FIRST LIGHT

03 November 2020

RESEARCH

BOB Economics Research | Weekly Wrap

PMIs, US Fed and US elections

Indian Oil Corp | Target: Rs 170 | +117% | BUY

Valuations at a disconnect to earnings resilience

Mahindra Logistics | Target: Rs 420 | +15% | BUY

Strong recovery in non-auto SCM drives operational beat

Greenpanel Industries | Target: Rs 95 | +23% | BUY

Strong performance; margin traction to continue

Escorts | Target: Rs 1,030 | –16% | SELL

Strong Q2; optimism priced in – SELL

Automobiles

Oct'20 Auto Sales: Encouraging volumes; maintain cautious stance

SUMMARY

India Economics: Weekly Wrap

Global equity markets and yields fell on the back of rising Covid-19 cases in Europe and US. US$ and JPY strengthened. EUR slid as ECB hinted at further easing in Dec'20. India's 10Y yield rose by 4bps amidst negative global cues. India's core sector showed improvement in Sep'20 and fiscal deficit moderated due to lower spending by government. Apart from being a data and central bank centric week (Global PMIs, US payroll, US Fed, BoE), markets also await US election results. Global volatility is likely to be at its peak.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	135
Laurus Labs	Buy	410
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.87	5bps	22bps	(84bps)
India 10Y yield (%)	5.88	3bps	(15bps)	(57bps)
USD/INR	74.11	(0.3)	(0.3)	(4.7)
Brent Crude (US$/bbl)	37.46	(0.5)	(8.7)	(39.3)
Dow	26,502	(0.6)	(3.5)	(3.1)
Shanghai	3,225	(1.5)	0	9.0
Sensex	39,614	(0.3)	4.3	(1.4)
India FII (US$ mn)	**28 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(86.8)	385.2	(14,294.6)	(4,535.1)
FII-E	(118.2)	2,696.4	6,736.5	13,339.5

Source: Bank of Baroda Economics Research

BOBCAPS Research
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Indian Oil Corp

IOCL's Q2FY21 EBITDA of Rs 94bn (2.6x YoY) was above estimates. Q2 highlights: (a) refining business outperformed with GRMs at US$ 8.6/bbl (driven by US$ 9.6/bbl inventory gains), (b) marketing earnings underperformed with EBITDA at Rs 36bn (–5% YoY), and (c) petchem EBITDA was above estimates at Rs 12bn. Management indicated that volume have improved from Oct'20, shaping up for an exciting H2FY21. Our Sep'21 SOTP-based target price changes to Rs 170 (from Rs 195), on higher capex assumption.

Click here **for the full report.**

Mahindra Logistics

Buoyed by traction in key client segments – e-commerce, consumer, pharma, tractors – Mahindra Logistics' (MLL) topline decline eased to 2% YoY, ahead of our estimate of a 14% drop. Resilient margins (+5bps YoY) catalysed a beat on EBITDA too (–1% vs. –16% est.). Improving demand, robust client addition and growing customer wallet share augur well for MLL's growth prospects. Given that earnings are on the mend, we raise our target P/E multiple to 29x (vs. 26x). Rolling over, we have a revised Dec'21 TP of Rs 420 (vs. Rs 345).

Click here **for the full report.**

Greenpanel Industries

Greenpanel Industries (GREENP) reported above-expected Q2FY21 revenue growth of 17% YoY (consolidated), aided by a 26% increase in the MDF segment. Operating margins (ex-forex loss) expanded 485bps YoY to 20.8% backed by stronger MDF profitability, spurring EBITDA growth of 53% YoY. Management expects double-digit growth in H2FY21 with better margins. We upgrade FY21-FY23 EPS estimates by 56-133% due to the positive margin guidance and reiterate BUY as we roll over to a new Dec'21 TP of Rs 95 (vs. Rs 55).

Click here **for the full report.**

Escorts

Escorts (ESC) reported strong Q2FY21 revenue at Rs 16.4bn (+24% YoY) with sharp 880bps operating margin expansion to 18.4%. Despite robust volumes, the company lost 140bps market share in Q2 (from 11.2% to 9.8%) due to supply constraints at its end. Recent untimely rains have been a dampener in West and North India, though we believe agriculture sector growth momentum will continue, aiding a 7% tractor volume CAGR over FY20-FY23. In our view, positives are in the price. Maintain SELL with an unchanged Sep'21 TP of Rs 1,030.

Click here for the full report.

