BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

02 November 2020

RESEARCH

Reliance Industries | Target: Rs 2,000 | –3% | REDUCE

Earnings traction lagging multiple expansion

[Initiation] GNA Axles | Target: Rs 350 | +53% | BUY

Undisputed market leader in rear axles; initiate with BUY

ICICI Bank | Target: Rs 500 | +27% | BUY

Solid provisioning buffer

IndusInd Bank | Target: Rs 700 | +20% | BUY

Credit buffer buildup nearly complete; growth in focus next

Laurus Labs | Target: Rs 410 | +24% | BUY

Beat continues; expect a better H2 – TP raised to Rs 410

Bharat Petroleum Corp | Target: Rs 480 | +35% | BUY

Robust fundamentals

UPL | Target: Rs 650 | +43% | BUY

In-line Q2 led by strong volume growth; FY21 guidance retained

DCB Bank | Target: Rs 70 | –9% | SELL

Earnings in line but growth remains weak

SUMMARY

Reliance Industries

Q2FY21 highlights: (a) RIL's EBITDA beat estimates at Rs 189bn (–14.5% YoY, +12% QoQ) led by better retail and petchem EBITDA of Rs 20bn (–13.5% YoY) and Rs 60bn (–33% YoY) respectively. (b) RJio EBITDA was in line at Rs 83.5bn (+57% YoY) backed by good ARPUs and subscriber adds. (c) GRM at US$ 5.7/bbl was a marginal beat. Funds from stake sales in retail and the fibre InvIT leave RIL debt-free, leading us to raise FY22/FY23 earnings by 10%/7%. Upgrade to REDUCE (from SELL) with a new Sep'21 TP of Rs 2,000 (vs. Rs 1,895).

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	410
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.77	0bps	12bps	(100bps)
India 10Y yield (%)	5.86	1bps	(18bps)	(64bps)
USD/INR	73.87	(0.2)	(0.4)	(4.2)
Brent Crude (US$/bbl)	39.12	(5.0)	(6.7)	(35.5)
Dow	26,520	(3.4)	(2.4)	(2.5)
Shanghai	3,269	0.5	1.5	11.2
Sensex	39,922	(1.5)	6.8	(0.3)
India FII (US$ mn)	**27 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(139.2)	472.0	(14,207.8)	(4,448.3)
FII-E	486.7	2,814.7	6,854.7	13,457.7

Source: Bank of Baroda Economics Research

BOBCAPS Research
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GNA Axles

GNA Axles (GNA) is India's leading rear axle shaft manufacturer with >50% market share. Its products find applications across on-highway (CVs, buses) and off-highway vehicles. To derisk revenues, GNA recently ventured into UV and LCV axles as well. We expect the North American heavy truck market to bolster exports while likely CV market revival will aid domestic growth, supporting a 6%/9% topline/earnings CAGR over FY20-FY23. Valuations look attractive given a sound balance sheet and product leadership. Initiate with BUY; Sep'21 TP Rs 350.

Click here for the full report.

ICICI Bank

ICICI Bank (ICICIBC) reported healthy Q2 PAT of Rs 43bn led by 20% YoY growth in operating profit. The bank has raised its contingent provision buffer to 2.3% of loans. Proforma GNPA ratio declined to 5.4%, retail demand resolution was ~97% of pre-Covid levels, and overdues in performing corporate loans were <3%. We believe ICICIBC has the ability to push the growth pedal as it leverages its robust deposit franchise and puts excess capital to use. We raise FY22-FY23 EPS by 7-16% and revise our Sep'21 SOTP-based TP to Rs 500 (vs. Rs 450).

Click here for the full report.

IndusInd Bank

IndusInd Bank's (IIB) Q2FY21 PAT at Rs 6.6bn (–53% YoY) saw the impact of elevated provisions, as expected. PCR has risen to ~77% and initiatives to strengthen the balance sheet will be completed over the next couple of quarters. Slippages (ex-SC stay) declined to Rs 6bn with negligible fresh corporate NPAs. IIB expects the overall restructuring pool to be in low single digits. Collection efficiency has risen to ~96%, and management expects a growth pickup in H2. We raise FY22-FY23 EPS 5-8% and revise our Sep'21 TP to Rs 700 (vs. Rs 620).

