BOBCAPS
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FIRST LIGHT

27 January 2021

RESEARCH

BOB Economics Research | Weekly Wrap

All eyes on Budget

Kotak Mahindra Bank | Target: Rs 2,100 | +17% | BUY

Manageable stress formation in Q3 – maintain BUY

Supreme Industries | Target: Rs 1,605 | –7% | SELL

Inventory gains aid higher profitability

V-Mart Retail | Target: Rs 1,850 | –26% | SELL

Demand remains lacklustre

SUMMARY

India Economics: Weekly Wrap

Hopes of US$ 1.9tn fiscal stimulus in the US under the new President lifted global equities and currencies higher. US yields were stable. US housing starts and jobless claims were better than estimates. However, economic activity in Euro Zone and Japan was a tad weak. India's 10Y yield fell by 4bps supported by RBI's OMO purchase of Rs 100bn. However, trajectory will be determined by Union Budget to be announced on 1 Feb 2021. Our fiscal deficit estimate is 7.2%/5.3% of GDP in FY21/22. Focus will be on reviving investments.

Click here for the full report.

Kotak Mahindra Bank

Kotak Bank's (KMB) Q3FY21 PAT of Rs 18.5bn (+16% YoY) was backed by strong 29% growth in operating profit. Asset quality weakened marginally with a ~60bps QoQ rise in proforma GNPA ratio to 3.3%, largely led by the unsecured retail portfolio. The SMA-2 book increased to 0.3% of loans and Covid-linked restructuring amounted to 30bps of loans. KMB's loan book grew 4.5% QoQ and its CASA ratio rose to ~59%. We raise our TP to Rs 2,100 (vs. Rs 1,635) as we roll over to Mar'23 valuations and now value the core book at 3.7x P/BV.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.09	(2bps)	16bps	(60bps)
India 10Y yield (%)	5.91	(2bps)	2bps	(68bps)
USD/INR	72.98	0	0.8	(2.3)
Brent Crude (US$/bbl)	55.41	(1.2)	8.0	(8.7)
Dow	30,997	(0.6)	2.6	6.9
Shanghai	3,607	(0.4)	7.2	21.2
Sensex	48,879	(1.5)	4.1	17.5
India FII (US$ mn)	**21 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	297.8	(664.1)	(664.1)	(4,757.7)
FII-E	238.3	2,562.7	3,257.9	33,233.6

Source: Bank of Baroda Economics Research

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Supreme Industries

Supreme Industries' (SI) Q3FY21 revenue grew 34% YoY, aided by a 10% rise in volumes. Inventory gains of Rs 800mn supported EBITDA margin expansion of 570bps YoY to 21.8% and EBITDA/PAT growth of 82%/112%. We hike FY21-FY23 EBITDA by 5-31% due to the inventory profits in Q3 and raise our target P/E to 30x (from 28x). Rolling valuations over, we have a new Mar'22 TP of Rs 1,605 (vs. Rs 1,325). Though we like SI for its strong balance sheet and comprehensive portfolio, we maintain SELL on limited upside.

Click here for the full report.

V-Mart Retail

While the third quarter is typically its best season, V-Mart Retail (VMART) reported a Q3FY21 revenue decline of 16% YoY to Rs 4.7bn due to continued Covid-19 headwinds. Operating margins expanded 50bps YoY to 21.3% aided by higher gross margins, but EBITDA/PBT fell 15%/21% YoY. Per management, demand is improving but still some time away from normalcy. We cut FY21 EBITDA by 19% (FY22/FY23 unchanged) and roll forward to a new Mar'22 TP of Rs 1,850 (vs. Rs 1,750). Retain SELL given sustained demand weakness.

Click here for the full report.

