

**RESEARCH**
**BOB Economics Research | Q2FY21 GDP**

GDP throws a positive surprise

**Greenpanel Industries | Target: Rs 95 | +11% | BUY**

MDF growth holds strong

**SUMMARY**
**India Economics: Q2FY21 GDP**

From a decline of 23.9% in Q1, India's GDP contracted by 7.5% in Q2FY21. The improvement was led by manufacturing, construction and trade, hotels and transport. On the other hand, government spending was muted. The rebound in private sector is also resulting in higher tax collections thus giving room to the government to spend in H2. High frequency indicators also show growth momentum continues in Q3. Thus we maintain our GDP growth estimate of (-) 8.2% for FY21, with an upward bias, and 8.8% for FY22.

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

**Greenpanel Industries**

Key takeaways from our interaction with the management of Greenpanel Industries (GREENP): (1) MDF demand remains strong and GREENP is on track to achieve its double-digit volume growth guidance for H2FY21. The company has clocked high double-digit YoY sales growth in Q3 YTD. (2) Tier-2-and-below towns continue to be demand drivers in domestic markets even now. Major cities such as Mumbai, Bengaluru and Hyderabad have still not fully recovered from the pandemic effects and are showing declining or low growth.

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**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	980

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.88	0bps	8bps	(88bps)
India 10Y yield (%)	5.87	(1bps)	4bps	(59bps)
USD/INR	73.89	0	(0.1)	(3.2)
Brent Crude (US\$/bbl)	47.80	(1.7)	18.1	(25.2)
Dow	29,872	(0.6)	7.9	6.1
Shanghai	3,370	0.2	3.6	16.6
Sensex	44,260	1.0	10.2	7.6
India FII (US\$ mn)	25 Nov	MTD	CYTD	FYTD
FII-D	(164.6)	(247.6)	(14,477.3)	(4,717.7)
FII-E	(180.8)	7,915.2	14,461.7	21,064.6

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## Q2FY21 GDP

27 November 2020

### GDP throws a positive surprise

From a decline of 23.9% in Q1, India's GDP contracted by 7.5% in Q2FY21. The improvement was led by manufacturing, construction and trade, hotels and transport. On the other hand, government spending was muted. The rebound in private sector is also resulting in higher tax collections thus giving room to the government to spend in H2. High frequency indicators also show growth momentum continues in Q3. Thus we maintain our GDP growth estimate of (-) 8.2% for FY21, with an upward bias, and 8.8% for FY22.

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**Much slower pace of contraction of GDP:** India's GDP contracted by 7.5% in Q2FY21 (BoB est.: 8%) against a sharp contraction of 23.9% seen in Q1. This was led by revival in private consumption (11.3% decline against 26.7% contraction in Q2), investment demand (7.3% contraction against 47.1% decline in Q2) and exports (1.5% decline against 19.8% dip in Q2).

Government final consumption expenditure on the other hand, fell sharply by 22.2% against an increase of 16.4% in Q1.

**Manufacturing and construction lead GVA higher:** GVA contracted by 7% in Q2FY21 compared with a decline of 22.8% in Q1FY21. The sharper than expected improvement was driven by manufacturing, construction and trade and hotels. Manufacturing sector output rose by 0.6% compared with 39.3% decline in Q1, while construction activity fell by only 8.6% versus 50.3% drop in Q1. Services activity also improved led by trade and hotel, which contracted by 15.6% in Q2 compared with a decline of 47% in Q1. On the other hand, both financial and real estate and public administration and defense services fared worse in Q2 compared with Q1.

**Outlook for FY21:** High frequency indicators in Q3 FY21 show that the economic rebound seen in Q2FY21 continues. For instance, electricity demand is 4.9% higher in Q3 (Oct-Nov'20), E way bills (+17.8%), rail freight (+14.5%), exports (+8.6%) and non-oil-non-gold imports (-4.9% versus -12.6%). In addition, government spending has been muted in Q2. With improvement in tax collections, we believe there is headroom for government spending to go up in H2. Hence, we continue to expect growth returning to positive territory in Q4FY21. We maintain our estimate of GDP growth of (-) 8.2% in FY21 before growth rebounding to 8.8% in FY22.

#### KEY HIGHLIGHTS

- GDP contracted at a slower pace of 7.5% against 23.9% in Q1FY21.
- Manufacturing, electricity and other utility services noted positive growth.
- Government spending was muted, private consumption and investment picked up.



**BUY**

TP: Rs 95 | ▲ 11%

**GREENPANEL  
INDUSTRIES**

Construction Materials

27 November 2020

**MDF growth holds strong**

We recently hosted an investor call with the management of Greenpanel Industries (GREENP). Following are the key takeaways:

- MDF demand remains strong and GREENP is on track to achieve its double-digit volume growth guidance for H2FY21. The company has clocked high double-digit YoY sales growth in Q3 YTD.
- Tier-2-and-below towns continue to be demand drivers in domestic markets even now. Major cities such as Mumbai, Bengaluru and Hyderabad have still not fully recovered from the pandemic effects and are showing declining or low growth.
- Imports of MDF have slowed due to a lack of container availability and also higher ocean freight rates, aiding demand for domestic players.
- MDF demand is currently stronger in domestic markets as compared to export markets. Exports normally account for 22-25% of the company's MDF segment revenue. The Middle East is a major export market followed by Malaysia, Indonesia and Sri Lanka, among others.
- GREENP has been focusing on domestic distribution and now has over 1,315 dealers in MDF across India (vs. ~1,080 as on Mar'20). It plans to continue scaling up its reach and targeting smaller cities to widen the market.
- The company earns ~45% of revenues from North India, 35% from the south, 15% from the west and 5% from the east.
- The industry's demand for a countervailing duty (CVD) on MDF imports is currently under consideration by statutory authorities. Management is hopeful of CVD by Jan'21 which will be beneficial for domestic players.
- Resin prices have been rising in Q3. To negate this, the company plans to take a price hike of 3-5% in early December in the MDF segment. Management believes Q3 operating margins will not be affected by higher resin prices due to better capacity utilisation.
- Demand for plywood has also improved but the company expects a 3-4% YoY decline in H2.
- GREENP aims to bring net debt down to Rs 4.5bn/Rs 3bn by FY21/FY22.

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Ticker/Price	GREENP IN/Rs 85
Market cap	US\$ 141.5mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 91/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	8,359	10,454	12,233
EBITDA (Rs mn)	1,383	1,910	2,320
Adj. net profit (Rs mn)	276	669	966
Adj. EPS (Rs)	2.3	5.5	7.9
Adj. EPS growth (%)	9.2	142.2	44.4
Adj. ROAE (%)	4.1	9.3	12.0
Adj. P/E (x)	37.9	15.6	10.8
EV/EBITDA (x)	11.6	8.1	6.2

Source: Company, BOBCAPS Research

**STOCK PERFORMANCE**

Source: NSE

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**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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