FIRST LIGHT

29 October 2020

RESEARCH

Supreme Industries | Target: Rs 1,325 | –9% | SELL

Margin expansion largely inventory-led; cut to SELL

CEAT | Target: Rs 830 | –28% | SELL

Healthy Q2 but long-term woes remain; cut to SELL

Axis Bank | Target: Rs 630 | +25% | BUY

Positive readthrough on asset quality parameters

Dr Reddy's Labs | Target: Rs 5,320 | +7% | ADD

All-round beat; H2 catalysts tracking well

RBL Bank | Target: Rs 150 | –14% | SELL

Asset quality aided by loan classification standstill

SUMMARY

Supreme Industries

Supreme Industries' (SI) Q2FY21 revenue grew 8% YoY, aided by a 1% rise in volumes. EBITDA margins expanded 500bps YoY to 18.6% on lower RM cost and other expense. EBITDA/PBT grew 48%/76% YoY. Management did not proffer FY21 guidance due to sustained Covid uncertainty. We hike FY21-FY23 earnings 9-49% due to the above-expected Q2 and raise our target P/E to 28x (from 27x). Rolling over, we have a revised Dec'21 TP of Rs 1,325 (vs. Rs 1,120). At 29.8x FY23E P/E, valuations look rich – cut from REDUCE to SELL.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	135
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 (%)	0.77	(3bps)	11bps	(107bps)
India 10Y yield (%)	5.85	1bps	(19bps)	(67bps)
USD/INR	73.72	0.2	(0.1)	(4.1)
Brent Crude (US$/bbl)	41.20	1.8	(1.7)	(33.1)
Dow	27,463	(0.8)	1.1	1.4
Shanghai	3,254	0.1	1.1	10.2
Sensex	40,522	0.9	8.4	1.7
India FII (US$ mn)	**26 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(6.3)	611.2	(14,068.6)	(4,309.1)
FII-E	15.0	2,328.0	6,368.1	12,971.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
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CEAT

CEAT surprised positively on both revenue and earnings in Q2FY21, led by strong replacement demand and above-expected operating efficiency. Revenue was up 17% YoY and operating margin expanded 470bps YoY. We continue to believe that capex (~Rs 35bn) will far exceed estimated operating cash flow (~Rs 22bn) over FY20-FY23, necessitating external funding and adding pressure on both balance sheet and earnings. We retain our TP of Rs 830 (14x Sep'22E EPS) but downgrade the stock to SELL from REDUCE after the recent rally.

Click here for the full report.

Axis Bank

Axis Bank's (AXSB) Q2FY21 PAT was healthy at Rs 17bn driven by 20% YoY growth in NII and a 16% uptick in operating profit. Proforma GNPA ratio declined 75bps QoQ to 4.3%. Demand resolution trends are strong (97% in Oct), 30dpd is encouraging at 2.3% as of Q2, and restructuring is expected to be manageable. AXSB is seeing some traction in retail business with disbursals in select secured segments reaching 95% of last year. Given improving asset trends, we value the core book at 1.5x (vs. 1.2x) which yields a higher Sep'21 TP of Rs 630 (vs. Rs 530).

Click here for the full report.

Dr Reddy's Labs

Dr Reddy's (DRRD) reported a Q2 EBITDA beat of 13% led by better operating leverage across markets. EBITDA margin was stable QoQ at 25% despite a 2ppt fall in gross margin and higher integration cost on Wockhardt. India sales (+21.5% YoY, 5% ex-Wockhardt), Russia/CIS (+28% QoQ), and the US (8% QoQ) were strong; PSAI was in line. DRRD is confident of containing SGA at ~20%. Key H2 catalysts are Q2 launch traction, gVascepa & Russia/CIS recovery. We raise FY22/ FY23 EPS by ~7%; retain ADD with a new Sep'21 TP of Rs 5,320 (vs. Rs 4,640).

Click here for the full report.

RBL Bank

RBL Bank's (RBK) Q2FY21 operating performance remained weak as NII growth slowed to 7% YoY and provisions stayed high. Collection efficiency in the credit card portfolio was ~90% and ~9% of the portfolio is still overdue. Covid-related provision buffer was raised to 1.2% of loans while FY21 credit cost guidance was maintained at around last year levels. NIM fell to 4.3% on interest reversal. Post the proposed capital raise of ~Rs 16bn from a 9.5% stake sale to Maple II, CET1 will improve to 17.4%. Maintain SELL with an unchanged Sep'21 TP of Rs 150.

