

RESEARCH

BOB Economics Research | Weekly Wrap

Global yields rise as recovery continues

VRL Logistics | Target: Rs 205 | +36% | BUY

Inspid Q1 but steady recovery bodes well

Greenply Industries | Target: Rs 135 | +56% | BUY

Q1 revenues slump; outlook improving

SUMMARY

India Economics: Weekly Wrap

Worst seems to be over for global economy with Euro Area, Singapore and UK reporting sharp contraction for Q2CY20. Recent data shows while manufacturing and services activity is rebounding, consumption is still weak. As a result, yields rose and gold prices fell. US 10Y yield rose by as much as 15bps. India's 10Y yield rose by 8bps as higher inflation rules out further rate cuts by RBI. In addition, dividend transfer by RBI is lower than last year. MPC minutes this week may shed light on growth inflation debate in RBI.

[Click here for the full report.](#)

VRL Logistics

Lockdown-induced disruptions catalysed a steep 70% YoY decline in VRL Logistics' (VRL) Q1FY21 topline to Rs 1.6bn. Strict cost control measures contained operating loss at Rs 339mn. From the lows in April (~5%), VRL's GT utilisation has ticked up steadily to 70-75% of normal currently, and is expected to revert to pre-Covid levels by Nov-Dec. New client addition and traction from some end-verticals (agri, pharma) are encouraging. We prune our FY22 earnings by 6% but maintain our TP at Rs 205 on rollover. BUY.

[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 (%)	0.71	(1bps)	8bps	(84bps)
India 10Y yield (%)	5.97	7bps	16bps	(58bps)
USD/INR	74.90	(0.1)	0.3	(5.3)
Brent Crude (US\$/bbl)	44.80	(0.4)	2.3	(23.6)
Dow	27,931	0.1	3.9	7.9
Shanghai	3,360	1.2	0	19.0
Sensex	37,877	(1.1)	5.1	1.4
India FII (US\$ mn)	13 Aug	MTD	CYTD	FYTD
FII-D	78.9	36.8 (14,490.8)	(4,731.3)	
FII-E	66.4	3,613.4	2,325.2	8,928.2

Source: Bank of Baroda Economics Research

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Greenply Industries

Greenply Industries' (GIL) consolidated Q1FY21 revenue declined 62% YoY as India sales dropped 65% due to the lockdown and Gabon subsidiary revenue fell 43%. The company reported an operating loss of Rs 28mn owing to negative operating leverage, fuelling a pre-tax loss of Rs 133mn. Management indicated that sales in July/August have improved to 65-70% of year-ago levels. We maintain estimates and roll over to a revised Sep'21 TP of Rs 135 (earlier Rs 120). Retain BUY.

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WEEKLY WRAP

17 August 2020

Global yields rise as recovery continues

Worst seems to be over for global economy with Euro Area, Singapore and UK reporting sharp contraction for Q2CY20. Recent data shows while manufacturing and services activity is rebounding, consumption is still weak. As a result, yields rose and gold prices fell. US 10Y yield rose by as much as 15bps. India's 10Y yield rose by 8bps as higher inflation rules out further rate cuts by RBI. In addition, dividend transfer by RBI is lower than last year. MPC minutes this week may shed light on growth inflation debate in RBI.

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Markets

- **Bonds:** Except China, global yields closed higher. US 10Y yield rose the most by 15bps (0.71%) supported by better CPI data and improvement in employment scenario. Oil prices rose by 0.9% (US\$ 45/bbl) due to unexpected drop in US inventory. India's 10Y yield rose by 8bps (5.97%) due to firming up of CPI, core print and also lower than expected surplus transfer by RBI to the government. System liquidity surplus fell to Rs 3.3tn as on 14 Aug 2020 compared with Rs 3.8tn in the previous week.
- **Currency:** Except JPY, other global currencies closed higher this week on the back of dollar weakness. DXY fell by 0.4% in the week, as uncertainty remained over US fiscal stimulus. EUR rose by 0.5% supported by improvement in Germany's economic sentiment index in Aug'20. AUD also rose by 0.2% as Australia's unemployment rate rose less than expected in Jul'20. INR closed stable even as FII inflows surged to US\$ 2.2bn in the week.
- **Equity:** Except Sensex, global equity indices rose on hopes of an economic recovery. Nikkei surged the most by 4.3%, to a 6-month high. Dow surged by 1.8% amidst improvement in US CPI print and jobless claims. Sensex fell by 0.4% weighed down by banking and technology stocks.
- **Upcoming key events:** In current week, markets await global flash manufacturing PMIs and US FOMC meeting minutes. Apart from this, housing data and jobless claims print of the US will also shed some light on the underlying economic conditions. On the domestic front, minutes of RBI's August policy meeting are awaited.



BUY

TP: Rs 205 | ▲ 36%

VRL LOGISTICS

Logistics

17 August 2020

Insipid Q1 but steady recovery bodes well

Lockdown-induced disruptions catalysed a steep 70% YoY decline in VRL Logistics' (VRL) Q1FY21 topline to Rs 1.6bn. Strict cost control measures contained operating loss at Rs 339mn. From the lows in April (~5%), VRL's GT utilisation has ticked up steadily to 70-75% of normal currently, and is expected to revert to pre-Covid levels by Nov-Dec. New client addition and traction from some end-verticals (agri, pharma) are encouraging. We prune our FY22 earnings by 6% but maintain our TP at Rs 205 on rollover. BUY.

