

RESEARCH
[Sector Report] Media & Entertainment

Opportunity in adversity

Divi's Labs | Target: Rs 2,850 | +2% | REDUCE

Q1 beat due to lumpiness – retain REDUCE on full valuations

Cipla | Target: Rs 850 | +17% | BUY

Strong Q1 beat; stock catalysts intact – BUY

Lupin | Target: Rs 950 | +8% | ADD

Weak quarter; multiple near-term catalysts

Alkem Labs | Target: Rs 3,600 | +21% | BUY

Gross margin beat sustainable; stronger FCF to support rerating

Hindustan Petroleum Corp | Target: Rs 440 | +106% | BUY

Marketing margins bolster earnings

Greenpanel Industries | Target: Rs 55 | +40% | BUY

Lockdown mars quarter

Mahindra & Mahindra | Target: Rs 510 | -15% | SELL

Tractors save the day; valuations rich – maintain SELL

Pidilite Industries | Target: Rs 1,195 | -13% | SELL

Business slumps amid lockdown

Canara Bank | Target: Rs 115 | +12% | ADD

Strong operating performance

Kajaria Ceramics | Target: Rs 450 | +10% | ADD

Tepid quarter but ahead of estimates

DCB Bank | Target: Rs 70 | -16% | SELL

Profit below estimates; need for higher Covid provision buffer

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.54	(1bps)	(14bps)	(118bps)
India 10Y yield (%)	5.86	3bps	3bps	(54bps)
USD/INR	74.93	0	(0.3)	(6.0)
Brent Crude (US\$/bbl)	45.09	(0.2)	4.6	(21.4)
Dow	27,387	0.7	4.2	3.8
Shanghai	3,386	0.3	1.6	21.2
Sensex	38,025	1.0	4.2	1.9
India FII (US\$ mn)	5 Aug	MTD	CYTD	FYTD
FII-D	(43.2)	(54.7)	(14,582.3)	(4,822.8)
FII-E	(29.2)	1,090.9	(197.3)	6,405.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



SUMMARY

Media & Entertainment

India's multiplex industry is undergoing unprecedented hardships amid Covid-19 shutdowns. Though screen opening timelines remain uncertain, we believe movie halls will retain their appeal and attract patrons once pandemic concerns abate. Industry leaders PVRL and INOL are equipped to ride the storm due to access to liquidity and strong brand recall. Further, smaller chains may down shutters, consolidating the market in favour of the leaders. We initiate coverage on INOL with BUY (TP Rs 330) and PVRL with ADD (TP Rs 1,220).

[Click here for the full report.](#)

Divi's Labs

Strong execution in Q1 drove a sharp 39% EBITDA beat for Divi's Labs (DIVI). Gross margin was stable QoQ at 62.8% but better operating leverage and currency benefits took EBITDA margin higher to 41% (35% est.). Generic API and CS sales mix were flat QoQ (sales up 20% YoY each in US\$ terms). Expect lumpiness ahead on a high Q1 base. Strong API growth was backed by a rising preference for Indian suppliers vs. China. We raise FY21-FY22 EPS 10% and move to a new TP of Rs 2,850 (vs. Rs 2,350), set at 25x Sep'22E EV/EBITDA.

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Cipla

Cipla reported a Q1 EBITDA beat of 42%/30% on our/consensus estimates, led by (1) Albuterol stocking in the US, (2) chronic/trade generic sales in India, and (3) cost control (-27% YoY), partly non-recurring. EBITDA margin was a solid beat at 24% (22.5% ex-Albuterol) vs. 18% expected. Cost optimisation and improving ROI remain focus areas in coming years. Albuterol ramp-up, Advair filings and a strong branded franchise are stock catalysts. We raise FY21/FY22 EPS by 3% and roll to a new TP of Rs 850 (vs. Rs 690). Retain BUY.

[Click here for the full report.](#)

Lupin

Lupin's (LPC) Q1 revenue/EBITDA were 12%/14% below estimates. The sales miss was broad-based while the US miss was pronounced on seasonal/Glumetza recall impact. EBITDA margin was a tad short of estimates despite lower SGA. Net debt fell by Rs 12bn QoQ. LPC has cut its FY21 EBITDA margin guidance to 17% and expects US sales to stabilise to US\$ 190mn from Q3. Multiple FY21 catalysts (Levo ramp-up, gProAir launch, Gavis/Goa unit clearance) should support stock upsides. We cut FY21/FY22 EPS by 16-25% and roll to a Sep'21 TP of Rs 950.

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Alkem Labs

Alkem Labs posted a solid Q1 EBITDA beat led partly by one-offs: (1) Rs 260mn research milestone, (2) lower SGA spends (-41% YoY). Ex-milestone income, gross margin was healthy at 62%; EBITDA margin was at 25.5% but will taper as promotion spends normalise by Q3. India trade generics grew a strong >30% YoY; US sales grew 7% QoQ. Gross margin across businesses improved in Q1 and Alkem is confident of >100bps EBITDA margin expansion in 2-3 years. We raise FY21/FY22 EPS 7-9% and roll to a Sep'21 TP of Rs 3,600 (vs. Rs 2,950).

[Click here for the full report.](#)

Hindustan Petroleum Corp

HPCL's Q1FY21 PAT outperformed at Rs 28bn as marketing margins surged to historical highs – a trend which reaffirms our preference for the OMC business model. GRMs underperformed at –US\$ 0.87/bbl (ex-inventory gains), but matched the benchmark. Stable refining throughput was a surprise. We raise FY21/FY22 earnings estimates by 12%/15% as we reset marketing margins higher while pruning GRM assumptions. Rolling valuations forward, we arrive at a revised Sep'21 TP of Rs 440 (from Rs 350).