Automobiles

Auto sales continued their upward trajectory in October with healthy YoY growth, ahead of our estimates. Domestic PV industry sales surged 18% YoY and Hero Moto's (HMCL) 2W volumes rose 35%. MHCV volumes remain the worst affected, slipping 11% YoY for AL while its LCVs were up 14%. Tractor sales grew ~2% YoY for MM and ESC. Despite the strong volume uptick, we remain cautious as we believe growth is being led by a rise in production capacity and channel filling while retail sales still languish. Festive demand holds the key.

Click here for the full report.

WEEKLY WRAP

02 November 2020

PMIs, US Fed and US elections

Sameer Narang | Aditi Gupta
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Global equity markets and yields fell on the back of rising Covid-19 cases in Europe and US. US$ and JPY strengthened. EUR slid as ECB hinted at further easing in Dec'20. India's 10Y yield rose by 4bps amidst negative global cues. India's core sector showed improvement in Sep'20 and fiscal deficit moderated due to lower spending by government. Apart from being a data and central bank centric week (Global PMIs, US payroll, US Fed, BoE), markets also await US election results. Global volatility is likely to be at its peak.

Markets

- **Bonds:** Germany's 10Y yield fell by 5bps on the back of rising Covid-19 cases and Europe wide lockdowns. US 10Y yields was up by 3bps as GDP growth surprised positively. Oil prices fell steeply by 10.3% (US$ 37.5/bbl) owing to weak demand outlook. India's 10Y yield rose by 4bps to 5.88% following global risk-off sentiment amidst rising Covid-19 cases. System liquidity surplus was at Rs 4.51tn as on 29 Oct 2020 compared with Rs 4.17tn in the previous week.

- **Currency:** Global currencies closed lower against the dollar. DXY rose by 1.4% on safe-haven demand amidst a resurgence of Covid-19 cases and fresh lockdown restrictions in France, Germany and Spain. EUR fell by 1.8% as ECB hinted at further monetary easing in its Dec'20 policy meet. INR depreciated by 0.7% to a 2-month low even as oil prices fell steeply by 10.3%. FII inflows were US$ 151mn.

- **Equity:** Global equity indices ended the week lower amidst uncertainty over US fiscal stimulus, renewed surge in Covid-19 cases in US and Europe. Dax slumped the most by 8.6% followed by Dow (6.5%) and FTSE (4.8%). Sensex (2.6%) too ended in red dragged down by metal and auto stocks. Commodity prices too fell.

- **Upcoming key events:** In the current week, markets will closely monitor rate decisions of US Fed, BoE, RBA and global manufacturing and services PMIs. In addition, China's exports, US non-farm payrolls and Germany's factory order prints will be released. On the domestic front, manufacturing and services PMIs will be in focus.

BUY
TP: Rs 170 | ⮝ 117%

INDIAN OIL CORP | Oil & Gas | 02 November 2020

Valuations at a disconnect to earnings resilience

IOCL's Q2FY21 EBITDA of Rs 94bn (2.6x YoY) was above estimates. Q2 highlights: (a) refining business outperformed with GRMs at US$ 8.6/bbl (driven by US$ 9.6/bbl inventory gains), (b) marketing earnings underperformed with EBITDA at Rs 36bn (–5% YoY), and (c) petchem EBITDA was above estimates at Rs 12bn. Management indicated that volume have improved from Oct'20, shaping up for an exciting H2FY21. Our Sep'21 SOTP-based target price changes to Rs 170 (from Rs 195), on higher capex assumption.

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GRMs surge on inventory gains: IOCL's GRMs at US$ 8.6/bbl carry massive inventory gains of US$ 9.6/bbl, outperforming our estimates. With benchmark Singapore GRMs recovering in Oct'20, Q3FY21 could look even better. Management sees core GRMs normalising by Q4 as oil demand recovers. Refinery utilisation rates have improved to ~95% levels in October. Petrochemical EBITDA margins expanded to US$ 226/mt (+8% YoY, +13% QoQ), along with a sharp recovery in volumes (0.72mmt, +37% YoY).

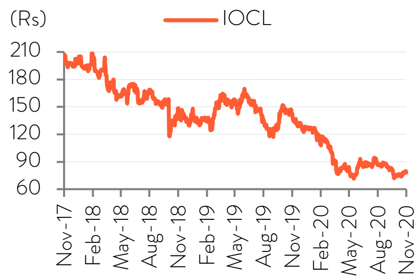
Marketing earnings normalise: Marketing margins in Q2 normalised from an exceptional Q1, averaging at ~Rs 1,900/mt (+7% YoY). This along with pipeline business margins of ~Rs 745/mt still adds up to an above-average Rs 2,600/mt. Q3 is expected to be better for marketing margins given a decline in oil prices. IOCL intends to maintain these margins at above-average levels to support expansion in retail outlets (~2,500 p.a.) over 2-3 years.

