FIRST LIGHT

17 August 2020

RESEARCH

Mayur Uniquoters | Target: Rs 270 | +7% | ADD
Tepid quarter, upside limited; downgrade to ADD

BOB Economics Research | Wholesale Inflation
WPI contracts, food inflation soars

BOB Economics Research | Trade
Imports catching up, non-oil exports improve

Bharat Petroleum Corp | Target: Rs 480 | +16% | BUY
GRMs outperform but marketing to aid earnings growth

Hero MotoCorp | Target: Rs 2,700 | –4% | REDUCE
Optimism priced in – maintain REDUCE

SUMMARY

Mayur Uniquoters

Mayur Uniquoters' (MUNI) Q1FY21 volumes nosedived 74% YoY as the lockdown hit demand, leading to a standalone revenue decline of 70% and an operating margin loss of Rs 5mn. Management expects Q2 to post ~60% of normal sales and is hopeful of a return to pre-Covid levels in Q4FY21. We maintain estimates and roll forward to a Sep'21 TP of Rs 270 (from Rs 250). The ~22% rally in stock price since July caps upside potential – downgrade from BUY to ADD.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
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	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.72	5bps	10bps	(81bps)
India 10Y yield (%)	5.90	1bps	11bps	(73bps)
USD/INR	74.85	0	0.5	(5.0)
Brent Crude (US$/bbl)	44.96	(1.0)	5.2	(22.8)
Dow	27,897	(0.3)	6.9	9.1
Shanghai	3,321	0	(3.6)	17.9
Sensex	38,310	(0.2)	4.4	2.7
India FII (US$ mn)	**12 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	(92.2)	(42.2)	(14,569.8)	(4,810.3)
FII-E	462.2	3,547.0	2,258.9	8,861.8

Source: Bank of Baroda Economics Research

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India Economics: Wholesale Inflation

WPI contracted by 0.6% in Jul'20 from 1.8% in Jun'20 led by 4.3% increase in food and 0.5% increase in manufactured inflation. Fuel and power index contracted at a slower pace of 9.8% in Jul'20 from a decline of 13.6% in Jun'20 as international oil prices rose. We expect WPI inflation to inch up steadily on the back of higher food inflation (supply bottlenecks owing to lockdowns) and higher international commodity prices (global fiscal and monetary stimulus). These supply factors will also have an impact on CPI inflation.

Click here **for the full report.**

India Economics: Trade

India's trade balance slipped into deficit of US$ 4.8bn in Jul'20 from a surplus of US$ 0.8bn in Jun'20. Rise in imports was driven by higher gold imports. Oil and non-oil-non-gold imports also contracted at a slower pace. Electronic imports are showing some revival as demand stabilizes after unlocking of the economy. Non-oil exports continue to show improvement led by pharma, agri and engineering goods. A muted trade deficit and foreign inflows imply INR will continue to see an appreciating bias in the near-term.

Click here **for the full report.**

Bharat Petroleum Corp

BPCL's Q1FY21 earnings beat estimates driven by higher GRMs (US$ 1.9/bbl) and a surge in marketing margins. EBITDA outperformed at Rs 39bn (+80% YoY), clearly driven by the marketing segment while refining losses continued. Given that benchmark GRMs remain muted, BPCL's marketing segment provides strong hope for sustenance of earnings and ROE (>20% levels). We adjust FY21/FY22 earnings by +10%/–9% as we lower GRM and raise marketing margin estimates. Our TP changes to Rs 480 (from Rs 470) on rollover.

Click here **for the full report.**

Hero MotoCorp

Hero MotoCorp (HMCL) delivered a Q1FY21 revenue beat but disappointed on earnings due to lower operating efficiencies. Per management, production is gradually returning to normal and HMCL is gearing up to fill the low inventory levels at dealers ahead of the festive season. Supply is currently ahead of demand, but the company has the buffer of inventory filling. We adjust FY21/FY22 earnings by +5%/–5% and maintain REDUCE as valuations look full at 17x FY22E EPS. On rollover to Sep'21, our TP remains at Rs 2,700.

Click here for the full report.

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ADD
TP: Rs 270 | ⮝ 7%

MAYUR UNIQUOTERS | Textiles | 14 August 2020

Tepid quarter, upside limited; downgrade to ADD

Mayur Uniquoters' (MUNI) Q1FY21 volumes nosedived 74% YoY as the lockdown hit demand, leading to a standalone revenue decline of 70% and an operating margin loss of Rs 5mn. Management expects Q2 to post ~60% of normal sales and is hopeful of a return to pre-Covid levels in Q4FY21. We maintain estimates and roll forward to a Sep'21 TP of Rs 270 (from Rs 250). The ~22% rally in stock price since July caps upside potential – downgrade from BUY to ADD.