WEEKLY WRAP

25 January 2021

All eyes on Budget

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Hopes of US$ 1.9tn fiscal stimulus in the US under the new President lifted global equities and currencies higher. US yields were stable. US housing starts and jobless claims were better than estimates. However, economic activity in Euro Zone and Japan was a tad weak. India's 10Y yield fell by 4bps supported by RBI's OMO purchase of Rs 100bn. However, trajectory will be determined by Union Budget to be announced on 1 Feb 2021. Our fiscal deficit estimate is 7.2%/5.3% of GDP in FY21/22. Focus will be on reviving investments.

Markets

- **Bonds:** US 10Y yield closed stable (1.09%) amidst expectations of large fiscal stimulus. Germany's 10Y yield rose by 3bps. ECB retained its accommodative stance. Oil prices rose by 0.6% (US$ 55/bbl) on hopes of economic revival. India's 10Y yield fell by 4bps (5.91%) supported by RBI's OMO of Rs 100bn. System liquidity surplus was at Rs 5tn as on 22 Jan 2021 versus Rs 5.1tn in the previous week.

- **Currency:** Except CNY (flat), other global currencies closed higher. Risk sentiment improved on expectations of US fiscal stimulus under the new US President. DXY fell by 0.6% in the week. EUR and GBP both rose by 0.7% despite weak PMI readings. INR rose by 0.1% supported by FII inflows (US$ 781mn).

- **Equity:** Barring FTSE and Sensex, other global indices ended higher this week on expectation of US stimulus. Shanghai Comp (1.1%) surged the most on the back of stronger data (GDP for Q4CY20 and industrial production). Sensex (0.3%) broke its 11-week winning streak and ended in red dragged down by metal stocks.

- **Covid-19 tracker:** Global cases rose by 4.11mn in the week ending 24 Jan 2021 compared with 5.29mn in the previous week, led by dip in US and Europe. India added 83k cases in the week versus 121k in the earlier week.

- **Upcoming key events:** In current week, markets await Q4CY20 GDP print of US, Germany and France. US Fed policy will also be closely watched. On the domestic front, eight core, fiscal estimates, first revised estimates of GDP and Economic Survey will be released.

BUY
TP: Rs 2,100 | ⮝ 17%

KOTAK MAHINDRA BANK

| Banking | 25 January 2021

Manageable stress formation in Q3 – maintain BUY

Kotak Bank's (KMB) Q3FY21 PAT of Rs 18.5bn (+16% YoY) was backed by strong 29% growth in operating profit. Asset quality weakened marginally with a ~60bps QoQ rise in proforma GNPA ratio to 3.3%, largely led by the unsecured retail portfolio. The SMA-2 book increased to 0.3% of loans and Covid-linked restructuring amounted to 30bps of loans. KMB's loan book grew 4.5% QoQ and its CASA ratio rose to ~59%. We raise our TP to Rs 2,100 (vs. Rs 1,635) as we roll over to Mar'23 valuations and now value the core book at 3.7x P/BV.

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Stress formation remains moderate: KMB has not used any analytical approach and declared 90dpd overdue accounts as NPA. Proforma GNPA ratio rose to 3.3% in Q3 (vs. 2.7% in Q2) given slippages worth ~Rs 20bn. Management highlighted that 40-45% of this increase arose from unsecured retail segments such as credit cards, personal and business loans. Asset quality was stable in the corporate portfolio, but CVs (especially the bus segment) are still facing stress.

Collection efficiency has improved MoM for the bank, reaching pre-Covid levels for the secured segment and near-normal levels for the unsecured portfolio. KMB's Covid-specific restructured and SMA-2 books stood at 30bps of loans each, manageable in our view.

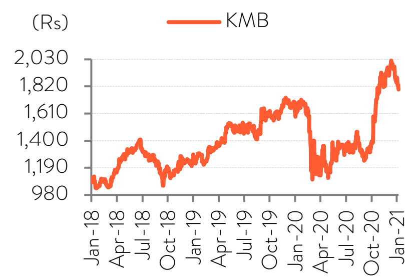
Growth should pick up gradually: KMB's loan book grew 4.5% QoQ steered by growth in the corporate, home loan/LAP and tractor financing segments. Management highlighted that disbursements across segments are picking up and credit demand has improved QoQ. CASA ratio climbed further to 58.9% while the average cost of savings accounts dropped 6bps QoQ to 3.8%.

