FIRST LIGHT

04 May 2021

RESEARCH

BOB Economics Research | Weekly Wrap
Rising Covid-19 cases a risk to recovery

BOB Economics Research | Trade
Trade deficit widens

Supreme Industries | Target: Rs 1,805 | –14% | SELL
Profit boosted by inventory gains, maintain SELL

Kotak Mahindra Bank | Target: Rs 2,100 | +22% | BUY
Q4 in line; well capitalised for growth

Ajanta Pharma | Target: Rs 2,300 | +25% | BUY
Another good quarter

Automobiles
Apr'21 Sales – Sequential decline across segments; outlook cautious

SUMMARY

India Economics: Weekly Wrap

Global yields inched up on the back of rising US consumer confidence and easing of restrictions in UK. EUR fell as Europe entered a technical recession on the back of mobility restrictions. While global commodity prices rose, equity markets were weak given rising Covid-19 cases. INR rose by 1.2% and Sensex rose by 1.9% led by metal stocks. While PMI data for Apr'21 was unchanged MoM, mobility data shows reduction in economic activity in coming weeks as a number of states have imposed restrictions on movement.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	(1bps)	(4bps)	99bps
India 10Y yield (%)	6.03	(3bps)	(14bps)	(8bps)
USD/INR	74.09	(0.1)	(1.3)	1.3
Brent Crude (US$/bbl)	67.25	(1.9)	3.7	166.1
Dow	33,875	(0.5)	2.2	39.1
Shanghai	3,447	(0.8)	(0.6)	20.5
Sensex	48,782	(2.0)	(1.5)	44.7
India FII (US$ mn)	**29 Apr**	**MTD**	**CYTD**	**FYTD**
FII-D	(112.7)	(242.8)	(2,270.0)	(242.8)
FII-E	122.7	(1,063.5)	6,262.8	(1,063.5)

Source: Bank of Baroda Economics Research

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India Economics: Trade

India's trade deficit expanded to US$ 15.2bn in Apr'21 from US$ 13.9bn in Mar'21. Oil and non-oil-non-gold imports rose by 132% and 129% respectively. Exports also rose by 197% on the back of gems and jewellery and engineering goods. Exports are likely to see further traction as global economy rebounds from the pandemic. Imports may increase with a lag after restrictions in India ease. We expect trade deficit to increase to US$ 170bn in FY22. INR to trade in the range of 73-75/USD. Rising Covid-19 cases and oil prices are a risk.

Click here for the full report.

Supreme Industries

Supreme Industries' (SI) Q4FY21 revenue grew 46% YoY, aided by an 8% rise in volumes off a tepid base. Inventory gains of Rs 0.8bn-1bn supported EBITDA margin expansion of 535bps YoY to 24.5% and EBITDA/PBT growth of 86%/ 112% YoY. Management stated that demand for agri PVC pipes was dull due to higher prices. We tweak FY22-FY23 EBITDA by 3% but raise PAT estimates by ~13% each due to a better performance from associate company Supreme Petrochem. Maintain SELL with a revised Mar'22 TP of Rs 1,805 (vs. Rs 1,605).

Click here for the full report.

Kotak Mahindra Bank

Kotak Bank's (KMB) Q4FY21 PAT at Rs 16.8bn (+33% YoY) was largely in line with our estimates. Asset quality remained stable with GNPA ratio at 3.3% and a negligible SMA-2 book (0.05% of loans). Credit cost at 84bps for FY21 (ex-Covid provisions) gives us comfort on asset quality resilience. Loan growth at 5% QoQ in Q4 is gradually perking up and with adequate capital in place, the bank is open to both organic and inorganic routes to grow. CASA ratio has improved further to 60.4%. Maintain BUY, Mar'22 TP Rs 2,100.

Click here for the full report.

Ajanta Pharma

Ajanta Pharma (AJP) reported strong Q4FY21 revenue/EBITDA growth of 11%/56% YoY to Rs 7.6bn/Rs 2.6bn, surpassing consensus estimates by 3%/23%. The revenue beat was due to robust growth in the Africa, India and US businesses. EBITDA margin expansion of 990bps YoY to 34.3% stemmed from improvement in gross margin to 78% (+390bps YoY) and lower R&D and SG&A expenses. We raise FY22-FY23 EPS by 6-7% to factor in stronger margins and increase our Mar'22 TP to Rs 2,300 (vs. Rs 2,100). Maintain BUY.

Click here for the full report.