Click here for the full report.

Laurus Labs

Laurus Labs reported yet another record beat in Q2FY21 with no major one-offs. Revenue/EBITDA outdid estimates by 9%/22%. EBITDA grew 171% YoY and 34% QoQ with margins at 32.8% (29% est.), aided by product mix, operating leverage and forex. Formulations (FDF) grew 28% QoQ, ARV sales 20% YoY, oncology API 69% QoQ, and synthesis 35% YoY. Laurus has hiked its FY21-FY22 capex plan to Rs 12bn (vs. Rs 7bn) given high order book visibility. H1 positives should sustain, driving our >50% EPS upgrade; TP raised to Rs 410 (vs. Rs 240).

Click here **for the full report.**

Bharat Petroleum Corp

BPCL's Q2FY21 earnings were in line, driven by recovery in core GRMs (US$ 1.56/bbl, ex-inventory gains) and robust marketing margins. EBITDA was in-line at Rs 39bn (+62% YoY), spurred by the marketing segment while refining losses continued. Marketing volumes and refining throughput improved QoQ as demand began returning to normal. With strong marketing margins and recovery in benchmark GRMs, BPCL's FY21-FY23 earnings outlook has improved. Our Sep'21 TP remains at Rs 480 – maintain BUY.

Click here **for the full report.**

UPL

UPL's Q2FY21 results were broadly in line with 14%/15% YoY growth in revenue/ EBITDA. Reported EBITDA margin was a slight miss at 18.6% (20% est.) on lower gross margins and forex loss. Adj. for forex, EBITDA was a 6% beat. Favourable agronomic conditions across the US, EU and LATAM and continued price hikes in LATAM to counter currency headwinds should drive a better H2. Management maintains revenue/EBITDA growth guidance at 6-8%/10-12% for FY21 and expects 23-24% margins for the next three years. We retain our Sep'21 TP of Rs 650.

Click here **for the full report.**

DCB Bank

DCB Bank's (DCBB) Q2FY21 PAT at Rs 0.8bn was in line with estimates. Proforma GNPA ratio was stable at 2.4% and incremental restructuring is pegged at 3-5% of loans. Management expects the loan book to remain flat or contract marginally in FY21 and disbursements to reach pre-Covid levels in Mar-May'21. CASA ratio is guided to hold at 20-22% as DCBB is focusing on building a granular retail term deposit book. Collection efficiency has risen across products but remains far below pre-pandemic levels. Retain SELL.

Click here for the full report.

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REDUCE
TP: Rs 2,000 | ⮟ 3%

RELIANCE INDUSTRIES | Oil & Gas | 31 October 2020

Earnings traction lagging multiple expansion

Rohit Ahuja | Harleen Manglani
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Q2FY21 highlights: (a) RIL's EBITDA beat estimates at Rs 189bn (–14.5% YoY, +12% QoQ) led by better retail and petchem EBITDA of Rs 20bn (–13.5% YoY) and Rs 60bn (–33% YoY) respectively. (b) RJio EBITDA was in line at Rs 83.5bn (+57% YoY) backed by good ARPUs and subscriber adds. (c) GRM at US$ 5.7/bbl was a marginal beat. Funds from stake sales in retail and the fibre InvIT leave RIL debt-free, leading us to raise FY22/FY23 earnings by 10%/7%. Upgrade to REDUCE (from SELL) with a new Sep'21 TP of Rs 2,000 (vs. Rs 1,895).

Cyclical earnings remain a drag: Reported GRMs at US$ 5.7/bbl (vs. US$ 9.4 YoY) remain well below the long-term average of ~US$ 9/bbl. Benchmark GRMs have improved in Oct'20 but are still not good enough to meet our US$ 9/bbl GRM estimate for FY21. Petchem EBITDA was ahead of our expectations at Rs 60bn (still down 33% YoY) supported by demand recovery and better polymer spreads. We remain cautious on cyclicals as margin recovery may be pushed back to FY22.