Click here for the full report.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,325 | ∀ 9%

SUPREME INDUSTRIES | Plastic Products | 28 October 2020

Margin expansion largely inventory-led; cut to SELL

Supreme Industries' (SI) Q2FY21 revenue grew 8% YoY, aided by a 1% rise in volumes. EBITDA margins expanded 500bps YoY to 18.6% on lower RM cost and other expense. EBITDA/PBT grew 48%/76% YoY. Management did not proffer FY21 guidance due to sustained Covid uncertainty. We hike FY21-FY23 earnings 9-49% due to the above-expected Q2 and raise our target P/E to 28x (from 27x). Rolling over, we have a revised Dec'21 TP of Rs 1,325 (vs. Rs 1,120). At 29.8x FY23E P/E, valuations look rich – cut from REDUCE to SELL.

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Volumes flattish: SI's revenue grew 8% YoY to Rs 13.7bn in Q2. Plastic piping/ industrials/packaging revenues increased 4%/7%/11% YoY, whereas the consumer segment declined 1%. Volume growth came from industrials (+13.4% YoY) and packaging (+10.6%); piping declined 1.8%, resulting in blended volume growth of 1.4% YoY. Management indicated a demand revival for housing pipes from September and anticipates further improvement provided the pandemic situation does not worsen.

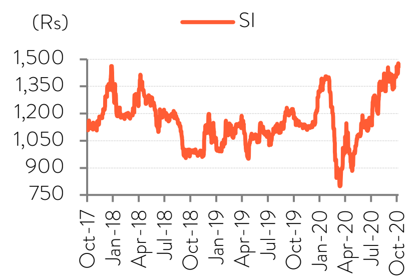
Inventory gains aid margins: SI's operating margins expanded 500bps YoY to 18.6% due to lower raw material cost (–425bps) and other expenditure (–48bps). Gross margins increased in Q2 mainly from inventory gains due to rising PVC resin prices and a better product mix. EBITDA/PBT for the quarter thus rose 48%/76% YoY. Per management, recent cost control measures would continue to aid margins, though SI could face inventory losses in Q4 when PVC prices likely normalise.

Downgrade to SELL: Though we like SI for its strong brand, comprehensive portfolio and sound balance sheet, we find current valuations of 29.8x FY23E P/E rich and hence downgrade the stock from REDUCE to SELL. Our revised Dec'21 TP stands at Rs 1,325.

Ticker/Price	SI IN/Rs 1,459
Market cap	US$ 2.5bn
Shares o/s	127mn
3M ADV	US$ 1.4mn
52wk high/low	Rs 1,500/Rs 773
Promoter/FPI/DII	49%/9%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,087	54,211	61,249	67,734
EBITDA (Rs mn)	7,812	8,563	8,100	9,334	10,556
Adj. net profit (Rs mn)	3,683	4,866	4,534	5,429	6,212
Adj. EPS (Rs)	29.0	38.3	35.7	42.7	48.9
Adj. EPS growth (%)	(13.2)	32.1	(6.8)	19.8	14.4
Adj. ROAE (%)	18.2	22.0	19.1	20.6	21.2
Adj. P/E (x)	50.3	38.1	40.9	34.1	29.8
EV/EBITDA (x)	23.5	21.5	22.7	19.7	17.5

Source: Company, BOBCAPS Research

RESULT REVIEW

SELL
TP: Rs 830 | ∀ 28%

CEAT | Auto Components | 28 October 2020

Healthy Q2 but long-term woes remain; cut to SELL

CEAT surprised positively on both revenue and earnings in Q2FY21, led by strong replacement demand and above-expected operating efficiency. Revenue was up 17% YoY and operating margin expanded 470bps YoY. We continue to believe that capex (~Rs 35bn) will far exceed estimated operating cash flow (~Rs 22bn) over FY20-FY23, necessitating external funding and adding pressure on both balance sheet and earnings. We retain our TP of Rs 830 (14x Sep'22E EPS) but downgrade the stock to SELL from REDUCE after the recent rally.