Automobiles

PV sales in April are estimated to have fallen ~11% MoM, albeit bettering our projections. Domestic 2W dispatches were sluggish amidst higher channel inventory. MHCV volumes also declined by ~50% in line with estimates. Tractor sales were in line with estimates for ESC while MM fell short. We expect Q1FY22 volumes to remain subdued owing to partial plant shutdowns announced by various OEMs coupled with rising Covid-19 infections. We remain negative on the sector, barring MSIL (TP: Rs 8,000, BUY) which is at attractive valuations.

Click here for the full report.

WEEKLY WRAP

03 May 2021

Rising Covid-19 cases a risk to recovery

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Global yields inched up on the back of rising US consumer confidence and easing of restrictions in UK. EUR fell as Europe entered a technical recession on the back of mobility restrictions. While global commodity prices rose, equity markets were weak given rising Covid-19 cases. INR rose by 1.2% and Sensex rose by 1.9% led by metal stocks. While PMI data for Apr'21 was unchanged MoM, mobility data shows reduction in economic activity in coming weeks as a number of states have imposed restrictions on movement.

Markets

- **Bonds:** Global yields closed higher, apart from China and India. UK's 10Y yield rose the most at 10bps (0.84%) as economy rebounds from the pandemic. US 10Y yield rose by 7bps (1.63%) supported by rising consumer confidence. India's 10Y yield fell by 1bps (6.03%). Crude prices rose by 1.7% supported by demand in US and Europe. System liquidity surplus fell to Rs 5.1tn as on 30 Apr 2020 from Rs 5.9tn in previous week.

- **Currency:** Except INR and CNY, other global currencies closed lower. US Fed reaffirmed its dovish stance. EUR fell by 0.3% as Euro Area entered technical recession. INR rose by 1.2% even as oil prices rose. FII outflows were US$ 93mn in the week.

- **Equity:** Global equity markets were weak in the week apart from FTSE and Sensex. Rising global Covid-19 cases is a dampener. Dax (0.9%) dropped the most as Eurozone registered its second technical recession in a year. However, Sensex rose by 1.9% driven by strong gains in metal stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 5.7mn this week versus 5.6mn WoW led by India, which added 2.5mn cases versus 2mn WoW. Mobility data shows activity in India has seen a downtick (retail at -10% WoW, workplace –9% WoW). Israel has vaccinated 63% of its population (single dose), UK at 51% and US at 44%. India is now at 9.2%.

- **Upcoming key events:** Markets await PMIs of major economies, US employment and factory orders data. RBA and BoE meetings are scheduled. On the domestic front, markets will monitor Covid-19 cases, progress of vaccination and corporate earnings.

TRADE

03 May 2021

Trade deficit widens

India's trade deficit expanded to US$ 15.2bn in Apr'21 from US$ 13.9bn in Mar'21. Oil and non-oil-non-gold imports rose by 132% and 129% respectively. Exports also rose by 197% on the back of gems and jewellery and engineering goods. Exports are likely to see further traction as global economy rebounds from the pandemic. Imports may increase with a lag after restrictions in India ease. We expect trade deficit to increase to US$ 170bn in FY22. INR to trade in the range of 73-75/USD. Rising Covid-19 cases and oil prices are a risk.

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Exports rebounding: As per preliminary data, India's exports rose by 197% in Apr'21 (US$ 30.2bn) on a low base since exports had fallen by 60.9% in Apr'20. In Mar'21, exports rose by 60%. All segments of exports recorded positive growth with non-oil exports increasing by 201% in Apr'21 after increasing by 62.3% in Mar'21. Exports of gems and jewellery rose the most at 84x (79% in Mar'21) and engineering goods at 235% (71% in Mar'21). Oil exports were also higher at 171% versus 27% in Mar'21.

Imports tracking higher: India's import rose by 166% in Apr'21 (US$ 45.5bn) compared with an increase of 54% in Mar'21 on the back of a low base of a decline of 60% in Apr'20. Gold imports rose to US$ 6bn in Apr'21 from negligible levels in Apr'20. Oil imports rose by 132% in Apr'21 from 2% in Mar'21. Non-oil-non-gold imports also accelerated by 129% in Apr'21 from 47% in Mar'21. Imports of electronic goods (increase of 214% from 77% in Mar'21), transport equipment (171% versus decline of 33% in Mar'21) and machinery, electrical & non electrical (114% versus 60% in Mar'21) rose the most. However imports of silver (89%) and pulses (42%) declined.