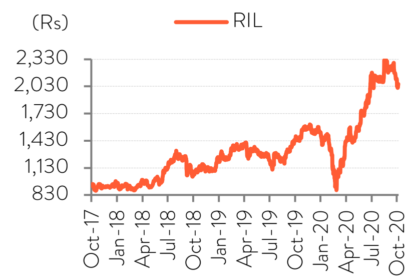
RJio earnings surge sustains; retail recovers a bit: ARPU expansion to Rs 145 (+3.5% QoQ) and in-line subscriber additions (7.3mn) aided EBITDA of Rs 83.5bn for RJio, meeting our estimates. However, per capita data consumption remained flat QoQ at 12GB. Retail business EBITDA at Rs 20bn was above estimates (still -13.5% YoY) due to a decline in revenues for the fashion & lifestyle and consumer electronic segments.

Deleveraging well priced in: Consumer-facing businesses formed >50% of RIL's EBITDA in Q2, a fact well reflected in the expansion of its valuation multiples to ~16x FY22E EPS. However, we need to see earnings traction to justify the recent surge in stock price, as the rally factors in the debt reduction trigger. Global economies are still struggling to come out of the pandemic-induced slowdown, with India being the worst affected (among large economies).

Ticker/Price	RIL IN/Rs 2,055
Market cap	US$ 186.5bn
Shares o/s	6,762mn
3M ADV	US$ 472.5mn
52wk high/low	Rs 2,369/Rs 876
Promoter/FPI/DII	50%/25%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	4,038,781	5,373,906	5,571,457
EBITDA (Rs mn)	841,670	882,170	906,382	1,390,907	1,677,620
Adj. net profit (Rs mn)	400,860	443,240	457,572	847,408	1,082,088
Adj. EPS (Rs)	59.3	65.6	67.7	125.3	160.0
Adj. EPS growth (%)	13.6	10.6	3.2	85.2	27.7
Adj. ROAE (%)	11.7	11.1	8.9	12.9	14.5
Adj. P/E (x)	34.7	31.3	30.4	16.4	12.8
EV/EBITDA (x)	18.8	18.2	18.3	11.8	9.5

Source: Company, BOBCAPS Research

BOBCAPS
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BUY
TP: Rs 350 | ⮝ 53%

GNA AXLES | Auto Components | 30 October 2020

Undisputed market leader in rear axles; initiate with BUY

GNA Axles (GNA) is India's leading rear axle shaft manufacturer with >50% market share. Its products find applications across on-highway (CVs, buses) and off-highway vehicles. To derisk revenues, GNA recently ventured into UV and LCV axles as well. We expect the North American heavy truck market to bolster exports while likely CV market revival will aid domestic growth, supporting a 6%/9% topline/earnings CAGR over FY20-FY23. Valuations look attractive given a sound balance sheet and product leadership. Initiate with BUY; Sep'21 TP Rs 350.

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Three-pronged growth outlook: We model for a healthy 9% earnings CAGR for GNA over FY20-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 2026, (2) robust revival prospects for the domestic CV market – we expect a 10% CAGR in MHCVs over FY20-FY23, and (3) steady domestic tractor industry growth – at an estimated 5% volume CAGR through FY23.

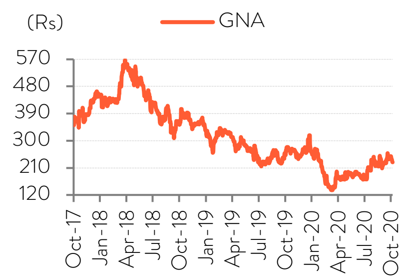
Entry into newer segments to derisk business: During FY19-FY20, GNA acquired land adjoining its existing plant and built a new facility, adding 0.5mn units to its existing rear axle capacity of 3.1mn units in the CV segment. The company also forayed into UV and LCV rear axles with an initial capacity of 0.5mn units. This will help derisk its reliance on the MHCV and tractor segments.

