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FIRST LIGHT

26 April 2021

RESEARCH

[#1 Meeting of Minds] Automobiles

Rubber prices headed for a structural bull run

GNA Axles | Target: Rs 450 | +11% | ADD

In-line operating performance; ADD

ICICI Bank | Target: Rs 675 | +18% | BUY

No negative pandemic surprises

HCL Technologies | Target: Rs 1,190 | +25% | BUY

Q4 in line; deal wins gain momentum

SUMMARY

Automobiles

We hosted Robert Meyer, an expert on natural rubber (NR). According to Meyer, NR prices are headed for a structural rise amidst a global GDP recovery and short supply situation. He expects prices to test 2010-11 highs, climbing from the current US$ 2/kg to US$ 5/kg. We believe this structural shift could have a significant impact on gross margins of Indian tyre manufacturers. Given a historical inability to pass on sudden cost increases, their earnings would be adversely affected. We maintain our negative stance on the tyre industry.

Click here for the full report.

GNA Axles

GNA Axles' (GNA) Q4FY21 revenue was 10% ahead of estimates at Rs 3.1bn (+72% YoY), led by healthy volumes. Operating margin expanded 520bps YoY, in line with expectations, spurring 2.5x YoY growth in EBITDA while adj. PAT surged 7.5x to Rs 276mn aided by below-estimated depreciation cost. We expect the US heavy truck market to bolster exports and a likely CV market revival to support domestic growth ahead. However, at 11x FY22E EPS, the stock carries limited upside – downgrade from BUY to ADD with an unchanged Mar'22 TP of Rs 450.

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	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	0bps	(17bps)	94bps
India 10Y yield (%)	6.07	0bps	(12bps)	(15bps)
USD/INR	74.89	0	(3.3)	2.3
Brent Crude (US$/bbl)	65.32	(1.9)	1.2	220.7
Dow	34,137	0.9	4.6	45.4
Shanghai	3,473	0	2.0	22.1
Sensex	47,706	(0.5)	(4.3)	52.0
India FII (US$ mn)	**19 Apr**	**MTD**	**CYTD**	**MTD**
FII-D	113.3	91.8	(1,935.5)	91.8
FII-E	(220.9)	(716.0)	6,610.3	(716.0)

Source: Bank of Baroda Economics Research

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ICICI Bank

ICICI Bank (ICICIBC) reported Q4FY21 PAT of Rs 44bn on 17% YoY growth in NII and 14% loan growth. Headline GNPA ratio reduced 40bps QoQ to 5% vs. proforma data and coverage continues to be best-in-class at ~78%. The bank remains confident of its underwriting standards and carries a reasonable Covid-related provision buffer of Rs 75bn (1% of loans) after using Rs 35bn in Q4. Loan growth is gradually gaining traction with strong 7% QoQ growth in retail credit. NIM improved 17bps QoQ to 3.8%. Retain BUY, Mar'22 TP unchanged at Rs 675.

Click here for the full report.

HCL Technologies

HCL Tech (HCLT) reported 3% QoQ dollar revenue growth in Q4FY21, in line with our estimate. EBIT margin stood at 20.4%, down 250bps QoQ. Management has guided for double-digit topline growth in FY22 and margins in the 19-21% range. We keep FY22/FY23 EPS estimates largely unchanged. Rolling valuations over, we have a new Mar'22 TP of Rs 1,190 (vs. Rs 1,150) based on an unchanged P/E of 18.8x. The company's healthy deal wins and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

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AUTOMOBILES | **#1 Meeting of Minds: An Expert Perspective** | 23 April 2021

Rubber prices headed for a structural bull run

Mayur Milak | Nishant Chowhan, CFA
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We hosted Robert Meyer, an expert on natural rubber (NR). According to Meyer, NR prices are headed for a structural rise amidst a global GDP recovery and short supply situation. He expects prices to test 2010-11 highs, climbing from the current US$ 2/kg to US$ 5/kg. We believe this structural shift could have a significant impact on gross margins of Indian tyre manufacturers. Given a historical inability to pass on sudden cost increases, their earnings would be adversely affected. We maintain our negative stance on the tyre industry.