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Greenpanel Industries

Greenpanel Industries' (GREENP) Q1FY21 consolidated revenue dropped 57% YoY due to the Covid-19 lockdown, with the plywood/MDF segments declining by 62%/56% YoY – in line with estimates. The company reported an EBITDA loss of Rs 83mn due to negative operating leverage. Management did not offer FY21 guidance but expects Q2FY21 to have flat revenues YoY with 15-16% margins. We maintain estimates and roll forward to a new Sep'21 TP of Rs 55 (earlier Rs 46), set at an unchanged 13x P/E.

[Click here for the full report.](#)

Mahindra & Mahindra

M&M's (MM) Q1FY21 revenues dropped 56% YoY to Rs 56bn, EBITDA declined 68% to Rs 5.7bn and PAT nosedived 96% to Rs 389mn. Though tractor performance was healthy, the auto segment remains a drag. We expect MM's tractor/auto segments to log a volume CAGR of 5%/1% over FY20-FY23, with EBITDA margins reviving to 14% levels from FY22. Rolling valuations forward, we move to a revised Sep'21 SOTP- based TP of Rs 510 (from Rs 480), valuing the core business at 13x Sep'22E EPS. Maintain SELL.

[Click here for the full report.](#)

Pidilite Industries

Pidilite Industries' (PIDI) consolidated Q1FY21 revenue contracted 57% YoY as the lockdown induced a 59% slump in domestic consumer & bazaar (CBP) segment volumes. Operating margins shrank 14ppt YoY to 7.6% primarily owing to negative operating leverage, driving EBITDA/PBT declines of 85%/93% YoY. Per management, demand perked up significantly in July aided by sales from rural and semi-urban markets (~30% of mix in FY20). Maintain SELL as we roll forward to a revised Sep'21 TP of Rs 1,195 (earlier Rs 1,110).

[Click here for the full report.](#)

Canara Bank

Canara Bank (CBK) reported PAT of Rs 4bn backed by 21% YoY growth in NII and a 32% increase in operating profit. GNPA ratio reduced by 55bps QoQ, and management expects GNPA/NNPA ratios at 8%/4% by FY21. Fresh slippages at Rs 14bn included Rs 9bn from three large accounts. Loans under moratorium stood at ~23% with retail/corporate loan share at ~30%/17%. The bank has board approval to raise Rs 50bn of CET-1 capital and has no plans divest stakes in subsidiaries during Q2. Maintain ADD; Sep'21 TP Rs 115.

[Click here for the full report.](#)

Kajaria Ceramics

Kajaria Ceramics (KJC) posted a consolidated Q1FY21 revenue decline of 60% YoY – albeit bettering our estimates – as tile volumes fell 61% due to the lockdown. Negative operating leverage induced EBITDA and pre-tax losses of Rs 76mn and Rs 336mn respectively. Management stated that demand has improved in July to 70-75% of year-ago sales (vs. 60-65% in June). We maintain estimates and roll forward to a Sep'21 TP of Rs 450 (earlier Rs 425), set at an unchanged one-year forward P/E of 26x. Maintain ADD.

[Click here for the full report.](#)

DCB Bank

DCB Bank's (DCBB) Q1FY21 PAT at Rs 0.8bn (-2% YoY) was hit by muted NII growth and a 29% QoQ drop in non-interest income. Loan growth slowed further to 4% YoY and CASA ratio slipped for the fifth quarter to ~22%. The moratorium book now stands at 26% of loans with LAP/home loan/CV share at 29%/21%/ 48%. Collection efficiency has improved in select segments but is still far below pre-Covid levels. Contingent Covid provisions are low at Rs 950mn (0.4% of loans). Retain SELL; our Sep'21 TP moves to Rs 70 (vs. Rs 65) on rollover.

[Click here for the full report.](#)

MEDIA & ENTERTAINMENT

07 August 2020

Opportunity in adversity

India's multiplex industry is undergoing unprecedented hardships amid Covid-19 shutdowns. Though screen opening timelines remain uncertain, we believe movie halls will retain their appeal and attract patrons once pandemic concerns abate. Industry leaders PVRL and INOL are equipped to ride the storm due to access to liquidity and strong brand recall. Further, smaller chains may down shutters, consolidating the market in favour of the leaders. We initiate coverage on INOL with BUY (TP Rs 330) and PVRL with ADD (TP Rs 1,220).

Sayan Das Sharma
 research@bobcaps.in

Pandemic not an existential threat for leaders: Cinema exhibitors in India are staring at steep financial losses in FY21 following a pandemic-induced screen shutdown since Mar'20 and potentially weeks of sluggish occupancy once operations resume. However, access to capital (current liquidity sufficient for another few months), cost-cutting initiatives (fixed costs slashed 70-80% for the shutdown phase), and market leadership should hold industry leaders PVR (PVRL) and INOX Leisure (INOL) in good stead amidst the turmoil.

Opportunities amid challenges: We see long-term opportunities arising out of this tumultuous phase for the leaders. Liquidity pressure may compel some single screens or smaller multiplex chains to down shutters, ushering in a new wave of consolidation. Waning competitive intensity may also pave the way for industry leaders to have favourable rental negotiations with property owners.

Blockbuster story still playing out: In India, low screen density (7 vs. 40+ for China), large market share of single screens (~45%/~70% of net box office collection/footfall), and underpenetrated tier-II/III markets underpin the growth potential for multiplexes. Over-the-top platforms can coexist with cinema halls, in our view. Even if OTT constrains repeat footfalls, industry consolidation alone can fuel a 14-15% CAGR in NBOC over the next 5-7 years. Further, ancillary revenue streams (F&B, ads) have ample room to grow, especially for INOL.

