

RESEARCH

Axis Bank | Target: Rs 760 | +20% | BUY

Prudent provisioning dampens earnings but fortifies balance sheet

Greenpanel Industries | Target: Rs 230 | +39% | BUY

Significant all-round beat, outlook bright

SUMMARY

Axis Bank

Axis Bank's (AXSB) Q3FY21 PAT of Rs 11.2bn (-36% YoY) was marred by high provisions. Its standard asset coverage ratio at ~2.1% of loans is one of the highest among large private banks. Slippages rose to ~Rs 67bn as the bank absorbed most of the pain post moratorium but are guided to be lower in Q4. The Covid-specific restructuring book at ~Rs 27bn (0.4% of customer assets) is unlikely to increase. We raise our TP to Rs 760 (vs. Rs 630) as we hike FY22-FY23 EPS 9-13%, roll to Mar'23 valuations and now value the core book at 1.7x P/BV.

[Click here for the full report.](#)

Greenpanel Industries

Greenpanel Industries' (GREENP) Q3FY21 consolidated revenue grew 34.5% YoY aided by a 44% increase in the MDF segment. Operating margins (ex-forex loss) expanded 705bps YoY to 22% backed by stronger MDF profitability, spurring EBITDA growth of 98% YoY. Management has guided for 100-110% utilisation with 25% margins in MDF and net debt reduction to Rs 2.5bn in FY22. We raise FY21-FY23 EBITDA by 13-30% given the beat on revenue and margins. Maintain BUY as we roll to a new Mar'22 TP of Rs 230 (vs. Rs 165).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.03	1bps	11bps	(62bps)
India 10Y yield (%)	5.92	1bps	3bps	(66bps)
USD/INR	72.95	0	0.8	(2.3)
Brent Crude (US\$/bbl)	55.91	0.1	9.0	(6.0)
Dow	30,937	(0.1)	2.4	7.7
Shanghai	3,569	(1.5)	6.1	19.9
Sensex	48,348	(1.1)	2.9	18.0
India FII (US\$ mn)	22 Jan	MTD	CYTD	FYTD
FII-D	239.1	(425.0)	(425.0)	(4,518.6)
FII-E	(114.9)	3,143.0	3,143.0	33,118.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



BUY

TP: Rs 760 | ▲ 20%

AXIS BANK

| Banking

| 27 January 2021

Prudent provisioning dampens earnings but fortifies balance sheet

Axis Bank's (AXSB) Q3FY21 PAT of Rs 11.2bn (-36% YoY) was marred by high provisions. Its standard asset coverage ratio at ~2.1% of loans is one of the highest among large private banks. Slippages rose to ~Rs 67bn as the bank absorbed most of the pain post moratorium but are guided to be lower in Q4. The Covid-specific restructuring book at ~Rs 27bn (0.4% of customer assets) is unlikely to increase. We raise our TP to Rs 760 (vs. Rs 630) as we hike FY22-FY23 EPS 9-13%, roll to Mar'23 valuations and now value the core book at 1.7x P/BV.

Vikesh Mehta

research@bobcaps.in

Q4 likely to see lower slippages: AXSB's proforma GNPA ratio increased to 4.55% (vs. 4.28% in Q2) given slippages worth ~Rs 67bn. About 84% of the slippages stemmed from retail lending and was evenly split between secured and unsecured products. The bank has absorbed most of the post moratorium pain and expects slippages to be lower in Q4. Collection resolution rates across products are back at pre-Covid levels and retail demand resolution has risen to 98% in Dec'20 vs. 94% in Sep'20. Covid-specific restructuring at 0.4% of gross customer assets was far lower than the 1.7% levels anticipated in Q2 and is unlikely to increase further.

Retail disbursements above pre-Covid levels: The loan book grew ~6% YoY largely led by 9% growth in retail loans. Management highlighted that the bank will not chase growth at the expense of margins – corporates are currently demanding steeply discounted loan rates but the bank is not encouraging disbursements at overly competitive levels. Retail loan disbursements grew 37% QoQ aided by secured segments such as home, LAP and auto loans.

