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FIRST LIGHT

03 August 2021

RESEARCH

BOB Economics Research | Weekly Wrap

RBI policy to guide markets

Indian Oil Corp | Target: Rs 135 | +28% | BUY

Q1 muted but core refining earnings have bottomed out

Finolex Industries | Target: Rs 185 | +5% | HOLD

Higher PVC resin prices aid profitability

Automobiles

Jul'21 PV and CV dispatches rise MoM, 2Ws flat

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.22	(5bps)	(25bps)	69bps
India 10Y yield (%)	6.20	0bps	17bps	37bps
USD/INR	74.42	(0.2)	(0.3)	0.5
Brent Crude (US$/bbl)	76.33	0.4	2.1	76.3
Dow	34,935	(0.4)	1.9	32.2
Shanghai	3,397	(0.4)	(4.9)	2.6
Sensex	52,587	(0.1)	0.1	39.8
India FII (US$ mn)	**29-Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	4.0	(102.0)	(3,268.8)	(1,241.5)
FII-E	(24.6)	(1,362.2)	6,722.0	(604.3)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Weekly Wrap

Rising Covid-19 cases globally, Fed's dovish comments and lower than estimated US macro data drove global yields lower. Equity markets too fell led by China's regulatory crackdown. While DXY fell, EUR gained with Euro Area reporting better than estimated Q2CY21 GDP. On the domestic front, India's 10Y yield fell by 3bps. Buoyant tax collections, in particular corporate tax collections bode well for the fiscal picture. Our weekly tracker moderated to 93 (Feb'20=100) from 94 last week. Focus will be on global and domestic PMIs and central banks, in particular RBI.

Click here for the full report.

Indian Oil Corp

- Q1 earnings reflect a muted refining performance but recovery in marketing margin
- Refining margins have bottomed out; earnings to be supported by post-Covid recovery and project completions over medium term
- Prefer HPCL over IOCL as the former is geared to deliver earnings growth earlier over FY23-FY24

Click here for the full report.

BOBCAPS Research
researchreport@bobcaps.in

Finolex Industries

- Q1FY22 revenue growth robust at 72% YoY as PVC realisations surged 93% YoY
- Operating margin expanded 600bps YoY to 21.7% on higher gross margin (+810bps) partly offset due to increased other expenses
- We raise FY22/FY23 PAT 8%/2% and roll over to a Jun'22 TP of Rs 185 (vs. Rs 175). Maintain HOLD on full valuations

Click here for the full report.

Automobiles

- Most auto segments saw modest MoM dispatches in July, barring tractors (-45% MoM); PV and 2W exports healthy
- Domestic 2W inventory remains high at 45+ days; PVs steady at 28-30 days
- CV and 3W demand revived MoM led by opening up of the economy but still remain below normal (FY20) levels

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WEEKLY WRAP

02 August 2021

RBI policy to guide markets

Sameer Narang | Aditi Gupta
chief.economist@bankofbaroda.com

Rising Covid-19 cases globally, Fed's dovish comments and lower than estimated US macro data drove global yields lower. Equity markets too fell led by China's regulatory crackdown. While DXY fell, EUR gained with Euro Area reporting better than estimated Q2CY21 GDP. On the domestic front, India's 10Y yield fell by 3bps. Buoyant tax collections, in particular corporate tax collections bode well for the fiscal picture. Our weekly tracker moderated to 93 (Feb'20=100) from 94 last week. Focus will be on global and domestic PMIs and central banks, in particular RBI.

Markets

- **Bonds:** Global yields closed lower with rising Covid-19 cases. US 10Y yield fell by 5bps (1.22%) as Fed remained dovish in its recent policy. New home sales and GDP missed estimates. Crude prices rose by 3% (US$ 76/bbl) due to drawdown in US inventories. India's benchmark 10Y yield (6.10GS2031) fell by 3bps (6.2%) supported by better auction results. System liquidity surplus was at Rs 6.1tn as on 30 Jul 2021 versus Rs 5.5tn last week.