Recommendations: We initiate coverage on INOL with a BUY rating and a Sep'21 TP of Rs 330, set at 10x Sep'22E TTM EBITDA. INOL is our preferred pick due to its financial flexibility (0.2x debt/EBITDA, Rs 4.5bn of monetisable assets as of date) and improving operating metrics that are fast closing in on the market leader. We initiate on PVRL with ADD and a Sep'21 TP of Rs 1,220, set at 13x Sep'22E TTM EBITDA. Though we like PVRL for its premium locations and industry leadership, near-term upside seems to be limited.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
INOL IN	235	330	BUY
PVRL IN	1,129	1,220	ADD

Price & Target in Rupees



REDUCE

TP: Rs 2,850 | ▲ 2%

DIVI'S LABS

Pharmaceuticals

08 August 2020

Q1 beat due to lumpiness – retain REDUCE on full valuations

Strong execution in Q1 drove a sharp 39% EBITDA beat for Divi's Labs (DIVI). Gross margin was stable QoQ at 62.8% but better operating leverage and currency benefits took EBITDA margin higher to 41% (35% est.). Generic API and CS sales mix were flat QoQ (sales up 20% YoY each in US\$ terms). Expect lumpiness ahead on a high Q1 base. Strong API growth was backed by a rising preference for Indian suppliers vs. China. We raise FY21-FY22 EPS 10% and move to a new TP of Rs 2,850 (vs. Rs 2,350), set at 25x Sep'22E EV/EBITDA.

Vivek Kumar

research@bobcaps.in

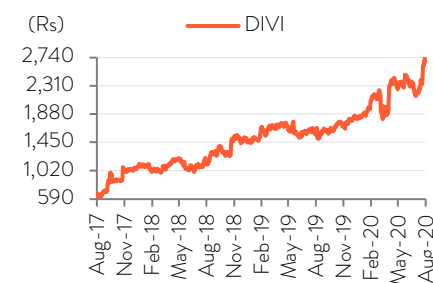
Strong sales and margin beat due to lumpiness: We believe some spillover sales from Q4 and China supply de-risking led to the strong Q1 sales (+24% QoQ). In US dollar terms, CS business grew 20% QoQ (revenue share flat at 41%) and generic APIs also grew 20% QoQ. Sequential EBITDA margin recovery to 41% (32.6% in Q4) stemmed from (1) an opex decline of 10% QoQ (SGA: – 22% QoQ on a high base), and (2) currency benefits of 2ppt assuming 50% of INR benefit was passed on. Management has advised not to extrapolate Q1 numbers given lumpiness in the business. We reset our margin assumptions on higher operating leverage, driving our 10% EPS upgrades for FY21 and FY22.

Earnings call highlights: (1) It is difficult for developed countries to start a new API plant and compete with the existing generics on cost structure. (2) Q1 had a Rs 54mn forex gain. (3) Brownfield expansion for Unit 1/ 2 could be completed by FY21-end – a portion of the capex also focused on backward integration for some molecules where DIVI has leadership, such as Naproxen or Gabapentin. (4) Q1 capitalisation stood at Rs 2.2bn.

Stock fully valued: While DIVI's execution track record is impressive, we believe the stock could underperform in the midterm given stretched valuations – it is trading at 35x FY22E EPS vs. the historical 3Y band of 20-35x.

Ticker/Price	DIVI IN/Rs 2,785
Market cap	US\$ 9.9bn
Shares o/s	266mn
3M ADV	US\$ 32.3mn
52wk high/low	Rs 2,820/Rs 1,466
Promoter/FPI/DII	52%/18%/17%

Source: NSE

STOCK PERFORMANCE**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	49,462	54,088	65,984	77,849	90,598
EBITDA (Rs mn)	18,719	18,150	24,781	30,639	37,287
Adj. net profit (Rs mn)	13,219	12,903	17,108	21,427	26,382
Adj. EPS (Rs)	49.8	48.6	64.4	80.7	99.4
Adj. EPS growth (%)	55.8	(2.4)	32.6	25.2	23.1
Adj. ROAE (%)	20.6	18.2	21.7	23.3	24.6
Adj. P/E (x)	55.9	57.3	43.2	34.5	28.0
EV/EBITDA (x)	38.5	39.7	29.2	23.8	19.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 850 | ▲ 17%

CIPLA

Pharmaceuticals

08 August 2020

Strong Q1 beat; stock catalysts intact – BUY

Cipla reported a Q1 EBITDA beat of 42%/30% on our/consensus estimates, led by (1) Albuterol stocking in the US, (2) chronic/trade generic sales in India, and (3) cost control (-27% YoY), partly non-recurring. EBITDA margin was a solid beat at 24% (22.5% ex-Albuterol) vs. 18% expected. Cost optimisation and improving ROI remain focus areas in coming years. Albuterol ramp-up, Advair filings and a strong branded franchise are stock catalysts. We raise FY21/FY22 EPS by 3% and roll to a new TP of Rs 850 (vs. Rs 690). Retain BUY.

Vivek Kumar

research@bobcaps.in

Broader sales beat: US beat was mainly driven by Albuterol stocking (~US\$ 20mn), barring which the base trend is stable with a marginal dip likely in Q2. India sales grew 19% YoY (Branded +8% YoY, trade generics +46%), partly due to deferred chronic sales. Cipla's focus on consumerisation product trends continues – from trade generics to OTC brands – which should lead momentum. Growth was strong in South Africa private business (+24% YoY, ZAR terms), EU (+19%) and ROW (+64% on low base); API was muted on a high base (one-time tender).

Ticker/Price	CIPLA IN/Rs 729
Market cap	US\$ 7.8bn
Shares o/s	806mn
3M ADV	US\$ 65.5mn
52wk high/low	Rs 740/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

Q1 margins not fully sustainable: Adj. EBITDA margin of 22.5% beat estimates led by (1) lower SGA (-25% QoQ) due to cost optimisation and limited activity amid lockdown (to reverse partly), and (2) lower R&D-to-sales of 4.6% as Advair trial spends are complete (can stay low for next two quarters). Cipla is trying multiple digital formats for conferences/doctor outreach – part of this should aid sustained cost savings. It has broadly guided for 20% margins in FY21.

