FIRST LIGHT

05 November 2020

RESEARCH

BOB Economics Research | Inflation and Rate Outlook

Rates seem to have bottomed out

State Bank of India | Target: Rs 260 | +26% | BUY

Stress disclosures reassuring – upgrade to BUY

PVR | Target: Rs 1,160 | +4% | REDUCE

Another washout quarter; content availability key for turnaround

Transport Corp of India | Target: Rs 300 | +33% | BUY

Healthy show continues

Ajanta Pharma | Target: Rs 1,920 | +19% | BUY

Exceptional Q2 beat; H2 momentum to moderate

SUMMARY

India Economics: Inflation and Rate Outlook

Forward guidance by global central banks implies low yields and negative real global yields in the medium-term. While India too is seeing negative real policy rate, a decline in inflation to 4.2% in FY22 will reduce the magnitude and also imply limited room for easing by RBI. Elevated gross borrowing of Rs 21tn (centre and states) suggests yield curve is likely to remain steep and 10Y yield is expected to remain range bound between 5.75-6.25%. Unseasonal rains and rising global commodity prices are a risk to our estimates.

Click here for the full report.

State Bank of India

State Bank of India's (SBIN) Q2FY21 PAT at Rs 45.7bn grew 52% YoY on 15% NII growth while operating profit (ex-one offs) grew 12%. In a positive surprise, management guided for overall restructuring at ~0.8% of loans and expects to contain fresh slippages in H2 at Rs 200bn. The bank has adequately provided for legacy corporate stress with 88% PCR. Provisioning needs for incremental stress are likely to be manageable in H2. We hike FY21-FY23 EPS 70-90%, revise our Sep'21 TP to Rs 260 (vs. Rs 219) and upgrade from ADD to BUY.

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	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.90	6bps	20bps	(96bps)
India 10Y yield (%)	5.90	1bps	(10bps)	(62bps)
USD/INR	74.41	0	(1.7)	(5.3)
Brent Crude (US$/bbl)	39.71	1.9	1.1	(36.9)
Dow	27,480	2.1	(0.7)	0
Shanghai	3,271	1.4	1.6	9.3
Sensex	40,261	1.3	4.0	0.0
India FII (US$ mn)	**2 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(47.8)	(47.8)	(14,277.5)	(4,518.0)
FII-E	115.2	115.2	6,661.7	13,264.6

Source: Bank of Baroda Economics Research

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PVR

With screens being shut, PVR (PVRL) did not report any meaningful revenue in Q2FY21. Stringent cost cutting and rent waivers helped stem operating and net loss at Rs 0.8bn and Rs 1.8bn respectively, both lower sequentially. Though ~70% of screens have opened, footfalls are negligible. With Maharashtra permitting reopening from 5 November, content availability should improve. We expect operating losses in Q3 also, with higher opex but sluggish footfall. We lower FY22/FY23 EPS by 19%/11% and roll to a Dec'22 TP of Rs 1,160 (vs. Rs 1,220).

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Transport Corp of India

Transport Corp (TRPC) reported a solid Q2FY21 performance for the second successive quarter, surpassing our expectations on all fronts. Consolidated revenue rose 2% YoY (–16% est.) led by the seaways and SCS segments, fuelling a 6% increase in EBITDA. PBT jumped 20% YoY, aided by lower interest and higher other income, though lower Transystem JV share and higher taxes dragged adj. PAT down 23% YoY. Baking in the outperformance, we raise FY22/FY23 EPS by 11%/10% and roll over to a new Dec'21 TP of Rs 300 (vs. Rs 270). BUY.

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Ajanta Pharma

Ajanta Pharma (AJP) posted Q2 revenue/EBITDA growth of 11%/54% YoY to Rs 7.2bn/Rs 2.7bn. EBITDA margin expanded YoY and QoQ to 38.3% due to higher gross margins and continued subdued SGA spends. Branded Africa sales were a beat and India/Asia/US were in line. Reported PAT was Rs 1.7bn. AJP expects a muted H2 on SGA cost normalisation and higher RM cost. The board has approved a Rs 1.4bn (0.84% of equity) share buyback. We raise FY22-FY23 EPS by 3% each; our Sep'21 TP moves to Rs 1,920 (vs. Rs 1,900). BUY.