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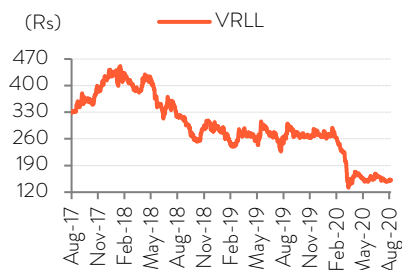
GT tonnage recovering: VRL's goods transport (GT) revenue fell 65% YoY due to muted freight availability and lockdown-induced disruptions. Realisation increased 5% YoY. After abysmal ~5% utilisation in April, GT tonnage scaled up to 25-30% of pre-Covid levels in May, 65-70% in June, and 70-75% at present. VRL expects operations to normalise by November-December. People transport (PT) revenue fell 95% YoY, affected by government regulations.

Ticker/Price	VRL IN/Rs 151
Market cap	US\$ 182.5mn
Shares o/s	90mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 302/Rs 130
Promoter/FPI/DII	68%/5%/21%

Source: NSE

Cost controls mitigated EBITDA loss: Despite the revenue slump, VRL contained EBITDA losses at Rs 339mn through cost controls. Staff costs fell 28% YoY, aided by lower incentives to drivers, salary cuts and branch-level manpower optimisation. The company also negotiated Rs 40mn of rental concessions for Q1. VRL expects ~Rs 100mn/quarter of staff cost savings to continue over Q2-Q4FY21, though further rentals savings are unlikely. The company is confident of recouping Q1 losses and posting net profit in FY21.

STOCK PERFORMANCE



Source: NSE

Beneficiary of industry formalisation: VRL gained several new clients in Q1 as smaller peers were unable to provide optimum service owing to supply disruptions. These accounts added 6-8% to volumes and are expected to be sticky. With its wide network and market leadership, we believe VRL will be a key beneficiary of LTL industry consolidation in India.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	18,127	21,646	23,810
EBITDA (Rs mn)	2,440	2,983	1,813	3,150	3,479
Adj. net profit (Rs mn)	919	901	(126)	863	1,011
Adj. EPS (Rs)	10.2	10.0	(1.4)	9.6	11.2
Adj. EPS growth (%)	(0.7)	(2.0)	(114.0)	(783.7)	17.2
Adj. ROAE (%)	14.8	14.3	(2.1)	14.0	14.9
Adj. P/E (x)	14.9	15.2	(108.2)	15.8	13.5
EV/EBITDA (x)	6.1	4.9	8.4	4.9	4.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 135 | ▲ 56%

GREENPLY INDUSTRIES

Construction Materials

17 August 2020

Q1 revenues slump; outlook improving

Greenply Industries' (GIL) consolidated Q1FY21 revenue declined 62% YoY as India sales dropped 65% due to the lockdown and Gabon subsidiary revenue fell 43%. The company reported an operating loss of Rs 28mn owing to negative operating leverage, fuelling a pre-tax loss of Rs 133mn. Management indicated that sales in July/August have improved to 65-70% of year-ago levels. We maintain estimates and roll over to a revised Sep'21 TP of Rs 135 (earlier Rs 120). Retain BUY.

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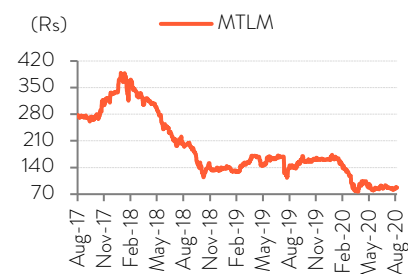
Consolidated revenues slump due to lockdown: GIL's consolidated revenue dropped 62% YoY to Rs 1.3bn as India plywood revenue slid 65% to Rs 1.1bn (volumes down 65%) due to the lockdown. Subsidiaries – primarily Gabon face-veneer operations – posted a 43% YoY topline decline to Rs 251mn. Gabon operations faced logistical issues during the quarter which stand resolved in Q2, implying a better performance ahead. In India, sales have returned to 65-70% of normal levels in July and the August trend is along similar lines. The company saw good cash collections during the quarter which resulted in consolidated debt reduction of ~Rs 370mn QoQ.

Operating loss at Rs 28mn: The drop in topline led to a consolidated operating loss of Rs 28mn and pre-tax loss of Rs 133mn. India operations reported an EBITDA loss of Rs 58mn and Gabon margins contracted 730bps YoY to 12%. Management aims to maintain full-year margins at FY20 levels if sales pick up, aided by lower raw material cost and other cost initiatives. Over the longer term (by FY23), GIL aims to raise operating margins ~400bps and be debt-free.

Maintain BUY: We maintain estimates post Q1 and roll over to a new Sep'21 TP of Rs 135 (earlier Rs 120), based on an unchanged 18x one-year forward P/E multiple. BUY.

Ticker/Price	MTLM IN/Rs 87
Market cap	US\$ 141.7mn
Shares o/s	123mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 195/Rs 73
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,122	14,204	11,693	13,816	15,278
EBITDA (Rs mn)	1,507	1,556	1,156	1,524	1,727
Adj. net profit (Rs mn)	852	851	517	827	1,009
Adj. EPS (Rs)	6.9	6.9	4.2	6.7	8.2
Adj. EPS growth (%)	236.1	(0.1)	(39.3)	60.0	22.1
Adj. ROAE (%)	14.0	23.9	12.9	18.1	19.2
Adj. P/E (x)	12.5	12.5	20.5	12.8	10.5
EV/EBITDA (x)	10.3	9.7	11.3	8.5	7.2

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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