

RESEARCH

Market Strategy | Model Portfolio

Realigning to volatility

Greenpanel Industries | Target: Rs 46 | +44% | BUY

Strong operational performance marred by MTM losses

SUMMARY

Market Strategy: Model Portfolio

As the market adjusts to shifting expectations in a Covid-19 world, we maintain our negative stance on leveraged companies. Our key overweight additions – Maruti, Petronet LNG, Laurus and Alembic – are part of this thought process. One-year forward Nifty 50 multiples have gyrated between 10x and 14x over the last three months – from expectations of doom and gloom to a V-shaped recovery. As we start discounting FY22 earnings, we adjust our model portfolio to reflect valuation changes across sectors.

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

Greenpanel Industries

Greenpanel Industries' (GREENP) Q4FY20 consolidated revenue grew 36% YoY aided by a 23%/40% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 930bps YoY to 20.9% backed by stronger MDF profitability, spurring EBITDA growth of 145% YoY. Management has refrained from giving out FY21 guidance due to demand uncertainty amid the pandemic. We broadly maintain estimates and restate BUY with an unchanged Mar'21 TP of Rs 46.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	140
Petronet LNG	Buy	330
Eicher Motors	Add	18,100

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.71	(3bps)	8bps	(137bps)
India 10Y yield (%)	5.98	(3bps)	19bps	(96bps)
USD/INR	76.15	0	(0.6)	(8.8)
Brent Crude (US\$/bbl)	40.65	(0.1)	22.2	(34.8)
Dow	26,080	(0.2)	8.8	(1.3)
Shanghai	2,939	0.1	0.8	0.1
Sensex	34,208	2.1	6.9	(14.7)
India FII (US\$ mn)	17 Jun	MTD	CYTD	FYTD
FII-D	(62.4)	(434.9)	(14,490.2)	(4,730.7)
FII-E	102.0	2,486.7	(2,427.8)	4,175.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



MODEL PORTFOLIO

20 June 2020

Realigning to volatility

As the market adjusts to shifting expectations in a Covid-19 world, we maintain our negative stance on leveraged companies. Our key overweight additions – Maruti, Petronet LNG, Laurus and Alembic – are part of this thought process. One-year forward Nifty 50 multiples have gyrated between 10x and 14x over the last three months – from expectations of doom and gloom to a V-shaped recovery. As we start discounting FY22 earnings, we adjust our model portfolio to reflect valuation changes across sectors.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Outlier bets – Pharma, Telecom, Oil & Gas: The pharma and telecom sectors have benefitted the most from the pandemic, seeing stronger demand for their products/services. India oil and gas companies benefit from robust margin levers that enable them to sustain earnings growth despite lower volumes. Telecom companies in our model portfolio (led by Bharti) are expected to deliver a 24% earnings CAGR over FY20-FY22, followed by oil and gas (13%) and pharma (11%). While FY21 growth estimates are a function of normalising earnings for oil and gas, for pharma and telecom they reflect a sea-change in fundamental outlook.

Extended bear run since Jun'17: While the recent market run-up since Mar'20 lows (7500, 10.8x) appears to be the start of a new bull run, we view it as an extension of the bear run that began in Jun'17. Consensus Nifty earnings have been revised -8%/+5%/-5% for FY21/FY22/FY23 during Mar'20 to Jun'20. This can be attributed to changes in Nifty composition, nullifying the earnings downgrade. Weights have been slashed 800bps for financials from 42% to 33.3%, while being raised for consumers, IT, energy, pharma and telecom.

Key picks: After the recent run-up in financials and oil & gas (primarily Reliance Industries), we realign weights in our model portfolio. Pharma and energy (oil & gas) are primary sector Wipro, Axis bank, M&M, HDFC Ltd. And RIL has been the best performer in our model portfolio – we alter our stance to equal weight post the recent rally.

We remain **positive on cash-rich PSUs** with high dividend-yield potential – specifically IOCL, Coal India and BPCL. Pharma, energy, IT, consumer and telecom are our preferred sectors. We continue to believe that Nifty P/E could expand to 20x one-year forward by FY22 (>13000 levels).

TOP 5 OVERWEIGHTS

TOP 5 Overweight	TOP 5 Underweight
Maruti	HDFC
Petronet LNG	Axis Bank
ICICI Bank	Heromoto
Laurus Labs	ONGC
Alembic Pharma	Wipro

Source: BOBCAPS Research



BUY

TP: Rs 46 | ▲ 44%

**GREENPANEL
INDUSTRIES**

Construction Materials

19 June 2020

Strong operational performance marred by MTM losses

Greenpanel Industries' (GREENP) Q4FY20 consolidated revenue grew 36% YoY aided by a 23%/40% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 930bps YoY to 20.9% backed by stronger MDF profitability, spurring EBITDA growth of 145% YoY. Management has refrained from giving out FY21 guidance due to demand uncertainty amid the pandemic. We broadly maintain estimates and restate BUY with an unchanged Mar'21 TP of Rs 46.

Arun Baid

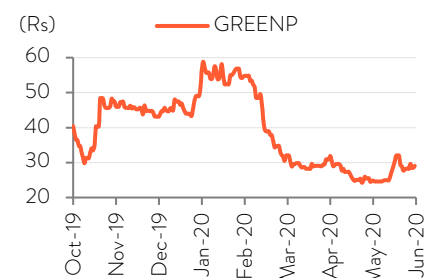
research@bobcaps.in

Strong revenue growth: GREENP's revenue grew 36% YoY to Rs 2.4bn, with MDF/plywood up 40%/23%. In the MDF business, volumes rose 38% YoY on better utilisation of new capacity while realisations inched up 1% YoY. In plywood, volumes increased 18% YoY off a low base and realisations remained flat. Management indicated that sales for the quarter were impacted by the lockdown in March.

Ticker/Price	GREENP IN/Rs 32
Market cap	US\$ 51.5mn
Shares o/s	123mn
3M ADV	US\$ 0.0mn
52wk high/low	Rs 61/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

Margins swell 930bps YoY: EBITDA margins (ex-forex loss) expanded 930bps YoY to 20.9% aided by higher MDF profitability and better capacity utilisation, resulting in EBITDA growth of 145% YoY. MDF margins rose 110bps YoY to 22.4% backed by better utilisation and lower wastage from the new Andhra Pradesh plant. Plywood margins shrank 750bps YoY to 7.4% due to lower sales of high-margin products such as decorative veneer. Despite robust overall margins, reported PAT dropped 26% YoY to Rs 76mn due to a Rs 138mn MTM loss and Rs 108mn provision post an unfavourable court order on duty refund.

STOCK PERFORMANCE

Source: NSE

Maintain BUY: GREENP has strong growth prospects though the pandemic has given rise to near-term challenges. We find current valuations of 9.1x FY22E attractive and maintain BUY – our Mar'21 TP of Rs 46 is set at 13x FY22E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,766	7,726	10,188
EBITDA (Rs mn)	774	1,437	1,181	1,614
Adj. net profit (Rs mn)	228	253	119	429
Adj. EPS (Rs)	1.9	2.1	1.0	3.5
Adj. EPS growth (%)	NA	11.0	(53.1)	262.1
Adj. ROAE (%)	7.1	3.9	1.8	6.2
Adj. P/E (x)	17.2	15.5	33.0	9.1
EV/EBITDA (x)	NA	4.7	8.0	5.5

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

As of 31 May 2020, out of 92 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 55 have BUY ratings, 20 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.