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FIRST LIGHT

04 February 2021

RESEARCH

Astral Poly Technik | Target: Rs 1,435 | –26% | SELL

Good quarter but valuations rich – downgrade to SELL

Cera Sanitaryware | Target: Rs 3,900 | +16% | BUY

Supply disruptions hit Q3 but demand outlook strong – raise to BUY

Minda Corporation | Target: Rs 110 | +14% | ADD

Q3 results in line; upside limited – downgrade to ADD

PI Industries | Target: Rs 2,700 | +20% | BUY

Q3 above estimates on better execution; robust outlook intact

SUMMARY

Astral Poly Technik

Astral Poly Technik's (ASTRA) consolidated revenue grew 35% YoY in Q3FY21, backed by 42% growth in the adhesives segment and a 33% uptick in pipes. EBITDA margins expanded 360bps YoY to 21.4% led by gains across segments, supporting EBITDA/PBT growth of 62%/89% YoY. We raise FY21-FY23 EBITDA by 6-15% and roll over to a higher Mar'22 TP of Rs 1,435 (vs. Rs 1,180) set at 45x P/E (vs. 42x). At the same time, we downgrade the stock to SELL from REDUCE as valuations at 61.1x FY23E P/E look rich post the recent rally.

Click here for the full report.

Cera Sanitaryware

Cera Sanitaryware (CRS) reported a 3% YoY decline in consolidated revenue for Q3FY21, with the sanitaryware segment down 5% due to production issues. Operating margins were flattish at 13.7% with EBITDA down 4% YoY. Management expects demand to outstrip supply for the next 2-3 quarters at least. We raise FY21-FY23 PAT estimates by 15-22% to bake in the swift demand recovery and reset our target P/E from 28x to 30x. Upgrade from ADD to BUY as we roll to a revised Mar'22 TP of Rs 3,900 (vs. Rs 2,910).

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 (%)	1.10	2bps	18bps	(50bps)
India 10Y yield (%)	6.13	7bps	25bps	(38bps)
USD/INR	72.97	0.1	0.1	(2.4)
Brent Crude (US$/bbl)	57.46	2.0	10.9	6.5
Dow	30,687	1.6	0.3	6.5
Shanghai	3,534	0.8	1.7	27.0
Sensex	49,798	2.5	4.0	22.1
India FII (US$ mn)	**1 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	18.3	18.3	(480.0)	(4,573.6)
FII-E	253.2	253.2	2,231.4	32,207.2

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Minda Corporation

With higher revenue growth in the mechatronics & aftermarket division, Minda Corp's (MDA) Q3FY21 topline increased 7% YoY to Rs 7.2bn. Operating margin met projections at 10.9% despite below-expected gross margins. Adj. PAT was down 5% YoY to Rs 395mn. We remain bullish on MDA as better per-unit realisations, a strong order book and exports momentum are expected to cushion profitability. However, the recent run-up in stock price leaves little upside – cut to ADD (from BUY) with an unchanged Mar'22 TP of Rs 110.

Click here for the full report.

PI Industries

PI Industries' (PI) revenue/EBITDA growth of 37%/48% YoY beat estimates by 13%/9%. Domestic sales/exports rose 24%/41% YoY. Isagro contributed 20% of domestic growth. EBITDA margin remained strong at 23.7% (–50bps QoQ) on prudent cost management and high gross margins (+276bps QoQ). Management sees a robust domestic business outlook (for Q4 & FY22) and sustained CSM momentum on commercialisation of 5-6 molecules, supporting 23% long-term margins. On valuation rollover, we have a Mar'22 TP of Rs 2,700 (vs. Rs 2,500).

Click here for the full report.

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SELL
TP: Rs 1,435 | ∀ 26%

ASTRAL POLY TECHNIK | Plastic Products | 03 February 2021

Good quarter but valuations rich – downgrade to SELL

Astral Poly Technik's (ASTRA) consolidated revenue grew 35% YoY in Q3FY21, backed by 42% growth in the adhesives segment and a 33% uptick in pipes. EBITDA margins expanded 360bps YoY to 21.4% led by gains across segments, supporting EBITDA/PBT growth of 62%/89% YoY. We raise FY21-FY23 EBITDA by 6-15% and roll over to a higher Mar'22 TP of Rs 1,435 (vs. Rs 1,180) set at 45x P/E (vs. 42x). At the same time, we downgrade the stock to SELL from REDUCE as valuations at 61.1x FY23E P/E look rich post the recent rally.

