BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

11 February 2021

RESEARCH

Century Plyboards | Target: Rs 310 | +7% | ADD

Strong operational performance; MDF expansion to spur growth

SpiceJet | Target: Rs 70 | –20% | SELL

Lower yields amidst rising fuel costs; maintain SELL

TCI Express | Target: Rs 1,165 | +21% | BUY

Operating excellence continues to offset volume weakness

Eicher Motors | Target: Rs 2,200 | –24% | SELL

In-line quarter; maintain SELL

GAIL | Target: Rs 160 | +22% | BUY

Cyclicals bolster earnings

SUMMARY

Century Plyboards

Century Plyboards' (CPBI) standalone revenue rose 10% YoY in Q3FY21, with plywood/MDF up 11%/21% YoY. Standalone operating margins expanded 280bps to 18.6%, resulting in EBITDA/PBT growth of 29%/53% YoY. CPBI is expanding MDF capacity by ~70% and sees plywood also doing well in FY22. We increase FY21-FY23 EBITDA estimates by 21-32% due to faster-than-expected recovery and benefits of new capex. We also raise our target P/E to 22x from 20x and roll over to a new Mar'22 TP of Rs 310 (vs. Rs 200). Retain ADD on limited upside.

Click here for the full report.

SpiceJet

SpiceJet's (SJET) Q3FY21 revenue plunged 54% YoY to Rs 16.9bn. With capacity utilisation improving to ~78%, reported EBITDA was at Rs 2.4bn. Easing of lockdowns and expected reinstatement of Boeing 737s into the fleet will remain near-term growth catalysts. However, the sudden drop in yields and rising crude prices would hurt profitability. We raise our fuel estimates from US$ 50 to US$ 55/bbl for FY22/FY23. Maintain SELL with a revised Mar'22 TP of Rs 70 (vs. Rs 85) as we reset our target EV/EBITDAR to 4.5x (vs. 5.2x).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
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	(1bps)	4bps	(44bps)
India 10Y yield (%)	6.07	3bps	19bps	(40bps)
USD/INR	72.88	0.1	0.5	(2.2)
Brent Crude (US$/bbl)	61.09	0.9	9.1	13.1
Dow	31,376	0	0.9	7.2
Shanghai	3,603	2.0	0.9	24.2
Sensex	51,329	0	5.2	24.5
India FII (US$ mn)	**8 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(21.8)	(42.7)	(541.0)	(4,634.6)
FII-E	298.2	2,566.5	4,544.8	34,520.5

Source: Bank of Baroda Economics Research

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TCI Express

TCI Express's (TCIEXP) Q3FY21 revenue missed estimates (–2% YoY vs. +5% est.) but strong EBITDA margin gains (+450bps YoY) yielded a solid earnings beat (+32% YoY vs. +9% est.). Continued margin traction is a testament to the robust asset-light model. Volume recovery is likely from Q4 aided by pickup in economic activity and a soft base – this coupled with resilient margins should fuel earnings. Given an improving outlook, we raise FY21-FY23 PAT by 8-15%, hike our target P/E to 30x (vs. 27x) and roll to a new Mar'22 TP of Rs 1,165 (vs. Rs 930).

Click here for the full report.

Eicher Motors

Eicher Motors (EIM) reported in-line Q3FY21 revenue and a slight beat on EBITDA margins (23.5% vs. 21.4% estimated), led by better operating efficiencies. Recent rollout of the 'Meteor' 350cc and an aggressive launch pipeline should aid a 12% volume CAGR at Royal Enfield over FY21-FY23, though near-term headwinds from rising RM cost persist. We continue to expect a 16%/32% revenue/PAT CAGR for EIM and maintain our Mar'22 SOTP-based TP at Rs 2,200, valuing RE at 24x EPS and VECV at Rs 160/sh.

Click here for the full report.

GAIL

GAIL's Q3FY21 PAT was in line at Rs 14.9bn (+24% YoY) aided by an improved operating performance across segments (ex-trading). Q3 highlights: (a) gas trading continued to report losses (Rs 0.45bn), and (b) gas transmission and petchem earnings outperformed at Rs 12.5bn (+2.2% YoY) and Rs 5.5bn (5x YoY) respectively on higher volumes and margins. Pipeline commissioning and higher oil prices lift the outlook across the natural gas, petchem and LPG segments. We adjust FY21/FY22 EPS by –6%/+6% and roll to a Mar'22 TP of Rs 160 (vs. Rs 155).