Valuations discounting the worst: Valuations at 4x FY22E EBITDA are at a significant discount to BPCL, offering a staggering >15% dividend yield potential. Like other PSUs, the stock has been under pressure owing to concerns over cash utilisation. Management sees growth in volumes reviving from Q3FY21, implying a strong H2FY21 performance.

Ticker/Price	IOCL IN/Rs 78
Market cap	US$ 10.0bn
Shares o/s	9,479mn
3M ADV	US$ 21.6mn
52wk high/low	Rs 144/Rs 71
Promoter/FPI/DII	52%/6%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,281,575	4,843,623	3,471,995	4,361,902	5,033,901
EBITDA (Rs mn)	352,227	164,049	405,082	462,542	469,986
Adj. net profit (Rs mn)	173,767	80,622	200,494	222,138	222,499
Adj. EPS (Rs)	18.9	8.8	21.8	24.2	24.2
Adj. EPS growth (%)	(19.2)	(53.6)	148.7	10.8	0.2
Adj. ROAE (%)	15.4	7.8	19.4	19.5	18.6
Adj. P/E (x)	4.1	8.9	3.6	3.2	3.2
EV/EBITDA (x)	3.9	9.2	4.5	4.0	3.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 420 | ⮝ 15%

MAHINDRA LOGISTICS | Logistics | 02 November 2020

Strong recovery in non-auto SCM drives operational beat

Buoyed by traction in key client segments – e-commerce, consumer, pharma, tractors – Mahindra Logistics' (MLL) topline decline eased to 2% YoY, ahead of our estimate of a 14% drop. Resilient margins (+5bps YoY) catalysed a beat on EBITDA too (–1% vs. –16% est.). Improving demand, robust client addition and growing customer wallet share augur well for MLL's growth prospects. Given that earnings are on the mend, we raise our target P/E multiple to 29x (vs. 26x). Rolling over, we have a revised Dec'21 TP of Rs 420 (vs. Rs 345).

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Non-auto SCM segment catalysed growth: Deeper penetration at existing clientele, wider service offerings and new client adds in the e-commerce, consumer and pharma verticals helped MLL deliver strong 20% YoY growth in non-Mahindra, non-auto revenue. Consequently, the non-Mahindra segment rose 16% YoY, the fastest since Q4FY18. The decline in Mahindra Group revenue also eased to 1.2% YoY (–65% in Q1), augmented by healthy tractor sales of the anchor customer, while the non-Mahindra auto segment posted a 1% uptick.

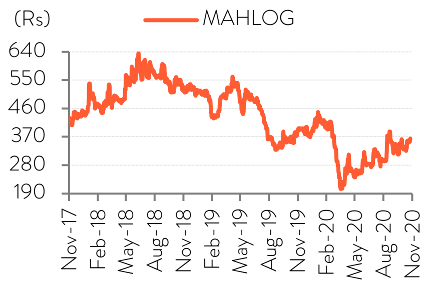
EBITDA margin flat: Gross margin (ex-other income) contracted ~110bps YoY due to one-time expenses incurred for new initiatives, lag in passing on freight rate increases, and margin dilution in the freight forwarding and enterprise mobility segments. However, tight control on fixed costs yielded a flat EBITDA margin of 4.5% (+5bps YoY). Higher other income and a lower tax rate drove a sturdy 34% YoY rise in PAT. Consequent to the earnings beat, we raise our FY21/FY22/FY23 earnings estimates by 6%/3%/3%.

New initiatives: MLL's focus on expanding service offerings is aiding client addition and wallet share gains. It is launching >1mn sq ft of warehousing space (Flex) to meet clients' short-term, seasonal needs; developing Covid vaccine logistics solutions; and expanding offerings in the grocery & wholesale segments.

Ticker/Price	MAHLOG IN/Rs 364
Market cap	US$ 349.9mn
Shares o/s	71mn
3M ADV	US$ 0.5mn
52wk high/low	Rs 458/Rs 195
Promoter/FPI/DII	58%/21%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	31,928	38,476	44,311
EBITDA (Rs mn)	1,512	1,583	1,480	2,104	2,526
Adj. net profit (Rs mn)	856	551	475	854	1,089
Adj. EPS (Rs)	12.0	7.7	6.6	11.9	15.2
Adj. EPS growth (%)	33.2	(35.7)	(13.9)	80.1	27.5
Adj. ROAE (%)	18.7	10.6	8.3	13.7	15.6
Adj. P/E (x)	30.4	47.3	54.9	30.5	23.9
EV/EBITDA (x)	16.7	15.8	17.0	12.2	10.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 95 | ⮝ 23%

