

## RESEARCH

### BOB Economics Research | Weekly Wrap

Global yields inch up

#### Greenpanel Industries | Target: Rs 235 | +32% | BUY

MDF demand trends robust

#### Automobiles

Feb'21 Sales: Mixed bag

## SUMMARY

### India Economics: Weekly Wrap

Global reflation trade drove US 10Y to a 1-year high. Unlock in UK, surging oil prices and better than estimated US data added to upward momentum in global yields. India's 10Y yield has risen by 33 bps in Feb'21 on the back of higher than expected borrowing by government. Global equity markets retreated with sharp increase in yields. Indian equities too fell despite Indian economy reporting positive growth in Q3FY21 at 0.4%. We see growth improving to 2% in Q4 and 11.5% in FY22 with no change in policy rates.

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

### Greenpanel Industries

Domestic MDF demand remains strong in Q4FY21 backed by higher purchases of readymade furniture, a shift away from low-end plywood and continued slowdown in imports (25-30% of the total market). We believe these demand trends are sustainable given the steady upswing in India's affordable real estate market, which augurs well for market leader Greenpanel Industries (GREENP). We raise FY21-FY23 EPS estimates by 2-3% and maintain BUY with a revised Mar'22 TP of Rs 235 (from Rs 230).

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## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">GAIL</a>	Buy	160
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,710
<a href="#">Tech Mahindra</a>	Buy	1,130

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	330
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.40	(12bps)	36bps	26bps
India 10Y yield (%)	6.23	5bps	34bps	(14bps)
USD/INR	73.47	(1.4)	(0.6)	(1.8)
Brent Crude (US\$/bbl)	66.13	(1.1)	19.1	30.9
Dow	30,932	(1.5)	1.1	21.7
Shanghai	3,509	(2.1)	0.1	21.8
Sensex	49,100	(3.8)	4.7	28.2
India FII (US\$ mn)	25 Feb	MTD	CYTD	FYTD
FII-D	(279.7)	(868.4)	(1,366.8)	(5,460.4)
FII-E	246.9	4,134.3	6,112.6	36,088.3

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## Automobiles

PV sales continued their upward trajectory in February with healthy YoY growth (+21%). Domestic 2W sales were steady due to higher inventory in the system, whereas 2W exports gained momentum. MHCV volumes are improving from previous months and were up 6% YoY for AL while staying flat for TTMT. Tractor sales were healthy for both MM/ESC (+25%/+31% YoY). We remain negative on the sector given stretched valuations and anticipated pressure on operating margins led by higher raw material costs.

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## WEEKLY WRAP

01 March 2021

**Global yields inch up**

Global reflation trade drove US 10Y to a 1-year high. Unlock in UK, surging oil prices and better than estimated US data added to upward momentum in global yields. India's 10Y yield has risen by 33 bps in Feb'21 on the back of higher than expected borrowing by government. Global equity markets retreated with sharp increase in yields. Indian equities too fell despite Indian economy reporting positive growth in Q3FY21 at 0.4%. We see growth improving to 2% in Q4 and 11.5% in FY22 with no change in policy rates.

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**Markets**

- **Bonds:** Global 10Y yields closed higher with reflation trade gaining momentum. UK 10Y yield rose the most (+12bps at 0.82%) on the back of removal of lockdown restrictions. US 10Y went up (+7bps at 1.4%) with better than estimated macro data and expectation that inflation would pick up following US\$ 1.9tn stimulus. Oil prices also rose by 5.1% (US\$ 66/bbl) with improved demand outlook and OPEC+ meeting this week. India's 10Y yield rose by 10bps (6.23%-highest since Apr'20) on account of global cues. System liquidity surplus swelled to Rs 6tn as on 26 Feb 2021, versus Rs 5.5tn in the previous week.
- **Currency:** Global currencies closed lower against the dollar. DXY rose by 0.6% as US 10Y yield rose to a 1-year high. AUD fell the most (down by 2.1%). INR depreciated by 1.1% to a 3-month low as oil prices rose sharply by 5.1% in the week. FII outflows were US\$ 565mn.
- **Equity:** Global equity indices ended the week in red led by Asian markets. Dow and FTSE too fell, by 1.8% and 2.1% respectively with investors spooked by rising yields. Sensex fell by 3.5% due to the impact of resurgence in Covid-19 cases. Tech, auto and banking stocks led the fall.
- **Covid-19 tracker:** Global cases rose by 2.7mn in the week ended 28 Feb 2021 versus 2.5mn in the previous week. However, cases in US and UK showed dip. India added 0.1mn cases in the week versus 75k last week.
- **Upcoming key events:** Globally, manufacturing services PMIs, US unemployment rate, German factory orders and RBA's policy decision are due. In India, preliminary trade data will be released.



