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FIRST LIGHT

17 May 2021

RESEARCH

Escorts | Target: Rs 1,350 | +16% | BUY
Fundamentals in place; valuations attractive – upgrade to BUY

Balkrishna Industries | Target: Rs 1,550 | –18% | SELL
Valuations rich; maintain SELL

Greenpanel Industries | Target: Rs 295 | +23% | BUY
Stellar performance, maintain BUY

Mphasis | Target: Rs 1,580 | –12% | SELL
DXC drag to continue; cut to SELL

SUMMARY

Escorts

Escorts (ESC) reported Q4FY21 revenue of Rs 22bn (+60% YoY) with above-expected ASP. Near-term demand looks hazy due to the Covid wave, but we believe fundamental drivers are in place and expect a 6% volume CAGR for FY21-FY23. The construction equipment and rail businesses are also likely to provide steady support. We raise FY22-FY23 revenue/EPS by 7-8% each and move to a new Mar'22 TP of Rs 1,350 (vs. Rs 1,150), set at 15x P/E. After correcting 18% in three months, the stock is at an attractive 13x FY23E EPS – raise from SELL to BUY.

Click here for the full report.

Balkrishna Industries

Balkrishna Industries (BIL) posted healthy Q4FY21 volume growth of 17% YoY to 68k MT, 15% ahead of our projections. Revenue increased 29% YoY and EBITDA margin stood at 31% (+360bps YoY), beating estimates. Management has guided for robust 10-17% YoY tonnage volume growth in FY22 coupled with a stable margin at 28-30% despite RM cost headwinds. Baking in the higher volume guidance, we revise FY22/FY23 EPS up 22%/16% and our Mar'22 TP to Rs 1,550 (vs. Rs 1,340). Retain SELL on rich valuations at 27x FY23E EPS

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.66	(3bps)	(1bps)	104bps
India 10Y yield (%)	6.01	0bps	0bps	23bps
USD/INR	73.43	(0.1)	2.2	2.8
Brent Crude (US$/bbl)	67.05	(3.3)	6.0	115.4
Dow	34,021	1.3	0.8	44.0
Shanghai	3,430	(1.0)	0.5	19.5
Sensex	48,691	(1.0)	1.7	56.4
India FII (US$ mn)	**11 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(24.3)	177.0	(2,215.3)	(188.0)
FII-E	97.5	(282.5)	5,554.7	(1,771.7)

Source: Bank of Baroda Economics Research

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Greenpanel Industries

Greenpanel Industries' (GREENP) consolidated Q4FY21 revenue grew 64% YoY aided by a 63%/65% increase in the MDF/plywood segments. Operating margin (ex-forex gains) expanded 375bps YoY, spurring EBITDA growth of 93% YoY. Management has guided for further net debt reduction by Rs 1.5bn in FY22. We raise FY22-FY23 PAT by ~5% each and hike our target P/E to 18x (vs. 15x) due to material improvement in balance sheet, return ratios and profitability. Maintain BUY with a revised Mar'22 TP of Rs 295 (vs. Rs 235).

Click here for the full report.

Mphasis

Mphasis (MPHL) reported dollar revenue growth of 1.8% QoQ in Q4FY21, underperforming our estimate. Growth was dragged down by a slow pickup in direct channel business, which grew 3% QoQ USD. EBIT margin at 16.1% (16.5% est.) declined 30bps QoQ. We prune FY22/FY23 EPS by 1%/2% and roll forward to a revised Mar'22 TP of Rs 1,580 (vs. Rs 1,550), based on an unchanged 17x P/E. Considering the laggardly performance vis-à-vis peers and non-renewal of DXC's MRC, we downgrade the stock to SELL (vs. REDUCE).

Click here for the full report.

BUY
TP: Rs 1,350 | ⮝ 16%

ESCORTS | Auto Components | 14 May 2021

Fundamentals in place; valuations attractive – upgrade to BUY

Escorts (ESC) reported Q4FY21 revenue of Rs 22bn (+60% YoY) with above-expected ASP. Near-term demand looks hazy due to the Covid wave, but we believe fundamental drivers are in place and expect a 6% volume CAGR for FY21-FY23. The construction equipment and rail businesses are also likely to provide steady support. We raise FY22-FY23 revenue/EPS by 7-8% each and move to a new Mar'22 TP of Rs 1,350 (vs. Rs 1,150), set at 15x P/E. After correcting 18% in three months, the stock is at an attractive 13x FY23E EPS – raise from SELL to BUY.