GREENPANEL INDUSTRIES

| Construction Materials | 02 November 2020

Strong performance; margin traction to continue

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Greenpanel Industries (GREENP) reported above-expected Q2FY21 revenue growth of 17% YoY (consolidated), aided by a 26% increase in the MDF segment. Operating margins (ex-forex loss) expanded 485bps YoY to 20.8% backed by stronger MDF profitability, spurring EBITDA growth of 53% YoY. Management expects double-digit growth in H2FY21 with better margins. We upgrade FY21-FY23 EPS estimates by 56-133% due to the positive margin guidance and reiterate BUY as we roll over to a new Dec'21 TP of Rs 95 (vs. Rs 55).

Strong revenue growth: GREENP's consolidated revenue grew 17% YoY to Rs 2.2bn, with MDF up 26% whereas plywood declined 5%. In the MDF business, volumes rose 31% YoY on better utilisation and higher exports (+88% YoY). In plywood, volumes dipped 4% YoY on sustained lower demand. Management has guided for double-digit topline growth in H2. Net debt has reduced by Rs 320mn in H1; GREENP plans to bring this down by another Rs 500mn to Rs 4.5bn by end-FY21 and to Rs 3bn by FY22.

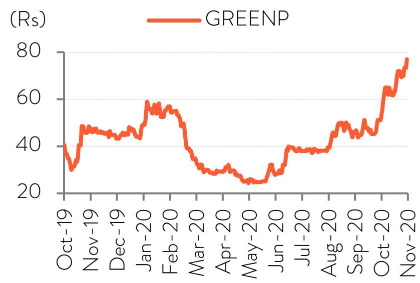
Margins swell 485bps YoY: EBITDA margins (ex-forex loss) expanded 485bps YoY to 20.8% aided by higher MDF profitability and better capacity utilisation – this resulted in EBITDA growth of 53% YoY. MDF margins rose 220bps YoY to 21.8% backed by better utilisation. Plywood margins jumped 430bps YoY to 16.4% due to lower raw material cost and other cost control initiatives. Management expects MDF margins to improve with better capacity utilisation and those for plywood to sustain at ~16% levels going ahead.

Maintain BUY: We raise FY21-FY23 EBITDA by 17-25% on a stronger margin outlook, driving a PAT upgrade of 56-133%. We continue to like GREENP for its robust growth outlook and improving D/E and return ratio profile. Maintain BUY with a revised Dec'21 TP of Rs 95, set at an unchanged 13x one-year fwd P/E.

Ticker/Price	GREENP IN/Rs 77
Market cap	US$ 126.9mn
Shares o/s	123mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 77/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	8,359	10,454	12,233
EBITDA (Rs mn)	774	1,432	1,383	1,910	2,320
Adj. net profit (Rs mn)	228	253	276	669	966
Adj. EPS (Rs)	1.9	2.1	2.3	5.5	7.9
Adj. EPS growth (%)	NA	11.0	9.2	142.2	44.4
Adj. ROAE (%)	7.1	3.9	4.1	9.3	12.0
Adj. P/E (x)	41.4	37.3	34.2	14.1	9.8
EV/EBITDA (x)	NA	8.6	10.9	7.5	5.7

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,030 | ∀ 16%

ESCORTS | Auto Components | 02 November 2020

Strong Q2; optimism priced in – SELL

Escorts (ESC) reported strong Q2FY21 revenue at Rs 16.4bn (+24% YoY) with sharp 880bps operating margin expansion to 18.4%. Despite robust volumes, the company lost 140bps market share in Q2 (from 11.2% to 9.8%) due to supply constraints at its end. Recent untimely rains have been a dampener in West and North India, though we believe agriculture sector growth momentum will continue, aiding a 7% tractor volume CAGR over FY20-FY23. In our view, positives are in the price. Maintain SELL with an unchanged Sep'21 TP of Rs 1,030.

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Strong Q2: A favourable product mix (two-third share of >40HP tractors) supported above-expected ASP, leading to 24% YoY revenue growth to Rs 16.4bn (Rs 14.8bn est.). Operating margin also surprised positively, expanding 880bps YoY to 18.4% (~500bps above our estimate) owing to better operating leverage and softer commodity costs. However, Management guided that the margins are not sustainable due to adverse product-mix and normalization of costs going ahead. Adj. PAT grew 102% YoY to Rs 2.3bn.