Click here for the full report.

ADD
TP: Rs 310 | 7%

CENTURY PLYBOARDS | Construction Materials | 10 February 2021

Strong operational performance; MDF expansion to spur growth

Century Plyboards' (CPBI) standalone revenue rose 10% YoY in Q3FY21, with plywood/MDF up 11%/21% YoY. Standalone operating margins expanded 280bps to 18.6%, resulting in EBITDA/PBT growth of 29%/53% YoY. CPBI is expanding MDF capacity by ~70% and sees plywood also doing well in FY22. We increase FY21-FY23 EBITDA estimates by 21-32% due to faster-than-expected recovery and benefits of new capex. We also raise our target P/E to 22x from 20x and roll over to a new Mar'22 TP of Rs 310 (vs. Rs 200). Retain ADD on limited upside.

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Plywood and MDF segments lead growth: CPBI's standalone Q3 revenue increased 10% YoY to Rs 6.5bn, with plywood/MDF/laminates growing at 11%/21%/4%. As per management, demand has improved significantly and plywood should register double-digit growth in FY22. The company will incur capex of Rs 2bn at its existing MDF plant to raise capacity by ~70% to 1,000cbm/day by end-FY22.

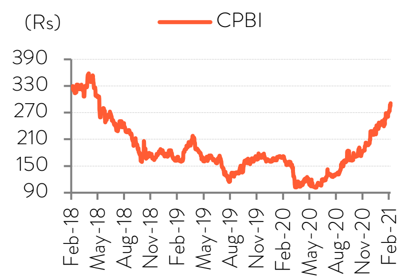
Strong margin gains: CPBI's operating margins expanded 280bps YoY due to higher gross margins (+93bps) and lower employee cost (–120bps YoY) and other expenditure (–65bps YoY). EBITDA/PBT thus grew 29%/53% YoY. Laminate margins surged 520bps YoY to 19.2% due to benefits of low-cost raw material and cost rationalisation, whereas plywood margins increased 270bps on operating leverage. Management has indicated that margins are sustainable as it has taken a price increase of 2% in plywood and 7-10% in MDF/laminates.

Maintain ADD: CPBI has turned net debt-free in Q3. This coupled with swift demand recovery post-Covid and potential benefits of new MDF capex leads us to raise FY21-FY23 earnings estimates 30-52% and increase our target P/E to 22x. We like CPBI for its product portfolio, strong brand and wide distribution but maintain ADD as current valuations of 20.9x FY23E EPS offer slim upsides.

Ticker/Price	CPBI IN/Rs 291
Market cap	US$ 889.1mn
Shares o/s	223mn
3M ADV	US$ 1.4mn
52wk high/low	Rs 301/Rs 95
Promoter/FPI/DII	73%/5%/22%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,804	23,170	20,428	25,137	29,448
EBITDA (Rs mn)	3,124	3,308	3,225	4,425	5,211
Adj. net profit (Rs mn)	1,542	1,579	1,794	2,598	3,095
Adj. EPS (Rs)	6.9	7.1	8.1	11.7	13.9
Adj. EPS growth (%)	(3.5)	2.4	13.6	44.8	19.1
Adj. ROAE (%)	16.9	15.3	15.4	19.3	19.5
Adj. P/E (x)	41.9	40.9	36.0	24.9	20.9
EV/EBITDA (x)	22.5	21.2	21.2	15.0	12.6

Source: Company, BOBCAPS Research

SELL
TP: Rs 70 | ⋎ 20%

SPICEJET | Airlines | 10 February 2021

Lower yields amidst rising fuel costs; maintain SELL

SpiceJet's (SJET) Q3FY21 revenue plunged 54% YoY to Rs 16.9bn. With capacity utilisation improving to ~78%, reported EBITDA was at Rs 2.4bn. Easing of lockdowns and expected reinstatement of Boeing 737s into the fleet will remain near-term growth catalysts. However, the sudden drop in yields and rising crude prices would hurt profitability. We raise our fuel estimates from US$ 50 to US$ 55/bbl for FY22/FY23. Maintain SELL with a revised Mar'22 TP of Rs 70 (vs. Rs 85) as we reset our target EV/EBITDAR to 4.5x (vs. 5.2x).