- **Currency:** Except INR (flat) and AUD (lower), global currencies closed higher. DXY fell by 0.7% as Fed refrained from providing a timeline of easing monetary stimulus. US data (new home sales, GDP, durable goods) was also weaker than expected. EUR rose by 0.8% as Euro Area Q2CY21 GDP rose more than expected. GBP rose by 1.1% as fresh cases showed deceleration. INR closed flat despite higher oil prices and FII outflows.

- **Equity:** Barring FTSE, other global indices ended the week lower amidst rising Covid-19 cases globally. Shanghai Comp fell by 4.3% amidst concerns over regulatory crackdown. While dovish comments by Fed will boost markets, corporate earnings results and commentary will drive stock prices. Sensex fell by 0.7%, led by decline in power and banking stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 4.1mn versus 3.7mn (WoW). Cases rose in US (0.5mn vs 0.3mn) and Japan (52K vs 28K). In India, cases rose by 0.28mn vs 0.27mn. Our weekly economic activity tracker index fell to 93 (100=Feb'20) from 94. UAE has fully vaccinated 70% of its population, UK at 56% and US at 49%. India is at 7.2%.

- **Upcoming key events:** Major events this week include rate decision of BoE, RBA and BoT. In addition, global manufacturing and services PMIs, US non-farm payrolls and Indonesia's Q2 GDP will also be released. On the domestic front, PMIs and RBI policy decision is keenly awaited.

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BUY
TP: Rs 135 | ⮝ 28%

INDIAN OIL CORP | Oil & Gas | 02 August 2021

Q1 muted but core refining earnings have bottomed out

- **Q1 earnings reflect a muted refining performance but recovery in marketing margin**
- **Refining margins have bottomed out; earnings to be supported by post-Covid recovery and project completions over medium term**
- **Prefer HPCL over IOCL as the former is geared to deliver earnings growth earlier over FY23-FY24**

Kirtan Mehta, CFA | Kumar Manish
researchreport@bobcaps.in

Refining remains muted in Q1: IOCL's adj. refining segment EBITDA loss widened to Rs 14.3bn in Q1FY22 (from Rs 12.2bn in Q4FY21) on the back of 5% lower throughput and a marginal decline in core GRM. Asian gasoline spreads did not materially capture benefits of the driving season in the West following the resurgence of Covid-19 in India and Asia.

Marketing improves: Adj. marketing segment EBITDA improved to Rs 56.6bn from Rs 34.1bn in Q4 with a recovery in marketing margin to Rs 3,010/t (from Rs 1,637/t in Q4) despite a 10% QoQ decline in sales volume. While IOCL sees further possibility of upside over Q1 marketing EBITDA, we remain conservative and have a forecast of Rs 2,000/t based on historical trends.

Positive on OMCs: We are positive on OMCs given our expectation of gradual improvement in refining margin, sustained marketing margin and further growth from refinery project completions. We remain conservative and factor in only a US$ 3.5/bbl rise in benchmark refining margin over the next three years to US$ 3.8/bbl by FY24. Refining earnings growth will be further supported by delivery on refining and petrochemical expansion and upgrade projects. Amongst OMCs, we expect HPCL to demonstrate this upside first as it delivers on Vizag expansion as well as its HMEL Bhatinda polymer addition and Vizag residue upgrade projects over FY22-FY24.

Maintain BUY: At 4.9x FY23E EV/EBITDA, IOCL is trading at a significant discount to BPCL, after adjusting for its investments. We have a BUY on IOCL and HPCL but prefer the latter as we expect it to demonstrate earnings growth from project completions ahead of IOCL. At this juncture, we continue to value IOCL based on FY23E EBITDA and do not capture the benefit of future projects achieving commercial operation beyond this period. Our Mar'22 TP remains at Rs 135 wherein we value the refining and marketing business at 5.5x FY23E EV/EBITDA, a marginal discount to our target multiple of 6.0x for OMC peers.