Mayur Milak | Nishant Chowhan, CFA
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Strong Q2FY21: At Rs 19.7bn (+17% YoY), revenue was 15% ahead of our estimate led by strong replacement demand (+30%). Healthy gross margins, a better product mix and higher operating efficiencies supported EBITDA margin expansion of 470bps YoY to 14.8%. CEAT received the NCLT's nod to merge CEAT Specialty Tyres (CSTL) and thus tax on accumulated losses at CSTL was adjusted in Q2, leading to adj. PAT growth of 3.4x YoY to Rs 1.7bn.

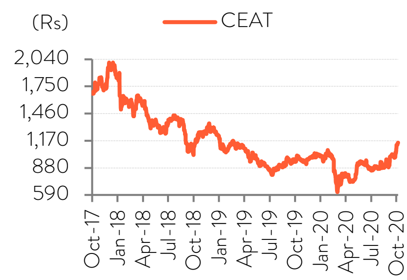
Borrowings to erode return ratios: We estimate ~Rs 22bn of cumulative operating cash flow during FY20-FY23. Even the company's reduced capex plan of Rs 31bn for this period clearly warrants external borrowings to the tune of Rs 13bn-14bn. This will shave 260-270bps off ROE and ROCE (to 7% and 6.3% respectively in FY23E), despite assuming significant improvement in working capital cycle. Net D/E of 0.5x is forecast to spike to 0.8x by FY23.

Downgrade to SELL: External borrowings to fund capex will not only undermine the balance sheet, but also depress profits due to higher interest. Rising input costs could pressure margins, per management. We model for a steady EBITDA margin of ~11% and project a revenue/EBITDA/adj. PAT CAGR of +9%/+12%/−7% over FY20-FY23. The stock has rallied ~30% over the past three months, leading us to downgrade to SELL. Our Sep'21 TP remains unchanged at Rs 830.

Ticker/Price	CEAT IN/Rs 1,148
Market cap	US$ 628.6mn
Shares o/s	40mn
3M ADV	US$ 3.5mn
52wk high/low	Rs 1,249/Rs 600
Promoter/FPI/DII	47%/28%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	68,313	65,811	63,466	76,980	85,085
EBITDA (Rs mn)	5,965	7,053	6,746	8,663	9,841
Adj. net profit (Rs mn)	2,889	3,005	1,817	2,390	2,400
Adj. EPS (Rs)	71.4	74.3	44.9	59.1	59.3
Adj. EPS growth (%)	3.7	4.0	(39.5)	31.5	0.4
Adj. ROAE (%)	10.5	10.3	5.9	7.1	6.7
Adj. P/E (x)	16.1	15.5	25.6	19.4	19.3
EV/EBITDA (x)	8.9	7.8	8.9	7.4	7.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 630 | ⮝ 25%

AXIS BANK | Banking | 29 October 2020

Positive readthrough on asset quality parameters

Axis Bank's (AXSB) Q2FY21 PAT was healthy at Rs 17bn driven by 20% YoY growth in NII and a 16% uptick in operating profit. Proforma GNPA ratio declined 75bps QoQ to 4.3%. Demand resolution trends are strong (97% in Oct), 30dpd is encouraging at 2.3% as of Q2, and restructuring is expected to be manageable. AXSB is seeing some traction in retail business with disbursals in select secured segments reaching 95% of last year. Given improving asset trends, we value the core book at 1.5x (vs. 1.2x) which yields a higher Sep'21 TP of Rs 630 (vs. Rs 530).

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Demand resolution encouraging: AXSB's demand resolution trend in Sep'20 stood at 94% and has improved to 97% currently. Further, its 30dpd stands at 2.3% as of Q2FY21, which in our view indicates a potential return to normalcy for the bank. No loans were restructured in Q2 but based on an internal assessment, management believes this book would be manageable and has already made a provision of ~20% on the same. The BB-&-below rated pool rose 70bps to 2.6% of loans largely due to probable restructuring. Cumulative specific, standard, additional and Covid-related provisions are at 124% of GNPA.