Arun Baid
research@bobcaps.in

Strong revenue growth across businesses: ASTRA's Q3 consolidated revenue grew 35% YoY to ~Rs 9bn, aided by growth in both pipes and adhesives. PVC pipe standalone revenue increased 33% YoY (volumes up 15%) and the adhesives business grew 42% as benefits from a change in distribution model kicked in. Management expects pipe volumes to grow sustainably at 15% and adhesives business revenue to grow 20-25% over the next few years.

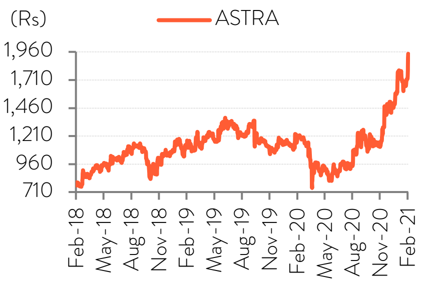
Significant margin gains: EBITDA margins swelled 360bps YoY to 21.4% in Q3, aided by a superior showing in both segments, which fuelled EBITDA/PBT growth of 62%/89% YoY. Pipe margins increased 366bps YoY to 22.9% due to inventory gains and a better product mix. Adhesive margins increased 430bps to 16.3% on operating leverage. Management expects further improvement in the adhesives segment due to operating leverage and the launch of value-added products. The piping business is guided to have long-term margins of 15-16% but may see stronger levels in Q4 from higher PVC prices.

Valuations expensive; cut to SELL: We raise our FY21 EBITDA estimate by 15% to factor in inventory gains and also increase FY22/FY23 forecasts by ~6% each. Though we like ASTRA for its strong brand name, wide reach and robust balance sheet, valuations at 61.1x FY23E P/E appear rich. SELL.

Ticker/Price	ASTRA IN/Rs 1,945
Market cap	US$ 4.0bn
Shares o/s	151mn
3M ADV	US$ 5.9mn
52wk high/low	Rs 2,100/Rs 746
Promoter/FPI/DII	56%/20%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	25,073	25,779	30,220	34,263	40,616
EBITDA (Rs mn)	3,853	4,441	5,471	6,168	7,412
Adj. net profit (Rs mn)	1,992	2,498	3,297	3,862	4,792
Adj. EPS (Rs)	13.2	16.6	21.9	25.6	31.8
Adj. EPS growth (%)	17.4	25.4	32.0	17.1	24.1
Adj. ROAE (%)	17.4	18.0	20.8	21.8	24.0
Adj. P/E (x)	147.1	117.3	88.9	75.9	61.1
EV/EBITDA (x)	76.5	66.3	53.8	47.5	39.4

Source: Company, BOBCAPS Research

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BUY
TP: Rs 3,900 | ⮝ 16%

CERA SANITARYWARE | Construction Materials | 03 February 2021

Supply disruptions hit Q3 but demand outlook strong – raise to BUY

Cera Sanitaryware (CRS) reported a 3% YoY decline in consolidated revenue for Q3FY21, with the sanitaryware segment down 5% due to production issues. Operating margins were flattish at 13.7% with EBITDA down 4% YoY. Management expects demand to outstrip supply for the next 2-3 quarters at least. We raise FY21-FY23 PAT estimates by 15-22% to bake in the swift demand recovery and reset our target P/E from 28x to 30x. Upgrade from ADD to BUY as we roll to a revised Mar'22 TP of Rs 3,900 (vs. Rs 2,910).

Arun Baid
research@bobcaps.in

Revenue declines due to sanitaryware supply issues: CRS reported a 3% YoY decline in consolidated revenue to Rs 3.2bn in Q3. The sanitaryware/tiles segments fell 5%/7% YoY and faucets grew ~8%. As per management, labour issues eroded sanitaryware segment revenue by ~Rs 650mn during the quarter – these issues were resolved at the end of Dec'20. The tiles segment declined as the company focused on cash-&-carry and premium products. Management expects improvement ahead as demand is robust.

