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FIRST LIGHT

05 January 2021

RESEARCH

BOB Economics Research | Weekly Wrap

Domestic recovery gains steam

Greenpanel Industries | Target: Rs 165 | +31% | BUY

Strong showing in MDF to continue – we raise estimates

IT Services | Q3FY21 Preview

Q3 to be resilient despite seasonality

Automobiles

Dec'20 Auto Sales: 2Ws struggling, CVs reviving, PVs steady

SUMMARY

India Economics: Weekly Wrap

Global equity indices ended CY20 on a high driven by news of Covid-19 vaccine, US stimulus deal and Brexit trade deal. DXY index fell to a 32-month low on concern over rising twin deficits. Oil prices too rose by 1% in the week. On domestic front, GST collections gained further traction to grow by 11.6% in Nov'20 and non-oil-non gold recovered sharply (up 7.9%). Most high frequency indicators are pointing to marked improvement in underlying economic activity in Q3 implying sustained pick-up in growth in Q4/ FY22.

Click here for the full report.

Greenpanel Industries

Demand for MDF has bettered expectations since unlocking of the economy in Q3FY21 as the pandemic has boosted consumption of readymade furniture. MDF is also replacing offtake of low-end plywood. We believe these demand trends are sustainable and raise our FY21-FY23 revenue estimates for Greenpanel Industries (GREENP) by 8-12% and EBITDA by 16-24%, implying a revenue/EBITDA CAGR of 16%/26% over FY20-FY23. We also revise our target P/E to 15x (earlier 13x) and roll over to a new Mar'22 TP of Rs 165 (earlier Rs 95).

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	3,180
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 (%)	0.91	0bps	(2bps)	(87bps)
India 10Y yield (%)	5.88	1bps	3bps	(64bps)
USD/INR	73.13	(0.1)	0.9	(1.9)
Brent Crude (US$/bbl)	51.80	0.9	9.2	(24.5)
Dow	30,606	0.6	2.6	6.9
Shanghai	3,473	1.7	0.6	12.6
Sensex	47,869	0.2	7.3	15.4
India FII (US$ mn)	**31 Dec**	**Dec-20**	**CY20**	**FYTD**
FII-D	130.7	766.1	(13,853.1)	(4,093.6)
FII-E	84.4	7,267.1	23,372.8	29,975.8

Source: Bank of Baroda Economics Research

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IT Services: Q3FY21 Preview

We expect Q3FY21 to be resilient with a healthy QoQ dollar growth (2-4%) for most of our IT coverage, helped by modest cross-currency tailwinds (~35bps). Margins are likely to remain resilient with only ~50bps QoQ decline on average. Expect LTI to show highest growth (7.2% CC) given its strong pipeline. We await commentary on (1) FY22 demand outlook, (2) BFSI growth momentum, (3) acquisition-related updates, (4) large deal wins in Q3, and (5) margin trajectory. Remain positive on TCS, HCLT, TECHM, LTI and Coforge.

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Automobiles

Passenger vehicles continued their upward trajectory in December with healthy YoY and MoM growth. 2W sales (barring Royal Enfield) came under significant pressure MoM as inventories in the system are now on the higher side. MHCV volumes continued to improve from previous months but still slipped 2% YoY for AL. Tractor sales declined MoM for both MM and ESC despite efforts to restore channel inventory. Reported volumes were broadly in line with our estimates (except MSIL and EIM). We remain negative on the sector.

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WEEKLY WRAP

04 January 2021

Domestic recovery gains steam

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Global equity indices ended CY20 on a high driven by news of Covid-19 vaccine, US stimulus deal and Brexit trade deal. DXY index fell to a 32-month low on concern over rising twin deficits. Oil prices too rose by 1% in the week. On domestic front, GST collections gained further traction to grow by 11.6% in Nov'20 and non-oil-non gold recovered sharply (up 7.9%). Most high frequency indicators are pointing to marked improvement in underlying economic activity in Q3 implying sustained pick-up in growth in Q4/ FY22.

Markets

- **Bonds:** Except Japan, global 10Y yields closed lower.UK 10Y yield fell most by 6bps (0.2%) amidst fear of new Covid strain and renewed lockdown restrictions. US 10Y fell by 1bps (0.91%) even as twin deficits: trade and fiscal expanded. India's 10Y yield fell by 1bps (5.88%) supported by RBI's Rs 100bn special OMO announcement. System liquidity surplus swelled to Rs 6.2tn as on 1 Jan 2020 compared with Rs 5.1tn in the previous week.