Mayur Milak | Nishant Chowhan, CFA
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Q3 disappoints: SJET's revenue dropped 54% YoY to Rs 16.9bn as the improved yields seen in November ebbed in December despite rising fuel prices. EBITDA was at Rs 2.4bn aided by lower fuel costs and improving operating efficiencies from stronger capacity utilisation. Higher than expected other income and steady interest and depreciation costs limited the adjusted net loss to Rs 570mn, translating to negative EPS of Re 1.

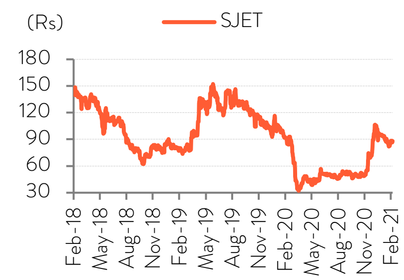
Strong growth outlook but rising fuel cost a concern: Key factors that favour SJET's growth outlook over the next three years are an expected improvement in capacity utilisation in coming quarters together with reinstatement of its grounded Boeing 737 aircraft. Also, the recently announced partnership to ferry Covid vaccines will bolster its cargo business. However, rising crude oil prices could impede earnings given that every US$ 1 change in crude impacts operating margins by ~60bps. We have raised our FY22/FY23 fuel estimates from US$ 50/bbl to US$ 55/bbl.

Macro benefits priced in: Post the sharp rally, we believe most optimism regarding growth is in the price. We remain cautious due to SJET's weak balance sheet (negative net worth) as well as lower yields amidst rising fuel costs. We value the stock at 4.5x FY23E EV/EBITDAR and maintain SELL.

Ticker/Price	SJET IN/Rs 88
Market cap	US$ 724.5mn
Shares o/s	600mn
3M ADV	US$ 11.7mn
52wk high/low	Rs 108/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	91,215	123,586	53,835	114,883	156,146
EBITDA (Rs mn)	(572)	4,964	4,861	18,663	25,341
Adj. net profit (Rs mn)	(3,024)	(9,348)	(8,512)	(1,457)	6,391
Adj. EPS (Rs)	(5.0)	(15.6)	(14.2)	(2.4)	10.7
Adj. EPS growth (%)	NA	NA	NA	NA	
Adj. ROAE (%)	86.4	59.2	35.0	5.7	(33.0)
Adj. P/E (x)	(17.4)	(5.6)	(6.2)	(36.2)	8.3
EV/EBITDA (x)	(92.4)	10.9	12.3	3.3	2.3

Source: Company, BOBCAPS Research

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BUY
TP: Rs 1,165 | 21%

TCI EXPRESS | Logistics | 10 February 2021

Operating excellence continues to offset volume weakness

TCI Express's (TCIEXP) Q3FY21 revenue missed estimates (–2% YoY vs. +5% est.) but strong EBITDA margin gains (+450bps YoY) yielded a solid earnings beat (+32% YoY vs. +9% est.). Continued margin traction is a testament to the robust asset-light model. Volume recovery is likely from Q4 aided by pickup in economic activity and a soft base – this coupled with resilient margins should fuel earnings. Given an improving outlook, we raise FY21-FY23 PAT by 8-15%, hike our target P/E to 30x (vs. 27x) and roll to a new Mar'22 TP of Rs 1,165 (vs. Rs 930).

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Weak tonnage drags down topline: Revenue declined 2% YoY due to lower tonnage (–4%) while realisation ticked up 2%. Lower tonnage stemmed from uneven demand recovery, per management, as the festive-season uptick seen in October was nullified by a sedate November. Growth in January has been flat followed by improvement this month. Some key industry verticals such as textiles are yet to revive, whereas machine tools, auto parts and pharma supported Q3 volumes. We believe volume revival is imminent from Q4 aided by increased manufacturing activity, branch network expansion and a soft base.