Maintain BUY: We cut our FY21 EPS by 43% but raise FY22-FY23 estimates 9-13% to bake in lower credit costs. We value the core book at 1.7x P/BV (vs. 1.5x earlier) and roll forward to a new Mar'22 SOTP-based TP of Rs 760.

Ticker/Price	AXSB IN/Rs 632
Market cap	US\$ 22.7bn
Shares o/s	2,620mn
3M ADV	US\$ 174.8mn
52wk high/low	Rs 761/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	217,082	252,062	298,282	364,852	435,461
NII growth (%)	16.6	16.1	18.3	22.3	19.4
Adj. net profit (Rs mn)	46,766	16,272	57,075	148,293	178,323
EPS (Rs)	18.2	6.0	19.4	48.4	58.2
P/E (x)	34.7	104.8	32.6	13.1	10.9
P/BV (x)	2.4	2.1	1.9	1.7	1.5
ROA (%)	0.6	0.2	0.6	1.4	1.4
ROE (%)	7.2	2.1	6.2	14.0	15.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 230 | ▲ 39%

**GREENPANEL
INDUSTRIES**

Construction Materials

27 January 2021

Significant all-round beat, outlook bright

Greenpanel Industries' (GREENP) Q3FY21 consolidated revenue grew 34.5% YoY aided by a 44% increase in the MDF segment. Operating margins (ex-forex loss) expanded 705bps YoY to 22% backed by stronger MDF profitability, spurring EBITDA growth of 98% YoY. Management has guided for 100-110% utilisation with 25% margins in MDF and net debt reduction to Rs 2.5bn in FY22. We raise FY21-FY23 EBITDA by 13-30% given the beat on revenue and margins. Maintain BUY as we roll to a new Mar'22 TP of Rs 230 (vs. Rs 165).

Arun Baid

research@bobcaps.in

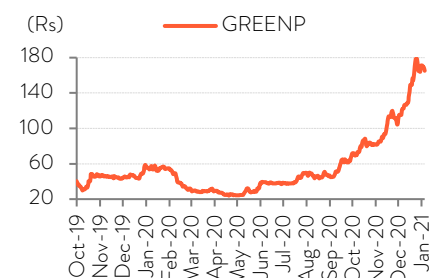
MDF segment leads revenue growth: GREENP's revenue grew 34.5% YoY to Rs 3.2bn, with MDF up 44% as the segment's volumes climbed 43% on the back of demand from small cities and towns. In plywood, volumes increased 12% YoY whereas realisations declined 6%. Management has guided for MDF capacity utilisation of 100-110% in FY22 (vs. ~70% in FY21E) and operating margins of 25%. The company believes segmental margins can improve to ~26.5% in FY23 after backward integration. MDF capacity will rise to ~0.65mn CBM (from ~0.59mn CBM) post debottlenecking by end-Q3FY22.

Strong profitability: EBITDA margins (ex-forex loss) expanded 705bps YoY to 22% aided by higher MDF profitability and better capacity utilisation, resulting in EBITDA/PBT growth of 98%/6x YoY. MDF margins rose 730bps YoY to 24.5% backed by better utilisation; plywood saw 320bps expansion to 14.7% due to cost optimisation and lower wastage. Management has guided for FY22 margins of ~25% in MDF (on higher utilisation) and 15% in plywood.

Maintain BUY: GREENP has strong demand tailwinds due to growing usage of readymade furniture and gradual replacement of low-cost plywood by MDF. We continue to like the company for its strong growth prospects and improving debt and return ratio profile. BUY with a revised Mar'22 TP of Rs 230.

Ticker/Price	GREENP IN/Rs 165
Market cap	US\$ 278.0mn
Shares o/s	123mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 188/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

STOCK PERFORMANCE**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	9,517	13,063	14,984
EBITDA (Rs mn)	774	1,432	1,798	2,932	3,538
Adj. net profit (Rs mn)	228	253	603	1,395	1,853
Adj. EPS (Rs)	1.9	2.1	4.9	11.4	15.1
Adj. EPS growth (%)	NA	11.0	138.3	131.4	32.8
Adj. ROAE (%)	7.1	3.9	8.8	18.0	19.8
Adj. P/E (x)	88.9	80.1	33.6	14.5	10.9
EV/EBITDA (x)	NA	16.1	14.4	8.5	6.7

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 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.