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Revenue shrinks due to lockdown: MUNI reported a 70% YoY drop in standalone revenue to Rs 381mn owing to a 74% reduction in volumes. Revenue declined across segments as the lockdown sapped demand. Management expects QoQ improvement and is targeting ~60% of YoY revenues in Q2 followed by a return to normal levels in Q4. Revenues would be driven by the automotive segment in the near term as the footwear business still lags. MUNI has received approval to supply to Volkswagen India from Q3FY21. Supplies to Mercedes, South Africa, are expected to start from Q4FY21/Q1FY22.

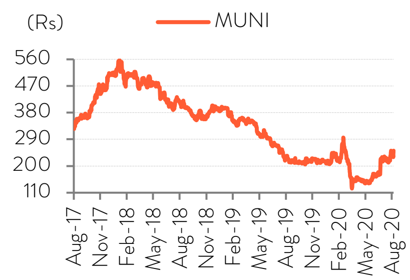
Operating margins decline: MUNI reported a standalone EBITDA loss of Rs 5mn due to negative operating leverage as sales plummeted during the Covid-19 lockdown. However, it reported PBT of Rs 12mn primarily aided by higher other income (+50% YoY). The company expects margins to increase going ahead due to cost control initiatives and better sales.

Downgrade to ADD: MUNI's operational performance is likely to improve sequentially along with unlocking of the economy. We maintain estimates and roll over to a new Sep'21 TP of Rs 270 (earlier Rs 250), retaining our target one-year forward P/E of 15x. Downgrade from BUY to ADD on limited upside potential at current valuations of 15.3x FY22E EPS.

Ticker/Price	MUNI IN/Rs 252
Market cap	US$ 152.1mn
Shares o/s	45mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 305/Rs 119
Promoter/FPI/DII	61%/7%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,913	5,280	3,685	5,617	6,261
EBITDA (Rs mn)	1,292	1,039	551	1,107	1,295
Adj. net profit (Rs mn)	727	798	328	744	871
Adj. EPS (Rs)	16.0	17.6	7.2	16.4	19.2
Adj. EPS growth (%)	(19.7)	9.8	(58.9)	127.2	17.0
Adj. ROAE (%)	15.0	14.6	5.6	11.9	12.8
Adj. P/E (x)	15.7	14.3	34.8	15.3	13.1
EV/EBITDA (x)	7.6	9.2	17.2	8.3	6.9

Source: Company, BOBCAPS Research

WHOLESALE INFLATION

14 August 2020

WPI contracts, food inflation soars

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WPI contracted by 0.6% in Jul'20 from 1.8% in Jun'20 led by 4.3% increase in food and 0.5% increase in manufactured inflation. Fuel and power index contracted at a slower pace of 9.8% in Jul'20 from a decline of 13.6% in Jun'20 as international oil prices rose. We expect WPI inflation to inch up steadily on the back of higher food inflation (supply bottlenecks owing to lockdowns) and higher international commodity prices (global fiscal and monetary stimulus). These supply factors will also have an impact on CPI inflation.

Food inflation edges up: Food inflation rose to 4.3% in Jul'20 from 3.1% in Jun'20 led by sharp increase in vegetable prices (an increase of 8.2% in Jul'20 from a decline of 9.2% in Jun'20). Prices of tomato soared by 19% in Jul'19 compared with a drop of 45.6% in in Jun'20 on the back of supply constraints, owing to localized lockdown and heavy rainfall. In addition, prices of protein based items such as eggs, meat and fish too inched up to 5-month high of 5.3% in Jul'20 (4.5% in Jun'20). However, cereal inflation eased to more than 2 year low of 0.7% in Jul'20 led by moderation in prices of both paddy (3.8% in Jul'20 from 4.5% in Jun'20) and wheat (2.7% in Jul'20 from 5.2% in Jun'20).

Deflation in fuel and power easing: Fuel and power inflation fell by 9.8% in Jul'20 versus a decline of 13.6% in Jun'20. Mineral oil price index fell by 15.5% in Jul'20 versus a decline of 27.4% seen in Jun'20. Within the mineral oils index, deflation in Kerosene, Naphtha, ATF and LPG reduced the most. Electricity prices which had increased by 5.2% in Jun'20, fell by 6.7% in Jul'20. We expect deflation in fuel and power to ease going forward as international crude prices are sustaining current levels (-24.4% in MTD Aug'20 versus -32.7% in Jul'20).

Core inflation picking up pace: Core inflation contracted less sharply in Jul'20 by 0.3% versus 0.9% in Jun'20. Manufactured inflation gathered pace and rose by 0.5% versus 0.1% increase in Jun'20. Of the 22 commodities, prices of 11 commodities rose, with basic metals, motor vehicles, leather products and other manufacturing items, taking the lead. With improvement in global demand, international commodity prices are now inching up and are 4.7% lower in Aug'20 on YoY basis as against a decline of 6.3% seen in Jul'20.