Initiate with BUY: We have projected a 4% CAGR in rear axle volumes for the company during FY20-FY23. Assuming 2% realisation growth, we model for a revenue CAGR of 6%. At ~14% margins, EBITDA is forecast to log a 7% CAGR through FY23. At CMP, the stock trades at 7.1x FY23E EPS of Rs 32. We value the company at 12x Sep'22E EPS – in line with the past 4Y average multiple – and arrive at a Sep'21 TP of Rs 350. Initiate with BUY.

Ticker/Price	GNA IN/Rs 229
Market cap	US$ 21.4mn
Shares o/s	7mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 325/Rs 126
Promoter/FPI/DII	68%/1%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	9,283	9,090	8,371	9,980	10,934
EBITDA (Rs mn)	1,451	1,245	1,118	1,385	1,523
Adj. net profit (Rs mn)	659	528	406	602	687
Adj. EPS (Rs)	30.7	24.6	18.9	28.0	32.0
Adj. EPS growth (%)	29.4	(19.9)	(23.0)	48.0	14.1
Adj. ROAE (%)	17.7	12.4	8.7	11.8	12.2
Adj. P/E (x)	7.5	9.3	12.1	8.2	7.1
EV/EBITDA (x)	0.7	0.7	1.7	1.3	1.0

Source: Company, BOBCAPS Research

BOBCAPS
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BUY
TP: Rs 500 | ⮝ 27%

ICICI BANK | Banking | 31 October 2020

Solid provisioning buffer

ICICI Bank (ICICIBC) reported healthy Q2 PAT of Rs 43bn led by 20% YoY growth in operating profit. The bank has raised its contingent provision buffer to 2.3% of loans. Proforma GNPA ratio declined to 5.4%, retail demand resolution was ~97% of pre-Covid levels, and overdues in performing corporate loans were <3%. We believe ICICIBC has the ability to push the growth pedal as it leverages its robust deposit franchise and puts excess capital to use. We raise FY22-FY23 EPS by 7-16% and revise our Sep'21 SOTP-based TP to Rs 500 (vs. Rs 450).

Vikesh Mehta
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Prudence drives higher slippages: ICICIBC's proforma GNPA ratio declined 10bps QoQ to 5.4%. Slippages at Rs 44bn (ex-SC stay on loan classification) were higher, driven by prudent downgrades from the BB-&-below portfolio. Restructuring applications from corporates and SMEs totalled Rs 21bn. In Sep'20, demand resolution in retail EMIs and credit cards was ~97% of pre-Covid levels (of >99%). Overdue loans in the performing retail and credit card portfolio were at 4%, in the rural portfolio at 1% (above pre-Covid levels), and in the performing domestic and overseas corporate loan book at <3% as of Sep'20.

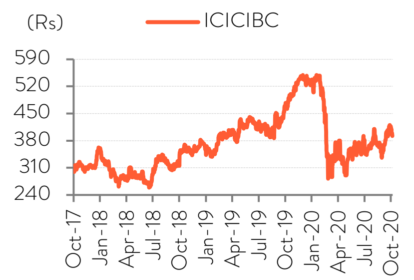
Credit costs expected to normalise in FY22: PCR increased further to ~82% and the bank has additional provisions worth ~Rs 147bn (2.3% of loans) on its balance sheet. Management highlighted that slippages may rise in H2FY21 but is confident that adequate provisioning buffers have been built to face headwinds. The bank expects credit costs to normalise (to 25% of operating profit) in FY22.

Loan growth remains muted; excess liquidity impacts NIM: Loan growth remained subdued at 6% YoY but disbursements in the mortgage, auto loan and rural portfolios have crossed pre-Covid levels. NIM declined by 12bps QoQ to 3.6% largely due to excess liquidity.