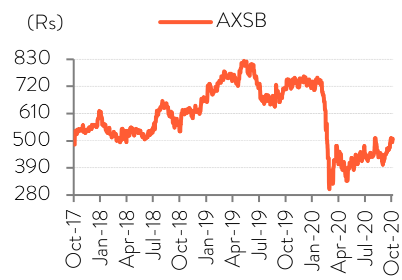
Strong corporate growth; NIM surprises positively: Corporate loan growth (including TLTRO investments) stood at 22% YoY. SME loans increased 6% QoQ and management expects this book to grow as working capital utilisation limits will increase once demand picks up. NIM improved 18bps QoQ to 3.6% largely due to better spreads and lower interest reversals.

Maintain BUY: Deriving comfort from the improved credit cover, higher collection efficiency and manageable restructuring expectations, we now value the core book at 1.5x vs. 1.2x earlier – this yields a higher Sep'21 SOTP-based TP of Rs 630 (vs. Rs 530 earlier). BUY.

Ticker/Price	AXSB IN/Rs 505
Market cap	US$ 17.9bn
Shares o/s	2,620mn
3M ADV	US$ 148.9mn
52wk high/low	Rs 766/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	274,467	321,418	371,348
NII growth (%)	16.6	16.1	8.9	17.1	15.5
Adj. net profit (Rs mn)	46,766	16,272	96,221	125,580	145,158
EPS (Rs)	18.2	6.0	34.1	44.5	51.4
P/E (x)	27.7	83.6	14.8	11.3	9.8
P/BV (x)	1.9	1.7	1.5	1.4	1.2
ROA (%)	0.6	0.2	1.0	1.1	1.2
ROE (%)	7.2	2.1	10.8	12.8	13.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 5,320 | ⮝ 7%

DR REDDY'S LABS | Pharmaceuticals | 28 October 2020

All-round beat; H2 catalysts tracking well

Dr Reddy's (DRRD) reported a Q2 EBITDA beat of 13% led by better operating leverage across markets. EBITDA margin was stable QoQ at 25% despite a 2ppt fall in gross margin and higher integration cost on Wockhardt. India sales (+21.5% YoY, 5% ex-Wockhardt), Russia/CIS (+28% QoQ), and the US (8% QoQ) were strong; PSAI was in line. DRRD is confident of containing SGA at ~20%. Key H2 catalysts are Q2 launch traction, gVascepa & Russia/CIS recovery. We raise FY22/ FY23 EPS by ~7%; retain ADD with a new Sep'21 TP of Rs 5,320 (vs. Rs 4,640).

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All-round sales beat; H2 catalysts tracking well: DRRD reported 11% QoQ sales growth led by strong volume traction in the base (ex-PSAI), offsetting the price erosion impact. India sales grew 21.5% YoY (strong growth in acquired Wockhardt brands) and the US grew 8% QoQ to US$ 249mn (stable base, Ciprodox launch). DRRD launched nine ANDAs in Q2 (incl. two injectables – Faslodex, Precedex – two OTC drugs and Tecfidera) and gVascepa (~US$ 50mn sales opportunity), which should aid H2 sales. Russia/CIS grew 28% QoQ on volume recovery. Higher stocking continued to drive PSAI sales. We expect US sales of US$ 1.15bn by FY22 (12% CAGR over FY20, 5% ex-Copaxone, Vascepa).

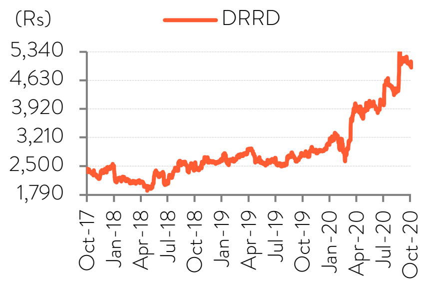
EBITDA margins surprise: Gross margin fell 200bps QoQ to 54% on adverse forex and export incentive withdrawal (Sep month impact only). DRRD retains gross margin guidance of 53-56%. EBITDA margin was healthy at 25% despite full Wockhardt integration cost and higher promotional spends. Led by digital initiatives, DRRD expects to contain SGA at ~20%, supporting healthy margins.

Earnings call takeaways: (1) Customer stocking boosted H1 PSAI; expected to normalise. (2) Sputnik-V vaccine: targeting 100mn dose capacity over time; phase-3 trial completion by May'21. (3) Expects +30 ANDA launches in FY21 vs. 25 earlier. (4) Remdesivir traction picking up, capacity expansion underway.