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Revenue beat but RM cost inflation hits margins: ESC's Q4 revenue of Rs 22bn (+60% YoY) was marginally above our estimate on better-than-expected ASP (+6% QoQ). Operating margin contracted 245bps QoQ to 15.6%, ~70bps short of our estimate owing to a below-expected gross margin. EBITDA/adj. PAT grew 77%/93% YoY to Rs 3.4bn/Rs 2.7bn.

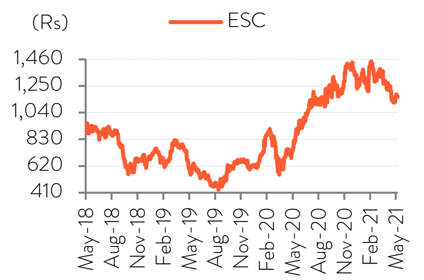
Demand drivers in place: After 26% YoY growth in FY21, we expect the domestic tractor industry to post a 6% volume CAGR over FY21-FY23 off a high base. Growth will be aided by a rising rural economy and aggressive infrastructure spends. ESC's construction and railway businesses (together 20% of revenue) continued to witness steady growth and improving margins in Q4.

Valuations compelling; upgrade to BUY: We raise FY22/FY23 revenue estimates ~8% each on higher realisations (input cost passthrough) and strong growth in other verticals, with EBITDA margin now forecast at 13.6% (vs. 13.5%) on better construction equipment margins. This leads to a ~7% rise in our EPS estimates. We now model for a revenue/EBITDA/PAT CAGR of 7%/–1%/7% over FY21-FY23. We reset our target FY23E P/E from 17x to 15x given the moderate growth outlook but upgrade to BUY as the stock is trading at attractive valuations of 13x FY23E EPS post an ~18% correction since Feb'21.

Ticker/Price	ESC IN/Rs 1,164
Market cap	US$ 1.9bn
Shares o/s	123mn
3M ADV	US$ 19.5mn
52wk high/low	Rs 1,468/Rs 799
Promoter/FPI/DII	40%/20%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	62,620	58,101	70,144	75,370	80,770
EBITDA (Rs mn)	7,226	6,624	11,268	10,221	10,960
Adj. net profit (Rs mn)	4,789	4,825	8,724	8,583	9,835
Adj. EPS (Rs)	48.8	49.2	79.1	77.8	89.2
Adj. EPS growth (%)	38.0	0.8	64.4	(1.6)	14.6
Adj. ROAE (%)	17.9	15.5	17.7	15.0	14.8
Adj. P/E (x)	23.8	23.6	14.7	15.0	13.1
EV/EBITDA (x)	19.4	21.2	12.4	12.6	12.3

Source: Company, BOBCAPS Research | P – Provisional

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SELL
TP: Rs 1,550 | ⮟ 18%

BALKRISHNA INDUSTRIES | Auto Components | 15 May 2021

Valuations rich; maintain SELL

Balkrishna Industries (BIL) posted healthy Q4FY21 volume growth of 17% YoY to 68k MT, 15% ahead of our projections. Revenue increased 29% YoY and EBITDA margin stood at 31% (+360bps YoY), beating estimates. Management has guided for robust 10-17% YoY tonnage volume growth in FY22 coupled with a stable margin at 28-30% despite RM cost headwinds. Baking in the higher volume guidance, we revise FY22/FY23 EPS up 22%/16% and our Mar'22 TP to Rs 1,550 (vs. Rs 1,340). Retain SELL on rich valuations at 27x FY23E EPS.

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Operational beat in Q4: Buoyed by 17% YoY volume growth and 10% improvement in ASP, BIL's Q4 revenue came in at Rs 17bn (+29% YoY) – ahead of our estimate. An above-expected gross margin further supported operational performance, leading to 360bps YoY EBITDA margin expansion to 31% (27.4% est.). EBITDA and adj. PAT both increased 45% YoY to Rs 5.4bn and Rs 3.7bn respectively.

