FIRST LIGHT

03 February 2021

RESEARCH

BOB Economics Research | Trade
Exports recover, non-oil-non-gold imports stable

Finolex Industries | Target: Rs 675 | +5% | ADD
Higher PVC prices aid profitability

Ajanta Pharma | Target: Rs 2,100 | +20% | BUY
Another good quarter; resilient outlook to drive stock upside

Escorts | Target: Rs 1,150 | –14% | SELL
Management cautious on margins; maintain SELL

Automobiles
Jan'21 Sales: Exports driving 2W sales, CVs reviving, PVs steady

SUMMARY

India Economics: Trade

India's trade deficit narrowed to US$ 14.8bn in Jan'21 from US$ 15.4bn in Dec'20 as exports bounced back by 5.4%, led by non-oil-exports. Import growth however slowed to 2% from 7.6% in Dec'20 as oil imports fell sharply. Non-oil-non-gold imports were stable. However, capital goods imports remain weak. We expect trade deficit to increase to US$ 165bn in FY22 from US$ 95bn in FY21 on the back of pick-up in domestic economy. Foreign inflows—FDI and FPI—and software exports will support INR at current levels.

Click here for the full report.

Finolex Industries

Finolex Industries' (FNXP) Q3FY21 revenue grew 53% YoY, aided by a 15% rise in PVC resin volumes while pipe volumes increased 5%. EBITDA margins swelled 13ppt YoY to 32.5% on a higher PVC-EDC delta, spurring 150% YoY growth in EBITDA. Management is hopeful of better volumes in Q4 with the onset of the busy season. We hike FY21 EBITDA by 35% to factor in the stronger PVC-EDC delta and marginally raise FY22/FY23 estimates by 4%/3%. On rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 580) set at 22x P/E (vs. 20x).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	480
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.09	2bps	13bps	(44bps)
India 10Y yield (%)	6.06	15bps	2bps	(70bps)
USD/INR	73.03	(0.1)	0.7	(2.2)
Brent Crude (US$/bbl)	56.26	0.7	9.4	(3.9)
Dow	30,212	0.8	(1.2)	6.1
Shanghai	3,505	0.6	3.1	17.0
Sensex	48,601	5.0	(2.8)	13.7
India FII (US$ mn)	**29 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(25.8)	(498.3)	(498.3)	(4,591.9)
FII-E	(595.5)	1,978.2	1,978.2	31,954.0

Source: Bank of Baroda Economics Research

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Ajanta Pharma

Ajanta Pharma (AJP) reported yet another excellent quarter with Q3 revenue/ EBITDA growth of 15%/30% YoY to Rs 7.5bn/Rs 2.4bn, surpassing our estimates by 11%/14%. The revenue beat was across geographies, notably in Africa/Asia/ US of 20%/15%/9%. EBITDA margin expansion of 370bps YoY was due to lower KSM/RM prices – these gains are likely to reverse in coming quarters as evident from QoQ margin contraction due to rising prices. We raise FY22-FY23 EPS 4% each and our Mar'22 TP to Rs 2,100 (vs. Rs 1,920) as we roll valuations over. BUY.

Click here for the full report.

Escorts

Escorts (ESC) reported Q3FY21 revenue at Rs 20bn (+24% YoY) and above-estimated operating margins at 18%. Management cautioned that its near-term margin performance was at risk due to the sharp rise in input costs and the return of fixed costs as operations normalise. Being a player dominant in North India, higher growth in South and West India led to 140bps market share loss for ESC in Q3. Management believes most pent-up demand has been exhausted as inventories have largely normalised during the last two months. Maintain SELL.

Click here for the full report.

Automobiles

PV sales continued their upward trajectory in January with healthy YoY growth. Domestic 2W sales for HMCL and BJAUT remained under pressure as inventories in the system are now on the higher side, but 2W exports gained momentum. MHCV volumes are improving from previous months but still slipped 5% YoY for AL. Tractor sales were healthy for both MM and ESC (+50% YoY each). Reported PV, tractor and CV volumes were broadly in line with estimates; 2W sales were mixed. We remain negative on the sector.