Trade deficit widens: India's trade deficit widened for the third straight month to US$ 15.2bn from US$ 13.9bn in Mar'21 led by a broad-based pickup in imports. Exports are likely to fare better with an improvement in growth prospects of major trade partners such as US and Europe. Rising Covid-19 cases and restrictions are likely to keep imports in check in Q1FY22. However, with a gradual normalisation beginning in Q2FY22, we expect imports to pickup. As a result, we expect trade deficit to widen to US$ 170bn in FY22 from US$ 100.1bn in FY21. We expect INR to trade in a range of 73-75/USD in FY22. Rising Covid-19 cases in India and higher oil prices are a key risk to our view.

KEY HIGHLIGHTS

- Exports jump by 197% in Apr'21 from an increase of 60% in Mar'21.
- Imports rise by 166% in Apr'21 after increasing by 54% in Mar'21. Gold imports remain elevated to US$ 6bn in Apr'21.
- Trade deficit widens to US$ 15.2bn from US$ 13.9bn in Mar'21.

SELL

TP: Rs 1,805 | ∀ 14%

SUPREME INDUSTRIES | Plastic Products | 03 May 2021

Profit boosted by inventory gains, maintain SELL

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Supreme Industries' (SI) Q4FY21 revenue grew 46% YoY, aided by an 8% rise in volumes off a tepid base. Inventory gains of Rs 0.8bn-1bn supported EBITDA margin expansion of 535bps YoY to 24.5% and EBITDA/PBT growth of 86%/112% YoY. Management stated that demand for agri PVC pipes was dull due to higher prices. We tweak FY22-FY23 EBITDA by 3% but raise PAT estimates by ~13% each due to a better performance from associate company Supreme Petrochem. Maintain SELL with a revised Mar'22 TP of Rs 1,805 (vs. Rs 1,605).

Revenue fuelled by higher PVC prices: SI's revenue grew 46% YoY to Rs 20.8bn due to pass-along of higher raw material (PVC) prices. Plastic piping revenue grew 44% YoY, industrials 84%, packaging 49% and consumer 31%. Volume growth stood at just 8% YoY despite a tepid base in Q4FY20 (–9% YoY). Management stated that PVC pipe segment volumes declined 1.7% YoY in Q4 as higher prices led to deferred demand from the agriculture sector.

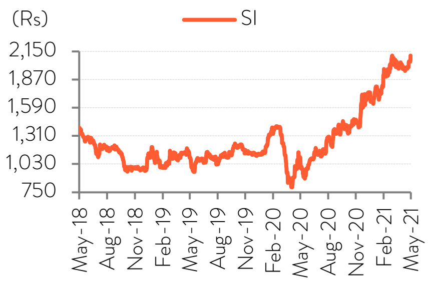
Inventory gains aid margins: SI's operating margin expanded 535bps YoY to 24.5%, aided by inventory gains of Rs 0.8bn-1bn and lower other expenses – this resulted in EBITDA/PBT growth of 86%/112% YoY. Per management, inventory gains of ~Rs 2bn during FY21 added 3ppt to operating margin. The company expects PVC prices to correct going forward and is targeting margins of 15.5-17%.

Maintain SELL: SI has been a beneficiary of inventory gains due to rising PVC prices during FY21, driving EBITDA growth of 50% despite flattish volumes. Though we like the company for its strong balance sheet and broad portfolio, current valuations at 35.1x FY23E EPS look full, especially as volume growth remains lacklustre and a potential reversal in PVC prices could result in inventory losses. Maintain SELL with a revised Mar'22 TP of Rs 1,805.

Ticker/Price	SI IN/Rs 2,109
Market cap	US$ 3.6bn
Shares o/s	127mn
3M ADV	US$ 2.2mn
52wk high/low	Rs 2,175/Rs 873
Promoter/FPI/DII	49%/9%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,087	63,571	66,323	74,167
EBITDA (Rs mn)	7,812	8,563	12,843	10,126	11,502
Adj. net profit (Rs mn)	3,683	4,866	9,781	6,713	7,635
Adj. EPS (Rs)	29.0	38.3	77.0	52.8	60.1
Adj. EPS growth (%)	(13.2)	32.1	101.0	(31.4)	13.7
Adj. ROAE (%)	18.2	22.0	36.0	20.2	20.8
Adj. P/E (x)	72.7	55.1	27.4	39.9	35.1
EV/EBITDA (x)	34.0	31.1	20.7	26.7	23.9

Source: Company, BOBCAPS Research | P – Provisional

BUY
TP: Rs 2,100 | ⮝ 22%

KOTAK MAHINDRA BANK

| Banking | 03 May 2021

Q4 in line; well capitalised for growth

Kotak Bank's (KMB) Q4FY21 PAT at Rs 16.8bn (+33% YoY) was largely in line with our estimates. Asset quality remained stable with GNPA ratio at 3.3% and a negligible SMA-2 book (0.05% of loans). Credit cost at 84bps for FY21 (ex-Covid provisions) gives us comfort on asset quality resilience. Loan growth at 5% QoQ in Q4 is gradually perking up and with adequate capital in place, the bank is open to both organic and inorganic routes to grow. CASA ratio has improved further to 60.4%. Maintain BUY, Mar'22 TP Rs 2,100.