Click here for the full report.

INFLATION AND RATE OUTLOOK

04 November 2020

Rates seem to have bottomed out

Sameer Narang
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Forward guidance by global central banks implies low yields and negative real global yields in the medium-term. While India too is seeing negative real policy rate, a decline in inflation to 4.2% in FY22 will reduce the magnitude and also imply limited room for easing by RBI. Elevated gross borrowing of Rs 21tn (centre and states) suggests yield curve is likely to remain steep and 10Y yield is expected to remain range bound between 5.75-6.25%. Unseasonal rains and rising global commodity prices are a risk to our estimates.

Global yields to remain low: The global narrative is lower rates for longer. The US FOMC expects rates to remain in the current range of 0-0.25% till CY23. ECB, BoJ and BoE will follow suit. Inflation in most of these economies is running far below central bank mandates, with the US at 1.5%, Germany at (-) 0.2% and Japan at 0%. Real rates are thus likely to remain negative for the foreseeable future.

India's real rate has turned negative: India's current real policy rate is also negative, reminiscent of the 2009-12 period when high retail inflation at 10% (led by food) drove sustained negative real rates. Food inflation is running at 9.6% FYTD21. Excluding supply-side factors (taxes, gold prices, Pan and tobacco), demand-driven core inflation (household goods, rent, education, health and recreation) is only 3.2%. We estimate CPI inflation at 4.2% in FY22.

Supply-side inflation on the rise: Apart from energy prices, other commodities – food, metals and precious metals – are at higher levels compared to last year. A Covid-19 vaccine may drive commodity prices even higher. Indian food prices are influenced not only by global prices but also by MSPs, government procurement and currency in circulation. Food stocks are at their highest level and CIC increased by 11.3% in FYTD21 (17% over the last five years).

Expect 10Y yield in 5.75-6.25% range: We estimate that the Centre's fiscal deficit will rise to 7.6% of GDP in FY21 from 4.6% in FY20. Fiscal deficit of states is estimated at 4.5% of GDP. This implies gross borrowing of Rs 21tn in FY21 (Rs 13.6tn done during FYTD21). Banks and RBI are absorbing fresh issuance of dated securities. With gradual economic rebound demand for credit is likely to pick up. This should provide a floor to 10Y yield at 5.75% and support a range of 5.75-6.25% (vs. 5.8-6.5% in past months).

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 260 | ⮝ 26%

STATE BANK OF INDIA | Banking | 04 November 2020

Stress disclosures reassuring – upgrade to BUY

State Bank of India's (SBIN) Q2FY21 PAT at Rs 45.7bn grew 52% YoY on 15% NII growth while operating profit (ex-one offs) grew 12%. In a positive surprise, management guided for overall restructuring at ~0.8% of loans and expects to contain fresh slippages in H2 at Rs 200bn. The bank has adequately provided for legacy corporate stress with 88% PCR. Provisioning needs for incremental stress are likely to be manageable in H2. We hike FY21-FY23 EPS 70-90%, revise our Sep'21 TP to Rs 260 (vs. Rs 219) and upgrade from ADD to BUY.

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Upbeat asset quality outlook: SBIN's slippages (including proforma slippages worth Rs 144bn) increased to ~Rs 170bn in Q2 given lockdown restrictions, but the bank recovered ~Rs 60bn in Oct'20. Collection efficiency stood at 97.5% in October, with levels reaching their highest in the unsecured personal loan segment. The bank has received restructuring applications worth ~Rs 65bn and expects incremental restructuring worth Rs 130bn by Dec'20. Fresh slippages in H2 are guided at ~Rs 200bn (~Rs 208bn in H1), which in our view is manageable.