Click here for the full report.

TRADE

02 February 2021

Exports recover, non-oil-non-gold imports stable

India's trade deficit narrowed to US$ 14.8bn in Jan'21 from US$ 15.4bn in Dec'20 as exports bounced back by 5.4%, led by non-oil-exports. Import growth however slowed to 2% from 7.6% in Dec'20 as oil imports fell sharply. Non-oil-non-gold imports were stable. However, capital goods imports remain weak. We expect trade deficit to increase to US$ 165bn in FY22 from US$ 95bn in FY21 on the back of pick-up in domestic economy. Foreign inflows—FDI and FPI—and software exports will support INR at current levels.

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KEY HIGHLIGHTS

- Export growth recovers to 5.4% versus 0.1% in Dec'20.
- Imports moderate to 2% in Jan'21 versus 7.6% in Dec'20.
- Trade deficit narrows to US$ 14.8bn in Jan'21 versus US$ 15.7bn in Dec'20.

Exports bounce back: Preliminary data shows that exports rebounded in Jan'21 and rose by 5.4% after a 0.1% increase seen in Dec'20. During Apr-Jan'21, exports have fallen by 13.3% (2.3% decline in FYTD20). In Jan'21, exports of engineering goods rose the most at 18.7% (0.3% in Dec'20) followed by drugs and pharma products at 16.4% (17.5% in Dec'20) and electronic goods at 16% (17% in Dec'20). Chemical exports slowed considerably to 2.5% (10.8% in Dec'20). Overall non-oil exports showed sharp improvement at 11.4% versus 5.6% in Dec'20. Oil exports fell by 37.3% (from a drop of 35.4% in Dec'20). Gems and jewelry exports declined by 1.3% (+6.7% in Dec'20).

Imports moderate: India's imports rose at a slower pace of 2% in Jan'21 compared with an increase of 7.6% in Dec'20 due to 27.7% decline in oil imports in Jan'21 when oil prices are lower by 13% (YoY). In Dec'20, oil imports fell by 10.6% when oil prices were lower by 23% (YoY). Non-oil-non-gold imports at US$ 28.6bn increased by 7.5% in Jan'21 (US$ 28.5bn in Dec'20, 8% increase). Capital goods import continued to remain weak as imports of project goods (62.2%) and transport equipment (25.3%) fell sharply. However, imports of pearls and precious stones (50.2%) and electronics (17%) saw the maximum increase. Gold imports rose sharply by 154.7% in Jan'21 to US$ 4bn compared with US$ 4.8bn in Dec'20 (increase of 81.8%).

Trade deficit narrows: India's trade deficit narrowed US$ 14.8bn in Jan'21 from an 18-month high of US$ 15.4bn in Dec'20 as export growth outpaced imports. We expect exports to pick up further as global economy improves. Imports are also expected to inch higher as domestic activity gathers pace. As a result, trade deficit is likely to expand to US$ 165bn compared with US$ 95.1bn in FY21 (US$ 157.5bn in FY20). Buoyant services and remittance receipts will make-up for the trade deficit to some extent. Apart from this, FPI and FDI inflows will also support INR at current levels.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 675 | ⮝ 5%

FINOLEX INDUSTRIES | Plastic Products | 02 February 2021

Higher PVC prices aid profitability

Finolex Industries' (FNXP) Q3FY21 revenue grew 53% YoY, aided by a 15% rise in PVC resin volumes while pipe volumes increased 5%. EBITDA margins swelled 13ppt YoY to 32.5% on a higher PVC-EDC delta, spurring 150% YoY growth in EBITDA. Management is hopeful of better volumes in Q4 with the onset of the busy season. We hike FY21 EBITDA by 35% to factor in the stronger PVC-EDC delta and marginally raise FY22/FY23 estimates by 4%/3%. On rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 580) set at 22x P/E (vs. 20x).