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Asset quality stable: Slippages in H2FY21 stood at Rs 44bn. A large part of this was driven by the unsecured portfolio under moratorium. KMB's PCR at 64% is low versus peers but management believes these loans have high recovery potential. The bank has disbursed ~Rs 11.5bn under ECLGS and has significant comfort on the book. Covid provisions stood at ~Rs 12.8bn (0.6% of loans).

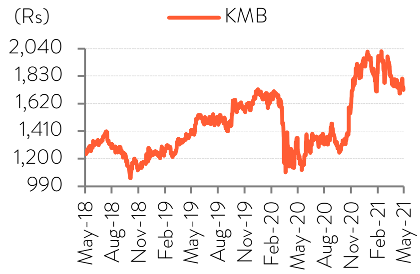
Geared for growth: The bank has been cautious on unsecured loans – credit card, personal loans, MFI, consumer durable loans – and its exposure is down to 5.8% vs. 7.5% in FY20. KMB intends to expand both the secured as well as unsecured segments aided by stringent underwriting. In the mortgage portfolio (+10% QoQ), the bank is targeting customer acquisition and cross-sell opportunities. Its corporate portfolio remained flat QoQ for the quarter given high pricing pressure and low risk-adjusted returns. NIM declined ~10bps QoQ to 4.4% owing to reversal of Rs 1.1bn of interest-on-interest.

Leadership transition: Both the MD and Joint MD will retire on 31 Dec 2023. Per management, the board will look at long-term strategic options and take adequate steps to ensure growth in stakeholder and shareholder value. Management reiterated that the promoter and his family are fully committed as long-term shareholders.

Ticker/Price	KMB IN/Rs 1,725
Market cap	US$ 46.3bn
Shares o/s	1,982mn
3M ADV	US$ 100.7mn
52wk high/low	Rs 2,049/Rs 1,110
Promoter/FPI/DII	26%/44%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	112,590	134,997	153,554	178,062	207,659
NII growth (%)	1812.1	1990.2	1374.7	1596.0	1662.2
Adj. net profit (Rs mn)	36,116	59,472	69,648	85,807	102,054
EPS (Rs)	25.5	31.1	35.8	43.3	51.5
P/E (x)	67.6	55.4	48.2	39.9	33.5
P/BV (x)	7.8	6.8	5.4	4.8	4.2
ROA (%)	1.7	1.8	1.9	2.1	2.2
ROE (%)	12.2	13.1	12.5	12.8	13.5

Source: Company, BOBCAPS Research | P – Provisional

BUY

TP: Rs 2,300 | ▲ 25%

AJANTA PHARMA | Pharmaceuticals | 03 May 2021

Another good quarter

Ajanta Pharma (AJP) reported strong Q4FY21 revenue/EBITDA growth of 11%/56% YoY to Rs 7.6bn/Rs 2.6bn, surpassing consensus estimates by 3%/23%. The revenue beat was due to robust growth in the Africa, India and US businesses. EBITDA margin expansion of 990bps YoY to 34.3% stemmed from improvement in gross margin to 78% (+390bps YoY) and lower R&D and SG&A expenses. We raise FY22-FY23 EPS by 6-7% to factor in stronger margins and increase our Mar'22 TP to Rs 2,300 (vs. Rs 2,100). Maintain BUY.

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Strong growth in India, US and Africa: India sales grew 23% YoY (flat QoQ) backed by a strong uptick in the cardiology and dermatology portfolios, recovery in the acute portfolio and new launches. In export formulations, the company is facing supply disruptions for branded products and recorded meagre 2% YoY growth in Africa branded sales and a 16% decline in Asia business, though Africa institutional business surged 86%. Management expects institutional business at similar levels in FY22 and believes branded sales will soon get back on track. US sales were healthy at US$ 24mn (+11% QoQ).