TRADE

14 August 2020

Imports catching up, non-oil exports improve

India's trade balance slipped into deficit of US$ 4.8bn in Jul'20 from a surplus of US$ 0.8bn in Jun'20. Rise in imports was driven by higher gold imports. Oil and non-oil-non-gold imports also contracted at a slower pace. Electronic imports are showing some revival as demand stabilizes after unlocking of the economy. Non-oil exports continue to show improvement led by pharma, agri and engineering goods. A muted trade deficit and foreign inflows imply INR will continue to see an appreciating bias in the near-term.

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KEY HIGHLIGHTS

- Exports decline by 10.2% in Jul'20 versus 12.4% in Jun'20.
- Imports contract by 28.4% in Jul'20 compared with 47.6% in Jun'20.
- Trade deficit at US$ 4.8bn versus a surplus of US$ 0.8b in Jun'20.

Steady improvement in exports: India's exports contracted by 10.2% in Jul'20 versus a decline of 12.4% in Jun'20. Most of the improvement was seen in exports of engineering goods (8.5% versus decline of 7.5% in Jun'20), drugs and pharma items (19.5% versus 9.9% in Jun'20) and agricultural products (10% versus 8.4% in Jun'20). However, significant contraction in exports of oil (51.5% versus 31.6% in Jun'20) and gems & jewelry (49.6% versus 50.1% in Jun'20), impacted the headline print. Chemical exports too slowed. On FYTD basis, exports are down by 30.1% compared with decline of 0.5% last year.

Imports pickup: Imports contracted by only 28.4% in Jul'20, after falling steeply by 47.6% in Jun'20 led by a 4.3% increase in gold imports (decline of 77.4% in Jun'20). Notably, gold prices increased by 30.4% YoY. Improvement was also seen in non-oil-non-gold imports which contracted by 29.2% in Jul'20 versus 41.4% drop in Jun'20. Imports of vegetables oils (27.4% versus 8.5%) and agricultural products (21.3% versus 1.2%) rose sharply. Moderation was visible in pace of contraction of electronics (4.3% versus 34.1%), pearls and precious stones (45.6% versus 70%) and capital goods imports (37.7% versus 42.2%). Oil imports however fell by 32% in Jul'20 (55.3% decline in Jun'20).

Trade deficit to remain muted: India's trade deficit increased to US$ 4.8bn in Jul'20 versus a surplus of US$ 0.8bn in Jun'20 as imports picked up faster than exports. Non-oil-non-gold imports are unlikely to see a significant pickup as consumer confidence remains weak. Thus, exports are likely to perform better as global economy recovers. In addition, range-bound oil prices imply trade deficit is likely to be far lower this year than last year. We expect trade deficit to shrink to 3-3.5% of GDP in FY21 versus 5.5% of GDP in FY20. Further, foreign inflows into India have resumed. The above backdrop suggests that INR is likely to see an appreciating bias in the near-term.

RESULT REVIEW

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BUY
TP: Rs 480 | ⮝ 16%

BHARAT PETROLEUM CORP

| Oil & Gas | 14 August 2020

GRMs outperform but marketing to aid earnings growth

BPCL's Q1FY21 earnings beat estimates driven by higher GRMs (US$ 1.9/bbl) and a surge in marketing margins. EBITDA outperformed at Rs 39bn (+80% YoY), clearly driven by the marketing segment while refining losses continued. Given that benchmark GRMs remain muted, BPCL's marketing segment provides strong hope for sustenance of earnings and ROE (>20% levels). We adjust FY21/FY22 earnings by +10%/–9% as we lower GRM and raise marketing margin estimates. Our TP changes to Rs 480 (from Rs 470) on rollover.

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GRMs outperform: BPCL's GRMs came in ahead of expectations at US$ 1.9/bbl (ex-inventory loss of US$ 1.5/bbl), beating the Singapore benchmark. Kochi GRMs outperformed the company average at US$ 2.8/bbl (ex-inventory loss) as its distillate yield improved. The GRM outlook remains muted considering sustained oil demand concerns amid the pandemic. We cut FY21/FY22 GRM estimates to US$ 1.5/US$ 2.5 (from US$ 4/US$ 4.5).

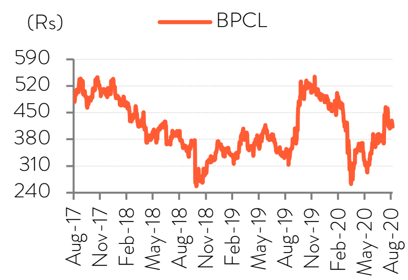
Marketing segment earnings surge: Q1 marketing business earnings (implied from GRM data) surged to Rs 45bn (Rs 5,433/mt). Sale volumes were better than estimates at 7.5mmt (–32% YoY), though diesel and other industrial products suffered market share losses. Marketing margins may remain robust as this segment offers strategic earnings growth potential in a muted GRM scenario. We raise marketing margin estimates for FY21/FY22 to ~Rs 2,900/mt (from Rs 1,900 earlier).