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Strong revenue growth aided by higher PVC prices: FNXP's Q3 revenue increased 52.5% YoY to Rs 10.7bn. The PVC resin segment increased 70% YoY with both volumes/realisations rising 15%/48%, while PVC pipes & fittings increased 31% YoY with volumes/realisations up 5%/25%. Pipe volumes increased in both the agriculture and non-agriculture segments, with the latter seeing better growth during the quarter. Management expects demand for pipes in Q4 to be driven by the agriculture segment and is hopeful of PVC resin prices correcting in the latter part of Q4 or in early Q1FY22.

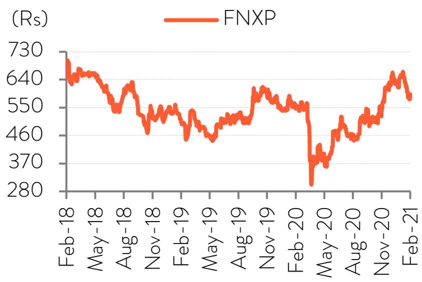
Higher PVC prices aid margins: Operating margins swelled 1,260bps YoY due to inventory gains from rising PVC prices – EBITDA thus increased 150% YoY. EBIT margins in the PVC resin segment surged 1,545bps YoY led by inventory gains as the PVC-EDC delta in Q3 was US$ 765/mt (vs. US$ 589/mt YoY). Management indicated that current margins are not sustainable in the medium term as PVC resin prices are likely to correct from historical highs.

Maintain ADD: We raise our FY21 EBITDA estimate by 35% (due to inventory gains) and marginally by 4%/3% for FY22/FY23. We also increase our target P/E from 20x to 22x, in line with the five-year average forward P/E, and maintain ADD as we roll over to a revised Mar'22 TP of Rs 675 (vs. Rs 580).

Ticker/Price	FNXP IN/Rs 643
Market cap	US$ 1.1bn
Shares o/s	124mn
3M ADV	US$ 1.0mn
52wk high/low	Rs 674/Rs 290
Promoter/FPI/DII	52%/2%/45%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,913	29,860	33,957	32,058	34,488
EBITDA (Rs mn)	6,043	4,481	7,143	5,023	5,249
Adj. net profit (Rs mn)	3,857	3,327	5,366	3,557	3,802
Adj. EPS (Rs)	31.1	26.8	43.2	28.7	30.6
Adj. EPS growth (%)	28.9	(13.8)	61.3	(33.7)	6.9
Adj. ROAE (%)	14.4	14.6	25.2	15.0	14.7
Adj. P/E (x)	20.7	24.0	14.9	22.4	21.0
EV/EBITDA (x)	13.2	17.6	11.1	15.7	14.5

Source: Company, BOBCAPS Research

BUY
TP: Rs 2,100 | ⮝ 20%

AJANTA PHARMA | Pharmaceuticals | 02 February 2021

Another good quarter; resilient outlook to drive stock upside

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Ajanta Pharma (AJP) reported yet another excellent quarter with Q3 revenue/ EBITDA growth of 15%/30% YoY to Rs 7.5bn/Rs 2.4bn, surpassing our estimates by 11%/14%. The revenue beat was across geographies, notably in Africa/Asia/ US of 20%/15%/9%. EBITDA margin expansion of 370bps YoY was due to lower KSM/RM prices – these gains are likely to reverse in coming quarters as evident from QoQ margin contraction due to rising prices. We raise FY22-FY23 EPS 4% each and our Mar'22 TP to Rs 2,100 (vs. Rs 1,920) as we roll valuations over. BUY.

Revenue beat India and Asia-led: India sales growth (13% YoY, 9% QoQ) was backed by recovery in the acute portfolio (dermatology, ophthalmology). The chronic segment also did well. In export formulations, Asia sales grew at 27% YoY (+11% QoQ) due to easing of Covid-19 restrictions and Africa sales grew 25% (muted QoQ) driven by the institutional business. We continue to see good visibility in exports with commercialisation of the ophthalmology block (Guwahati) in Q3. US sales were at US$ 21mn (+3% QoQ). AJP expects a healthy Q4 following contribution from Divalproex DR (launched in mid-Dec).