Maintain BUY: We like KMB for its proven and stable leadership, strong liability franchise, best-in-class margins and sound underwriting standards. BUY.

Ticker/Price	KMB IN/Rs 1,794
Market cap	US$ 48.7bn
Shares o/s	1,979mn
3M ADV	US$ 166.2mn
52wk high/low	Rs 2,027/Rs 1,001
Promoter/FPI/DII	30%/40%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	112,590	134,997	157,666	180,059	206,597
NII growth (%)	1812.1	1990.2	1679.3	1420.3	1473.8
Adj. net profit (Rs mn)	36,116	59,472	71,509	85,048	100,426
EPS (Rs)	25.5	31.1	36.8	43.0	50.8
P/E (x)	70.3	57.7	48.8	41.7	35.3
P/BV (x)	8.1	7.1	5.7	5.0	4.4
ROA (%)	1.7	1.8	1.8	1.9	2.0
ROE (%)	12.2	13.1	12.8	12.7	13.3

Source: Company, BOBCAPS Research

SELL
TP: Rs 1,605 | ∀ 7%

SUPREME INDUSTRIES | Plastic Products | 25 January 2021

Inventory gains aid higher profitability

Supreme Industries' (SI) Q3FY21 revenue grew 34% YoY, aided by a 10% rise in volumes. Inventory gains of Rs 800mn supported EBITDA margin expansion of 570bps YoY to 21.8% and EBITDA/PAT growth of 82%/112%. We hike FY21-FY23 EBITDA by 5-31% due to the inventory profits in Q3 and raise our target P/E to 30x (from 28x). Rolling valuations over, we have a new Mar'22 TP of Rs 1,605 (vs. Rs 1,325). Though we like SI for its strong balance sheet and comprehensive portfolio, we maintain SELL on limited upside.

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Revenue fuelled by higher PVC prices: SI's revenue grew 34% YoY to Rs 18.4bn as PVC resin prices increased 25% during the quarter and volumes grew 10%. Plastic piping/industrials/consumer revenues were up 43%/38%/12% YoY and volume growth stood at 9%/32%/11% (blended 10%). Management stated that demand has normalised across businesses but that higher PVC resin pricing was affecting demand in the agriculture pipe segment.

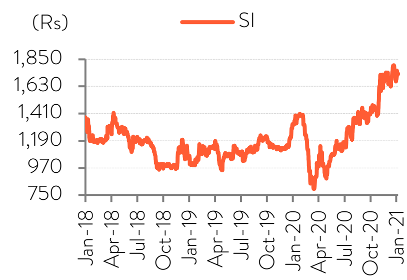
Inventory gains aid margins: SI's operating margins expanded 570bps YoY to 21.8% due to lower raw material (–175bps), power & fuel (–95bps) cost, and other expenditure (–240bps). Gross margins increased in Q3 mainly from inventory gains of Rs 800mn during the quarter and also higher value-added product sales. EBITDA/PAT thus surged 82%/112% YoY. Management indicated that these margins will not be sustainable once PVC prices correct.

Maintain SELL: We increase FY22/FY23 EBITDA estimates by 5% each and EPS by 9% each. Given inventory gains in Q3, we upgrade FY21 EBITDA by 31% while EPS rises 52% to factor in better associate company performance. Current valuations at 32.4x FY23E EPS look full and hence we retain our SELL rating. On rollover, we move to a new Mar'22 TP of Rs 1,605.