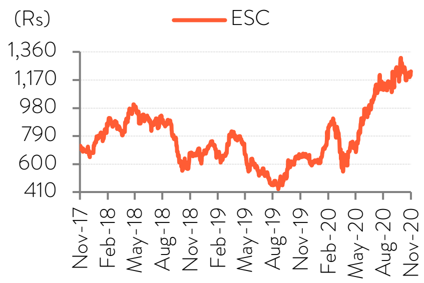
Optimism factored into estimates: The recent peak season for tractor sales ended strongly. However, we now enter the dull phase for sales. Our channel checks suggest that the recent untimely rains have affected farm produce in West and North India, although we believe that agriculture sector growth momentum could continue with the onset of the next season in January. We maintain our tractor volume growth estimate of 7% CAGR over FY20-FY23.

Maintain SELL: We expect ESC to clock a revenue/EBITDA/PAT CAGR of 8%/13%/15% over FY20-FY23. Despite the recent stock price correction, valuations appear to be pricing in most of the positives at 23.7x/20.4x FY22E/FY23E EPS. We continue to value the stock at 19x Sep'22E EPS and maintain our TP at Rs 1,030. SELL.

Ticker/Price	ESC IN/Rs 1,228
Market cap	US$ 2.0bn
Shares o/s	123mn
3M ADV	US$ 38.3mn
52wk high/low	Rs 1,343/Rs 526
Promoter/FPI/DII	40%/20%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	62,620	58,101	58,468	65,217	72,276
EBITDA (Rs mn)	7,226	6,624	7,531	8,445	9,478
Adj. net profit (Rs mn)	4,789	4,825	5,401	6,256	7,264
Adj. EPS (Rs)	39.1	39.4	44.1	51.0	59.3
Adj. EPS growth (%)	38.0	0.8	11.9	15.8	16.1
Adj. ROAE (%)	17.9	15.5	14.8	14.8	14.7
Adj. P/E (x)	31.4	31.2	27.9	24.1	20.7
EV/EBITDA (x)	20.5	22.4	19.6	17.7	15.9

Source: Company, BOBCAPS Research

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AUTOMOBILES

02 November 2020

Oct'20 Auto Sales: Encouraging volumes; maintain cautious stance

Mayur Milak | Nishant Chowhan, CFA
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Auto sales continued their upward trajectory in October with healthy YoY growth, ahead of our estimates. Domestic PV industry sales surged 18% YoY and Hero Moto's (HMCL) 2W volumes rose 35%. MHCV volumes remain the worst affected, slipping 11% YoY for AL while its LCVs were up 14%. Tractor sales grew ~2% YoY for MM and ESC. Despite the strong volume uptick, we remain cautious as we believe growth is being led by a rise in production capacity and channel filling while retail sales still languish. Festive demand holds the key.

PV sales rise: Maruti's (MSIL) domestic sales increased 20% YoY to 172.9k units in Oct'20 while exports rose 5%. Growth was led by the compact/ van segments which grew 27%/33% YoY, followed by UVs (+10%). The midsize/mini segments posted declines of 40%/0.3% YoY. PV sales for M&M (MM) were up 1% YoY while Hyundai Motors saw a 13% rise. New entrant KIA continues to outperform, growing 64% YoY while Tata Motors also posted strong 79% growth. We believe channel filling ahead of the festive season and expanding OEM production capacities are serving as key growth drivers.

HMCL and BJAUT clock highest 2W monthly sales: Hero's (HMCL) wholesale volumes surged 35% YoY to 806.9k in Oct'20, with scooter sales clocking 60% growth and motorcycles increasing 32% YoY. 2W sales for Bajaj Auto (BJAUT) rose 18% YoY to 470.3k, while TVS Motor (TVSL) saw a 24% increase to 382.1k units. 3W sales for TVSL and BJAUT remained weak, falling 17% and 35% YoY respectively. Royal Enfield reported total 2W sales of 66.9k units (–7% YoY). Most 2W OEMs have guided for a flattish to minor drop in retail sales for the current festive season.

MHCV slump continues: Ashok Leyland's (AL) CV sales were up 1% YoY to 10k units. MHCVs were the worst hit, slumping 11% YoY, while LCVs were up 14%. In FY21 YTD, AL's sale volumes have plunged 58% YoY, led by a steep 72% drop in MHCVs and a 34% YoY decline in LCVs.

Tractors resilient: MM sold 46.6k tractors (+2.5% YoY) in Oct'20 and competitor Escorts (ESC) sold 13.7k units (+2.3% YoY). As per tractor OEMs, despite operating at near-full capacity, tractor demand continues to outpace supply owing to below-par dealer inventories and healthy fundamental drivers such as a good harvest and better crop price realisations.

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)

Rating distribution

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