Structural rise in NR price but not a super cycle: Many believe that NR, like other commodities, may also be in a super cycle alongside the global recovery. While this may not be entirely true, there is no denying that rubber prices are in a structural upward trajectory due to limited supply amidst global demand revival.

Fundamental supply-side issues: Globally, ~14mn hectares of land is under NR cultivation, producing ~14mn tonnes per annum (mtpa). While hectarage is measured precisely, the health of rubber trees has been a concern for quite some time now and thus global tapping could be overstated. The lower prices since FY12-FY13 have forced farmers to look at alternatives, thereby impacting supplies. Commercial tapping commences seven years after first planting.

Rubber prices could test 2010-11 highs: NR prices have soared over 75% from their lows after the pandemic hit demand and are currently hovering at ~US$ 2/kg (Rs 170/kg). With rising global demand and limited supplies, prices could easily test 2010-11 highs of US$ 5/kg over the next five years.

Our view: Back in 2010-11, NR prices hovered around Rs 220-240/kg. With significant rupee depreciation since then, US$ 5 now translates to Rs 370-380/kg, a jump of >50% since 2010-11. Back then, most Indian tyre manufacturers reported negative EBITDA growth despite an increase in revenue.

Global automotive demand absorbs most production: About 75% of NR is used for automotive tyres. Another 6-7% is used for other auto parts. In all, ~83% of NR produced is consumed by the auto sector. The demand forecast for CY21 amidst a global recovery is estimated at 13-15mtpa. Supply issues will start reflecting from CY22 when demand will keep rising while supplies will be impossible to increase.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
APTY IN	202	140	SELL
BIL IN	1,693	1,340	SELL
CEAT IN	1,440	780	SELL
JKI IN	110	70	SELL
MRF IN	78,350	67,000	SELL
SRTY IN	1,704	1,200	SELL

Price & Target in Rupees | Price as of 23 Apr 2021

Meeting of Minds
– **A BOBCAPS Auto & Aviation Initiative**

We are pleased to launch our 'Meeting of Minds' series where we host experts and leaders in various fields to discuss key events, trends and insights on the Auto, Ancillary, Tyre, Tractor and Aviation sectors.

ADD
TP: Rs 450 | ⮝ 11%

GNA AXLES | Auto Components | 23 April 2021

In-line operating performance; ADD

GNA Axles' (GNA) Q4FY21 revenue was 10% ahead of estimates at Rs 3.1bn (+72% YoY), led by healthy volumes. Operating margin expanded 520bps YoY, in line with expectations, spurring 2.5x YoY growth in EBITDA while adj. PAT surged 7.5x to Rs 276mn aided by below-estimated depreciation cost. We expect the US heavy truck market to bolster exports and a likely CV market revival to support domestic growth ahead. However, at 11x FY22E EPS, the stock carries limited upside – downgrade from BUY to ADD with an unchanged Mar'22 TP of Rs 450.

Mayur Milak | Nishant Chowhan, CFA
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Healthy Q4: GNA's topline grew 10% ahead of estimates at Rs 3.1bn (+72% YoY), reflecting strong volume growth in both tractors and CVs during the quarter. EBITDA stood at Rs 484mn with an in-line margin of 15.6%, down 185bps sequentially owing to input cost pressures. Higher topline growth and below-expected depreciation costs translated to a seven-fold YoY increase in PAT to Rs 276mn (vs. Rs 219mn estimated).

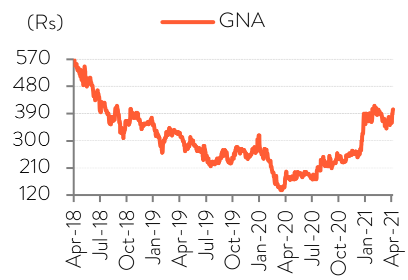
Three-pronged growth outlook: We model for a 7% earnings CAGR for GNA over FY21-FY23 underpinned by three pillars of growth: (1) strong export visibility from the US CV market – per ATA, truck volumes in the US will likely rebound 4.9% next year and then grow 3.2% per year on average through to 2026, (2) robust revival prospects for the domestic CV market – we expect a 41% CAGR in MHCVs over FY21-FY23, and (3) steady domestic tractor industry growth – at an estimated 6% volume CAGR through to FY23.