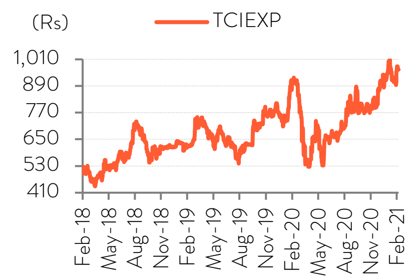
Margin juggernaut rolls on: TCIEXP has posted YoY gross margin expansion every quarter since FY18 – an impressive feat. Q3 gross margin expanded 300bps YoY bolstered by better truck utilisation and operation efficiencies (such as expansion of container dimensions). EBITDA margin expanded by 450bps YoY to highest ever levels of 17.3%, also aided by lower staff costs (–7.5%) and other expenses (–16%). Staff cost may climb 2-3% higher than FY20, but TCIEXP aims to achieve a further 1% expansion in gross margins.

TP raised: Baking in the earnings beat, we raise FY21/FY22/FY23 PAT estimates by 15%/8%/8%. We also increase our target P/E to 30x (vs. 27x) given easing headwinds. On rollover, we revise our Mar'22 TP to Rs 1,165 (vs. Rs 930).

Ticker/Price	TCIEXP IN/Rs 962
Market cap	US$ 506.2mn
Shares o/s	38mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 1,024/Rs 456
Promoter/FPI/DII	67%/2%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	8,503	10,773	12,539
EBITDA (Rs mn)	1,190	1,213	1,226	1,689	2,021
Adj. net profit (Rs mn)	728	891	892	1,243	1,489
Adj. EPS (Rs)	19.0	23.2	23.3	32.4	38.8
Adj. EPS growth (%)	24.7	22.3	0.2	39.3	19.8
Adj. ROAE (%)	30.7	29.5	23.6	26.6	25.8
Adj. P/E (x)	50.6	41.4	41.4	29.7	24.8
EV/EBITDA (x)	31.2	30.5	29.9	21.5	17.9

Source: Company, BOBCAPS Research

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SELL
TP: Rs 2,200 | ⮟ 24%

EICHER MOTORS | Auto Components | 10 February 2021

In-line quarter; maintain SELL

Eicher Motors (EIM) reported in-line Q3FY21 revenue and a slight beat on EBITDA margins (23.5% vs. 21.4% estimated), led by better operating efficiencies. Recent rollout of the 'Meteor' 350cc and an aggressive launch pipeline should aid a 12% volume CAGR at Royal Enfield over FY21-FY23, though near-term headwinds from rising RM cost persist. We continue to expect a 16%/32% revenue/PAT CAGR for EIM and maintain our Mar'22 SOTP-based TP at Rs 2,200, valuing RE at 24x EPS and VECV at Rs 160/sh.

Mayur Milak | Nishant Chowhan, CFA
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Q3 in line: EIM's standalone topline grew in line with our projections at 19% YoY on the back of a 9% rise in quarterly volumes and an 9% increase in ASP stemming from a better product mix and pricing action. EBITDA at Rs 6.6bn grew 11% YoY but margins came in 200bps ahead of expectations at 23.5% primarily due to below-expected other expenses (as a percentage of sales). Gross margin contracted 140bps QoQ. Adj. PAT was flattish YoY at Rs 4.9bn.

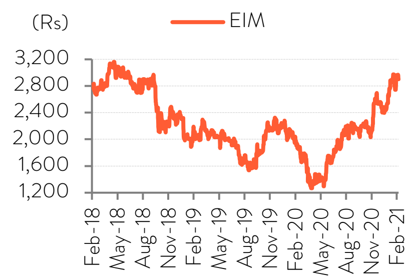
Near-term margin headwinds persist: Higher raw material costs shaved 80-100bps off Q3 EBITDA margins. EIM took price increases of >3% during the last two months and management anticipates further hikes coupled with cost savings to fully offset the impact of higher input costs. On the volume front, given the positive response to the Meteor 350 and upcoming launches, we bake in a healthy volume CAGR of 12% over FY21-FY23.

Valuations lofty; maintain SELL: We expect EIM to clock a revenue/EBITDA/PAT CAGR of 16%/20%/32% over FY21-FY23. Our Mar'22 SOTP-based TP of Rs 2,200 remains unchanged and is based on our ascribed value of Rs 2,040 for RE (24x Mar'23E P/E) and Rs 160 for VECV. Maintain SELL given expensive valuations at 41x FY22E/34x FY23E EPS.

