BOBCAPS
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FIRST LIGHT

09 February 2021

RESEARCH

BOB Economics Research | Monthly Chartbook

India's recovery gaining ground

BOB Economics Research | Weekly Wrap

India's fiscal impulse drive yields higher

VRL Logistics | Target: Rs 305 | +35% | BUY

Earnings momentum gathering pace

SUMMARY

India Economics: Monthly Chartbook

India's FM presented a historic Budget with a vision to spend and monetise assets to lead India's economic recovery. Government spending has seen a sharp uplift in Q3FY21 with Centre's expenditure increasing by 28.9% and States by 0.3% (-13.5% and -9.9% respectively as of Q2). Spending will increase further in Q4. Even consumption demand continues to hold up and exports are seeing a pick-up. Thus we see room for upward revision in growth estimates for FY21/22. However, fiscal expansion is also driving yields higher as government will have to borrow more than earlier anticipated. While some dip in food inflation is positive, we see a steady upward shift in yield curve in coming months.

Click here **for the full report.**

India Economics: Weekly Wrap

Global equity markets rose on the back of strong corporate results and manufacturing activity. DXY index appreciated by 0.5% as US cleared US$ 1.9tn stimulus. Global yields rose led by India and US. India's fiscal deficit is now estimated at 9.5%/6.8% for FY21/22, higher than expected. Rising oil prices and entrenched core inflation drove RBI to raise its inflation forecast for H1FY22. With inflation expected to remain above RBI's target of 4%, we don't see any rate cut. RBI will continue to buy bonds to balance the market.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	150
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.16	2bps	21bps	(42bps)
India 10Y yield (%)	6.07	0bps	25bps	(37bps)
USD/INR	72.93	0	0.3	(2.1)
Brent Crude (US$/bbl)	59.34	0.8	10.7	8.9
Dow	31,148	0.3	2.5	7.0
Shanghai	3,496	(0.2)	(0.9)	21.6
Sensex	50,732	0.2	4.7	23.3
India FII (US$ mn)	**4 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	54.8	54.6	(443.7)	(4,537.3)
FII-E	520.9	2,074.6	4,052.9	34,028.6

Source: Bank of Baroda Economics Research

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VRL Logistics

VRL Logistics' (VRLL) Q3FY21 print had many positives – (1) strong EBITDA growth (+24% YoY), (2) sustained GT realisations despite muted volumes, and (3) buyback of Rs 600mn. A steady economic recovery and limited truck availability are ideal conditions for an asset-heavy trucker such as VRLL – we expect it to outpace industry growth and yield strong earnings in the near-to-medium term. We thus raise our target P/E to 22x (vs. 20x), hike FY22/FY23 PAT 13%/12%, and roll over to a new Mar'22 TP of Rs 305 (vs. Rs 235). BUY.

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India's recovery gaining ground

India's FM presented a historic Budget with a vision to spend and monetise assets to lead India's economic recovery. Government spending has seen a sharp uplift in Q3FY21 with Centre's expenditure increasing by 28.9% and States by 0.3% (-13.5% and -9.9% respectively as of Q2). Spending will increase further in Q4. Even consumption demand continues to hold up and exports are seeing a pick-up. Thus we see room for upward revision in growth estimates for FY21/22. However, fiscal expansion is also driving yields higher as government will have to borrow more than earlier anticipated. While some dip in food inflation is positive, we see a steady upward shift in yield curve in coming months.

Budget-a booster for spending: Both Centre and States have pushed the pedal. Centre's expenditure increased by 28.9% as of Dec'20 (2.2% increase as of Nov'20) led by capex: 110.5% as of Dec'20. States too are now showing an increase in spending at 0.3% as of Dec'20 (decline of 9.9% as of Sep'20). We see a sharp increase in government spnding in Q4FY21 to meet the Budget targets. Capex is likely to see an increase of Rs 1.3tn (42% higher than 9MFY21). Revenue is likely to jump by Rs 10.4tn in Q4 (53% higher than 9MFY21).

Consumption gaining traction: The spending by government is coinciding with a gradual recovery in consumption as seen in pick-up in two-wheeler and four-wheeler sales, non-oil-non-gold consumption imports and housing demand. Our now casting model shows consumption to have increased by 12% in Q3FY21 from 1.6% in Q2FY21. Agri demand is expected to remain buoyant with agri credit continuing to grow and rabi sowing being 2.9% higher than last year. However, lower food inflation (at 3.4% in Dec'20 versus 9.2% in 9MFY21) is likely to offset some of the gains to rural India despite global food prices continuing to gain traction. This calls for higher exports to improve terms of trade of farm sector.

Yields inching up : With Centre's fiscal deficit increasing to 9.5/6.8% in FY21/22, Centre's borrowing requirement for FY21 went up by Rs 800bn. For FY22, Centre's gross borrowing is at Rs 12.05tn and states will borrow additional Rs 10tn. The above backdrop has driven India's long-end yields higher with 10Y yield (5.85GS2030) rising by 17bps in Jan'21. Short-end yields also rose in Jan'21 after announced normalisation of term reverse repo operations with a Rs 2tn reverse repo auction. While bond markets may find some comfort in falling food inflation, RBI's trajectory of retail inflation at 5-5.2% in H1FY22 (revised up from 4.6-5.2%) and roll back of CRR dispensation implies steady left ward shift in India's yield curve along with steepening bias that may creep in coming months. We do not see any change in policy rates in FY22.