For details, please refer to our report **OMCs: Prefer HPCL over BPCL and IOCL, 5 Jul 2021**.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	IOCL IN/Rs 106
Market cap	US$ 13.4bn
Free float	17%
3M ADV	US$ 28.2mn
52wk high/low	Rs 118/Rs 72
Promoter/FPI/DII	52%/6%/43%

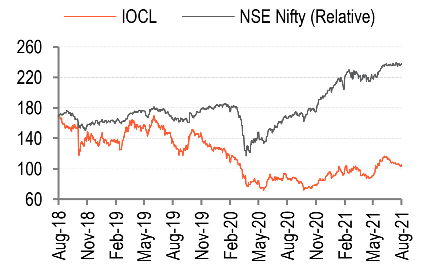
Source: NSE | Price as of 2 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	36,39,497	51,96,102	52,91,033
EBITDA (Rs mn)	4,17,047	2,93,832	3,60,468
Adj. net profit (Rs mn)	2,16,382	1,31,322	1,69,581
Adj. EPS (Rs)	23.6	14.3	18.5
Consensus EPS (Rs)	23.6	16.9	19.4
Adj. ROAE (%)	20.9	11.4	13.7
Adj. P/E (x)	4.5	7.4	5.7
EV/EBITDA (x)	5.0	7.3	6.0
Adj. EPS growth (%)	168.4	(39.3)	29.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 185 | ▲ 5%

FINOLEX INDUSTRIES | Plastic Products | 02 August 2021

Higher PVC resin prices aid profitability

- **Q1FY22 revenue growth robust at 72% YoY as PVC realisations surged 93% YoY**
- **Operating margin expanded 600bps YoY to 21.7% on higher gross margin (+810bps) partly offset due to increased other expenses**
- **We raise FY22/FY23 PAT 8%/2% and roll over to a Jun'22 TP of Rs 185 (vs. Rs 175). Maintain HOLD on full valuations**

Arun Baid
researchreport@bobcaps.in

Strong revenue growth aided by higher PVC prices: FNXP reported Q1FY22 revenue growth of 72% YoY to Rs 9.7bn as PVC resin realisations surged 93% and PVC pipe realisation increased 58%. PVC resin volumes grew 10.6% YoY whereas pipe volumes increased just 5.5% despite a soft base and peak agriculture demand season. Management stated that strong realisations in the PVC resin segment offset the negative impact of higher prices on agriculture PVC pipe demand.

Agri pipe demand weak in peak season: Q1FY22 which is a busy season for agriculture pipes was affected by both higher PVC prices (passed along) and the pandemic. Management is hopeful of better demand from this segment in Q4 and is targeting 10-15% PVC pipe volume growth in FY22.

Operating margin expands 600bps YoY: FNXP's standalone EBITDA margin increased 600bps YoY to 21.7% aided by higher gross margin (+810bps) from better PVC realisations, partly offset due to increased other expenses (-360bps). EBITDA/PBT thus grew 137%/169% YoY. The average PVC-EDC delta was at US$ 834/mt (+52% YoY) in Q1, aiding gross margin. It has currently fallen to US$ 670/mt.

PVC resin prices to remain range bound in near term: PVC resin prices have once again started to increase in August, following some correction towards the end of Q1. Management believes prices could stay in the range of US$ 1,250-1450/mt between now and Dec'21 due to global supply constraints and higher logistics costs. While PVC resin margins are difficult to forecast, those in the pipe segment are more predictable and should sustain at Rs 8-10/kg, according to FNXP.

