FIRST LIGHT

03 May 2021

RESEARCH

BOB Economics Research | India Currency Watch
Crystal gazing the USD and INR

[#2 Meeting of Minds] Aviation
Time for airline fleet consolidation; near-term pain to persist

AU Small Finance Bank | Target: Rs 1,300 | +29% | BUY
Miss on asset quality

Persistent Systems | Target: Rs 1,340 | –34% | SELL
Good execution despite IP seasonality

IndusInd Bank | Target: Rs 1,100 | +18% | BUY
Steady operating performance; growth to pick up

Laurus Labs | Target: Rs 540 | +19% | BUY
Solid margins despite higher API mix

Mahindra Logistics | Target: Rs 635 | +19% | BUY
Earnings call takeaways – Management upbeat on growth

SUMMARY

India Economics: India Currency Watch

A rising US economic tide (6.5% in 2021) and bond yields have lifted USD after 6.7% fall in 2020. US growth has pulled EM exports which, historically, go hand-in-hand with stronger currencies. INR shows exceptionally high correlation with EMs. While Covid-19 backdrop implies near-term weakness for INR, medium-term outlook looks bright as economic momentum revives given cleaner corporate balance sheets, higher exports, benign external deficits and inflation. INR to trade in a tight range of 73-75/USD in FY22.

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	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	2bps	(7bps)	100bps
India 10Y yield (%)	6.06	1bps	(6bps)	(5bps)
USD/INR	74.04	0.4	(2.1)	1.4
Brent Crude (US$/bbl)	68.56	1.9	5.5	171.3
Dow	34,060	0.7	2.7	39.9
Shanghai	3,475	0.5	1.2	21.5
Sensex	49,766	0.1	1.5	47.6
India FII (US$ mn)	**28 Apr**	**MTD**	**CYTD**	**FYTD**
FII-D	(35.9)	(130.1)	(2,157.3)	(130.1)
FII-E	122.7	(1,258.2)	6,068.1	(1,258.2)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Aviation

We hosted Kiran Koteshwar, ex-CFO of SpiceJet, for a perspective on the Indian aviation industry. According to Kiran, the industry can generate consistent profits only if it is more disciplined in adding capacity, upgrades its revenue management skills and raises focus on cargo and international business. Demand could remain subdued in the near term and profitability would hinge on better fleet utilisation, with some fleet consolidation likely. Government intervention is required to promote infrastructure growth and reduce costs.

Click here for the full report.

AU Small Finance Bank

AU Small Finance Bank (AUBANK) reported below-estimated Q4FY21 PAT of Rs 1.7bn due to slower NII growth and one-off employee cost. Asset quality was weak with a 60bps QoQ rise in GNPA ratio to 4.3%. Collection efficiency in Apr'21 was also 5% lower than normal. We turn cautious on growth amid the second Covid wave and pare our FY22/FY23 loan book estimates while raising credit cost assumptions, leading to a 16%/12% cut in earnings. We also lower our target FY23E P/BV from 5.3x to 4.8x, yielding a new Mar'22 TP of Rs 1,300 (vs. Rs 1,500).

Click here for the full report.

Persistent Systems

Persistent Systems (PSYS) reported in-line Q4FY21 numbers, with dollar revenue growth at 4.6% QoQ. Though IP business faltered, the services division grew sequentially. Operating margin at 13.2% expanded 47bps QoQ. As the alliance business is expected to recover in FY22, we raise FY22/ FY23 EPS by 10%/2%. Rolling valuations over, we have a revised Mar'22 TP of Rs 1,340 (from Rs 1,260), based on an unchanged P/E of 19x. Given IP revenue volatility and heady valuations at 38x FY23 EPS, we reiterate SELL.

Click here for the full report.

IndusInd Bank

IndusInd Bank (IIB) reported in-line Q4FY21 PAT of Rs 9.3bn with a steady operating performance marked by 9%/10% YoY growth in NII/operating profit. GNPA ratio dipped 20bps QoQ to 2.7% and PCR stood at a healthy 75%. Loan growth was subdued at 3% YoY but should gradually start to recover as corporate portfolio rebalancing is complete. The bank remains cautious on unsecured lending and expects the segment's share of loan book to remain at <5%. NIM was healthy at 4.1%. Maintain BUY, Mar'22 TP Rs 1,100.

Click here for the full report.