INR to remain stable: INR appreciated for the 3rd straight month in Jan'21 and rose by 0.2% compared with 1.3% gain in Dec'20. Higher oil prices (+10.2% in Jan'21 MoM) and moderation in FII inflows (US$ 1.5bn in Jan'21 versus US$ 8bn in Dec'20) limited gains in INR. While oil prices have continued to climb up even in Feb'21, FII inflows have been buoyaynt at US$ 1.6bn. Hence, we believe INR to trade in a narrow range in the short-term with an appreciating bias.

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WEEKLY WRAP

08 February 2021

India's fiscal impulse drive yields higher

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Global equity markets rose on the back of strong corporate results and manufacturing activity. DXY index appreciated by 0.5% as US cleared US$ 1.9tn stimulus. Global yields rose led by India and US. India's fiscal deficit is now estimated at 9.5%/6.8% for FY21/22, higher than expected. Rising oil prices and entrenched core inflation drove RBI to raise its inflation forecast for H1FY22. With inflation expected to remain above RBI's target of 4%, we don't see any rate cut. RBI will continue to buy bonds to balance the market.

Markets

- **Bonds:** Global yields closed higher. UK 10Y yield rose by 16bps (0.48%) as BoE hinted that negative rates are not forthcoming soon. US 10Y yield rose by 10bps (1.16%) supported by fiscal stimulus. Oil prices also rose by 6.2% (US$ 59/bbl). India's 10Y yield rose the most by 17bps (6.07%) as fiscal deficit expanded to 9.5%/ 6.8% in FY21/22. However it is trading lower today as news reports suggest RBI will conduct OMO of Rs 3tn in FY22 (Rs 2.5tn in FYTD21). System liquidity surplus was at Rs 6.2tn as on 5 Feb 2021, against Rs 5.8tn in the previous week.

- **Currency:** DXY rose by 0.5% in the week driven by anticipation of stimulus led recovery. EUR depreciated by 0.7% as Germany's retail sales and factory orders were weaker than expected. GBP gained by 0.2% as BoE pushed back the possibility of negative rates till Jul'21. INR closed flat supported by FII inflows of US$ 2.3bn even as oil prices rose by 6.2%.

- **Equity:** Global indices ended higher in the week led by vaccine rollout and US stimulus. Amongst other indices, Sensex surged by 9.6% posting biggest weekly gain in over 10 months on the back of an expansionary budget. Banking, infra and real estate stocks rose the most.

- **Covid-19 tracker:** Global cases rose by 3.3mn in the week ending 5 Feb 2021 compared with 3.9mn in the previous week led by dip in UK and US. India added 83k cases in the week versus 95k in the previous week.

- **Upcoming key events:** Globally, CPI prints of US and China are due along with UK GDP and industrial production data. In India, CPI inflation and IIP data will be released later in the week.

BUY
TP: Rs 305 | ⮝ 35%

VRL LOGISTICS | Logistics | 08 February 2021

Earnings momentum gathering pace

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GT topline driven by realisations: VRLL's goods transport (GT) revenue rose 11% YoY as sedate tonnage growth (+1%) was offset by a 10% rise in realisation. While freight availability has improved, some verticals such as textiles remain below pre-Covid levels. The company continues to add clients across the agriculture, FMCG, paint, and textile verticals, which should boost tonnage from Q4 as economic recovery strengthens. Thanks to an asset-heavy model, its robust realisation trajectory could also sustain as truck supply remains muted owing to a lack of driver availability and liquidity issues with small truckers.

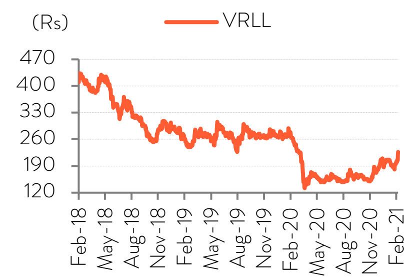
Margin traction to continue: Higher realisations negated the rise in fuel prices and lifted gross margin by 83bps. This along with a tight leash on fixed costs – employee cost (–13% YoY), vehicle expense (–2%) and rent (–1%), boosted EBITDA margin by 325bps YoY to 17.5%. Cost savings via productivity gains from closure of unprofitable branches and hubs are sustainable. In tandem with volume recovery, this should augment FY22 margins above FY20/FY21 levels.

Buyback reflects strong capital allocation: VRLL's board approved a buyback of up to Rs 600mn at Rs 300/sh (non-promoter shareholders only). As scope to deploy free cash at high ROCE is limited in FY21, VRLL's decision to reward shareholders reflects its superior capital allocation policy, in our view.

Ticker/Price	VRLL IN/Rs 226
Market cap	US$ 280.0mn
Shares o/s	90mn
3M ADV	US$ 1.1mn
52wk high/low	Rs 268/Rs 130
Promoter/FPI/DII	68%/3%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	17,358	21,550	23,731
EBITDA (Rs mn)	2,440	2,983	2,397	3,387	3,763
Adj. net profit (Rs mn)	919	901	363	1,051	1,224
Adj. EPS (Rs)	10.2	10.0	4.1	11.9	13.9
Adj. EPS growth (%)	(0.7)	(2.0)	(58.8)	189.5	16.5
Adj. ROAE (%)	14.8	14.3	6.0	17.2	18.4
Adj. P/E (x)	22.2	22.7	55.0	19.0	16.3
EV/EBITDA (x)	8.9	7.2	9.2	6.5	5.9

Source: Company, BOBCAPS Research

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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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