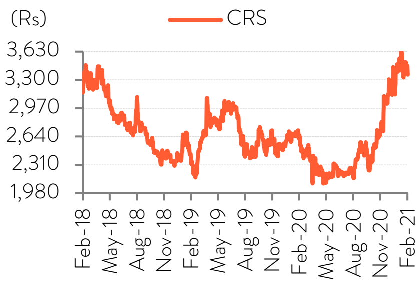
Weak product mix compresses margins: CRS's consolidated operating margins decreased 10bps YoY to 13.7% as gross margin shrinkage of 625bps neutralised lower employee/other expenses (–175bps/–440bps YoY) – this caused EBITDA to decline by 4% YoY. Gross margins contracted due to an adverse product mix from lower sales in the high-margin sanitaryware segment. Other expenses declined on the back of cost rationalisation measures. Management expects margins to improve as demand normalises.

Upgrade to BUY: Given the faster-than-expected demand recovery, we raise FY21-FY23 PAT estimates by 15-22%, reset our target P/E to 30x (from 28x), and upgrade the stock from ADD to BUY. On rolling valuations forward, we arrive at a revised Mar'22 TP of Rs 3,900.

Ticker/Price	CRS IN/Rs 3,359
Market cap	US$ 598.7mn
Shares o/s	13mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 3,744/Rs 1,986
Promoter/FPI/DII	54%/15%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	13,491	12,220	12,034	14,392	16,135
EBITDA (Rs mn)	1,964	1,654	1,436	2,154	2,450
Adj. net profit (Rs mn)	1,010	1,013	909	1,476	1,691
Adj. EPS (Rs)	77.7	77.9	69.9	113.5	130.1
Adj. EPS growth (%)	4.1	0.3	(10.3)	62.4	14.6
Adj. ROAE (%)	15.5	13.8	11.3	16.4	16.7
Adj. P/E (x)	43.2	43.1	48.1	29.6	25.8
EV/EBITDA (x)	22.0	26.0	29.9	20.0	17.6

Source: Company, BOBCAPS Research

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ADD
TP: Rs 110 | ⮝ 14%

MINDA CORPORATION | Auto Components | 03 February 2021

Q3 results in line; upside limited – downgrade to ADD

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

With higher revenue growth in the mechatronics & aftermarket division, Minda Corp's (MDA) Q3FY21 topline increased 7% YoY to Rs 7.2bn. Operating margin met projections at 10.9% despite below-expected gross margins. Adj. PAT was down 5% YoY to Rs 395mn. We remain bullish on MDA as better per-unit realisations, a strong order book and exports momentum are expected to cushion profitability. However, the recent run-up in stock price leaves little upside – cut to ADD (from BUY) with an unchanged Mar'22 TP of Rs 110.

Operating performance in line: Revenue grew 7% YoY to Rs 7.2bn which was lower than expected. Despite a miss on gross margins, better operating efficiencies led to an in-line EBITDA margin of 10.9% while EBITDA grew 2% YoY to Rs 778mn. Adj. PAT dipped 5% YoY to Rs 395mn. MDA reported new order wins of Rs 16.5bn in Q3 (Rs 54.8bn in FY21 YTD). The mechatronics & aftermarket division posted revenue growth of 32% YoY for the quarter with EBITDA margin at 13.8%. Revenues for the informatics & connected systems division grew 5% YoY with margins at 7.1%.

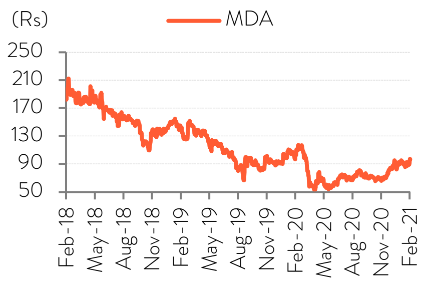
Favourable sales mix to aid financial performance: The plastics division (~21% of FY20 revenue) has recently filed for insolvency, affecting the overall revenue CAGR. Despite loss of revenue from this division and muted volume sales growth over FY20-FY23, we believe MDA's recalibrated sales mix, strong domestic order book and robust die casting exports will ensure steady growth.

Downgrade to ADD: We expect MDA to clock a revenue/PAT CAGR of 16%/39% over FY21-FY23 and retain our Mar'22 target price of Rs 110 set at an unchanged 16x one-year forward P/E multiple. However, we cut our rating from BUY to ADD as the recent stock rally limits upside potential.