- **Currency:** Global currencies ended CY20 higher against the US$ as risk sentiment improved with vaccine rollout. DXY fell by 0.6% in the week and by 6.7% in CY20 (near 32-month low) amidst concerns over US twin deficits. GBP rose by 0.8% as UK clinched a last minute Brexit trade deal. INR rose by 0.6% supported by FII inflows of US$ 1bn.

- **Equity:** Barring FTSE, other global indices ended higher led by news of Covid-19 vaccine and Brexit trade deal. Nikkei (3.5%) gained the most, followed by Shanghai Comp (3.3%). Sensex too climbed up by 1.9% led by real estate and consumer durable stocks. High frequency data supports underlying economic recovery (GST, imports, fuel, electricity)

- **Covid-19 tracker:** Global cases rose by 4.1mn in the week ending 1 Jan 2020, same as the previous week. India added 139k cases this week which was less than 142k addition in earlier week.

- **Upcoming key events:** PMI data of major economies will be released along with US FOMC minutes and employment data which will shed light on underlying labour market conditions. On the domestic front, progress of Covid-19 cases and rollout of vaccine as well as PMI data will be tracked.

COMPANY UPDATE

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BUY
TP: Rs 165 | ⮝ 31%

GREENPANEL INDUSTRIES | Construction Materials | 04 January 2021

Strong showing in MDF to continue – we raise estimates

Demand for MDF has bettered expectations since unlocking of the economy in Q3FY21 as the pandemic has boosted consumption of readymade furniture. MDF is also replacing offtake of low-end plywood. We believe these demand trends are sustainable and raise our FY21-FY23 revenue estimates for Greenpanel Industries (GREENP) by 8-12% and EBITDA by 16-24%, implying a revenue/EBITDA CAGR of 16%/26% over FY20-FY23. We also revise our target P/E to 15x (earlier 13x) and roll over to a new Mar'22 TP of Rs 165 (earlier Rs 95).

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MDF demand robust: Demand for MDF has been better than expected since unlocking due to higher readymade furniture offtake, a shift away from low-end plywood and a slowdown in imports (25-30% of the market). Per our discussions with industry participants, imports have slowed due to container availability issues and higher freight cost. We expect MDF manufacturers with surplus capacities such as GREENP to benefit from the demand boom, which looks sustainable due to the government focus on domestic furniture manufacturing. We thus raise FY21-FY23 revenue estimates by 8-12% and expect the company's MDF utilisation to rise to 90% by FY23 (~60% in FY20).

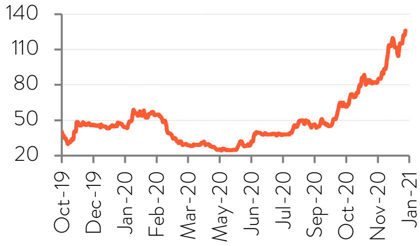
EBITDA forecast to double over FY20-FY23: We estimate that operating margins in GREENP's MDF segment will increase 430bps to 22.5% by FY23 due to higher capacity utilisation and recent productivity initiatives. We upgrade FY21-FY23 EBITDA estimates by 16-24% factoring in higher turnover and better margins. Our PAT forecasts thus rise by 32-53%.

Maintain BUY: We continue to like GREENP for its leadership position in the MDF market, strong growth prospects and improving return ratios. Considering the robust demand trends, we raise our one-year forward P/E to 15x and roll over to a higher Mar'22 TP of Rs 165.

Ticker/Price	GREENP IN/Rs 126
Market cap	US$ 211.5mn
Shares o/s	123mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 128/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	9,046	11,352	13,667
EBITDA (Rs mn)	774	1,432	1,597	2,258	2,881
Adj. net profit (Rs mn)	228	253	423	882	1,327
Adj. EPS (Rs)	1.9	2.1	3.4	7.2	10.8
Adj. EPS growth (%)	NA	11.0	67.1	108.7	50.5
Adj. ROAE (%)	7.1	3.9	6.2	11.8	15.5
Adj. P/E (x)	67.8	61.1	36.5	17.5	11.6
EV/EBITDA (x)	NA	12.8	13.2	9.0	6.7

Source: Company, BOBCAPS Research

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IT SERVICES | Q3FY21 Preview | 04 January 2021

Q3 to be resilient despite seasonality

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Good demand traction: Sequential growth in Q3 is expected to be better than normal fueled by good demand, modest currency tailwinds and fewer furloughs. Among our large-cap universe, we expect Infosys (INFO) to outperform with 3.5% QoQ dollar revenue growth, given the numerous large deals bagged this quarter. For the rest, growth is estimated at 2-3%. Within mid-caps, we expect L&T Infotech (LTI, +7.5%) and Persistent (PSYS, +5%) to lead the pack as Q3 is a seasonally strong quarter for them. LTI's robust large-deal pipeline (US$ 1.9bn, +62% YoY) and PSYS' strong pickup in services, TSU revenues and flow-through from the Capiot acquisition are expected to drive growth.