STOCK PERFORMANCE



Earnings call takeaways: (1) Retains ~20-month review timeline for Advair. (2) Albuterol clocked 6% share of weekly prescriptions across brands and is well positioned to respond to new competition; pricing stable. (3) FY21 opex could be at Rs 4bn-5bn, lower vs. earlier budgeted. (4) Goa unit warning letter response submitted. (5) Working on out-licensing for CNS specialty assets.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	163,621	171,243	178,060	191,896	207,410
EBITDA (Rs mn)	30,973	32,574	35,057	39,001	42,725
Adj. net profit (Rs mn)	13,426	15,858	17,912	20,466	23,314
Adj. EPS (Rs)	16.7	19.7	22.2	25.4	28.9
Adj. EPS growth (%)	8.8	18.1	13.0	14.3	13.9
Adj. ROAE (%)	9.0	10.0	10.3	10.8	11.1
Adj. P/E (x)	43.7	37.0	32.8	28.7	25.2
EV/EBITDA (x)	19.7	18.6	16.9	14.8	13.1

Source: Company, BOBCAPS Research



ADD

TP: Rs 950 | ▲ 8%

LUPIN

Pharmaceuticals

08 August 2020

Weak quarter; multiple near-term catalysts

Lupin's (LPC) Q1 revenue/EBITDA were 12%/14% below estimates. The sales miss was broad-based while the US miss was pronounced on seasonal/Glumetza recall impact. EBITDA margin was a tad short of estimates despite lower SGA. Net debt fell by Rs 12bn QoQ. LPC has cut its FY21 EBITDA margin guidance to 17% and expects US sales to stabilise to US\$ 190mn from Q3. Multiple FY21 catalysts (Levo ramp-up, gProAir launch, Gavis/Goa unit clearance) should support stock upsides. We cut FY21/FY22 EPS by 16-25% and roll to a Sep'21 TP of Rs 950.

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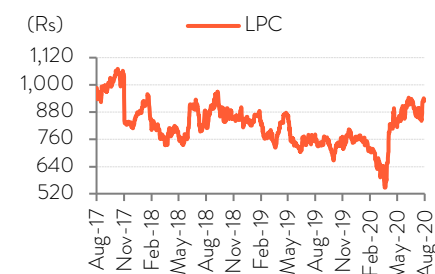
US sales plunge by US\$ 55mn QoQ: The sharp QoQ decline in US sales came as a negative surprise. Sequentially, Q1 should have benefitted by US\$ 8mn from Levo market share gains (+2ppt), stable Losartan/HCTZ pricing, >50% volume gains in Famotidine suspension, and new launches (Apriso AG, Myfortic). Factoring in headwinds from Covid, seasonality (\$8mn+), Glumetza recall (\$20mn+), and relaunch by Q3 (\$15mn), the net QoQ decline should have been US\$ 35mn, in our view. Q3 onwards, management expects US sales to return to US\$ 190mn levels. gProventil & Brovana launches in Q3 will be critical to FY21. India (-2% YoY), EMEA (-4%) and LATAM (-24%) underperformed.

Ticker/Price	LPC IN/Rs 880
Market cap	US\$ 5.3bn
Shares o/s	453mn
3M ADV	US\$ 36.4mn
52wk high/low	Rs 956/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Margins flat; FY21 guidance cut: EBITDA margin was flat QoQ at 13.8% (14.2% est.), led by lower promotional spends (SGA fell 26% QoQ). While SGA will increase from Q2 with a pickup in ground activity, it should be offset by staff cost rationalisation at Q4FY20 levels. LPC has lowered FY21 EBITDA margin guidance to 17% (from 18-20%), excluding other income and forex.

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) FY21: Expect 5-8% growth for India business; ETR 35-40% (35% earlier). (2) gProAir approval any time now but launch in Sep'20. (3) Large part of Glumetza recall impact built into Q1. (4) Gavis/Goa unit reinspection a near-term event. (5) Solosec weekly Rx ramp-up very slow.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	167,010	153,528	159,884	180,636	196,620
EBITDA (Rs mn)	27,020	23,330	25,408	31,309	36,586
Adj. net profit (Rs mn)	9,464	3,541	8,761	12,691	15,599
Adj. EPS (Rs)	20.9	7.8	19.4	28.0	34.5
Adj. EPS growth (%)	(44.8)	(62.6)	147.4	44.9	22.9
Adj. ROAE (%)	6.9	2.6	6.6	9.3	10.8
Adj. P/E (x)	42.1	112.4	45.4	31.4	25.5
EV/EBITDA (x)	16.6	19.3	16.9	13.1	11.1

Source: Company, BOBCAPS Research



BUY

TP: Rs 3,600 | ▲ 21%

ALKEM LABS

Pharmaceuticals

08 August 2020

Gross margin beat sustainable; stronger FCF to support rerating

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Vivek Kumar

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India trade generics up >30% YoY, US outperforms: Alkem's trade generics business has rebounded in Q1 to 28% of sales – we expect this to normalise to 20% levels as prescription sales resume. India sales declined 6% YoY (Rx: -15%, trade generics: +30%). Sequential growth in US sales of US\$ 90mn was led by first-wave launches while the base portfolio was stable. Over FY20-FY22, we expect a sales CAGR of 17% in the US and 6% in India (2% in FY21).

Ticker/Price	ALKEM IN/Rs 2,982
Market cap	US\$ 4.8bn
Shares o/s	120mn
3M ADV	US\$ 7.8mn
52wk high/low	Rs 3,090/Rs 1,703
Promoter/FPI/DII	62%/4%/11%

Source: NSE

Adj. gross margin sustainable but promotion spends to normalise by Q3: Q1 gross margin trend of 63.4% was above estimates aided by a higher India chronic mix and favourable US mix. Alkem stated that it can sustain 62% gross margins in the coming quarter (vs. 60% earlier). SGA spends declined as interactions were halted during the lockdown; some promotional spends have resumed in Q2 but full normalisation is likely by Q3, depending on competitor activity level.