Downgrade to ADD: We project an 8% CAGR in rear axle volumes for the company during FY21-FY23, leading to a revenue CAGR of 14%. At ~15% margins, EBITDA is forecast to log an 8% CAGR. We continue to value the stock at 12x FY23E P/E, yielding an unchanged TP of Rs 450, but lower our rating from BUY to ADD on limited upside potential.

Ticker/Price	GNA IN/Rs 404
Market cap	US$ 37.5mn
Shares o/s	7mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 430/Rs 165
Promoter/FPI/DII	68%/1%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	9,283	9,090	8,896	10,675	11,491
EBITDA (Rs mn)	1,451	1,245	1,439	1,571	1,694
Adj. net profit (Rs mn)	659	528	706	762	814
Adj. EPS (Rs)	30.7	24.6	32.9	35.5	37.9
Adj. EPS growth (%)	29.4	(19.9)	33.8	7.9	6.8
Adj. ROAE (%)	17.7	12.4	14.7	13.9	13.3
Adj. P/E (x)	13.2	16.4	12.3	11.4	10.7
EV/EBITDA (x)	1.6	2.6	2.0	1.2	(0.6)

Source: Company, BOBCAPS Research | P – Provisional

BUY
TP: Rs 675 | ⮝ 18%

ICICI BANK | Banking | 24 April 2021

No negative pandemic surprises

ICICI Bank (ICICIBC) reported Q4FY21 PAT of Rs 44bn on 17% YoY growth in NII and 14% loan growth. Headline GNPA ratio reduced 40bps QoQ to 5% vs. proforma data and coverage continues to be best-in-class at ~78%. The bank remains confident of its underwriting standards and carries a reasonable Covid-related provision buffer of Rs 75bn (1% of loans) after using Rs 35bn in Q4. Loan growth is gradually gaining traction with strong 7% QoQ growth in retail credit. NIM improved 17bps QoQ to 3.8%. Retain BUY, Mar'22 TP unchanged at Rs 675.

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Tight leash on asset quality: GNPA ratio improved to 5% vs. 5.4% proforma in Q3. Overdue loans for <90 days were (a) marginally higher than pre-Covid levels in the retail EMI product and credit card portfolios (vs. 1.5% higher in Q3), (b) at pre-Covid rates in the SME/business banking segments, (c) 2.5% higher than pre-Covid levels in the rural portfolio (vs. 1.5% higher in Q3), and (d) at Q3 levels of ~2% in the domestic and overseas corporate loan books. The restructured book at 0.5% of loans remains manageable.

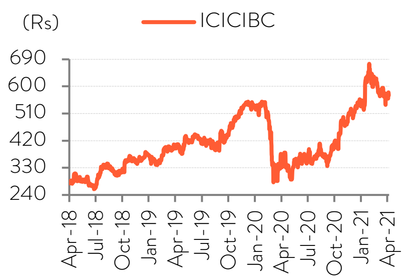
Healthy provisioning buffers: ICICIBC used Rs 35bn of contingency provisions made on proforma NPAs but further strengthened its balance sheet by adding Covid-related provisions of Rs 10bn in Q4. It now has a pandemic provision buffer worth Rs 75bn or 1% of loans which looks reasonable. The bank reversed Rs 1.75bn from interest income towards refund of interest-on-interest.

Gradual return to growth: Overall loan growth at 14% YoY was higher than industry, driven by 20% YoY and 7% QoQ growth in the retail segment. Management highlighted that disbursements in mortgage, auto, commercial and personal loans as well as credit cards were higher QoQ. Domestic corporate loans grew 13% YoY backed by disbursements to higher rated corporates and public sector undertakings.