Laurus Labs

Laurus Labs reported yet another strong quarter on the back of high growth in the API (esp. ARV) and formulation segments. Q4FY21 revenue and EBITDA beat consensus by 4% each. EBITDA grew 146% YoY (11% QoQ) with margins at 33.4%, aided by a better mix and operating leverage. Formulation (FDF) sales grew 61% YoY and ARVs 109% YoY (flat QoQ). Laurus expects to sustain a 30% EBITDA margin and has raised FY22/FY23 capex to Rs 15bn-17bn. We increase FY22-FY23 EPS 7-9% and revise our Mar'22 TP to Rs 540 (vs. Rs 480).

Click here for the full report.

Mahindra Logistics

In its Q4FY21 earnings call, Mahindra Logistics' (MLL) management spoke about its vision to triple revenue by FY26, driven by formalisation, auto recovery, service expansion and integrated solutions to customers. MLL is seeing strong growth from ecommerce and pharma. The Covid-19 impact should be limited unless lockdowns are announced by large states, though new customer additions might slow. The QoQ drop in non-Mahindra warehousing revenue in Q4 was due to seasonality and a weaker Jan'21. Retain BUY.

Click here for the full report.

INDIA CURRENCY WATCH

30 April 2021

Crystal gazing the USD and INR

Sameer Narang
Aditi Gupta | Jahnavi
Dipanwita Mazumdar | Sonal Badhan
chief.economist@bankofbaroda.com

A rising US economic tide (6.5% in 2021) and bond yields have lifted USD after 6.7% fall in 2020. US growth has pulled EM exports which, historically, go hand-in-hand with stronger currencies. INR shows exceptionally high correlation with EMs. While Covid-19 backdrop implies near-term weakness for INR, medium-term outlook looks bright as economic momentum revives given cleaner corporate balance sheets, higher exports, benign external deficits and inflation. INR to trade in a tight range of 73-75/USD in FY22.

KEY HIGHLIGHTS

- US growth pushing US yields and US Dollar higher.
- Higher exports to US to push EM growth upwards and thus EM currencies, with a lag.
- Benign inflation and CAD implies, INR to trade in a tight range of 73-75/USD in FY22.

EM cycles: EM currencies have seen two cycles: 2003-11—appreciation—and 2012-19—depreciation. EM currencies are stronger when EM economies grow faster than US led by exports (19% in 2003-11 vs. 1% in 2012-19) and rising current account surplus at 2.7% in 2003-11 vs. 0.2% in 2012-19.

Why USD went up? DXY does well when growth differential between US and EMs falls (2.7% in 2012-19 vs. 5.3% in 2003-11) and EM growth is led by debt (fiscal deficit at 3.3% vs. 0.9% in 2003-11). High inflation EM currencies do see a depreciation bias. Interest rate differential is a factor in EUR/JPY/GBP.

USD looks strong in near-term: Growth differential between US and EMs is likely to narrow down to 0.2% in 2021 led by US fiscal and monetary expansion and vaccination outcome. Thus DXY index has risen by 1.4% in 2021. EMs are seeing a pick-up in exports (up by 26.8% this year). Rising US demand has pushed commodity prices higher which typically have an inverse relationship with DXY. Higher US twin deficits implies USD to weaken in 2022.

INR cycles: INR appreciated by 1.1% p.a. between 2003 and 2007. Benign inflation (4.5%), lower fiscal deficit, capex cycle and heady export growth explain this. It saw depreciation of 10% p.a. during 2008-14 led by large twin deficits and high inflation (9.4%). Depreciation of 2.6% during 2015-20 was due to lower inflation (4.5%), declining twin deficits and higher forex reserves.

How is INR placed? While fiscal deficit has expanded to 9.5% of GDP, India is looking poised for pick-up in growth led by exports (services and PLI schemes), cleaner corporate balance sheets (capex cycle) and benign inflation—similar to 2003-07. While CAD will expand in FY22, it is projected at only 1.1%. The macro backdrop favours INR in a tight range of 73-75/USD. Rising Covid-19 cases are a risk to our view.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

AIRLINES | #2 Meeting of Minds: An Expert Perspective | 30 April 2021

Time for airline fleet consolidation; near-term pain to persist

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

We hosted Kiran Koteshwar, ex-CFO of SpiceJet, for a perspective on the Indian aviation industry. According to Kiran, the industry can generate consistent profits only if it is more disciplined in adding capacity, upgrades its revenue management skills and raises focus on cargo and international business. Demand could remain subdued in the near term and profitability would hinge on better fleet utilisation, with some fleet consolidation likely. Government intervention is required to promote infrastructure growth and reduce costs.