Valuations full, HOLD: We raise FY22/FY23 PAT estimates by 8%/2% given the above-expected Q1 PVC resin margins. FNXP has a strong balance sheet and its focus on non-agricultural pipes could aid further margin gains. While we like the company, we find current valuations full at 23.7x FY23E EPS. We maintain HOLD and roll over to a new Jun'22 TP of Rs 185 (from Rs 175), set at an unchanged 24x one-year forward P/E – 30% premium to the stock's five-year average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 177
Market cap	US$ 1.5bn
Free float	48%
3M ADV	US$ 2.4mn
52wk high/low	Rs 198/Rs 88
Promoter/FPI/DII	52%/3%/45%

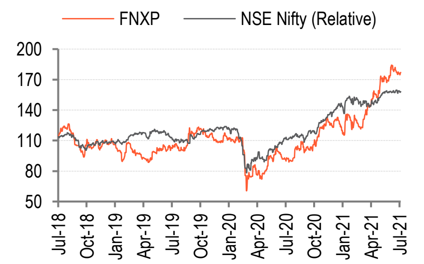
Source: NSE | Price as of 30 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	34,628	37,386	37,593
EBITDA (Rs mn)	9,893	6,437	6,426
Adj. net profit (Rs mn)	7,378	4,533	4,638
Adj. EPS (Rs)	11.9	7.3	7.5
Consensus EPS (Rs)	11.9	8.8	9.0
Adj. ROAE (%)	28.8	13.9	13.2
Adj. P/E (x)	14.9	24.2	23.7
EV/EBITDA (x)	11.0	16.6	16.1
Adj. EPS growth (%)	121.8	(38.6)	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

AUTOMOBILES

02 August 2021

Jul'21 PV and CV dispatches rise MoM, 2Ws flat

- **Most auto segments saw modest MoM dispatches in July, barring tractors (-45% MoM); PV and 2W exports healthy**
- **Domestic 2W inventory remains high at 45+ days; PVs steady at 28-30 days**
- **CV and 3W demand revived MoM led by opening up of the economy but still remain below normal (FY20) levels**

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

Opening up of economy and lower inventory bolster PV dispatches: Maruti's (MSIL) total dispatches rose to 162k in July (+10% MoM) as its plants produced more in order to recoup sales lost in May'21 (due to Covid-19 lockdowns) and exports improved. Domestic sales grew 8% MoM while exports were up 25%. M&M's (MM) PV sales increased 24% MoM, Tata Motors (TTMT) posted 25% MoM growth and Hyundai saw a 19% rise. Semiconductor availability remains a challenge for most OEMs. Given lower inventory levels, we expect PV volumes to remain healthy in the coming months as OEMs build up channel inventory ahead of the festive season.

Domestic 2W inventory remains high; exports outperform: Domestic 2W dispatches were in line with our estimates, rising ~2% MoM in July. The flattish growth despite opening up of the economy after the second Covid wave is indicative of higher channel inventory in the system. Bajaj Auto's (BJAUT) total volumes grew 7% MoM with exports up 10% and domestic sales up 3%. TVS Motor's (TVSL) sales increased 11% MoM to 279k units, with domestic 2Ws growing ahead of peers at 20% MoM and 3Ws up 17%. Royal Enfield (RE) reported 2W sales of 44k units (+2% MoM). Hero's (HMCL) wholesale volumes fell 3% MoM to 454k, unperforming peer growth rates.

CV dispatches revive as economy starts opening up: With the economy gradually opening up, TTMT's CV dispatches grew 11% MoM as MHCV/LCV volumes increased 1%/16%. For Ashok Leyland (AL), total CV dispatches grew 34% MoM as MHCV/LCV sales increased 38%/31% aided by good traction for 'Dost' and 'Bada Dost'.

Erratic monsoon dampens tractor demand: Tractor sales declined ~45% MoM in July due to weaker monsoon activity in the initial parts of the month which impeded sowing. MM sold 27k tractors (-44% MoM) during the month and expects the tractor industry to record mid-single-digit growth for FY22. Escorts (ESC) sold 6.6k tractors, clocking a 48% MoM decline. Per the company, the monsoon has normalised and ground activities have picked up in recent days, implying demand is likely to normalise soon. We have factored in a 6% CAGR in tractor industry sales over FY21-FY23 as the macro environment remains conducive.

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

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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