Ticker/Price	ICICIBC IN/Rs 570
Market cap	US$ 52.5bn
Shares o/s	6,916mn
3M ADV	US$ 209.5mn
52wk high/low	Rs 679/Rs 286
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	270,148	332,671	389,894	473,360	568,950
NII growth (%)	17.3	23.1	17.2	21.4	20.2
Adj. net profit (Rs mn)	33,633	79,308	161,927	208,693	277,225
EPS (Rs)	5.2	12.3	24.2	30.2	40.1
P/E (x)	109.1	46.4	23.6	18.9	14.2
P/BV (x)	3.4	3.2	2.7	2.4	2.1
ROA (%)	0.4	0.8	1.4	1.6	1.8
ROE (%)	3.2	7.1	12.3	13.5	16.0

Source: Company, BOBCAPS Research

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BUY
TP: Rs 1,190 | ⮝ 25%

HCL TECHNOLOGIES | IT Services | 23 April 2021

Q4 in line; deal wins gain momentum

HCL Tech (HCLT) reported 3% QoQ dollar revenue growth in Q4FY21, in line with our estimate. EBIT margin stood at 20.4%, down 250bps QoQ. Management has guided for double-digit topline growth in FY22 and margins in the 19-21% range. We keep FY22/FY23 EPS estimates largely unchanged. Rolling valuations over, we have a new Mar'22 TP of Rs 1,190 (vs. Rs 1,150) based on an unchanged P/E of 18.8x. The company's healthy deal wins and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

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Robust in-line performance: Q4 revenue grew 3% USD/2.5% CC QoQ, in line with our estimate of 3% USD/2.4% CC. Growth was driven by the Mode-1 and 2 businesses which grew 3.7% and 6.2% QoQ, USD respectively. Demand has risen for digital, cloud, products and platforms. Among verticals, energy and utilities, life sciences and BFSI led the way. Five of seven verticals posted positive USD growth. EBIT margin was at a 20.4% (21% est.), down 250bps QoQ due to salary hikes, seasonality and fresher hiring. A one-off milestone bonus-related expense of ~Rs 5.8bn saw reported PAT decline 40% QoQ.

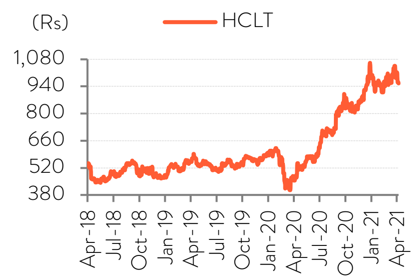
Healthy FY22 guidance: Management has guided for double-digit revenue growth in FY22, in line with our estimates. EBIT margin is guided to be in the range of 19-21%. HCLT registered a record 19 deal wins vs. 13 in Q3FY21 and 14 in Q4FY20. Most are midsized deals spanning 3-5 years. The pipeline for products and platforms also remains strong.

Maintain BUY: We remain positive on HCLT given continued strength of its Mode-2 and Mode-3 businesses which have performed well despite Covid-19, strong deal wins and stable margins. We expect 13.6%/10.2% USD growth for FY22/FY23 and EBIT margin in the range of 21.5-22%.

Ticker/Price	HCLT IN/Rs 956
Market cap	US$ 34.6bn
Shares o/s	2,713mn
3M ADV	US$ 77.5mn
52wk high/low	Rs 1,067/Rs 465
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	604,280	706,780	753,790	884,469	997,050
EBITDA (Rs mn)	140,020	166,930	200,560	239,573	270,762
Adj. net profit (Rs mn)	99,757	110,940	130,660	148,833	171,734
Adj. EPS (Rs)	36.7	40.9	48.1	54.8	63.3
Adj. EPS growth (%)	16.3	11.5	17.8	13.9	15.4
Adj. ROAE (%)	25.2	23.5	22.9	22.6	23.1
Adj. P/E (x)	26.1	23.4	19.8	17.4	15.1
EV/EBITDA (x)	18.4	15.4	12.9	10.8	9.2

Source: Company, BOBCAPS Research | P – Provisional

Disclaimer

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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