Ticker/Price	ICICIBC IN/Rs 393
Market cap	US$ 34.1bn
Shares o/s	6,476mn
3M ADV	US$ 162.4mn
52wk high/low	Rs 552/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	361,375	410,233	478,584
NII growth (%)	17.3	23.1	8.6	13.5	16.7
Adj. net profit (Rs mn)	33,633	79,308	115,817	157,214	193,549
EPS (Rs)	5.2	12.3	17.3	22.8	28.1
P/E (x)	75.2	32.0	22.7	17.2	14.0
P/BV (x)	2.3	2.2	2.0	1.8	1.6
ROA (%)	0.4	0.8	1.0	1.2	1.4
ROE (%)	3.2	7.1	9.1	10.8	12.0

Source: Company, BOBCAPS Research

RESULT REVIEW

BUY
TP: Rs 700 | ⮝ 20%

INDUSIND BANK | Banking | 31 October 2020

Credit buffer buildup nearly complete; growth in focus next

IndusInd Bank's (IIB) Q2FY21 PAT at Rs 6.6bn (–53% YoY) saw the impact of elevated provisions, as expected. PCR has risen to ~77% and initiatives to strengthen the balance sheet will be completed over the next couple of quarters. Slippages (ex-SC stay) declined to Rs 6bn with negligible fresh corporate NPAs. IIB expects the overall restructuring pool to be in low single digits. Collection efficiency has risen to ~96%, and management expects a growth pickup in H2. We raise FY22-FY23 EPS 5-8% and revise our Sep'21 TP to Rs 700 (vs. Rs 620).

Vikesh Mehta
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Provisioning buffer strengthens further: Fresh slippages reduced to ~Rs 4bn, leading to a lower GNPA ratio of 2.2% (2.3% ex-SC stay on loan classification, vs. 2.5% in Q1). IIB's overall collection efficiency stood at 94.7% in Sep'20 and has further improved to 95.5-96% currently (94% and 93% respectively in vehicle financing and MFI). Management expects the FY21 restructuring book to be in low single digits. PCR rose to 76.5% in Q2 while Covid-related provisions increased to 1.1% of loans. IIB aims to continue fortifying its credit buffers over the next couple of quarters and to renew its earnings growth focus in FY22.

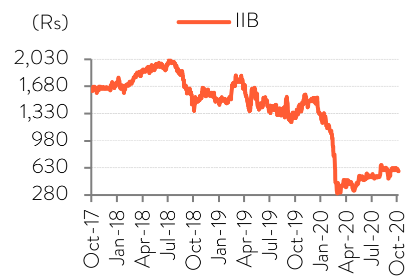
Growth likely to pick up in H2FY21; NIM to normalise: Loan growth remained muted at 2% YoY in Q2 as the corporate book declined 5% given that loans worth Rs 19bn were repaid. Management expects a better H2FY21 with vehicle finance, microfinance, secured retail and mid-corporates being the key growth drivers. Surplus liquidity had a 10bps impact on NIM which declined QoQ to 4.2% in Q2 but should normalise as demand revives.

Maintain BUY: We believe building high credit reserves is a step in the right direction. Profitability will be subdued in FY21-FY22 but we expect recovery by FY23. We raise FY22-FY23 EPS by 5-8% to factor in higher credit growth and now value IIB at 1.1x P/BV (1x earlier) for a revised Sep'21 TP of Rs 700.

Ticker/Price	IIB IN/Rs 586
Market cap	US$ 5.9bn
Shares o/s	756mn
3M ADV	US$ 146.9mn
52wk high/low	Rs 1,597/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	131,607	148,347	173,401
NII growth (%)	18.0	36.3	9.1	12.7	16.9
Adj. net profit (Rs mn)	33,011	44,579	28,635	57,452	68,951
EPS (Rs)	54.9	68.8	39.5	76.0	91.2
P/E (x)	10.7	8.5	14.8	7.7	6.4
P/BV (x)	1.3	1.2	1.1	1.0	0.9
ROA (%)	1.3	1.5	0.9	1.7	1.8
ROE (%)	13.1	14.5	7.5	13.0	14.0

Source: Company, BOBCAPS Research

BUY
TP: Rs 410 | ⮝ 24%

LAURUS LABS | Pharmaceuticals | 30 October 2020

Beat continues; expect a better H2 – TP raised to Rs 410

Vivek Kumar
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Laurus Labs reported yet another record beat in Q2FY21 with no major one-offs. Revenue/EBITDA outdid estimates by 9%/22%. EBITDA grew 171% YoY and 34% QoQ with margins at 32.8% (29% est.), aided by product mix, operating leverage and forex. Formulations (FDF) grew 28% QoQ, ARV sales 20% YoY, oncology API 69% QoQ, and synthesis 35% YoY. Laurus has hiked its FY21-FY22 capex plan to Rs 12bn (vs. Rs 7bn) given high order book visibility. H1 positives should sustain, driving our >50% EPS upgrade; TP raised to Rs 410 (vs. Rs 240).