Multiple factors behind poor pricing power: According to Kiran, excessive capacity addition, lack of adequate human skill sets and shallow revenue management are prime reasons for the airline industry's weak pricing power. Capacities can be expanded at lower capitalisation (lease model). Instead, undisciplined additions result in fleet buildouts ahead of demand, eroding pricing power.

Profits volatile despite significant industry consolidation: The fall of Kingfisher and Jet Airways did allow incumbents to gain market share. However, the industry is largely to be blamed for its inability to raise prices post consolidation, as injudicious fleet additions have outpaced available airport infrastructure and the resulting price wars continue to hurt profitability.

Wet lease model does not allow for stable profitability: Kiran believes sustainable profitability can only be generated through dry leases, which are more carefully planned and executed. While the wet lease model addresses near-term demand, the cost structure is too erratic to generate consistent profits.

Cargo business has a rosy future in India: Cargo transport is an essential strategy for any domestic and global airline. While the business requires working capital, it generates healthy profits and cash flows. It is highly underplayed in India currently and has significant scope for growth.

Our view: Looking at the current climate of subdued demand, a depreciating rupee (impacting 65-70% of costs including fuel), rising ATF prices and daily cash burn, we continue to have a negative stance on the aviation industry.

Meeting of Minds

– **An Expert Perspective**

This is the second in our 'Meeting of Minds' series where we host experts and leaders in various fields to discuss key events and trends in the Auto and Aviation sectors.

REPORTS IN THIS SERIES

SN	Title
#1	**Auto: Rubber prices headed for a structural bull run**

BUY
TP: Rs 1,300 | ⮝ 29%

AU SMALL FINANCE BANK

| Banking | 01 May 2021

Miss on asset quality

Vikesh Mehta
research@bobcaps.in

AU Small Finance Bank (AUBANK) reported below-estimated Q4FY21 PAT of Rs 1.7bn due to slower NII growth and one-off employee cost. Asset quality was weak with a 60bps QoQ rise in GNPA ratio to 4.3%. Collection efficiency in Apr'21 was also 5% lower than normal. We turn cautious on growth amid the second Covid wave and pare our FY22/FY23 loan book estimates while raising credit cost assumptions, leading to a 16%/12% cut in earnings. We also lower our target FY23E P/BV from 5.3x to 4.8x, yielding a new Mar'22 TP of Rs 1,300 (vs. Rs 1,500).

Sharp deterioration in asset quality: AUBANK's GNPA ratio rose to 4.3%, which includes 1.5% from a pool of customers who were tagged as NPA after the Supreme Court vacated its stay on NPA classification. Management highlighted that this is a paying pool of customers and expects a large part of the bad debt to regularise as recovery initiatives kick in. Collection efficiency continues to show quarterly improvement but was 5% lower than the normal run-rate in Apr'21.

Second pandemic wave may hurt growth: AUM grew 22% YoY in Q4, the highest in four quarters as disbursals of vehicle, secured business and housing loans rebounded. But with severe stress emerging in Covid-hit segments such as taxis, school and private staff buses, loan growth could slow in Q1FY22.

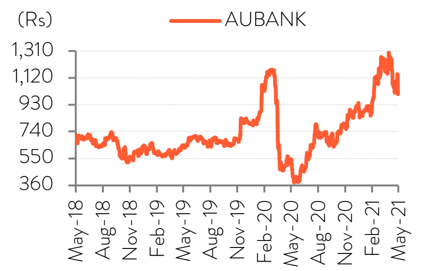
Continued traction in deposits: Deposit growth momentum was strong at 38% YoY backed by a sharp increase in CASA deposits. NIM has been maintained around current levels of 5.3% over the last two years as the cost of funds has declined with an improving liability franchise.

Maintain BUY: We like AUBANK for its niche focus on small-ticket, secured retail loans to the self-employed and low-income segments. Maintain BUY with a revised Mar'22 TP of Rs 1,300 as long-term growth prospects remain promising.

