FIRST LIGHT

09 May 2022

RESEARCH

Blue Star | Target: Rs 1,200 | +10% | HOLD

Gunning for market share

Greenpanel Industries | Target: Rs 595 | +4% | HOLD

Strong margin expansion despite lower MDF & plywood volumes

Metals & Mining

Expert call with Valin Steel on China steel outlook

SUMMARY

Blue Star

- Good quarter with strong room AC sales due to harsh summer and pent-up demand in target markets, aided by its broad product portfolio
- Calibrated price hikes owing to market share focus led to gross margin pressure as the company battles RM inflation
- We assume coverage with HOLD and a TP of Rs 1,200; VOLT a better play on the RAC penetration theme, in our view

Click here for the full report.

Greenpanel Industries

- Q4 revenue climbed 21% YoY to Rs 4.7bn led by 31% growth in MDF but plywood revenue declined by 15%
- Gross margin stood at 61.5% vs. 54.1% in the year-ago quarter; EBITDA margin expanded 470bps YoY to 29.3%
- Maintain HOLD with an unchanged TP of Rs 595; recommend using any weakness in the stock as an entry-point

Click here for the full report.

Daily macro indicators

Indicator	04-May	05-May	Chg (%)
US 10Y yield (%)	2.93	3.04	10bps
India 10Y yield (%)	7.38	7.40	2bps
USD/INR	76.42	76.26	0.2
Brent Crude (US$/bbl)	110.1	110.9	0.7
Dow	34,061	32,998	(3.1)
Hang Seng	20,870	20,793	(0.4)
Sensex	55,669	55,702	0.1
India FII (US$ mn)	**02-May**	**04-May**	**Chg ($ mn)**
FII-D	(186.5)	(7.5)	179.0
FII-E	174.6	(374.9)	(549.5)

Source: Bank of Baroda Economics Research

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Metals & Mining

- Valin Steel's CY22 outlook points to stable steel margins in Q2 and Q3CY22
- Key drivers include expected recovery in China steel demand from June/Q3, production restrictions and easing of RM prices
- Valin's strategy confirms ongoing industry-wide structural transformation and shift in focus away from volume growth

Click here for the full report.

RESULT REVIEW

HOLD

TP: Rs 1,200 | ⮝ 10%

BLUE STAR | Consumer Durables | 06 May 2022

Gunning for market share

- **Good quarter with strong room AC sales due to harsh summer and pent-up demand in target markets, aided by its broad product portfolio**
- **Calibrated price hikes owing to market share focus led to gross margin pressure as the company battles RM inflation**
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Strong Q4 sets the tone for upcoming summer season: BLSTR's Q4FY22 revenue increased 40% YoY to Rs 22.5bn on the back of strong growth across its three segments. Gross margin declined 120bps YoY to 20.6% as the company was unable to completely pass on the increased raw material prices. EBIT margin improved 55bps YoY to 5.3% as the lower gross margin was more than offset by strong operating leverage. Net income grew 12% YoY to Rs 762mn.

Marginal market share gains in FY22: BLSTR has improved is market share by 25bps in FY22, from 13% in FY21, aided by an enhanced product portfolio which is doing well. Moreover, these products are already compliant with the energy label changes expected in July. The company also maintained its #2 position in screwed chillers and VRF and its #1 rank in ducted air conditioning.

Focus on mass market remains: BLSTR has taken calibrated price hikes of ~10% in FY22 as it tried to focus on market share gains. It continues to revamp its distribution and target sales in tier 3/4/5 cities. As the 10% price hike was not enough to negate raw material inflation, the company took another 2-3% hike in Apr'22.

HOLD, TP Rs 1,200: The current severe summer season augurs well for the AC and refrigeration industry as a whole. However, we expect ongoing supply constraints and heightened raw material inflation to suppress BLSTR's margins. We believe that VOLT is suitably placed to negate the inflation and supply shortage, given its market leadership in ACs and superior margin profile. We value BLSTR at 40x FY24E EPS, a 16% premium to its 5Y average, for a TP of Rs 1,200 and assume coverage with HOLD. We prefer VOLT in this space.

Key positives include above-expected market share gains and key downside risks include RM inflation (leading to a drop in demand), increased competition and slower growth in infrastructure projects.

Key changes

Target	Rating
▼	▼

Ticker/Price	BLSTR IN/Rs 1,092
Market cap	US$
Free float	61%
3M ADV	US$ 1.9mn
52wk high/low	Rs 1,225/Rs 758
Promoter/FPI/DII	39%/12%/22%

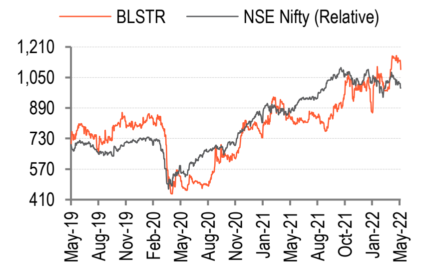
Source: NSE | Price as of 5 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	60,456	70,203	80,924
EBITDA (Rs mn)	3,465	4,362	5,027
Adj. net profit (Rs mn)	1,677	2,531	2,790
Adj. EPS (Rs)	17.4	26.3	29.0
Consensus EPS (Rs)	27.7	35.2	34.7
Adj. ROAE (%)	17.6	23.7	23.9
Adj. P/E (x)	62.7	41.6	37.7
EV/EBITDA (x)	30.3	24.2	21.2
Adj. EPS growth (%)	148.8	50.9	10.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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HOLD
TP: Rs 595 | ⮝ 4%

GREENPANEL INDUSTRIES | Construction Materials | 06 May 2022

Strong margin expansion despite lower MDF & plywood volumes

- **Q4 revenue climbed 21% YoY to Rs 4.7bn led by 31% growth in MDF but plywood revenue declined by 15%**
- **Gross margin stood at 61.5% vs. 54.1% in the year-ago quarter; EBITDA margin expanded 470bps YoY to 29.3%**
- **Maintain HOLD with an unchanged TP of Rs 595; recommend using any weakness in the stock as an entry-point**

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Strong growth aided by higher MDF realisations: GREENP's consolidated Q4FY22 revenue grew 21% YoY to Rs 4.7bn, with MDF up 31% as blended realisations increased 44% YoY and 8% QoQ. However, plywood revenue declined 15% YoY. EBITDA margin stood at 29.3% vs. 24.6% in the year-ago quarter due to a superior product mix, cost optimisation and operating leverage.