Execution strong; higher capex on solid order visibility: With execution gaining momentum, we raise FY22/FY23 EPS by ~50% each. High-margin segments delivered a larger beat, viz. FDF – led by higher TLD migration (Laurus has ~20% market share ex-Africa), Oncology API – led by Gemcitabine, and Synthesis. Together these were 57% of sales (52% in Q1). Based on a strong order book across these segments, management raised FY21-FY22 capex to Rs 12bn (due to a second greenfield FDF site that will double capacity). Capex funding is via internal accruals; commercial benefits should kick in from Jun'22.

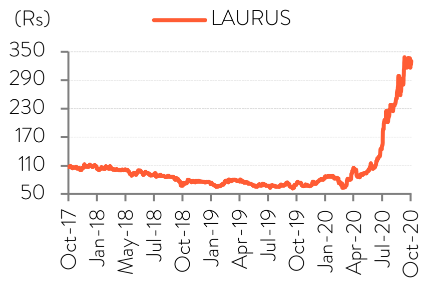
Margin beat sustainable; incremental GP/Sales solid at ~67%: Q2/H1 gross margins were at historical highs of 56%/55%, leading to a massive beat on EBITDA margins which came in at 33%/31%. Per Laurus, H1 margins should sustain into H2 and next two years factoring in 1% pts forex reversal. In Q2, incremental GP/Sales stayed strong ~67%, led by favorable FDF/Oncology mix and operating leverage across segments.

Earnings call highlights: (1)) ARV FDF market has expanded led by multi-month dispensing. (2) Brownfield expansion in formulations/non-ARV APIs (phase-1/2 by Dec'20/Mar'21). (3) TLE 400 ramp-up in H2. (4) ARV API: EFA sales to decline in FY22, but good potential for DTG, Lamivudine and Tenofivir volumes.

Ticker/Price	LAURUS IN/Rs 330
Market cap	US$ 2.4bn
Shares o/s	535mn
3M ADV	US$ 12.0mn
52wk high/low	Rs 343/Rs 59
Promoter/FPI/DII	29%/24%/3%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,919	28,317	43,385	49,755	56,957
EBITDA (Rs mn)	3,560	5,645	13,480	15,519	18,056
Adj. net profit (Rs mn)	937	2,553	8,511	10,079	11,988
Adj. EPS (Rs)	1.8	4.8	15.9	18.9	22.4
Adj. EPS growth (%)	(36.8)	172.3	233.4	18.4	18.9
Adj. ROAE (%)	6.2	15.3	39.7	33.9	30.1
Adj. P/E (x)	188.2	69.1	20.7	17.5	14.7
EV/EBITDA (x)	52.3	33.1	13.9	12.2	10.4

Source: Company, BOBCAPS Research

BUY
TP: Rs 480 | ⮝ 35%

BHARAT PETROLEUM CORP | Oil & Gas | 30 October 2020

Robust fundamentals

BPCL's Q2FY21 earnings were in line, driven by recovery in core GRMs (US$ 1.56/bbl, ex-inventory gains) and robust marketing margins. EBITDA was in-line at Rs 39bn (+62% YoY), spurred by the marketing segment while refining losses continued. Marketing volumes and refining throughput improved QoQ as demand began returning to normal. With strong marketing margins and recovery in benchmark GRMs, BPCL's FY21-FY23 earnings outlook has improved. Our Sep'21 TP remains at Rs 480 – maintain BUY.