Ticker/Price	DRRD IN/Rs 4,951
Market cap	US$ 11.1bn
Shares o/s	166mn
3M ADV	US$ 171.1mn
52wk high/low	Rs 5,513/Rs 2,495
Promoter/FPI/DII	27%/27%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	153,852	174,601	195,637	218,858	255,147
EBITDA (Rs mn)	31,333	40,942	47,520	51,976	64,873
Adj. net profit (Rs mn)	17,895	32,248	28,784	32,321	42,893
Adj. EPS (Rs)	107.8	194.3	173.4	194.7	258.4
Adj. EPS growth (%)	90.3	80.2	(10.7)	12.3	32.7
Adj. ROAE (%)	13.8	23.1	18.5	17.8	19.9
Adj. P/E (x)	45.9	25.5	28.6	25.4	19.2
EV/EBITDA (x)	27.2	20.6	17.4	15.4	11.8

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 150 | ∀ 14%

RBL BANK | Banking | 28 October 2020

Asset quality aided by loan classification standstill

Vikesh Mehta
research@bobcaps.in

RBL Bank's (RBK) Q2FY21 operating performance remained weak as NII growth slowed to 7% YoY and provisions stayed high. Collection efficiency in the credit card portfolio was ~90% and ~9% of the portfolio is still overdue. Covid-related provision buffer was raised to 1.2% of loans while FY21 credit cost guidance was maintained at around last year levels. NIM fell to 4.3% on interest reversal. Post the proposed capital raise of ~Rs 16bn from a 9.5% stake sale to Maple II, CET1 will improve to 17.4%. Maintain SELL with an unchanged Sep'21 TP of Rs 150.

Proforma GNPA largely stable: Headline proforma NPA was stable at ~3.5% (including regulatory standstill, GNPA declined to 3.3%). Collection efficiency in the credit card portfolio was at ~90% (94% of pre-Covid levels), while 6.7% of the micro-banking portfolio is still overdue. About 9% of the credit card portfolio is currently overdue which includes ~5% of loans that have not paid dues since April. Management estimates credit costs in the credit card/micro-banking portfolio at ~10%/4% and continues to maintain overall credit cost guidance at around last year levels for FY21.

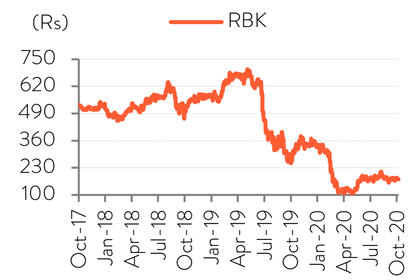
Loan growth dips further; NIMs witnesses sharp decline: RBK's loan book declined 4% YoY due to a steep 26% drop in the wholesale portfolio while the non-wholesale portfolio grew 23%. Business momentum is picking up in the MFI segment but the bank is facing collection issues in select pockets of West Bengal, Assam, Punjab and Maharashtra. NIM declined YoY to 4.3% which included a 50bps impact of proactive reversal of interest income loans expected to slip by Q3FY21.

Maintain SELL: Valuations look attractive at 0.8x FY22E P/BV but ROE is likely to remain subdued as potential stress emerges from a higher share of unsecured loans. Maintain SELL with a Sep'21 TP of Rs 150.

Ticker/Price	RBK IN/Rs 175
Market cap	US$ 1.2bn
Shares o/s	509mn
3M ADV	US$ 51.9mn
52wk high/low	Rs 391/Rs 102
Promoter/FPI/DII	0%/29%/71%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	40,463	46,571	56,374
NII growth (%)	43.8	42.9	11.5	15.1	21.1
Adj. net profit (Rs mn)	8,670	5,057	5,148	9,657	12,730
EPS (Rs)	20.5	10.8	10.1	19.0	25.0
P/E (x)	8.6	16.2	17.3	9.2	7.0
P/BV (x)	1.0	0.8	0.8	0.8	0.7
ROA (%)	1.2	0.6	0.5	0.9	1.0
ROE (%)	12.2	5.6	4.8	8.5	10.3

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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As of 30 September 2020, out of 104 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 18 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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