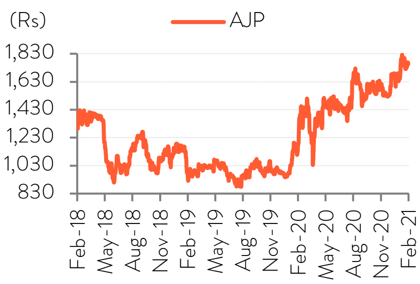
Margin beat to normalise going forward: Despite sequential pick-up in SGA spends (+28%) and R&D (+38%), EBITDA margin surprised positively at 32.3% (31.2% est.). This was also supported by gross margins of 77.5%. Q4 operating margins could moderate as we expect steady-state gross margins of 76% (9M: 77.6%) on rising KSM/RM prices and further normalising of SGA spends.

Retain BUY: We expect a stable brand franchise (India/EM), US operating leverage and capex moderation to drive a 25%+ EPS CAGR over FY21-FY23 (75% of EPS estimated to accrue from the branded business). Further, improving FCF and 34%+ ROIC beyond FY23E should support stock upsides.

Ticker/Price	AJP IN/Rs 1,747
Market cap	US$ 2.1bn
Shares o/s	88mn
3M ADV	US$ 3.2mn
52wk high/low	Rs 1,845/Rs 961
Promoter/FPI/DII	71%/9%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	27,803	31,723	36,072
EBITDA (Rs mn)	5,653	6,944	8,671	9,413	11,046
Adj. net profit (Rs mn)	3,869	4,082	5,751	6,593	8,128
Adj. EPS (Rs)	44.1	46.6	65.6	75.2	92.7
Adj. EPS growth (%)	(17.4)	5.5	40.9	14.6	23.3
Adj. ROAE (%)	17.8	16.6	19.9	19.5	20.5
Adj. P/E (x)	39.6	37.5	26.6	23.2	18.9
EV/EBITDA (x)	27.0	22.0	17.5	16.0	13.4

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,150 | ⮟ 14%

ESCORTS | Auto Components | 02 February 2021

Management cautious on margins; maintain SELL

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Escorts (ESC) reported Q3FY21 revenue at Rs 20bn (+24% YoY) and above-estimated operating margins at 18%. Management cautioned that its near-term margin performance was at risk due to the sharp rise in input costs and the return of fixed costs as operations normalise. Being a player dominant in North India, higher growth in South and West India led to 140bps market share loss for ESC in Q3. Management believes most pent-up demand has been exhausted as inventories have largely normalised during the last two months. Maintain SELL.

Low-cost inventories boost margins: ESC's Q3 revenue of Rs 20.2bn (+24% YoY) was marginally below our estimate as ASP dipped 2% YoY (flattish ASP expected). Operating margin surprised positively, expanding 500bps YoY to 18% (~300bps above our estimate), owing to above-expected gross margins which we believe could be a function of lower cost raw material inventories and better operating leverage. Given the steep rise in input prices, we expect margins to be under pressure in the near term. Adj. PAT grew 83% YoY to Rs 2.8bn.

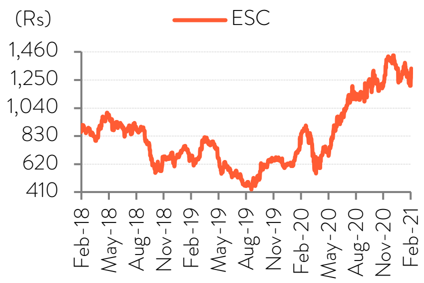
Near-term profitability at risk: Management stated that it would be difficult to take another significant price increase after close to the 2% hike taken in Nov'20. The spike in input cost thus puts near-term margin guidance at risk. ESC expects gross margins to correct over 300bps in the next quarter. Also, channel inventories are nearing normal levels as production ran ahead of retail sales over the last two months.