Stable margins QoQ: We believe most companies will report stable operating margins, with at most an 80-100bps decline QoQ. Cost efficiency levers such as offshoring, automation-led approach, reduced subcontracting and increased utilisation are being used to neutralise the impact from furloughs and rupee appreciation. Wage hikes have been deferred to Q4, except for TCS and HCL Tech (HCLT), resulting in an estimated margin hit of 150bps.

In mid-caps, we expect Coforge's margins to normalise due to an ~80bps impact from hikes and travel-related weakness. Mindtree's (MTCL) margins are likely to stand strong with 20bps QoQ expansion backed by management commentary, a renewed strategy and its ongoing margin expansion cycle from Q1FY20 lows.

Europe recovery to continue: Wipro's (WPRO) accelerated M&A along with deal wins by HCLT and MTCL will ensure recovery in Europe, further aided by many captives acquired during Q3 – for instance, TCS's acquisition of Postbank Systems and the Pramerica Ireland back-offices and WPRO's takeover of Metro AG's IT units. Within verticals, BFSI, hi-tech, omni-channel retail and healthcare will have the most traction but travel will continue to be weak. Cloud will remain a strong driver of growth.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,928	3,180	BUY
INFO IN	1,260	1,210	ADD
WPRO IN	388	290	SELL
HCLT IN	951	980	BUY
TECHM IN	978	1,040	BUY
LTI IN	3,699	3,860	BUY
MPHL IN	1,530	1,410	REDUCE
MTCL IN	1,659	1,540	ADD
PSYS IN	1,498	840	SELL
COFORGE IN	2,722	2,690	BUY
ECLX IN	883	800	REDUCE
INFOE IN	4,758	2,010	SELL

Price & Target in Rupees

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AUTOMOBILES

04 January 2021

Dec'20 Auto Sales: 2Ws struggling, CVs reviving, PVs steady

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Passenger vehicles continued their upward trajectory in December with healthy YoY and MoM growth. 2W sales (barring Royal Enfield) came under significant pressure MoM as inventories in the system are now on the higher side. MHCV volumes continued to improve from previous months but still slipped 2% YoY for AL. Tractor sales declined MoM for both MM and ESC despite efforts to restore channel inventory. Reported volumes were broadly in line with our estimates (except MSIL and EIM). We remain negative on the sector.

PV sales beat expectations: Maruti's (MSIL) dispatches were above our estimates, increasing 20% YoY to 160.2k units in Dec'20 with exports rising sharply by 31%. Growth was led by the compact segment (+18%), vans (+47%) and UVs (+8%). PV sales for M&M (MM) were up 3% YoY while Hyundai Motors saw a 25% rise. New entrant KIA continued to outperform, growing 154% YoY. Tata Motors also posted strong 84% growth.

2W sales struggling: Hero's (HMCL) wholesale volumes came in at 447.4k in Dec'20 against our estimate of 490k, a drop of 24% MoM. TVS Motor's (TVSL) total sales saw a 16% MoM decline to 272.1k units. Bajaj Auto (BJAUT) posted a 12% MoM fall in total volumes. These declines clearly indicate that system inventory is now back to normal and growth will depend directly on retail sales, which remain under pressure. In contrast to peers, Royal Enfield, reported strong 2W sales of 69k units (+37% YoY), exceeding our estimates.

MHCV sales improving on monthly basis: Ashok Leyland's (AL) CV sales increased 14% YoY to 12.8k units, in line with our estimates. Its MHCVs continued to improve and posted a decline of only 2% YoY, whereas LCVs were up 42% YoY. In FY21 YTD, AL's sale volumes have plunged 43% YoY, led by a steep 59% drop in MHCVs and an 18% decline in LCVs. CV sales for Tata Motors (TTMT) were down 4% to 32.9k units in December.

Tractor dispatches weak despite low inventory levels: MM sold 22.4k tractors (–32% MoM) in Dec'20 and competitor Escorts (ESC) sold 7.7k units (–24% MoM). We have already factored in healthy growth as the macro environment remains conducive, but believe both stocks are pricing in most optimism and the risk-reward of staying invested is unfavourable.

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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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