FIRST LIGHT

05 February 2021

RESEARCH

State Bank of India | Target: Rs 475 | +34% | BUY

Asset quality outlook remains upbeat

Inox Leisure | Target: Rs 410 | +24% | BUY

Light at the end of the tunnel

Transport Corp of India | Target: Rs 330 | +32% | BUY

A lot to like

Somany Ceramics | Target: Rs 490 | +22% | BUY

Strong operational performance, outlook improving

Apollo Tyres | Target: Rs 140 | –43% | SELL

Positives priced in; maintain SELL

SUMMARY

State Bank of India

State Bank of India's (SBIN) Q3FY21 PAT declined 7% YoY to Rs 52bn on a 5% dip in operating profit. Disclosures on stress levels were reassuring with slippages and restructured loans manageable. The SMA book inched up to 0.8% of loans (0.5% in Q2) owing to some overlap with the incremental stress, but management believes it will be contained in Q4. Credit cost guidance was maintained at <2% for FY21. We raise EPS estimates post Q3 and assign the stock a higher 1x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 475 (vs. Rs 260).

Click here for the full report.

Inox Leisure

A lack of fresh content weighed on Inox Leisure's (INOL) footfalls in Q3FY21, yielding paltry revenue Rs 149mn. EBITDA loss (ex-rent concessions) rose sequentially to Rs 448mn as cinema screens reopened. After a near 10-month slump, we are finally seeing green shoots for INOL following the recent permission to cinemas to operate at full capacity and a strong box office performance from 'Master' which should prompt new releases. We raise our target EBITDA multiple to 12x (vs. 10x) and our Mar'22 TP to Rs 410 (vs. Rs 315).

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	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.14	4bps	22bps	(51bps)
India 10Y yield (%)	6.08	(4bps)	26bps	(42bps)
USD/INR	72.98	0	0.1	(2.5)
Brent Crude (US$/bbl)	58.46	1.7	14.4	5.8
Dow	30,724	0.1	1.7	4.9
Shanghai	3,517	(0.5)	0.4	24.8
Sensex	50,256	0.9	4.3	22.1
India FII (US$ mn)	**2 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(27.3)	(9.0)	(507.3)	(4,600.9)
FII-E	933.0	1,186.2	3,164.4	33,140.2

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Transport Corp of India

Transport Corp's (TRPC) Q3FY21 print beat estimates on all fronts. Consolidated revenue rose 14% YoY to Rs 8.1bn (est. Rs 7.4bn), boosted by 24% growth in SCS revenue. EBITDA/adj. PAT jumped 23%/55% YoY. We expect TRPC's growth to accelerate in coming quarters supported by recovery in key-client industry verticals (auto, bulk goods), rising LTL volumes and a benign base. The improving outlook prompts us to raise FY21/FY22/FY23 EBITDA estimates by 13%/5%/5%. On rollover, our Mar'22 TP rises to Rs 330 (vs. Rs 300). BUY.

Click here for the full report.

Somany Ceramics

Somany Ceramics' (SOMC) consolidated revenue grew 13% YoY to Rs 4.9bn in Q3FY21 as tile volumes grew 12%. Operating margins expanded 365bps YoY to 12.9%, fuelling 57%/151% YoY growth in EBITDA/PBT. Management expects a better Q4 and high double-digit tile volume growth with at least 12% margins in FY22. We raise FY21-FY23 EBITDA estimates by 15-17% to bake in the faster- than-expected recovery and strong margin guidance. We also increase our target P/E to 20x (from 15x) and roll to a revised Mar'22 TP of Rs 490 (from Rs 280).

Click here for the full report.

Apollo Tyres

Apollo Tyres (APTY) delivered an operational beat in Q3FY21. Consolidated revenue grew 17% YoY to Rs 51.5bn, EBITDA margin expanded 700bps to 19.2%, and adj. PAT increased 155% YoY to Rs 4.5bn. In our view, positives in the form of domestic volume growth and a better performance in Europe are priced in, even as inflation in natural rubber (up ~30% over the last three months) and crude derivatives is likely to squeeze margins. We find current valuations at 28x FY23E EPS rich and maintain SELL.

Click here for the full report.

BUY
TP: Rs 475 | 34%

STATE BANK OF INDIA | Banking | 04 February 2021

Asset quality outlook remains upbeat

State Bank of India's (SBIN) Q3FY21 PAT declined 7% YoY to Rs 52bn on a 5% dip in operating profit. Disclosures on stress levels were reassuring with slippages and restructured loans manageable. The SMA book inched up to 0.8% of loans (0.5% in Q2) owing to some overlap with the incremental stress, but management believes it will be contained in Q4. Credit cost guidance was maintained at <2% for FY21. We raise EPS estimates post Q3 and assign the stock a higher 1x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 475 (vs. Rs 260).

