic festive and marriage demand. Same is the case with electronic imports. On the other hand, exports too will recover as global activity picks up. We expect India's trade deficit to narrow to US$ 90bn in FY21 from US$ 157.5bn in FY20 leading to a current account surplus this year. This along with robust FII/FDI inflows should support INR.

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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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