Ticker/Price	AUBANK IN/Rs 1,004
Market cap	US$ 4.2bn
Shares o/s	312mn
3M ADV	US$ 22.1mn
52wk high/low	Rs 1,354/Rs 366
Promoter/FPI/DII	29%/33%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	13,425	19,089	23,654	28,324	36,230
NII growth (%)	42.7	42.2	23.9	19.7	27.9
Adj. net profit (Rs mn)	3,818	6,748	11,707	9,920	14,182
EPS (Rs)	13.2	22.6	38.0	31.8	45.4
P/E (x)	76.0	44.4	26.4	31.6	22.1
P/BV (x)	10.0	7.1	5.1	4.4	3.7
ROA (%)	1.5	1.8	2.5	1.7	2.0
ROE (%)	14.7	18.6	22.4	15.1	18.4

Source: Company, BOBCAPS Research | P – Provisional

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,340 | ∀ 34%

PERSISTENT SYSTEMS | IT Services | 30 April 2021

Good execution despite IP seasonality

Ruchi Burde | Seema Nayak
research@bobcaps.in

Persistent Systems (PSYS) reported in-line Q4FY21 numbers, with dollar revenue growth at 4.6% QoQ. Though IP business faltered, the services division grew sequentially. Operating margin at 13.2% expanded 47bps QoQ. As the alliance business is expected to recover in FY22, we raise FY22/ FY23 EPS by 10%/2%. Rolling valuations over, we have a revised Mar'22 TP of Rs 1,340 (from Rs 1,260), based on an unchanged P/E of 19x. Given IP revenue volatility and heady valuations at 38x FY23 EPS, we reiterate SELL.

Deft execution: PSYS reported 4.6% QoQ dollar revenue growth in Q4, in line with our estimate. IP dollar revenue declined 14% QoQ due to seasonality and a higher base in Q3. The services business led the quarter with ~9% QoQ growth. Revenue from the Capiot acquisition also came through in Q4. Europe business was strong with 19% QoQ growth. Among verticals, healthcare/BFSI led the way, growing 5.7%/6.7% QoQ. Top client concentration decreased to 17.9% from 18.5% in Q3. Despite salary hikes, EBIT margin was up 47bps QoQ to 13.2% (11% est.) due to increased offshoring, reduced SG&A and lower depreciation cost.

TCV slows down: PSYS reported TCV of US$ 246.5mn (–18% QoQ). New business formed 56% of total TCV (–200bps QoQ). Annual contract value was at US$ 201mn, down 22%. Key deal wins came from the hi-tech, BFSI and healthcare-life sciences verticals.

Maintain SELL: Following the induction of new management in FY21, PSYS has posted a strong operational performance. However, given its delayed pivot to enterprise business, the project-based nature of revenues, IP revenue volatility, alliance business weakness (–7.3% QoQ), inferior EBIT margin vs. peers and rich valuations (trading at 38x FY23E EPS), we maintain SELL.

Ticker/Price	PSYS IN/Rs 2,038
Market cap	US$ 2.2bn
Shares o/s	80mn
3M ADV	US$ 4.3mn
52wk high/low	Rs 2,185/Rs 460
Promoter/FPI/DII	30%/26%/44%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	33,659	35,658	41,879	52,211	58,596
EBITDA (Rs mn)	5,805	4,930	6,830	8,066	9,124
Adj. net profit (Rs mn)	3,516	3,403	4,507	5,023	5,552
Adj. EPS (Rs)	43.9	42.7	56.5	63.0	69.6
Adj. EPS growth (%)	8.8	(2.9)	32.4	11.5	10.5
Adj. ROAE (%)	15.7	14.1	17.1	17.1	16.9
Adj. P/E (x)	46.4	47.8	36.1	32.4	29.3
EV/EBITDA (x)	27.8	32.7	23.6	20.0	17.6

Source: Company, BOBCAPS Research | P – Provisional

BUY
TP: Rs 1,100 | ⮝ 18%

INDUSIND BANK | Banking | 01 May 2021

Steady operating performance; growth to pick up

IndusInd Bank (IIB) reported in-line Q4FY21 PAT of Rs 9.3bn with a steady operating performance marked by 9%/10% YoY growth in NII/operating profit. GNPA ratio dipped 20bps QoQ to 2.7% and PCR stood at a healthy 75%. Loan growth was subdued at 3% YoY but should gradually start to recover as corporate portfolio rebalancing is complete. The bank remains cautious on unsecured lending and expects the segment's share of loan book to remain at <5%. NIM was healthy at 4.1%. Maintain BUY, Mar'22 TP Rs 1,100.