**BUY**

TP: Rs 235 | ▲ 32%

**GREENPANEL  
INDUSTRIES**

Construction Materials

01 March 2021

**MDF demand trends robust**

**Domestic MDF demand remains strong in Q4FY21 backed by higher purchases of readymade furniture, a shift away from low-end plywood and continued slowdown in imports (25-30% of the total market). We believe these demand trends are sustainable given the steady upswing in India's affordable real estate market, which augurs well for market leader Greenpanel Industries (GREENP). We raise FY21-FY23 EPS estimates by 2-3% and maintain BUY with a revised Mar'22 TP of Rs 235 (from Rs 230).**

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**MDF demand holds strong:** As per our discussions with industry participants, MDF demand remains robust in Q4 despite 3-7% price hikes taken by major players over Q3 and Q4FY21. Key factors supporting demand are higher offtake of readymade furniture (where MDF has higher usage) post-Covid, a gradual shift of low-end plywood demand to MDF and reduced imports. GREENP benefits from this demand as it is the largest player in the Indian market and has surplus capacities. We expect the company to witness a 20.2% revenue CAGR (MDF volume CAGR of 24%) over FY20-FY23 with capacity utilisation doubling from ~59% in FY20 to 102% in FY23.

**Operating margins to increase:** GREENP's recent price hike will enable it to pass along the raw material cost increase. The company will also derive benefits of operating leverage due to rising capacity utilisation. We expect blended operating margins to increase 750bps to 23.8% over FY20-FY23 with MDF margins expanding 760bps to 25.8%. Overall EBITDA is projected to log a 36.3% CAGR over this period.

**Maintain BUY:** We like GREENP for its market leadership in MDF, strong growth prospects, and improving debt and return ratio profile. Maintain BUY with a revised Mar'22 TP of Rs 235 set at an unchanged 15x FY23E EPS.

Ticker/Price	GREENP IN/Rs 178
Market cap	US\$ 296.3mn
Shares o/s	123mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 203/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	9,589	13,174	15,227
EBITDA (Rs mn)	774	1,432	1,818	2,965	3,622
Adj. net profit (Rs mn)	228	253	616	1,418	1,913
Adj. EPS (Rs)	1.9	2.1	5.0	11.6	15.6
Adj. EPS growth (%)	NA	11.0	143.6	130.1	34.9
Adj. ROAE (%)	7.1	3.9	9.0	18.2	20.3
Adj. P/E (x)	95.9	86.4	35.4	15.4	11.4
EV/EBITDA (x)	NA	17.2	15.1	9.0	7.0

Source: Company, BOBCAPS Research



**AUTOMOBILES**

01 March 2021

**Feb'21 Sales: Mixed bag**

**PV sales continued their upward trajectory in February with healthy YoY growth (+21%). Domestic 2W sales were steady due to higher inventory in the system, whereas 2W exports gained momentum. MHCV volumes are improving from previous months and were up 6% YoY for AL while staying flat for TTMT. Tractor sales were healthy for both MM/ESC (+25%/+31% YoY). We remain negative on the sector given stretched valuations and anticipated pressure on operating margins led by higher raw material costs.**

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**PV sales healthy:** Maruti's (MSIL) dispatches were 10% above estimates, increasing 12% YoY to 164.5k units. The UV segment posted meaningful growth (+19% YoY), followed by compact cars (+15%) while the mini segment remained in negative territory. Given below-par inventory levels for MSIL, the next few months should see healthy dispatches. PV sales were up 41% YoY for M&M (MM) on a softer base, Hyundai Motors saw a 29% rise and Tata Motors (TTMT) posted strong 119% growth. MM's management indicated that a semiconductor supply shortage would hinder production.

**Exports driving 2W sales:** Hero's (HMCL) wholesale volumes came in at 505k in Feb'21 in line with our estimates, growing 1% YoY. Total sales for Bajaj Auto (BJAUT) rose 6% YoY with exports growing 13% while domestic sales posted a 6% decline. TVSL's export sales grew at a robust 23% YoY and total sales increased 18% to 298k units. 3W sales for BJAUT/TVSL continue to languish, posting negative growth (-5%/-24% YoY). Royal Enfield reported healthy 2W sales of 70k units (+10% YoY), beating our estimates.

**MHCV volumes improving steadily:** Ashok Leyland's (AL) CV sales increased 19% YoY to 13.7k units. Both MHCVs and LCVs posted growth, at 6% and 44% YoY respectively. For FY21 YTD, AL's sale volumes have plunged 32% YoY owing to a steep 47% drop in MHCVs. MHCV sales for TTMT were flat at 10k units in Feb'21 whereas LCVs grew 37% YoY to 21.2k units.

**Strong momentum in tractor dispatches:** MM sold 28.1k tractors (+25% YoY) in Feb'21, which was marginally lower than our expectations, while competitor Escorts (ESC) sold 11.2k units (+31% YoY). YTD tractor sales for MM/ESC are up 12%/17% YoY. We have factored in healthy growth as the macro environment remains conducive but believe both stocks are pricing in most optimism and carry unfavourable risk-reward.



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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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