FIRST LIGHT

24 May 2021

RESEARCH

Top picks

- **Large-cap ideas**
  - Cipla replaced by **Tata Power**
    (see **Power: Cleaning up its act – BUY TPWR, 18May21**)
- **Mid-cap ideas**
  - Transport Corp replaced by **Alembic Pharma**
    (see **Pharmaceuticals: Multiyear earnings upcycle in sight; prefer Cipla, Aurobindo, Laurus**)

JK Tyre & Industries | Target: Rs 90 | –28% | SELL

Balance sheet concerns, margin headwinds ahead; maintain SELL

State Bank of India | Target: Rs 515 | +28% | BUY

Strong show on asset quality – retain BUY

Torrent Power | Target: Rs 461 | +7% | ADD

Good results; hopeful on DNH, selective on renewable bids

SUMMARY

JK Tyre & Industries

JK Tyre's (JKI) Q4FY21 revenue increased 6% QoQ to Rs 29bn while operating margin contracted 260bps QoQ to 15.5%, albeit beating our estimate of 13.8% due to an above-expected gross margin. Adj. PAT dipped 6% QoQ to Rs 1.9bn. We continue to build in a 300bps hit on FY22-FY23 gross margins vs. that reported in Q4. Despite JKI's deleveraging efforts, we remain concerned about balance sheet health. We raise FY22/FY23 EPS 43%/31% to build in interest cost savings and a lower tax rate. Our Mar'22 TP thus moves to Rs 90 (vs. Rs 70). SELL.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Laurus Labs	Buy	540
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	(5bps)	2bps	95bps
India 10Y yield (%)	5.97	(1bps)	(11bps)	19bps
USD/INR	73.10	0.1	2.4	3.3
Brent Crude (US$/bbl)	65.11	(2.3)	(2.9)	80.6
Dow	34,084	0.6	0.0	39.3
Shanghai	3,507	(0.1)	0.8	22.3
Sensex	49,565	(0.7)	3.4	60.2
India FII (US$ mn)	**19 May**	**MTD**	**CYTD**	**FYTD**
FII-D	52.0	286.9	(2,105.4)	(78.2)
FII-E	347.1	(462.8)	5,374.4	(1,951.9)

Source: Bank of Baroda Economics Research

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State Bank of India

State Bank of India's (SBIN) Q4FY21 PAT of Rs 64.5bn was backed by 19% YoY NII growth and strong non-interest income from a lumpy NPA recovery worth Rs 40bn. FY21 slippages and restructured loans at Rs 464bn (1.9% of advances) were well within guided levels. Also, a low restructured book at 0.7% of loans and a manageable SMA 1&2 book at 0.5% reflect strong underwriting standards. Loan growth at 5% YoY was muted. Adjusting for the weaker growth and lower credit cost, we raise FY22-FY23 EPS 8-9%. Our Mar'22 TP rises to Rs 515 (vs. Rs 475).

Click here **for the full report.**

Torrent Power

Torrent Power's (TPW) Q4FY21 EBITDA increased by 11% YoY helped by one-offs and better distribution volumes. PLFs for thermal projects improved but wind power PLFs declined, in line with peers. The company expects clarity on Dadra & Nagar Haveli (DNH) and Daman & Diu (DD) distribution, which is currently sub judice over the next few months. TPW will continue to selectively bid for renewable projects but did not disclose any specific target. We retain ADD with an unchanged Mar'22 TP of Rs 461.

Click here **for the full report.**

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SELL
TP: Rs 90 | ∀ 28%

JK TYRE & INDUSTRIES | Auto Components | 21 May 2021

Balance sheet concerns, margin headwinds ahead; maintain SELL

JK Tyre's (JKI) Q4FY21 revenue increased 6% QoQ to Rs 29bn while operating margin contracted 260bps QoQ to 15.5%, albeit beating our estimate of 13.8% due to an above-expected gross margin. Adj. PAT dipped 6% QoQ to Rs 1.9bn. We continue to build in a 300bps hit on FY22-FY23 gross margins vs. that reported in Q4. Despite JKI's deleveraging efforts, we remain concerned about balance sheet health. We raise FY22/FY23 EPS 43%/31% to build in interest cost savings and a lower tax rate. Our Mar'22 TP thus moves to Rs 90 (vs. Rs 70). SELL.

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Operating performance beats estimates: At Rs 29.3bn (+6% QoQ), revenue was in line with our estimate, but EBITDA margin came in 170bps ahead at 15.5% led by above-estimated gross margin. Below-expected interest and tax expenses further supported adj. PAT of Rs 1.8bn (Rs 1.3bn est.).