Maintain SELL: We expect ESC to clock a revenue/PAT CAGR of 4%/8% over FY21-FY23. Despite the recent stock price correction, valuations appear to be pricing in most of the positives. We continue to value the stock at 17x Mar'23E EPS and maintain our TP at Rs 1,150. SELL.

Ticker/Price	ESC IN/Rs 1,334
Market cap	US$ 2.2bn
Shares o/s	123mn
3M ADV	US$ 32.9mn
52wk high/low	Rs 1,453/Rs 526
Promoter/FPI/DII	40%/20%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	62,620	58,101	64,382	69,485	75,139
EBITDA (Rs mn)	7,226	6,624	10,111	9,511	10,210
Adj. net profit (Rs mn)	4,789	4,825	7,689	7,370	8,315
Adj. EPS (Rs)	39.1	39.4	62.7	60.1	67.8
Adj. EPS growth (%)	38.0	0.8	59.3	(4.2)	12.8
Adj. ROAE (%)	17.9	15.5	19.9	16.1	15.5
Adj. P/E (x)	34.1	33.9	21.3	22.2	19.7
EV/EBITDA (x)	22.3	24.3	15.9	17.0	15.8

Source: Company, BOBCAPS Research

AUTOMOBILES

02 February 2021

Jan'21 Sales: Exports driving 2W sales, CVs reviving, PVs steady

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PV sales continued their upward trajectory in January with healthy YoY growth. Domestic 2W sales for HMCL and BJAUT remained under pressure as inventories in the system are now on the higher side, but 2W exports gained momentum. MHCV volumes are improving from previous months but still slipped 5% YoY for AL. Tractor sales were healthy for both MM and ESC (+50% YoY each). Reported PV, tractor and CV volumes were broadly in line with estimates; 2W sales were mixed. We remain negative on the sector.

PV sales along expected lines: Maruti's (MSIL) dispatches were marginally above estimates, increasing 4% YoY to 160.8k units in Jan'21 with exports rising sharply by 29%. The UV segment (+45% YoY) posted meaningful growth while the mini and compact segments remained in negative territory. With MSIL's management indicating lower inventory levels, the next few months should see healthy dispatches. PV sales for M&M (MM) were up 4% YoY; Hyundai Motors saw a 16% rise and Tata Motors (TTMT) posted strong 94% growth.

Exports driving 2W sales: Hero's (HMCL) wholesale volumes came in at 485.9k in Jan'21 against our estimate of 530k, declining 3% YoY. TVS Motor (TVSL) and Bajaj Auto (BJAUT) on other hand posted numbers above our projections, fuelled by a healthy uptick in export markets for both. Total sales for BJAUT rose 8% YoY with exports growing 26% while domestic sales posted a 12% decline. TVSL's export sales grew at a robust 46% YoY and total sales increased 31% to 307k units. Royal Enfield reported healthy 2W sales of 69k units (+8% YoY), meeting our estimates.

MHCV volumes improving MoM: Ashok Leyland's (AL) CV sales increased 11% YoY to 13.1k units. The decline in MHCVs eased to 5% YoY, whereas LCVs were up 40% YoY. In FY21 YTD, AL's sale volumes have plunged 38% YoY owing to a steep 53% drop in MHCVs and a 13% decline in LCVs. CV sales for TTMT dipped 3% to 32.9k units in Jan'21, with buses plunging 73% YoY.

Strong momentum in tractor dispatches: MM sold 34.8k tractors (+50% YoY) in Jan'21 and competitor Escorts (ESC) sold 9k units (+49% YoY). YTD tractor sales for MM/ESC are up 11%/16% YoY. We have already factored in healthy growth as the macro environment remains conducive but believe both stocks are pricing in most optimism and carry unfavourable risk-reward.

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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