Vikesh Mehta
research@bobcaps.in

GNPA ratio settles lower in Q4: IIB's GNPA ratio settled lower at 2.7% in Q4 (vs. proforma 2.9% in Q3), in line with the trend seen at larger peers. Business-as-usual slippages stood at ~Rs 19bn. The bank reported additional technical slippages worth Rs 19bn, of which accounts worth ~Rs 16bn were upgraded in Q4 while management expects to upgrade the balance in Q1FY22. Collection efficiency of the retail portfolio stood at 98% in Q4, before slipping marginally in Apr'21. The SMA-2 book was at 31bps of loans.

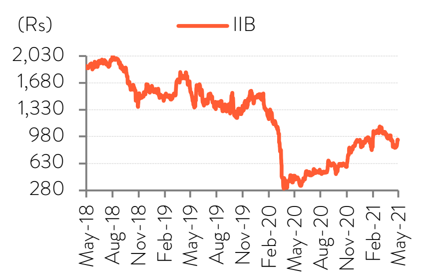
Loan growth should improve gradually: IIB's loan book grew 3% YoY aided by a 5% uptick in retail loans while the corporate book stayed flat. Vehicle finance disbursements grew 30% YoY (8% QoQ) and the MFI and diamond portfolios were up 15% QoQ each. Management highlighted that 81% of the MFI portfolio has been originated post Covid and has 99% collection efficiency. Further, the diamond portfolio has no restructuring, slippages or SMA-2 loans.

Corporate portfolio rejig achieves objective: Over the past few quarters, IIB has been consciously striving to make its corporate portfolio more granular. In Q4, ~95% of incremental disbursements were made to clients rated A-and-above (vs. 81% in FY21). The bank has sold loans worth Rs 90bn in FY21 (Rs 35bn in Q4) and believes it has achieved its objective of selling down unwanted exposure.

Ticker/Price	IIB IN/Rs 935
Market cap	US$ 9.8bn
Shares o/s	773mn
3M ADV	US$ 127.8mn
52wk high/low	Rs 1,120/Rs 330
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	88,462	120,587	135,279	157,172	188,457
NII growth (%)	18.0	36.3	12.2	16.2	19.9
Adj. net profit (Rs mn)	33,011	44,579	29,299	59,859	76,173
EPS (Rs)	54.9	68.8	39.9	77.4	98.5
P/E (x)	17.0	13.6	23.4	12.1	9.5
P/BV (x)	2.1	1.9	1.7	1.6	1.4
ROA (%)	1.3	1.5	0.9	1.6	1.7
ROE (%)	13.1	14.5	7.7	13.5	15.3

Source: Company, BOBCAPS Research | P – Provisional

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 540 | ⮝ 19%

LAURUS LABS | Pharmaceuticals | 01 May 2021

Solid margins despite higher API mix

Laurus Labs reported yet another strong quarter on the back of high growth in the API (esp. ARV) and formulation segments. Q4FY21 revenue and EBITDA beat consensus by 4% each. EBITDA grew 146% YoY (11% QoQ) with margins at 33.4%, aided by a better mix and operating leverage. Formulation (FDF) sales grew 61% YoY and ARVs 109% YoY (flat QoQ). Laurus expects to sustain a 30% EBITDA margin and has raised FY22/FY23 capex to Rs 15bn-17bn. We increase FY22-FY23 EPS 7-9% and revise our Mar'22 TP to Rs 540 (vs. Rs 480).

Saad Shaikh
research@bobcaps.in

Healthy demand and solid execution: Laurus' ARV segment contributed half of incremental sales in Q4FY21, growing at 109% YoY to Rs 5.7bn as demand for third-party APIs increased. The company is still expanding API capacity to serve existing demand from customers and expects good sales in FY22 as well.

Robust margins: Q4/FY21 gross margins were strong at ~55% each. EBITDA margins came in at 33.4%/32.2% due to a better product mix and operating leverage. Management expects to maintain a 30% EBITDA margin in FY22.

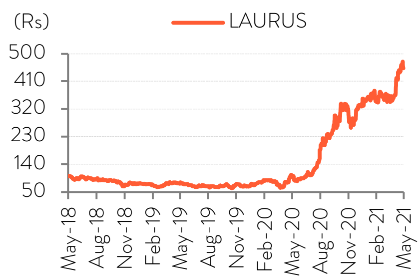
FDF debottlenecking completed: FDF grew 61% YoY (~30% share of incremental sales), with higher LMIC market volumes as well as increased volumes from North America and the EU. Added capacity from debottlenecking will be available from Q1FY22. Custom synthesis grew 19% YoY (39% QoQ) on the back of commercial and late-stage clinical supplies. Other APIs grew 80% YoY (68% QoQ) due to higher volumes and capacity addition.