STOCK PERFORMANCE



Source: NSE

Earnings call highlights: (1) Will continue to raise or sustain resources for larger brands in a post-Covid world. (2) Capex for next three years at ~Rs 3.5bn annually. (3) Trump executive order aimed at big pharma and not really impactful for generics. (4) Targeting 10 launches and 12-15 filings in the US in FY21. (5) India sales growth guided at 3-5% in FY21; tax rate 12-15%. (6) US filings total 148 ANDAs (incl. 2 NDAs) with 50% yet to be commercialised.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	73,558	82,983	91,288	101,943	113,526
EBITDA (Rs mn)	11,135	14,730	19,325	21,635	24,774
Adj. net profit (Rs mn)	7,298	11,270	14,686	16,615	19,221
Adj. EPS (Rs)	61.0	94.3	122.8	139.0	160.8
Adj. EPS growth (%)	15.7	54.4	30.3	13.1	15.7
Adj. ROAE (%)	16.3	22.7	25.4	23.8	23.0
Adj. P/E (x)	48.8	31.6	24.3	21.5	18.5
EV/EBITDA (x)	32.1	24.3	18.6	16.4	13.9

Source: Company, BOBCAPS Research



BUY

TP: Rs 440 | ▲ 106%

**HINDUSTAN
PETROLEUM CORP**

Oil & Gas

07 August 2020

Marketing margins bolster earnings

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Rohit Ahuja | Harleen Manglani

research@bobcaps.in

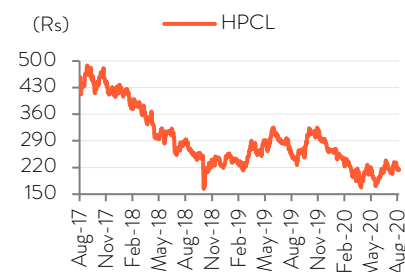
Marketing margin surge shores up earnings: HPCL's marketing margins more than doubled YoY to an all-time high of Rs 5,512/mt in Q1 (indicative marketing EBITDA at Rs 42bn, ex-inventory gains). This surge more than made up for a 25% YoY decline in sales volume to 7.62mmt. While margins are expected to normalise at lower levels from Q2FY21, we raise our FY21/FY22 marketing margin assumptions to ~Rs 3,750/mt (from Rs 2,300/mt) as the trend remains robust. Marketing volumes are expected to normalise to pre-Covid levels by end-Q2.

Ticker/Price	HPCL IN/Rs 214
Market cap	US\$ 4.3bn
Shares o/s	1,524mn
3M ADV	US\$ 22.3mn
52wk high/low	Rs 329/Rs 150
Promoter/FPI/DII	51%/16%/33%

Source: NSE

GRMs muted but sharp recovery in operating parameters: Refining throughput was well above estimates at ~4mmt (+1% YoY), implying negligible impact from the lockdown. GRMs stayed muted and the outlook is weak through FY21 as benchmark Singapore GRMs remain negative. We cut FY21/FY22 GRM estimates to US\$ 2/US\$ 3 (from US\$ 4/US\$ 4.5). In the current environment, HPCL's relatively high exposure to marketing business volumes (vs. OMC peers) is proving to be a big advantage.

STOCK PERFORMANCE



Source: NSE

Valuations undemanding: At 3.5x FY22E EBITDA, valuations seem to be pricing in the worst case. A favourable outcome from BPCL's proposed privatisation could trigger a rerating in multiples.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	2,742,552	2,679,238	1,917,613	2,472,832	3,217,817
EBITDA (Rs mn)	103,490	44,947	149,138	152,040	172,015
Adj. net profit (Rs mn)	66,900	36,417	76,878	92,731	111,069
Adj. EPS (Rs)	43.9	23.9	50.4	60.8	72.9
Adj. EPS growth (%)	(7.3)	(45.6)	111.1	20.6	19.8
Adj. ROAE (%)	23.9	13.1	29.0	31.9	34.7
Adj. P/E (x)	4.9	8.9	4.2	3.5	2.9
EV/EBITDA (x)	4.0	9.4	3.4	3.5	3.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 55 | ▲ 40%

**GREENPANEL
INDUSTRIES**

Construction Materials

07 August 2020

Lockdown mars quarter

Greenpanel Industries' (GREENP) Q1FY21 consolidated revenue dropped 57% YoY due to the Covid-19 lockdown, with the plywood/MDF segments declining by 62%/56% YoY – in line with estimates. The company reported an EBITDA loss of Rs 83mn due to negative operating leverage. Management did not offer FY21 guidance but expects Q2FY21 to have flat revenues YoY with 15-16% margins. We maintain estimates and roll forward to a new Sep'21 TP of Rs 55 (earlier Rs 46), set at an unchanged 13x P/E.

Arun Baid

research@bobcaps.in

Lockdown hits revenue hard: GREENP's consolidated revenue dropped 57% YoY to Rs 902mn amid the lockdown. Revenues from the MDF/plywood segments nosedived 56%/62% YoY as volumes fell 54%/63% YoY. Sales have improved in July and management expects flat revenues in Q2FY21.

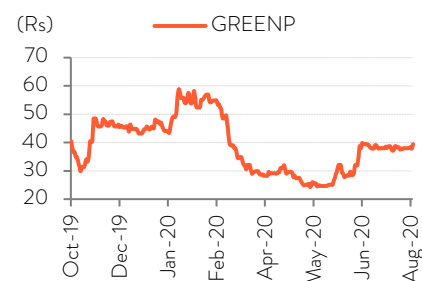
EBITDA and PAT turn negative: GREENP reported a consolidated EBITDA loss of Rs 83mn due to negative operating leverage from sharply weaker sales and 500bps YoY gross margin shrinkage stemming from a higher MDF export mix. Lower utilisation (21% vs. 60% YoY) and increased share of low-margin exports (35% vs. 25% YoY) led to negative operating margins of 4.3% (vs. +13% YoY) in MDF. Plywood also reported negative margins of 18.1% (vs. +16.3% YoY) due to lower sales.