Ticker/Price	SI IN/Rs 1,732
Market cap	US$ 3.0bn
Shares o/s	127mn
3M ADV	US$ 2.6mn
52wk high/low	Rs 1,848/Rs 773
Promoter/FPI/DII	49%/9%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,087	62,098	62,921	69,596
EBITDA (Rs mn)	7,812	8,563	10,597	9,830	11,114
Adj. net profit (Rs mn)	3,683	4,866	6,900	5,924	6,798
Adj. EPS (Rs)	29.0	38.3	54.3	46.6	53.5
Adj. EPS growth (%)	(13.2)	32.1	41.8	(14.1)	14.7
Adj. ROAE (%)	18.2	22.0	28.3	21.4	21.9
Adj. P/E (x)	59.7	45.2	31.9	37.1	32.4
EV/EBITDA (x)	27.9	25.5	20.6	22.2	19.8

Source: Company, BOBCAPS Research

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SELL
TP: Rs 1,850 | ∨ 26%

V-MART RETAIL | Retail | 25 January 2021

Demand remains lacklustre

While the third quarter is typically its best season, V-Mart Retail (VMART) reported a Q3FY21 revenue decline of 16% YoY to Rs 4.7bn due to continued Covid-19 headwinds. Operating margins expanded 50bps YoY to 21.3% aided by higher gross margins, but EBITDA/PBT fell 15%/21% YoY. Per management, demand is improving but still some time away from normalcy. We cut FY21 EBITDA by 19% (FY22/FY23 unchanged) and roll forward to a new Mar'22 TP of Rs 1,850 (vs. Rs 1,750). Retain SELL given sustained demand weakness.

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Revenues falter in peak season: VMART's revenue declined 16% YoY to Rs 4.7bn as same-store sales growth (SSSg) slumped 19% due to the continued effect of the pandemic, which dampened Q3 seasonality. Management stated that demand had improved during the quarter due to the early onset of winter, festivals and the wedding season but has now weakened and could take a while to fully recover. The company currently has cash on books of ~Rs 1bn but refrained from commenting on fund raising plans.

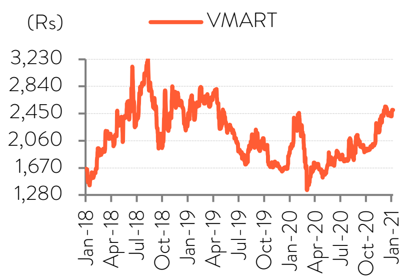
Profits decline: Operating margins increased 50bps YoY to 21.3% aided by gross margin expansion of 40bps and lower employee cost of 30bps, partly offset by higher other expense of 25bps. EBITDA/PBT declined 14.5%/21% YoY despite the margin gains, owing to lower sales. Management indicated that margins could come under pressure in coming quarters due to increasing prices of yarn and normalisation of other expenses.

Maintain SELL: Given the below-expected Q3, we scale back our FY21 EBITDA estimate by 19% (FY22/FY23 largely unchanged). We like VMART for its strong growth potential but see near-term risks to SSSg due to a tepid demand environment and possible ROE dilution from fund raising.

Ticker/Price	VMART IN/Rs 2,498
Market cap	US$ 622.0mn
Shares o/s	18mn
3M ADV	US$ 0.9mn
52wk high/low	Rs 2,613/Rs 1,200
Promoter/FPI/DII	51%/23%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,337	16,620	11,479	21,187	25,807
EBITDA (Rs mn)	1,336	2,149	1,412	3,004	3,759
Adj. net profit (Rs mn)	724	485	(122)	895	1,119
Adj. EPS (Rs)	39.9	26.7	(6.7)	49.3	61.6
Adj. EPS growth (%)	(5.8)	(32.9)	NA	NA	25.0
Adj. ROAE (%)	19.1	11.2	NA	18.2	19.0
Adj. P/E (x)	62.7	93.5	NA	50.7	40.5
EV/EBITDA (x)	33.6	20.8	31.9	14.9	11.8

Source: Company, BOBCAPS Research

Disclaimer

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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