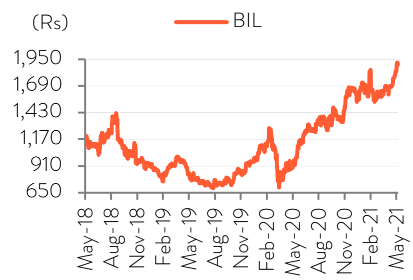
Robust volume guidance: Management has guided for volume sales of 250k-265k MT for FY22, implying 10-17% growth over FY21. EBITDA margin is also expected to remain rangebound at 28-30% despite raw material cost headwinds. Management expects costs to increase 5-6% QoQ in Q1FY22 and has taken cumulative price hikes of ~4% in CY21.

Maintain SELL on high valuations: We scale up FY22/FY23 EPS estimates by 22%/16% to incorporate higher volume growth and margin assumptions. Over FY21-FY23, we pencil in a revenue/EBITDA/PAT CAGR of 12%/7%/8% for BIL. Ascribing an unchanged 22x FY23E P/E multiple to the stock – in line with its 5Y average – we arrive at a new Mar'22 TP of Rs 1,550 (vs. Rs 1,340). BIL is trading at an expensive 27x FY23E EPS – retain SELL.

Ticker/Price	BIL IN/Rs 1,896
Market cap	US$ 5.0bn
Shares o/s	193mn
3M ADV	US$ 13.4mn
52wk high/low	Rs 1,965/Rs 915
Promoter/FPI/DII	58%/12%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	57,579	68,594	72,709
EBITDA (Rs mn)	13,125	12,494	17,855	19,332	20,492
Adj. net profit (Rs mn)	7,820	9,450	11,554	12,522	13,580
Adj. EPS (Rs)	40.5	48.9	59.8	64.8	70.3
Adj. EPS growth (%)	5.8	20.8	22.3	8.4	8.5
Adj. ROAE (%)	16.7	18.8	19.2	17.9	16.8
Adj. P/E (x)	46.9	38.8	31.7	29.3	27.0
EV/EBITDA (x)	28.7	30.0	21.0	19.4	18.3

Source: Company, BOBCAPS Research | P – Provisional

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BUY
TP: Rs 295 | ⮝ 23%

GREENPANEL INDUSTRIES | Construction Materials | 14 May 2021

Stellar performance, maintain BUY

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Greenpanel Industries' (GREENP) consolidated Q4FY21 revenue grew 64% YoY aided by a 63%/65% increase in the MDF/plywood segments. Operating margin (ex-forex gains) expanded 375bps YoY, spurring EBITDA growth of 93% YoY. Management has guided for further net debt reduction by Rs 1.5bn in FY22. We raise FY22-FY23 PAT by ~5% each and hike our target P/E to 18x (vs. 15x) due to material improvement in balance sheet, return ratios and profitability. Maintain BUY with a revised Mar'22 TP of Rs 295 (vs. Rs 235).

Strong volume growth: GREENP's revenue grew 64% YoY to Rs 3.9bn, with MDF up 63% as the segment's volumes climbed 54%. In plywood, revenue rose 65% YoY as volumes surged 58%. The consolidated print is commendable as the company had a strong base quarter when growth was up 36% YoY. Per management, Q1FY22 could see lockdown headwinds despite a decent April. GREENP has guided for further net debt reduction of Rs 1.5bn in FY22 (~Rs 1.7bn reduction in FY21). Working capital declined 10 days to 35 in FY21.

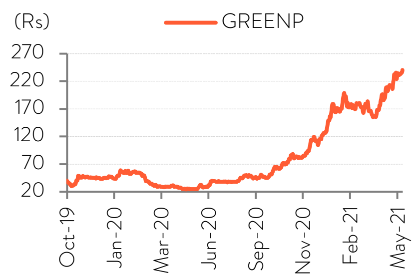
Robust profitability: EBITDA margin (ex-forex gains) expanded 375bps YoY to 24.6% aided by higher MDF/plywood profitability and better capacity utilisation, resulting in EBITDA/PBT growth of 93%/200% YoY. MDF margins rose 620bps YoY to 28.6% backed by better utilisation; plywood saw 710bps expansion to 15.5% due to cost optimisation and lower wastage. Management believes these margins are sustainable if utilisation levels are maintained.

Maintain BUY: GREENP had a robust FY21 and has strong demand tailwinds when markets reopen due to growing acceptance of readymade furniture and shift of the low-cost plywood market to MDF. Reiterate BUY on strong growth prospects and an improving debt and return ratio profile. Our Mar'22 TP of Rs 295 is based on 18x FY23E P/E.