Owing to the EBITDA loss and an MTM forex loss of Rs 65mn, the company reported a net loss of Rs 365mn (vs. Rs 27mn profit YoY). Management has guided for Q2 margins of 15-16% aided by normal sales.

Maintain BUY: We continue to like GREENP for its leadership in MDF and strong growth prospects, though the pandemic has given rise to near-term challenges. We maintain estimates and roll over to a revised Sep'21 TP of Rs 55.

Ticker/Price	GREENP IN/Rs 39
Market cap	US\$ 64.5mn
Shares o/s	123mn
3M ADV	US\$ 0.0mn
52wk high/low	Rs 61/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	7,726	10,188	11,465
EBITDA (Rs mn)	774	1,437	1,181	1,614	1,857
Adj. net profit (Rs mn)	228	253	119	429	605
Adj. EPS (Rs)	1.9	2.1	1.0	3.5	4.9
Adj. EPS growth (%)	NA	11.0	(53.1)	262.1	40.9
Adj. ROAE (%)	7.1	3.9	1.8	6.2	8.1
Adj. P/E (x)	21.2	19.1	40.8	11.3	8.0
EV/EBITDA (x)	NA	5.3	8.7	6.1	4.8

Source: Company, BOBCAPS Research



SELL

TP: Rs 510 | ▼ 15%

**MAHINDRA &
MAHINDRA**

| Automobiles

| 08 August 2020

Tractors save the day; valuations rich – maintain SELL

M&M's (MM) Q1FY21 revenues dropped 56% YoY to Rs 56bn, EBITDA declined 68% to Rs 5.7bn and PAT nosedived 96% to Rs 389mn. Though tractor performance was healthy, the auto segment remains a drag. We expect MM's tractor/auto segments to log a volume CAGR of 5%/1% over FY20-FY23, with EBITDA margins reviving to 14% levels from FY22. Rolling valuations forward, we move to a revised Sep'21 SOTP- based TP of Rs 510 (from Rs 480), valuing the core business at 13x Sep'22E EPS. Maintain SELL.

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

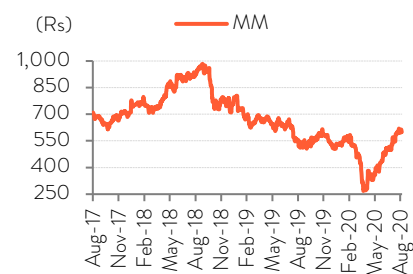
Dull quarter as expected: Revenues for MM+MVML dropped 56% YoY to Rs 56bn, in line with estimates. Lower RM cost/sales was more than offset by operating inefficiencies due to weak volumes, resulting in an EBITDA decline of 68% YoY to Rs 5.7bn (Rs 8.1bn est.) and EBITDA margin of 10.3% (-370bps YoY, -330bps QoQ). A significant jump in interest burden and fall in other income further dented PAT, which came in at Rs 389mn, down 96% YoY.

Ticker/Price	MM IN/Rs 600
Market cap	US\$ 10.0bn
Shares o/s	1,242mn
3M ADV	US\$ 50.0mn
52wk high/low	Rs 626/Rs 245
Promoter/FPI/DII	20%/34%/24%

Source: NSE

Strong tractor performance but auto remains a drag: We expect MM's tractor segment to witness 4% YoY volume growth in FY21 and post a 5% CAGR over FY20-FY23. However, the pain in its auto segments – UVs, CVs and 3Ws – will continue to mar the overall picture. We model for a mere 1% volume CAGR in the auto business through to FY23.

STOCK PERFORMANCE



Maintain SELL: We estimate a 4% revenue CAGR for MM over FY20-FY23 coupled with expansion in operating margins, supporting higher 9% earnings growth. Rolling valuations forward, we have a revised Sep'21 TP of Rs 510 (vs. Rs 480 for Mar'21), wherein we value MM at 13x one-year forward core EPS and assign a 30% hold-co discount for subsidiaries. Maintain SELL as we find current valuations rich at 17x FY22E core EPS (adj. for value of subsidiaries).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	528,482	448,655	379,868	463,238	511,660
EBITDA (Rs mn)	75,301	63,506	49,466	65,415	73,572
Adj. net profit (Rs mn)	54,239	35,509	29,918	40,535	45,525
Adj. EPS (Rs)	43.7	28.6	24.1	32.6	36.7
Adj. EPS growth (%)	29.5	(34.5)	(15.7)	35.5	12.3
Adj. ROAE (%)	16.6	10.2	8.4	10.6	11.1
Adj. P/E (x)	13.8	21.0	24.9	18.4	16.4
EV/EBITDA (x)	9.6	11.1	14.3	11.0	9.8

Source: Company, BOBCAPS Research



SELL

TP: Rs 1,195 | ▼ 13%

PIDILITE INDUSTRIES

Construction Materials

07 August 2020

Business slumps amid lockdown

Pidilite Industries' (PIDI) consolidated Q1FY21 revenue contracted 57% YoY as the lockdown induced a 59% slump in domestic consumer & bazaar (CBP) segment volumes. Operating margins shrank 14ppt YoY to 7.6% primarily owing to negative operating leverage, driving EBITDA/PBT declines of 85%/93% YoY. Per management, demand perked up significantly in July aided by sales from rural and semi-urban markets (~30% of mix in FY20). Maintain SELL as we roll forward to a revised Sep'21 TP of Rs 1,195 (earlier Rs 1,110).

Arun Baid

research@bobcaps.in

Steep revenue decline: PIDI's consolidated Q1 revenue fell 57% YoY to Rs 8.8bn, with a 36% decline in overseas subsidiaries and an 82% plunge in the domestic subsidiary. Standalone revenue fell 57% YoY to Rs 7.7bn as volumes in the CBP segment plummeted 59% while business-to-business (B2B) volumes dropped 54%. Management stated that demand conditions improved MoM in July and its plants are now running at 75-80%. Also, >90% of outlets selling PIDI's products have opened (vs. 50% in May and 80% in June). The rural and semi-urban portfolio has seen double-digit growth in June and July.