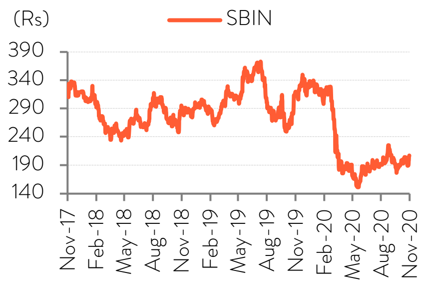
Retail credit traction remains strong: Overall credit growth at ~7% YoY in Q2 was subdued but retail loans grew 15% driven by good traction in products such as home loans, 'Xpress credit' and personal gold loans. SBIN's sanctions and disbursements in Q2 were significantly higher YoY across retail products. About 70%/94% of its home loan/Xpress credit customers are salaried. Going forward, credit growth is likely to be driven by the retail segment, capex by PSU entities, road construction and renewable energy.

Upgrade to BUY: We raise our FY21-FY23 EPS estimates sharply and increase our core P/BV multiple to 0.5x (vs. 0.4x) to factor in the better growth and asset quality outlook. This yields a higher Sep'21 SOTP-based TP of Rs 260.

Ticker/Price	SBIN IN/Rs 207
Market cap	US$ 24.7bn
Shares o/s	8,925mn
3M ADV	US$ 148.3mn
52wk high/low	Rs 351/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	1,043,570	1,159,147	1,325,372
NII growth (%)	18.0	11.0	6.4	11.1	14.3
Adj. net profit (Rs mn)	8,622	144,881	143,287	188,655	238,325
EPS (Rs)	1.0	16.2	16.1	21.1	26.7
P/E (x)	214.3	12.8	12.9	9.8	7.8
P/BV (x)	0.8	0.8	0.7	0.7	0.6
ROA (%)	0.0	0.4	0.3	0.4	0.5
ROE (%)	0.4	6.4	5.9	7.1	8.5

Source: Company, BOBCAPS Research

REDUCE
TP: Rs 1,160 | ⮝ 4%

PVR | Media | 04 November 2020

Another washout quarter; content availability key for turnaround

With screens being shut, PVR (PVRL) did not report any meaningful revenue in Q2FY21. Stringent cost cutting and rent waivers helped stem operating and net loss at Rs 0.8bn and Rs 1.8bn respectively, both lower sequentially. Though ~70% of screens have opened, footfalls are negligible. With Maharashtra permitting reopening from 5 November, content availability should improve. We expect operating losses in Q3 also, with higher opex but sluggish footfall. We lower FY22/FY23 EPS by 19%/11% and roll to a Dec'22 TP of Rs 1,160 (vs. Rs 1,220).

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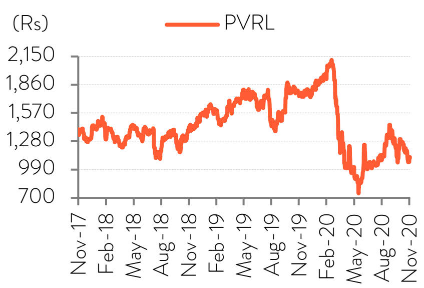
Ticker/Price	PVRL IN/Rs 1,116
Market cap	US$ 824.7mn
Shares o/s	55mn
3M ADV	US$ 43.0mn
52wk high/low	Rs 2,125/Rs 718
Promoter/FPI/DII	19%/35%/29%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Fresh content holds the key: Out of PVRL's 831 screens (14 closed in Q2), 575 have resumed operations since mid-October. But the absence of fresh content has restricted occupancies to 4-5% levels, despite 25%+ discounts on ticket price and F&B. New releases are likely to trickle in after a few weeks as screens in Maharashtra – the largest Bollywood circuit with 25-30% of collections – have been allowed to reopen from 5 November. We believe content release will be key to PVRL's fortunes going ahead – healthy footfalls during the festive season in W. Bengal also corroborate the same.

Cost control minimises operating loss: Cost cutting measures – reduction in headcounts, salaries and screen opex – helped PVRL lower its cash burn to Rs 329mn/month in Q2 vs. Rs 417mn in Q1. The company has also reached a settlement with 60% of mall owners for rent waivers during the shutdown phase and a cut post reopening, and is in discussions with the remaining malls. Opex is likely to increase in Q3, which can compound operating losses unless occupancy ramps up meaningfully in Q3/Q4. Liquidity remains healthy at Rs 5.5bn.