Lower MDF volumes but EBITDA margin expands: MDF volumes declined by 11% YoY due to the recurrence of Covid, state elections and higher inflation. Nevertheless, segmental EBITDA margin improved 600bps YoY to 34.6% on the strength of higher realisations and a superior product mix. For FY22, MDF margins stood at 31% vs. 23% in FY21. Management has guided for ~31% levels in FY23.

Plywood margin declines: Plywood earned a lower Q4 EBITDA margin at 9.2% (-630bps YoY) due to higher raw material cost and a 19% fall in volumes. Management indicated plans for a price hike in Q1FY23 and has guided for a 10-11% segmental EBITDA margin for FY23.

MDF volume growth guided at 15-18% in FY23E: Management expects MDF volume growth of 15-18% in FY23 vs. 30% in FY22. The company looks poised to capitalise on the near-term steady growth from rising acceptance of MDF in the readymade furniture market and the absence of major capacity additions in the industry during FY23 (beyond Rushil Décor's 240,000cbm expansion which has already been absorbed and CPBI's upcoming 130,000cbm addition in H1FY23).

Maintain HOLD: GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market coupled with an improving balance sheet and return ratios. With growth momentum likely to continue and the absence of significant capex, we expect the company to turn net debt-free in FY23. The stock is trading at 22.1x FY24E EPS and has achieved our TP of Rs 595 on 23 Mar 2022. We continue to value GREENP at 23x FY24E EPS (a 33% discount to CPBI) and retain our TP of Rs 595 with a HOLD rating. In our view, any weakness in the stock should be used as an opportunity to enter.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 571
Market cap	US$ 910.1mn
Free float	47%
3M ADV	US$ 2.5mn
52wk high/low	Rs 626/Rs 215
Promoter/FPI/DII	53%/6%/41%

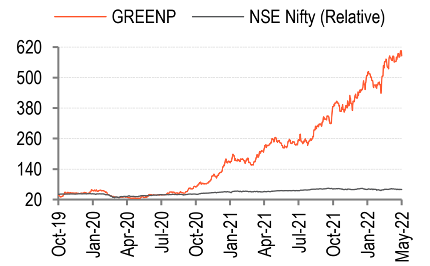
Source: NSE | Price as of 6 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,350	20,545
EBITDA (Rs mn)	4,304	4,685	5,302
Adj. net profit (Rs mn)	2,405	2,662	3,171
Adj. EPS (Rs)	19.6	21.7	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.5	25.4
Adj. P/E (x)	29.1	26.3	22.1
EV/EBITDA (x)	17.3	15.4	13.2
Adj. EPS growth (%)	197.6	10.7	19.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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METALS & MINING

06 May 2022

Expert call with Valin Steel on China steel outlook

- **Valin Steel's CY22 outlook points to stable steel margins in Q2 and Q3CY22**
- **Key drivers include expected recovery in China steel demand from June/Q3, production restrictions and easing of RM prices**
- **Valin's strategy confirms ongoing industry-wide structural transformation and shift in focus away from volume growth**

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We hosted a call with Wang Yin, IR Manager of Valin Steel (000932 CH, Not Rated), a listed arm of Valin Group, China's eight largest steel producer. Key takeaways:

Steel margin to remain stable in Q2 and Q3 from Q1 levels: Key margin supports are: (a) expected recovery in China's demand from June/Q3CY22 (led by policy relaxation in real estate, infrastructure push, auto recovery), (b) production restrictions, and (c) easing of raw material prices with improved supply of coal and iron ore. Uncertainty over raw material prices does, however, pose a risk to margins.

CY22 demand to remain stable or dip only marginally: After weaker demand in Q4CY21 and restricted offtake over Jan-Apr'22, Valin expects demand to recover from June or Q3CY22 on the back of improving investment activity in real estate and infrastructure. The Covid situation has started easing in Shanghai and Jilin.

Production curbs to support market balance: With China announcing additional output cuts for CY22 in Apr'22, production trends are likely to be balanced with evenly spread cuts. Last year, the sharp reduction in H2 stemmed from an overshooting of H1 targets and the government's late decision to implement restrictions only from August.

Exports down but inquiries on the rise: With government policy discouraging exports and significant trade barriers, Valin has been focusing on domestic markets (exports at a mere 4% in CY21). However, it is considering to tap into overseas demand given increasing inquiries, though this would depend upon policy measures, production restrictions and profitability.

Structural transformation well underway: Chinese steel capacity and production have peaked. The industry has been asked to move away from volume growth to high-quality development and is hence focusing on M&A for consolidation. Bigger players are looking at value-added products to improve margins.

Valin's outlook consistent with China's largest player Baosteel: Please refer to two of our recent notes: **Expert call with Baosteel on China steel outlook** and **Read-across from Baosteel and Vale analyst calls.**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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