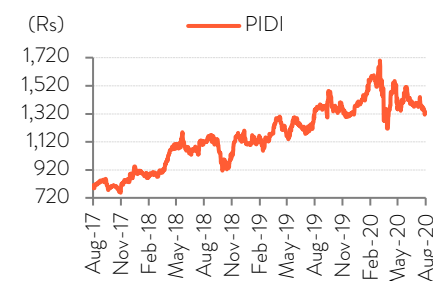
Profits shrink: PIDI's consolidated operating margin shrank 1,444bps YoY to 7.6% primarily due to negative operating leverage and a decline in gross margins (-209bps YoY) on carryover of high-cost inventory from FY20. EBITDA/PBT thus contracted 85%/93% YoY. Management stated that benefits of low-cost raw material should be seen from H2.

Maintain SELL: While we like PIDI for its strong franchise and broad portfolio, the company faces near-term demand headwinds due to its urban-centric presence (70% of sales) where the pandemic is more prevalent. Valuations remain rich 49.8x FY22E EPS – we value the stock at an unchanged one-year forward P/E of 40x and maintain SELL.

Ticker/Price	PIDI IN/Rs 1,378
Market cap	US\$ 9.3bn
Shares o/s	508mn
3M ADV	US\$ 17.0mn
52wk high/low	Rs 1,710/Rs 1,186
Promoter/FPI/DII	70%/11%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	70,787	72,945	65,827	84,090	96,223
EBITDA (Rs mn)	13,682	15,760	13,758	19,257	22,131
Adj. net profit (Rs mn)	8,901	11,590	9,655	14,051	16,323
Adj. EPS (Rs)	17.5	22.8	19.0	27.7	32.1
Adj. EPS growth (%)	(2.9)	30.2	(16.7)	45.5	16.2
Adj. ROAE (%)	23.1	26.9	20.8	27.4	28.4
Adj. P/E (x)	78.7	60.4	72.5	49.8	42.9
EV/EBITDA (x)	51.2	44.4	50.7	36.2	31.6

Source: Company, BOBCAPS Research



ADD

TP: Rs 115 | ▲ 12%

CANARA BANK

| Banking

| 07 August 2020

Strong operating performance

Canara Bank (CBK) reported PAT of Rs 4bn backed by 21% YoY growth in NII and a 32% increase in operating profit. GNPA ratio reduced by 55bps QoQ, and management expects GNPA/NNPA ratios at 8%/4% by FY21. Fresh slippages at Rs 14bn included Rs 9bn from three large accounts. Loans under moratorium stood at ~23% with retail/corporate loan share at ~30%/17%. The bank has board approval to raise Rs 50bn of CET-1 capital and has no plans divest stakes in subsidiaries during Q2. Maintain ADD; Sep'21 TP Rs 115.

Vikesh Mehta

research@bobcaps.in

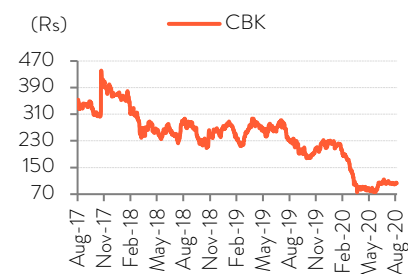
Moratorium share higher than peers: CBK provides an opt-out moratorium facility to customers and has 22.7% of loans under this facility, with retail/MSME share at ~30% each and corporate loan share at ~17%. About 6% of NBFC loans are also under moratorium. Management highlighted that a large part of the bank's retail loans is to the salaried class where ~70% of customers have paid their dues. CBK has extended the asset classification standstill benefit to loans worth ~Rs 104bn and has outstanding provisions worth 10%.

Ticker/Price	CBK IN/Rs 102
Market cap	US\$ 2.0bn
Shares o/s	1,454mn
3M ADV	US\$ 21.5mn
52wk high/low	Rs 239/Rs 74
Promoter/FPI/DII	79%/3%/18%

Source: NSE

Headline NPAs decline for merged entity: GNPA/NNPA ratio for the merged entity declined 55bps/39bps QoQ. Fresh slippages reduced to Rs 14bn (Rs 43bn in Q4FY20) largely due to the moratorium. Three large accounts worth Rs 9bn, including two overseas accounts, slipped in Q1. Management expects recoveries worth Rs 100bn from small- and medium-sized accounts in FY21 while ageing-related provisions are likely to be lower than FY20.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: In our view, disruptions caused by the pandemic will continue to weigh heavy on the bank's profitability as credit costs remain sticky. We have built in a capital raise of Rs 50bn in FY21 which is book value dilutive. Maintain ADD as we roll over to a Sep'21 TP of Rs 115 (from Rs 120 earlier).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,781	131,239	210,596	226,590	246,314
NII growth (%)	19.0	(9.4)	60.5	7.6	8.7
Adj. net profit (Rs mn)	3,470	(22,357)	1,210	8,225	10,427
EPS (Rs)	4.7	(25.1)	0.8	4.2	5.4
P/E (x)	21.9	(4.1)	125.9	24.2	19.1
P/BV (x)	0.2	0.3	0.3	0.3	0.3
ROA (%)	0.1	(0.3)	0.0	0.1	0.1
ROE (%)	1.0	(5.9)	0.2	1.4	1.7

Source: Company, BOBCAPS Research



ADD

TP: Rs 450 | ▲ 10%

KAJARIA CERAMICS

Construction Materials

08 August 2020

Tepid quarter but ahead of estimates

Kajaria Ceramics (KJC) posted a consolidated Q1FY21 revenue decline of 60% YoY – albeit bettering our estimates – as tile volumes fell 61% due to the lockdown. Negative operating leverage induced EBITDA and pre-tax losses of Rs 76mn and Rs 336mn respectively. Management stated that demand has improved in July to 70-75% of year-ago sales (vs. 60-65% in June). We maintain estimates and roll forward to a Sep’21 TP of Rs 450 (earlier Rs 425), set at an unchanged one-year forward P/E of 26x. Maintain ADD.