TP reduced: We cut our FY22/FY23 EBITDA estimates by 8% each owing to delays in key states – Maharashtra and Telangana – and weak occupancies. Rolling over, we lower our Dec'21 TP to Rs 1,160 (vs. Rs 1,220). REDUCE.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,856	34,144	7,997	30,816	37,129
EBITDA (Rs mn)	5,863	10,766	(2,013)	9,630	12,450
Adj. net profit (Rs mn)	1,898	273	(7,414)	456	2,352
Adj. EPS (Rs)	40.6	5.3	(134.4)	8.3	42.6
Adj. EPS growth (%)	51.5	(85.6)	(2815.7)	(106.2)	415.3
Adj. ROAE (%)	12.7	1.8	(71.4)	4.2	18.7
Adj. P/E (x)	27.5	209.9	(8.3)	134.9	26.2
EV/EBITDA (x)	11.9	6.7	(36.1)	7.6	6.0

Source: Company, BOBCAPS Research

BUY

TP: Rs 300 | 33%

TRANSPORT CORP OF INDIA | Logistics | 04 November 2020

Healthy show continues

Sayan Das Sharma
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Transport Corp (TRPC) reported a solid Q2FY21 performance for the second successive quarter, surpassing our expectations on all fronts. Consolidated revenue rose 2% YoY (–16% est.) led by the seaways and SCS segments, fuelling a 6% increase in EBITDA. PBT jumped 20% YoY, aided by lower interest and higher other income, though lower Transystem JV share and higher taxes dragged adj. PAT down 23% YoY. Baking in the outperformance, we raise FY22/FY23 EPS by 11%/10% and roll over to a new Dec'21 TP of Rs 300 (vs. Rs 270). BUY.

Seaways, SCS drive topline: Improved freight availability and the addition of a large ship in Q3FY20 drove TRPC's seaways revenue (+9% YoY) in Q2. Supply chain revenue also ticked up 1% YoY, after declining for four consecutive quarters, led by revival in the key auto sector (~80% of segment revenue).

Freight revenue (consolidated) was flat YoY, as weakness in road was offset by strong growth in the rail-linked JV (+50% YoY). TRPC witnessed healthy traction in textiles, food grains, chemicals and dairy products in Q2. Going ahead, a gradual uptick in the economy should drive freight and seaways revenue. SCS is likely to benefit from higher auto volumes and traction in e-commerce.

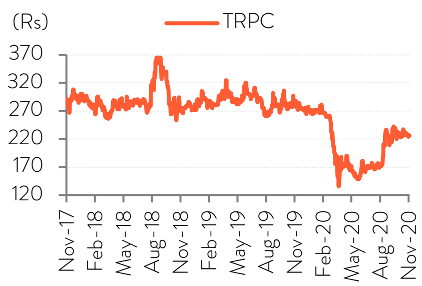
Healthy margins: EBITDA margin expanded 35bps YoY to 8.9% due to lower staff (–74bps) and other expenses (–85bps), negating 124bps contraction in gross margin. Freight/SCS EBIT margins rose 52bps/23bps YoY to 3.4%/6.6%; seaways fell 45bps. Elevated rates may exert pressure on the freight segment, but seaways margins should expand as bunker fuel prices have turned benign.

TP raised: Baking in a healthy Q2, we raise EBITDA estimates for FY22/FY23 by 8% each. Rolling valuations forward, we increase our Dec'21 TP to Rs 300 (vs. Rs 270), set at unchanged EV/EBITDA multiples for each segment. Retain BUY.