Ticker/Price	GREENP IN/Rs 240
Market cap	US$ 402.0mn
Shares o/s	123mn
3M ADV	US$ 1.6mn
52wk high/low	Rs 245/Rs 24
Promoter/FPI/DII	53%/4%/43%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	10,208	13,278	15,782
EBITDA (Rs mn)	774	1,432	2,034	3,056	3,730
Adj. net profit (Rs mn)	228	253	778	1,482	1,998
Adj. EPS (Rs)	1.9	2.1	6.3	12.1	16.3
Adj. EPS growth (%)	NA	11.0	207.4	90.6	34.8
Adj. ROAE (%)	7.1	3.9	11.2	18.4	20.4
Adj. P/E (x)	129.3	116.4	37.9	19.9	14.7
EV/EBITDA (x)	NA	22.6	17.2	11.2	8.7

Source: Company, BOBCAPS Research | P – Provisional

SELL
TP: Rs 1,580 | ⮟ 12%

MPHASIS | IT Services | 14 May 2021

DXC drag to continue; cut to SELL

Mphasis (MPHL) reported dollar revenue growth of 1.8% QoQ in Q4FY21, underperforming our estimate. Growth was dragged down by a slow pickup in direct channel business, which grew 3% QoQ USD. EBIT margin at 16.1% (16.5% est.) declined 30bps QoQ. We prune FY22/FY23 EPS by 1%/2% and roll forward to a revised Mar'22 TP of Rs 1,580 (vs. Rs 1,550), based on an unchanged 17x P/E. Considering the laggardly performance vis-à-vis peers and non-renewal of DXC's MRC, we downgrade the stock to SELL (vs. REDUCE).

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BCM growth declines: MPHL's Q4 revenue grew 1.8% QoQ USD/2% CC, underperforming our estimate of 2.7%. The banking and capital markets (BCM) vertical contracted 4.3% vs. 1% growth in Q3 in INR terms. DXC revenue continued to slide, falling 7.2% QoQ USD. Growth now relies entirely on the direct-international segment (86% of revenue) as the minimum revenue commitment (MRC) with DXC ends in Sep'21. EBIT margin at 16.1% was down 30bps QoQ. Management expects the upward bias in EBIT margin to continue as higher demand for offshore services aids structural gains.

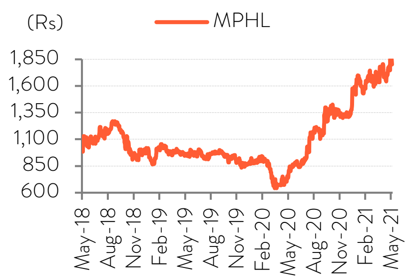
Deal pipeline strong: TCV stood at US$ 245mn vs. US$ 247mn in Q3. MPHL bagged a large 10-year deal worth ~US$ 250mn in the BFSI vertical. The pipeline remains strong, growing 55% YoY, and is now tilted towards large contracts which are transformation-led and integrated in nature.

Cut to SELL on DXC headwinds: DXC channel business continues to decline and there is little hope that the MRC will be renewed after Sep'21. MPHL has been able to mitigate its decline in DXC revenue (–43% YoY USD in Q4) with growth in the direct channel (+21% YoY), but the negative impact from DXC remains evident, leading to a subpar quarterly performance. We thus move to SELL from REDUCE.

Ticker/Price	MPHL IN/Rs 1,799
Market cap	US$ 4.6bn
Shares o/s	186mn
3M ADV	US$ 12.0mn
52wk high/low	Rs 1,883/Rs 786
Promoter/FPI/DII	52%/29%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	77,311	88,436	97,223	112,897	130,391
EBITDA (Rs mn)	13,240	16,505	18,028	22,187	25,663
Adj. net profit (Rs mn)	10,734	11,849	12,167	14,890	17,417
Adj. EPS (Rs)	57.7	63.7	65.4	80.0	93.6
Adj. EPS growth (%)	30.9	10.4	2.7	22.4	17.0
Adj. ROAE (%)	20.0	21.4	19.7	22.0	23.8
Adj. P/E (x)	31.2	28.3	27.5	22.5	19.2
EV/EBITDA (x)	25.1	20.2	18.6	15.1	13.0

Source: Company, BOBCAPS Research | P – Provisional

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Recommendation scale: 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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