Arun Baid

research@bobcaps.in

Lockdown erodes volume growth: KJC’s Q1 consolidated revenue declined 60% YoY to Rs 2.8bn as volumes dropped 61% due to the lockdown and realisations increased just 1.6%. As per management, demand traction has improved after easing of the lockdown – revenues have returned to ~25% of normal levels in May, 60-65% in June and 70-75% in July. Most of the dealerships have also reopened and KJC operated its plants at 78% capacity in July (vs. 26% in June). Management stated that despite tough market conditions, collections were robust in Q1, which augmented the net cash position by Rs 750mn QoQ to Rs 1.8bn.

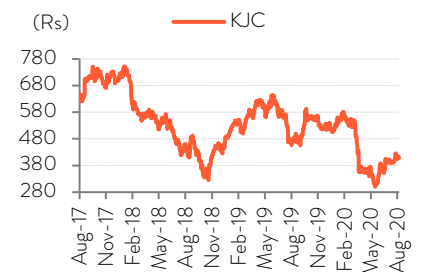
EBITDA and PBT losses: KJC reported an EBITDA loss of Rs 76mn due to negative operating leverage as sales plummeted amid the lockdown, resulting in a net loss of Rs 336mn. Gross margins shrank by 1,064bps YoY owing to an adverse product mix and sale from high-cost inventories. Management expects margins to improve backed by better sales, a stable pricing environment and benefits from recent cost rationalisation measures.

Maintain ADD: We maintain estimates and continue to like KJC despite near-term demand headwinds from Covid-19. Our stance is based on its leadership in the tiles segment, strong brand, robust balance sheet and wide distribution.

Ticker/Price	KJC IN/Rs 407
Market cap	US\$ 864.0mn
Shares o/s	159mn
3M ADV	US\$ 2.1mn
52wk high/low	Rs 606/Rs 296
Promoter/FPI/DII	48%/22%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	29,562	28,080	22,857	28,158	31,387
EBITDA (Rs mn)	4,495	4,159	3,005	4,420	4,977
Adj. net profit (Rs mn)	2,314	2,553	1,551	2,565	2,956
Adj. EPS (Rs)	14.6	16.1	9.8	16.1	18.6
Adj. EPS growth (%)	(1.2)	10.3	(39.3)	65.4	15.2
Adj. ROAE (%)	15.8	15.5	8.7	13.3	13.9
Adj. P/E (x)	28.0	25.4	41.7	25.2	21.9
EV/EBITDA (x)	14.6	15.4	21.1	14.1	12.2

Source: Company, BOBCAPS Research



SELL

TP: Rs 70 | ▼ 16%

DCB BANK

| Banking

| 08 August 2020

Profit below estimates; need for higher Covid provision buffer

DCB Bank's (DCBB) Q1FY21 PAT at Rs 0.8bn (-2% YoY) was hit by muted NII growth and a 29% QoQ drop in non-interest income. Loan growth slowed further to 4% YoY and CASA ratio slipped for the fifth quarter to ~22%. The moratorium book now stands at 26% of loans with LAP/home loan/CV share at 29%/21%/48%. Collection efficiency has improved in select segments but is still far below pre-Covid levels. Contingent Covid provisions are low at Rs 950mn (0.4% of loans). Retain SELL; our Sep'21 TP moves to Rs 70 (vs. Rs 65) on rollover.

Vikesh Mehta

research@bobcaps.in

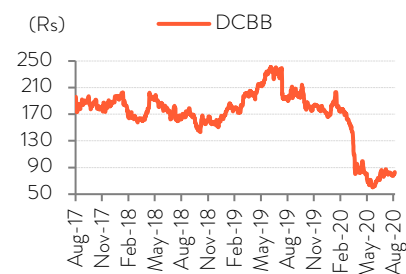
Moratorium share remains high: DCBB defines moratorium as customers that have not paid any installments over Apr-Jul'20; those that have paid even one installment during this period are excluded from the pool. Overall moratorium stands at 26% of loans wherein 29%/21%/48% of LAP/home loan/CV customers (by value) have not paid any installments over April-July. Collection efficiency has been picking up steadily across the LAP, home loan and CV businesses but continues to be hampered by pandemic-related disruptions. Slippages were negligible at Rs 52mn while SMA loans in July declined to Rs 4.8bn (vs. Rs 19bn in Q4).

Ticker/Price	DCBB IN/Rs 83
Market cap	US\$ 345.0mn
Shares o/s	310mn
3M ADV	US\$ 3.4mn
52wk high/low	Rs 218/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

Loan growth still subdued; NIM declines sharply: Credit growth moderated further to 4% YoY but home and gold loans grew by 17-18%. DCBB intends to focus on home loans, gold loans, KCC and tractor finance for the next couple of quarters. NIM fell ~20bps QoQ to 3.4% due to excess liquidity. Fee income declined 60% QoQ owing to lower processing, ATM and CASA-related charges.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We continue to believe that DCBB's exposure to the LAP/self-employed segment poses a risk to asset quality even as higher credit costs will keep profitability subdued. Maintain SELL as we roll forward to a Sep'21 TP of Rs 70 (Rs 65 earlier).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	11,672	12,336	13,889
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	3,254	3,379	2,270	2,887	3,756
EPS (Rs)	10.5	10.9	6.6	7.8	10.1
P/E (x)	7.9	7.7	12.5	10.7	8.2
P/BV (x)	0.9	0.8	0.8	0.7	0.7
ROA (%)	1.0	0.9	0.6	0.7	0.8
ROE (%)	11.0	10.3	6.0	6.7	8.2

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)

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