Maintain BUY: We retain BUY on Laurus following a consistent increase in EBITDA share from high-margin businesses and turnaround in return ratios. We raise FY22-FY23 EBITDA by 11-12% to factor in the solid FY21 beat and higher gross margins. Our Mar'22 TP rises to Rs 540 at an unchanged 14x EV/EBITDA.

Ticker/Price	LAURUS IN/Rs 453
Market cap	US$ 3.3bn
Shares o/s	537mn
3M ADV	US$ 20.1mn
52wk high/low	Rs 483/Rs 84
Promoter/FPI/DII	27%/21%/4%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	22,919	28,317	48,135	58,600	68,300
EBITDA (Rs mn)	3,560	5,645	15,507	18,229	21,304
Adj. net profit (Rs mn)	937	2,553	9,836	11,861	13,864
Adj. EPS (Rs)	1.7	4.8	18.3	22.1	25.8
Adj. EPS growth (%)	(36.8)	172.3	285.3	20.6	16.9
Adj. ROAE (%)	6.2	15.3	45.0	37.8	32.0
Adj. P/E (x)	259.2	95.2	24.7	20.5	17.5
EV/EBITDA (x)	71.0	44.9	16.4	14.1	12.1

Source: Company, BOBCAPS Research | P – Provisional

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 635 | ⮝ 19%

MAHINDRA LOGISTICS | Logistics | 30 April 2021

Earnings call takeaways – Management upbeat on growth

In its Q4FY21 earnings call, Mahindra Logistics' (MLL) management spoke about its vision to triple revenue by FY26, driven by formalisation, auto recovery, service expansion and integrated solutions to customers. MLL is seeing strong growth from ecommerce and pharma. The Covid-19 impact should be limited unless lockdowns are announced by large states, though new customer additions might slow. The QoQ drop in non-Mahindra warehousing revenue in Q4 was due to seasonality and a weaker Jan'21. Retain BUY.

Tarun Bhatnagar
research@bobcaps.in

Aims to triple revenue by FY26: Management expects to raise revenue to Rs 100bn or 3x the current level by FY26, to be achieved by formalisation of the sector, auto recovery, expansion of services and integrated solutions. Auto will benefit from PLI and the scrappage policy. Ecommerce is seeing a secular pick-up in growth while pharma firms are building a leaner supply chain.

Covid-19 spurt: The early impact from the second wave includes a drop in shipments of products such as apparel and mobiles. Supply chains are facing constraints due to labour migration and absent employees. The impact looks manageable unless lockdowns are announced by major states, though customer addition will be a challenge if the crisis persists.

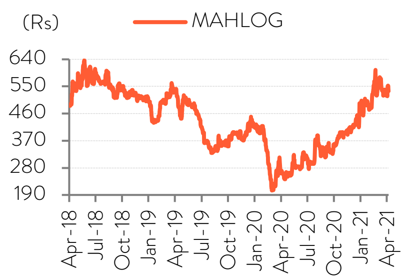
Non-Mahindra warehousing revenue: The 25% QoQ decline in revenue during Q4 was due to seasonal factors and a below-expected January performance. Expansion in warehousing of 1.5-2msf per year will continue.

Our view: We retain BUY on MLL with a Mar'22 TP of Rs 635 based on 35x FY23E P/E – close to its mean multiple since listing. New customer adds and demand normalisation after the current Covid wave subsides would be the key stock price drivers.

Ticker/Price	MAHLOG IN/Rs 534
Market cap	US$ 515.2mn
Shares o/s	71mn
3M ADV	US$ 1.0mn
52wk high/low	Rs 615/Rs 240
Promoter/FPI/DII	58%/20%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	32,637	41,110	47,400
EBITDA (Rs mn)	1,512	1,583	1,342	2,406	2,927
Adj. net profit (Rs mn)	856	551	328	976	1,302
Adj. EPS (Rs)	12.0	7.7	4.6	13.6	18.2
Adj. EPS growth (%)	33.2	(35.7)	(40.7)	198.6	33.5
Adj. ROAE (%)	18.7	10.6	5.9	16.2	18.9
Adj. P/E (x)	44.6	69.3	116.9	39.1	29.3
EV/EBITDA (x)	24.7	23.5	27.8	15.4	12.7

Source: Company, BOBCAPS Research | 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)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 30 April 2021, out of 90 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 16 have ADD ratings, 5 are rated REDUCE and 26 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.

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.