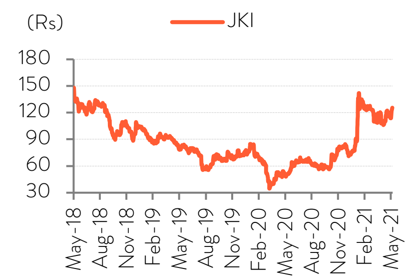
Margin headwinds ahead; deleveraging continues: Management expects a further 10-12% QoQ rise in RM cost in Q1FY22 after an estimated ~10% increase in Q4. We continue to build in a 300bps hit on FY22-FY23 gross margins vs. that reported in Q4. Improved working capital management led to net debt reduction of Rs 9.3bn to Rs 45bn in FY21 and a 15% decline in interest cost. Management aims to further reduce 45% of long-term debt by FY24.

Retain SELL: We retain FY22/FY23 revenue and gross margin forecasts but revise EBITDA margin estimates up ~30bps each on structural cost-saving measures and improved operating efficiency. We also factor in interest and tax savings (~Rs 800mn in annual interest savings vs. previous estimates), which spurs our FY22/ FY23 EPS upgrade of 43%/31%. Our Mar'22 TP thus rises to Rs 90 (vs. Rs 70) – we continue to value the stock at 7x FY23E EPS, which is a 60% discount to peers to account for the high leverage. Maintain SELL as valuations remain rich at 16x/10x FY22E/FY23E EPS.

Ticker/Price	JKI IN/Rs 126
Market cap	US$ 423.0mn
Shares o/s	246mn
3M ADV	US$ 2.5mn
52wk high/low	Rs 147/Rs 49
Promoter/FPI/DII	56%/3%/1%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	103,699	87,249	91,022	104,021	115,831
EBITDA (Rs mn)	10,251	9,876	13,064	10,678	12,133
Adj. net profit (Rs mn)	1,706	2,567	2,819	1,961	3,097
Adj. EPS (Rs)	6.9	10.4	11.4	8.0	12.6
Adj. EPS growth (%)	137.9	50.4	9.8	(30.4)	57.9
Adj. ROAE (%)	7.0	10.6	10.1	6.6	9.6
Adj. P/E (x)	18.1	12.1	11.0	15.8	10.0
EV/EBITDA (x)	8.4	8.8	6.4	7.0	5.6

Source: Company, BOBCAPS Research | P – Provisional

RESULT REVIEW

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BUY
TP: Rs 515 | 28%

STATE BANK OF INDIA | Banking | 21 May 2021

Strong show on asset quality – retain BUY

State Bank of India's (SBIN) Q4FY21 PAT of Rs 64.5bn was backed by 19% YoY NII growth and strong non-interest income from a lumpy NPA recovery worth Rs 40bn. FY21 slippages and restructured loans at Rs 464bn (1.9% of advances) were well within guided levels. Also, a low restructured book at 0.7% of loans and a manageable SMA 1&2 book at 0.5% reflect strong underwriting standards. Loan growth at 5% YoY was muted. Adjusting for the weaker growth and lower credit cost, we raise FY22-FY23 EPS 8-9%. Our Mar'22 TP rises to Rs 515 (vs. Rs 475).

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Overall stress remains in check: Fresh slippages (ex-proforma till Q3) were manageable at ~Rs 55bn or 1.2% of loans – this coupled with higher reductions led to a 40bps QoQ decline in GNPA ratio to 5%. The restructured book at 0.7% of loans and SMA 1&2 book at 0.5% remain well contained and a testament to SBIN's robust underwriting standards. Collection efficiency in Apr'21 was similar to Q4 levels at 95-96%. The bank does not expect any lumpy recoveries in FY22, barring a large HFC account. It remains cautious on the stress that could emerge from the agri and SME portfolios due to the second Covid wave.

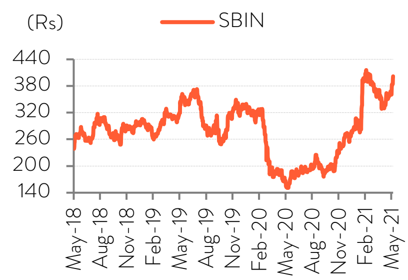
Corporate segment continues to weigh on loan growth: Q4 loan growth at 5% YoY was disappointing as the corporate loan book declined 3% owing to higher levels of unutilised sanctions. Retail growth remained strong at 16% YoY on the back of home loans (+10% YoY), 'Xpress' credit (+36% YoY) and personal gold loans. SBIN expects the SME and corporate segments coupled with continued traction in retail to bolster growth in FY22.