Ticker/Price	MDA IN/Rs 97
Market cap	US$ 301.2mn
Shares o/s	227mn
3M ADV	US$ 1.4mn
52wk high/low	Rs 122/Rs 53
Promoter/FPI/DII	68%/9%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,920	28,131	23,582	29,092	31,646
EBITDA (Rs mn)	2,941	2,499	2,102	2,975	3,313
Adj. net profit (Rs mn)	1,692	935	829	1,433	1,584
Adj. EPS (Rs)	7.5	4.1	3.7	6.3	7.0
Adj. EPS growth (%)	8.9	(44.7)	(11.4)	73.0	10.5
Adj. ROAE (%)	14.2	9.6	7.9	12.4	12.5
Adj. P/E (x)	13.0	23.4	26.5	15.3	13.8
EV/EBITDA (x)	7.5	7.4	7.4	5.8	5.7

Source: Company, BOBCAPS Research

BUY
TP: Rs 2,700 | ⮝ 20%

PI INDUSTRIES | Agrochemicals | 03 February 2021

Q3 above estimates on better execution; robust outlook intact

PI Industries' (PI) revenue/EBITDA growth of 37%/48% YoY beat estimates by 13%/9%. Domestic sales/exports rose 24%/41% YoY. Isagro contributed 20% of domestic growth. EBITDA margin remained strong at 23.7% (–50bps QoQ) on prudent cost management and high gross margins (+276bps QoQ). Management sees a robust domestic business outlook (for Q4 & FY22) and sustained CSM momentum on commercialisation of 5-6 molecules, supporting 23% long-term margins. On valuation rollover, we have a Mar'22 TP of Rs 2,700 (vs. Rs 2,500).

Vivek Kumar | Saad Shaikh
research@bobcaps.in

Beat led by strong CSM execution: PI reported another robust quarter driven by (1) proactive raw material planning and efficient capital utilisation in CSM, (2) continued traction in PI brands, and (3) healthy growth in Isagro – management expects 20% growth over five years. Demerger of Isagro's B2C business to Jivagro is scheduled for Q4. PI has launched four products so far and has six more planned in FY22. With utilisation at pre-Covid levels in addition to a strong demand outlook/healthy pipeline, growth momentum remains intact.

Robust CSM outlook: The CSM order book was steady at US$ 1.5bn. PI expects good volume scale-up for products launched in the last 1-2 years and sees scope to grow at least 20% on current capacity in the next 4-6 quarters.

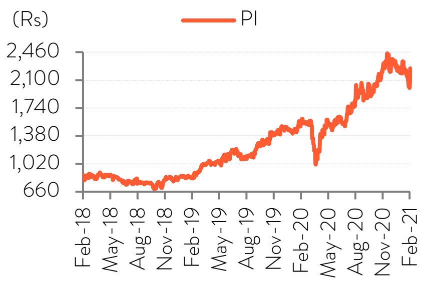
Earnings call takeaways: (1) M&A targets being evaluated. (2) Capex of Rs 3.2bn in 9MFY21. (3) 40-45 products in R&D pipeline. (4) One new plant at 70-80% utilisation, the other at <50%. (5) Confident of +20% sales growth in FY21.

Retain BUY: Given strong execution and CSM's estimated contribution of >85% of FY23 EBITDA (~78% now), we expect a stock rerating. ROCE-focused M&A for high-chemistry capability in specialty/pharma CSM should gain pace. We expect >20% EPS CAGR in the next two years and >30% ROIC.

Ticker/Price	PI IN/Rs 2,250
Market cap	US$ 4.7bn
Shares o/s	152mn
3M ADV	US$ 18.0mn
52wk high/low	Rs 2,650/Rs 1,370
Promoter/FPI/DII	47%/12%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	28,409	33,075	42,081	51,879	60,473
EBITDA (Rs mn)	5,764	7,150	10,046	12,410	14,769
Adj. net profit (Rs mn)	4,102	4,537	7,533	9,375	10,784
Adj. EPS (Rs)	27.1	29.9	49.7	61.8	71.1
Adj. EPS growth (%)	11.6	10.6	66.0	24.5	15.0
Adj. ROAE (%)	19.7	18.6	19.1	16.5	16.5
Adj. P/E (x)	83.2	75.2	45.3	36.4	31.6
EV/EBITDA (x)	58.8	47.4	33.7	26.5	21.6

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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