Divestment could drive valuations: At 9.7x FY22E EBITDA, BPCL's valuations remain at a significant premium to OMC peers, in the run-up to potential clarity on international bids for its divestment. The stock also looks lucrative given potential cash proceeds from divestment of Numaligarh Refinery (Rs 15bn PAT in FY20) in Dec'20E.

Ticker/Price	BPCL IN/Rs 413
Market cap	US$ 10.9bn
Shares o/s	1,967mn
3M ADV	US$ 59.3mn
52wk high/low	Rs 549/Rs 252
Promoter/FPI/DII	53%/12%/35%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	2,982,256	2,845,719	2,063,899	2,542,468	3,140,495
EBITDA (Rs mn)	151,122	83,490	155,003	151,260	177,846
Adj. net profit (Rs mn)	85,278	34,851	97,490	84,612	90,449
Adj. EPS (Rs)	43.4	17.7	49.6	43.0	46.0
Adj. EPS growth (%)	(12.9)	(59.1)	179.7	(13.2)	6.9
Adj. ROAE (%)	21.8	8.9	24.9	19.2	18.5
Adj. P/E (x)	9.5	23.3	8.3	9.6	9.0
EV/EBITDA (x)	7.7	14.5	8.6	9.6	8.5

Source: Company, BOBCAPS Research

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REDUCE
TP: Rs 2,700 | ⮟ 4%

HERO MOTOCORP | Automobiles | 14 August 2020

Optimism priced in – maintain REDUCE

Hero MotoCorp (HMCL) delivered a Q1FY21 revenue beat but disappointed on earnings due to lower operating efficiencies. Per management, production is gradually returning to normal and HMCL is gearing up to fill the low inventory levels at dealers ahead of the festive season. Supply is currently ahead of demand, but the company has the buffer of inventory filling. We adjust FY21/FY22 earnings by +5%/–5% and maintain REDUCE as valuations look full at 17x FY22E EPS. On rollover to Sep'21, our TP remains at Rs 2,700.

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Lower operating efficiencies impact Q1: Q1 revenues at Rs 29.7bn (–63% YoY) came in ahead of our estimate of Rs 26.6bn, purely driven by a 21% YoY jump in ASP (9% est.). Volumes for the quarter were down 69% YoY. Gross margin contraction of 120bps QoQ and lower operating efficiencies (fixed costs of Rs 2bn every month during lockdown) weighed on EBITDA (Rs 1.1bn, –91% YoY). EBITDA margin at 3.6% was far short of our estimate of 12.2%. Per management, adjusting for the lockdown impact EBITDA margin would have been higher at 12%. Adj. PAT declined 88% YoY to Rs 613mn.

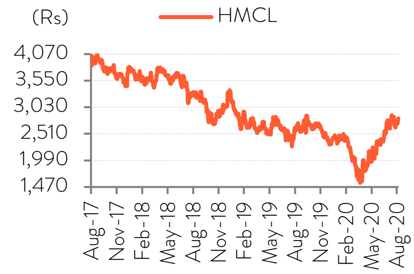
Ramping up production: All of HMCL's plants are now operational and gradually ramping up production. While inventory at dealers has been low and our channel checks suggest that retail demand in July was lower than June, the company intends to continue supply ahead of the upcoming festive season to take advantage of low inventories.

Maintain REDUCE: We expect HMCL to clock a CAGR of 9%/9%/9% in revenue/EBITDA/PAT during FY20-FY23. Following the recent stock rally, we believe market optimism is priced in and hence maintain REDUCE. Our Sep'21 TP of Rs 2,700 values the stock at an unchanged 15x one-year forward EPS.

Ticker/Price	HMCL IN/Rs 2,810
Market cap	US$ 7.5bn
Shares o/s	200mn
3M ADV	US$ 58.8mn
52wk high/low	Rs 3,023/Rs 1,475
Promoter/FPI/DII	35%/32%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	336,505	288,361	269,538	343,661	378,576
EBITDA (Rs mn)	49,301	39,580	32,862	45,166	50,167
Adj. net profit (Rs mn)	33,849	29,559	23,151	33,657	38,285
Adj. EPS (Rs)	169.5	148.0	115.9	168.5	191.7
Adj. EPS growth (%)	(8.5)	(12.7)	(21.7)	45.4	13.7
Adj. ROAE (%)	26.3	20.9	15.0	19.6	19.7
Adj. P/E (x)	16.6	19.0	24.2	16.7	14.7
EV/EBITDA (x)	11.4	14.1	17.0	12.4	11.1

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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