Maintain BUY: Factoring in the weaker loan growth and lower credit cost, we raise FY22-FY23 EPS by 8-9%. We retain BUY on SBIN with a new Mar'22 SOTP-based TP of Rs 515, which values the core business at an unchanged 1x FY23E P/BV. Subsidiaries continue to form ~30% of our target price.

Ticker/Price	SBIN IN/Rs 401
Market cap	US$ 49.2bn
Shares o/s	8,925mn
3M ADV	US$ 248.1mn
52wk high/low	Rs 428/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	883,489	980,848	1,107,104	1,298,979	1,497,711
NII growth (%)	18.0	11.0	12.9	17.3	15.3
Adj. net profit (Rs mn)	8,622	144,881	204,105	302,473	409,000
EPS (Rs)	1.0	16.2	22.9	33.9	45.8
P/E (x)	415.3	24.7	17.5	11.8	8.8
P/BV (x)	1.6	1.5	1.4	1.3	1.1
ROA (%)	0.0	0.4	0.5	0.6	0.7
ROE (%)	0.4	6.4	8.4	11.3	13.7

Source: Company, BOBCAPS Research | P – Provisional

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TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 461 | ⮝ 7%

TORRENT POWER | Power | 21 May 2021

Good results; hopeful on DNH, selective on renewable bids

Torrent Power's (TPW) Q4FY21 EBITDA increased by 11% YoY helped by one-offs and better distribution volumes. PLFs for thermal projects improved but wind power PLFs declined, in line with peers. The company expects clarity on Dadra & Nagar Haveli (DNH) and Daman & Diu (DD) distribution, which is currently sub judice over the next few months. TPW will continue to selectively bid for renewable projects but did not disclose any specific target. We retain ADD with an unchanged Mar'22 TP of Rs 461.

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Good Q4: Core net income came in at ~Rs 4bn, up 24% QoQ in Q4FY21 helped by a Rs 0.5bn one-off provision writeback, which also led to EBITDA growing 11% YoY. Other positives include better distribution volumes (12-15% YoY for Ahmedabad/Surat) helped by a low base in Mar'20. FY21 net income was in line with consensus. EBITDA was flattish (–3% YoY) but beat consensus.

Thermal PLFs improve: PLF for thermal plants rose 230bps YoY to 40.7%. Wind assets saw a drop in PLF to 20.8% vs. 22.7% in Q4FY20. AT&C losses rose 1% in Ahmedabad and Surat in FY21, possibly due to higher domestic demand in H1. Losses in the Agra and Bhiwandi franchisees were up 1.6-3.7%.

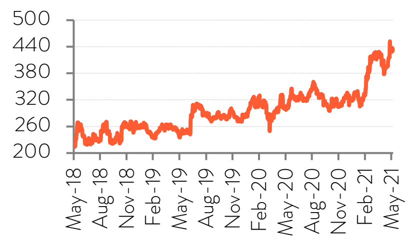
Outlook: TPW expects clarity on the DD and DNH distribution bids (case currently sub judice) over the next few months. The company will continue to bid for renewable projects on a selective basis.

Retain ADD: TPW has a strong presence in the growing distribution sector, but renewal of the flagship Ahmedabad contract in 2025 and tariff renewal this year are concerns. Also, the company's stranded DGen gas plant will continue to struggle for PPAs as demand for gas-based power remains weak. TPW is trading close to its peak consensus FY22E EV/EBITDA of 7.2x. Retain ADD.

Ticker/Price	TPW IN/Rs 431
Market cap	US$ 2.8bn
Shares o/s	481mn
3M ADV	US$ 9.2mn
52wk high/low	Rs 457/Rs 293
Promoter/FPI/DII	54%/8%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	1,31,510	1,36,406	1,21,727	1,35,763	1,39,599
EBITDA (Rs mn)	31,995	35,561	34,652	38,354	42,485
Adj. net profit (Rs mn)	8,989	21,742	12,909	15,134	16,240
Adj. EPS (Rs)	18.7	45.2	26.9	31.5	33.8
Adj. EPS growth (%)	(4.6)	141.9	(40.6)	17.2	7.3
Adj. ROAE (%)	3.8	9.0	5.5	6.3	6.4
Adj. P/E (x)	23.0	9.5	16.0	13.7	12.7
EV/EBITDA (x)	8.8	8.0	8.1	7.1	6.3

Source: Company, BOBCAPS Research | P – Provisional

Disclaimer

Recommendation scale: 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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