Ticker/Price	EIM IN/Rs 2,901
Market cap	US$ 10.9bn
Shares o/s	273mn
3M ADV	US$ 64.9mn
52wk high/low	Rs 3,037/Rs 1,245
Promoter/FPI/DII	49%/32%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	85,818	104,988	114,841
EBITDA (Rs mn)	29,269	22,038	17,740	22,302	25,392
Adj. net profit (Rs mn)	20,544	19,356	13,573	19,833	23,605
Adj. EPS (Rs)	75.8	69.8	48.5	71.3	85.0
Adj. EPS growth (%)	20.7	(8.0)	(30.5)	47.1	19.2
Adj. ROAE (%)	28.8	23.4	14.5	18.1	18.3
Adj. P/E (x)	38.3	41.6	59.9	40.7	34.1
EV/EBITDA (x)	26.6	34.3	42.5	34.3	30.2

Source: Company, BOBCAPS Research

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BUY
TP: Rs 160 | ⮝ 22%

GAIL | Oil & Gas | 10 February 2021

Cyclicals bolster earnings

GAIL's Q3FY21 PAT was in line at Rs 14.9bn (+24% YoY) aided by an improved operating performance across segments (ex-trading). Q3 highlights: (a) gas trading continued to report losses (Rs 0.45bn), and (b) gas transmission and petchem earnings outperformed at Rs 12.5bn (+2.2% YoY) and Rs 5.5bn (5x YoY) respectively on higher volumes and margins. Pipeline commissioning and higher oil prices lift the outlook across the natural gas, petchem and LPG segments. We adjust FY21/FY22 EPS by –6%/+6% and roll to a Mar'22 TP of Rs 160 (vs. Rs 155).

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V-shaped volume recovery: Gas transmission volumes were in line with our estimates at 110mmscmd (flat YoY, +3.6% QoQ). GAIL's existing capacity utilisation remains muted at ~50%. However, new pipeline commissioning (Kochi-Mangaluru and Jagdishpur-Haldia) carries ~15mmscmd of incremental volume potential by FY23. These pipelines coupled with incremental supply potential from upcoming LNG regasification capacities (~50mmscmd) and domestic gas production (ONGC/RIL: 20-30mmscmd) could add 20-30mmscmd to GAIL's gas transmission/trading volumes by FY24/FY25.

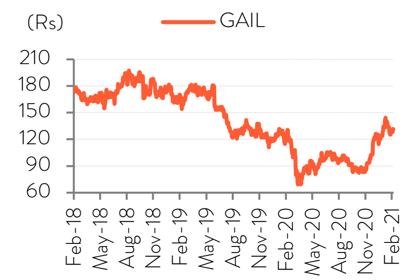
Petchem earnings skyrocket; trading margins still negative: Petrochemical earnings jumped 5x YoY owing to better margins as PE prices improved along with >100% utilisation of crackers. On the other hand, the gas trading business sustained losses. LPG/LHC earnings were in line at Rs 3bn (–4.4% YoY). The recent rise in oil prices is likely to further boost cyclical segment earnings in Q4.

Reiterate BUY: The stock rally over the past three months has elevated GAIL's valuation to 8.8x FY23E EPS from ~6x in Nov'20. Risk-reward still remains attractive as oil prices rise. We trim FY21 EPS by 6% but raise FY22 estimates by 6% on higher petchem segment earnings. Gas trading earnings could turn around from Q4 on higher spot LNG prices.

Ticker/Price	GAIL IN/Rs 131
Market cap	US$ 8.1bn
Shares o/s	4,510mn
3M ADV	US$ 43.2mn
52wk high/low	Rs 146/Rs 65
Promoter/FPI/DII	52%/15%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	802,836	718,710	494,274	768,062	848,231
EBITDA (Rs mn)	95,556	84,710	73,582	96,970	105,985
Adj. net profit (Rs mn)	63,525	49,658	45,681	63,466	67,512
Adj. EPS (Rs)	14.1	11.0	10.1	14.1	15.0
Adj. EPS growth (%)	38.1	(21.8)	(8.0)	38.9	6.4
Adj. ROAE (%)	15.0	11.3	10.2	13.4	13.2
Adj. P/E (x)	9.3	11.9	12.9	9.3	8.8
EV/EBITDA (x)	6.2	6.9	8.4	6.4	5.8

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 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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