Rohit Ahuja | Harleen Manglani
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GRMs outperform: BPCL's reported GRMs came in ahead of expectations at US$ 5.8/bbl (incl. inventory gains of US$ 4.2/bbl), beating the Singapore benchmark of US$ 0.1/bbl. Kochi margins outperformed the company average at US$ 6.9/bbl as distillate yields improved. Benchmark GRMs have recently turned positive (~US$ 2/bbl since Oct'20) as the world gradually emerges out of pandemic-induced lockdowns. We expected GRMs to normalise to pre-Covid levels by Q4FY21.

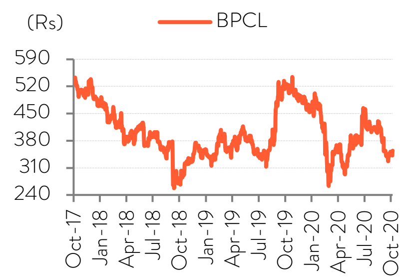
Marketing earnings remain elevated: Q2 marketing business earnings (implied from GRM data) remained robust at Rs 17bn (Rs 1,831/mt, ex-Rs 11.5bn of inventory gains), normalising from an exceptionally high Q1. Domestic sale volumes beat estimates at 8.9mt (–13% YoY, +19% QoQ). Sales of petrol and diesel have reached pre-Covid levels from Oct'20. Although management has guided for stable marketing margins over H2FY21, prospects for Q3 look better given the decline in oil prices.

Divestment could drive valuations: At 8.7x FY22E EBITDA, BPCL's valuations remain at a premium to OMC peers in the run-up to conclusion of 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 354
Market cap	US$ 9.4bn
Shares o/s	1,967mn
3M ADV	US$ 53.7mn
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	FY20A	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)	8.2	20.0	7.2	8.2	7.7
EV/EBITDA (x)	6.9	13.1	7.8	8.9	7.8

Source: Company, BOBCAPS Research

BUY
TP: Rs 650 | ⮝ 43%

UPL | Agrochemicals | 30 October 2020

In-line Q2 led by strong volume growth; FY21 guidance retained

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UPL's Q2FY21 results were broadly in line with 14%/15% YoY growth in revenue/ EBITDA. Reported EBITDA margin was a slight miss at 18.6% (20% est.) on lower gross margins and forex loss. Adj. for forex, EBITDA was a 6% beat. Favourable agronomic conditions across the US, EU and LATAM and continued price hikes in LATAM to counter currency headwinds should drive a better H2. Management maintains revenue/EBITDA growth guidance at 6-8%/10-12% for FY21 and expects 23-24% margins for the next three years. We retain our Sep'21 TP of Rs 650.

Volume-led revenue growth recovery: Q2 revenue grew a healthy 14% YoY on strong 19% volume growth (forex –4%, price +1%) and market share gains. North America (+25% YoY) benefited from good weather and robust miticide demand. In LATAM (+12%), strong volumes offset BRL devaluation. Europe sales grew 13%. India (+18%) saw robust growth led by rice herbicides and bio-solutions while ROW (+13%) gained from weather normalisation. UPL expects a better H2 backed by healthy agronomic conditions, product price hikes in LATAM, and a market shift from Dicamba/Glyphosate to Glufosinate in the US.

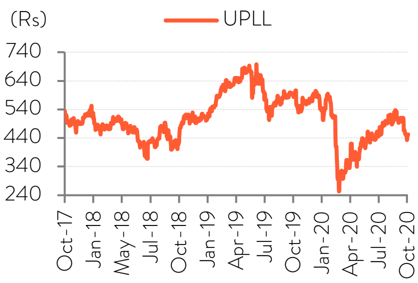
Margins to improve in H2: Q2 gross margin was subdued at 49.6% (55% in Q1) due to currency devaluation in LATAM. Ex-forex impact, EBITDA margin was at 20%. UPL continues to hike prices to offset the gross margin decline and is confident of further fixed cost optimisation to support EBITDA margins in H2.

Earnings call takeaways: (1) Capex at US$ 76mn in Q2 and US$ 148mn in H1. (2) Net debt/EBITDA of ~2x to be reached by FY21-end. (3) UPL not worried about Europe vote to ban Mancozeb given wide portfolio basket. (4) Q2 exceptional loss of US$ 28mn was due to Netherland plant closure as a part of rationalisation; expect similar amount in H2. (5) Net working capital at 106 days (from 120 days YoY) led by strong collection in India/inventory reduction.