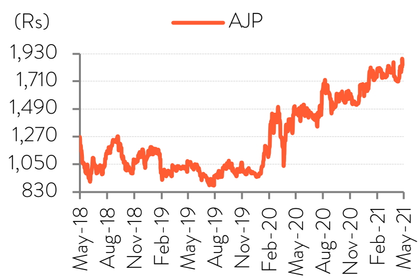
FY21 margins to moderate: Q4 EBITDA margin expansion of 990bps YoY to 34.3% came on the back of a better gross margin and lower other expenses (R&D at 5% of sales in Q4FY21 vs. 7% in Q4FY20). The FY21 margin at 34.6% saw a reversal of H1 gains in H2. Management expects moderation to 30% going forward as gross margin likely remains flattish and SGA spends normalise to higher pre-Covid levels.

Retain BUY: We expect a stable brand franchise (India/EM), US operating leverage and capex moderation to drive a 14% EPS CAGR over FY21-FY23. Further, improving FCF, 34%+ ROIC beyond FY23E and a steady pace of new launches (21 brands launched in India in FY21) should support stock upsides.

Ticker/Price	AJP IN/Rs 1,837
Market cap	US$ 2.2bn
Shares o/s	87mn
3M ADV	US$ 3.3mn
52wk high/low	Rs 1,930/Rs 1,331
Promoter/FPI/DII	71%/9%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	28,897	33,007	37,456
EBITDA (Rs mn)	5,653	6,833	9,990	10,108	11,834
Adj. net profit (Rs mn)	3,869	4,716	6,534	7,005	8,522
Adj. EPS (Rs)	44.1	53.8	74.5	79.9	97.2
Adj. EPS growth (%)	(17.4)	21.9	38.5	7.2	21.7
Adj. ROAE (%)	17.8	19.1	22.9	21.1	21.6
Adj. P/E (x)	41.6	34.2	24.7	23.0	18.9
EV/EBITDA (x)	28.1	23.3	15.9	15.6	13.3

Source: Company, BOBCAPS Research | P – Provisional

AUTOMOBILES

03 May 2021

Apr'21 Sales: Sequential decline across segments; outlook cautious

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PV sales in April are estimated to have fallen ~11% MoM, albeit bettering our projections. Domestic 2W dispatches were sluggish amidst higher channel inventory. MHCV volumes also declined by ~50% in line with estimates. Tractor sales were in line with estimates for ESC while MM fell short. We expect Q1FY22 volumes to remain subdued owing to partial plant shutdowns announced by various OEMs coupled with rising Covid-19 infections. We remain negative on the sector, barring MSIL (TP: Rs 8,000, BUY) which is at attractive valuations.

PV sales ahead of estimates: Maruti's (MSIL) dispatches at 160k (–4% MoM) in April were ahead of estimates led by higher exports. Domestic sales dipped 8% MoM while exports grew by a strong 49% MoM. M&M's (MM) PV sales increased 10% MoM while TTMT saw a 15% MoM decline. Among other key OEMs, volumes for Hyundai, Kia and Toyota fell 7%, 16% and 36% respectively compared to March'21. The coming months could see moderate dispatches from OEMs due to partial plant shutdowns and lockdowns in major markets.

Domestic 2W sales weak: Hero's (HMCL) wholesale volumes dropped 36% MoM to 372k units due to temporary plant shutdowns. Domestic sales for Bajaj Auto (BJAUT) fell 32% MoM while exports grew 48%, leading to a total sales increase of 6% MoM to 388k units. TVS Motor's (TVSL) volumes fell 26% MoM to 239k units with domestic sales down by a sharper 35% and export sales down 10%. Royal Enfield (RE) reported below-estimated 2W sales of 53k units (–19% MoM).

MHCV momentum halts: After posting steady sequential growth over the last few months, MHCV volumes slipped in April. Ashok Leyland's (AL) CV sales dropped 52% MoM to 8k units owing to a steep 61% MoM decline in MHCVs and a 35% drop in LCVs. For TTMT, domestic CV sales plunged 61% MoM with MHCVs and LCVs down 57% and 63% respectively.

Tractor volumes fall sequentially: MM sold 28k tractors (–11% MoM) in Apr'21, lower than our expectations of 33k units. Competitor Escorts (ESC) met expectations, selling 7k units (–43% MoM). This follows healthy FY21 tractor sales for both MM/ESC at 17%/24% YoY. We have factored in a 6% CAGR in the segment over FY21-FY23 as the macro environment remains conducive but believe both stocks are pricing in most positives.

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

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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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