Ticker/Price	TRPC IN/Rs 226
Market cap	US$ 232.2mn
Shares o/s	77mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 293/Rs 122
Promoter/FPI/DII	67%/2%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	25,758	30,339	33,845
EBITDA (Rs mn)	2,495	2,405	2,219	2,891	3,346
Adj. net profit (Rs mn)	1,460	1,531	1,107	1,553	1,842
Adj. EPS (Rs)	19.0	19.9	14.4	20.2	24.0
Adj. EPS growth (%)	17.7	4.6	(27.7)	40.3	18.6
Adj. ROAE (%)	17.7	16.0	10.3	12.9	13.7
Adj. P/E (x)	11.9	11.4	15.7	11.2	9.4
EV/EBITDA (x)	8.5	9.0	9.7	7.4	6.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,920 | ⮝ 19%

AJANTA PHARMA | Pharmaceuticals | 04 November 2020

Exceptional Q2 beat; H2 momentum to moderate

Ajanta Pharma (AJP) posted Q2 revenue/EBITDA growth of 11%/54% YoY to Rs 7.2bn/Rs 2.7bn. EBITDA margin expanded YoY and QoQ to 38.3% due to higher gross margins and continued subdued SGA spends. Branded Africa sales were a beat and India/Asia/US were in line. Reported PAT was Rs 1.7bn. AJP expects a muted H2 on SGA cost normalisation and higher RM cost. The board has approved a Rs 1.4bn (0.84% of equity) share buyback. We raise FY22-FY23 EPS by 3% each; our Sep'21 TP moves to Rs 1,920 (vs. Rs 1,900). BUY.

Vivek Kumar
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Africa branded sales beat estimates; India/Asia/US in line: India sales growth was muted (flat YoY, +16% QoQ) due to subdued recovery in the acute portfolio (dermatology, ophthalmology) while the chronic segment did well. In export formulations, branded Africa sales grew at a strong 37% YoY (+27% in H1) but Asia was muted (+11% in H1). We continue to see good visibility in exports with two blocks operationalised in Q4. US sales were at US$ 21mn (+3% QoQ). AJP expects healthy H2 launches (Tamiflu susp., Divalproex DR).

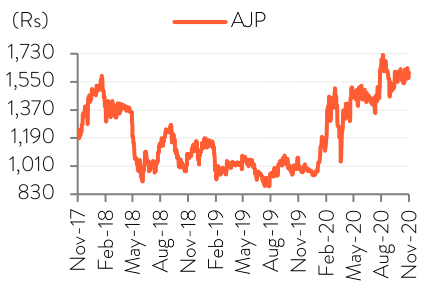
EBITDA margin beat sustainable: Q2 saw subdued costs across SGA, R&D and staff heads (–2% QoQ) along with gross margin expansion of ~1ppt QoQ to 78.3%, driving EBITDA margins of 38% (36% in H1). Margin gains could reverse in H2 on higher RM cost and promotional spends (virtually nil in Q2), as well as slower branded EM business (Asia, Africa) due to Covid restrictions.

Retain BUY: We continue to expect a stable brand franchise (India and EM), US operating leverage and capex moderation to drive a 25%+ EPS CAGR for AJP over FY21-FY23. Over 75% of FY22/FY23 EPS is estimated to accrue from the branded business. Further, with improving FCF and 34%+ ROIC beyond FY23E, we believe the stock has scope for valuation upsides.

Ticker/Price	AJP IN/Rs 1,609
Market cap	US$ 1.9bn
Shares o/s	88mn
3M ADV	US$ 3.8mn
52wk high/low	Rs 1,760/Rs 903
Promoter/FPI/DII	71%/9%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	27,199	31,046	35,317
EBITDA (Rs mn)	5,653	6,944	8,367	9,096	10,688
Adj. net profit (Rs mn)	3,869	4,082	5,453	6,350	7,839
Adj. EPS (Rs)	44.1	46.6	62.2	72.4	89.4
Adj. EPS growth (%)	(17.4)	5.5	33.6	16.5	23.4
Adj. ROAE (%)	17.8	16.6	19.0	19.0	20.0
Adj. P/E (x)	36.5	34.6	25.9	22.2	18.0
EV/EBITDA (x)	24.8	20.2	16.7	15.2	12.7

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)

Rating distribution

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