Ticker/Price	UPLL IN/Rs 453
Market cap	US$ 4.7bn
Shares o/s	765mn
3M ADV	US$ 35.8mn
52wk high/low	Rs 618/Rs 240
Promoter/FPI/DII	28%/44%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	357,560	381,968	421,409	459,804
EBITDA (Rs mn)	38,110	66,910	75,912	89,197	101,318
Adj. net profit (Rs mn)	18,140	23,981	26,233	33,927	42,028
Adj. EPS (Rs)	23.7	31.3	34.3	44.3	54.9
Adj. EPS growth (%)	0.6	32.2	9.4	29.3	23.9
Adj. ROAE (%)	13.5	13.2	13.5	15.8	17.5
Adj. P/E (x)	19.1	14.5	13.2	10.2	8.3
EV/EBITDA (x)	10.1	7.4	7.7	6.3	5.5

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 70 | ⋎ 9%

DCB BANK | Banking | 31 October 2020

Earnings in line but growth remains weak

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DCB Bank's (DCBB) Q2FY21 PAT at Rs 0.8bn was in line with estimates. Proforma GNPA ratio was stable at 2.4% and incremental restructuring is pegged at 3-5% of loans. Management expects the loan book to remain flat or contract marginally in FY21 and disbursements to reach pre-Covid levels in Mar-May'21. CASA ratio is guided to hold at 20-22% as DCBB is focusing on building a granular retail term deposit book. Collection efficiency has risen across products but remains far below pre-pandemic levels. Retain SELL.

Ticker/Price	DCBB IN/Rs 77
Market cap	US$ 320.2mn
Shares o/s	310mn
3M ADV	US$ 2.8mn
52wk high/low	Rs 205/Rs 58
Promoter/FPI/DII	15%/15%/70%

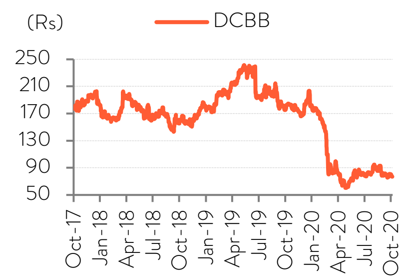
Source: NSE

Proforma GNPA stable: DCBB's proforma GNPA ratio remained stable at 2.4%. Collection efficiency has improved across segments such as business, home and CV loans but remains well below pre-Covid levels. Further, 7.4%/ 5.4%/10.8% of LAP/home loan/CV customers have not paid any installments since Apr'20. Slippages were negligible at ~Rs 120mn (ex-SC stay order on loan classification) but management believes NPAs may increase over the next 3-4 quarters. In addition, DCBB indicated that 3-5% of the portfolio may require restructuring.

Loan growth remains muted; NIMs improve QoQ: DCBB's loan book was flat in Q2. Management highlighted that while economic activity is gradually picking up, disbursements are likely to reach pre-Covid levels only during Mar-May'21. The bank has sanctions worth Rs 20bn under the ECLGS but has disbursed a mere Rs 3bn and expects the balance to go out in Q3. NIM increased 32bps QoQ to 3.7% mainly backed by 15bps improvement in asset yields and a 20bps decline in cost of deposits.

Maintain SELL: We continue to believe that DCBB's exposure to the LAP and self-employed segments poses a risk to asset quality even as higher credit costs will keep profitability subdued. Maintain SELL; Sep'21 TP unchanged at Rs 70.

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	11,672	12,336	13,889
NII growth (%)	15.5	10.1	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	3,254	3,379	2,270	2,887	3,756
EPS (Rs)	10.5	10.9	6.6	7.8	10.1
P/E (x)	7.3	7.1	11.6	9.9	7.6
P/BV (x)	0.8	0.8	0.7	0.7	0.6
ROA (%)	1.0	0.9	0.6	0.7	0.8
ROE (%)	11.0	10.3	6.0	6.7	8.2

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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