Vikesh Mehta
research@bobcaps.in

Stress levels remain reassuring: Slippages were contained at Rs 20.7bn in Q3. This coupled with higher reductions/upgrades and write-offs led to a decline in proforma GNPA ratio to 5.4% vs. 5.9% in Q2. SBIN has received Covid-related restructuring applications worth Rs 181bn from the retail (21%), SME (14%) and corporate (65%) segments. No abnormal spike in restructured accounts is expected in Q4. Fresh slippages and restructuring up to 9MFY21 was at Rs 412bn, well below earlier guided levels of Rs 600bn (2.5% of loans) for FY21. Management expects the resolution of two lumpy accounts going forward and the quality of its retail book also remains healthy.

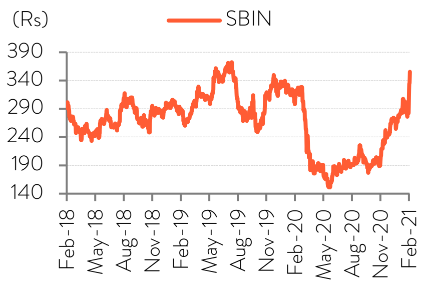
Retail credit holds strong: Credit growth at 8% YoY in Q3 was subdued but retail loans grew 15% backed by good traction in products such as home loans (+10% YoY), 'Xpress credit' (+36% YoY) and personal gold loans. Management highlighted that Xpress credit will continue to show strong momentum as the bank has tapped only 40-45% of its 16mn corporate salary package customers.

Maintain BUY: We raise our FY21-FY23 EPS estimates by 37-60% and increase our core P/BV multiple to 1x (0.5x earlier) to factor in SBIN's better growth and asset quality outlook. This yields a higher Mar'22 SOTP-based target price of Rs 475.

Ticker/Price	SBIN IN/Rs 355
Market cap	US$ 43.4bn
Shares o/s	8,925mn
3M ADV	US$ 203.2mn
52wk high/low	Rs 358/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	1,132,746	1,331,670	1,518,850
NII growth (%)	18.0	11.0	15.5	17.6	14.1
Adj. net profit (Rs mn)	8,622	144,881	196,152	277,902	379,637
EPS (Rs)	1.0	16.2	22.0	31.1	42.5
P/E (x)	367.6	21.9	16.2	11.4	8.3
P/BV (x)	1.4	1.4	1.2	1.1	1.0
ROA (%)	0.0	0.4	0.5	0.6	0.7
ROE (%)	0.4	6.4	7.9	10.2	12.7

Source: Company, BOBCAPS Research

BUY
TP: Rs 410 | 24%

INOX LEISURE | Media | 04 February 2021

Light at the end of the tunnel

A lack of fresh content weighed on Inox Leisure's (INOL) footfalls in Q3FY21, yielding paltry revenue Rs 149mn. EBITDA loss (ex-rent concessions) rose sequentially to Rs 448mn as cinema screens reopened. After a near 10-month slump, we are finally seeing green shoots for INOL following the recent permission to cinemas to operate at full capacity and a strong box office performance from 'Master' which should prompt new releases. We raise our target EBITDA multiple to 12x (vs. 10x) and our Mar'22 TP to Rs 410 (vs. Rs 315).

Sayan Das Sharma
research@bobcaps.in

Approval to run at full capacity: The I&B ministry has recently allowed theatres across India to operate at 100% seating capacity (vs. 50%). For INOL, 288 screens (45% of total) currently have state government approval to run at full capacity and the rest are expected to follow soon. This coupled with strong interest for 'Master' (Rs 2.5bn in box office collections) should allay producers' concerns and encourage a spate of new releases from Mar'21. Big-ticket releases would spur footfalls, in turn boosting ATP and F&B spends per head.

Maintaining a tight leash on costs: INOL has reached settlements with most developers for rental waivers during the shutdown period and revenue sharing or discounted rent agreements for the remainder of FY21. This along with a tight leash on other fixed costs (–50% YoY) contained EBITDA loss. INOL expects some fixed cost savings to be sticky, spilling into FY22 and beyond.

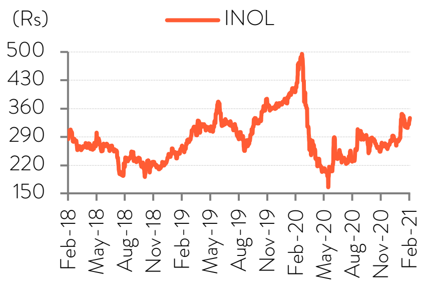
Lofty expansion plans: The company has opened 15 screens in 9MFY21 and plans to open 14 more in FY21 (86% work completed). It has 990 screens in the pipeline to be completed over 6-7 years, propelling its total to ~1,650.

Raise TP: With a muted Q3 topline, we cut FY21 revenue estimates but largely maintain FY22-FY23 forecasts. On rollover, we have a TP of Rs 410. BUY.

Ticker/Price	INOL IN/Rs 330
Market cap	US$ 508.6mn
Shares o/s	112mn
3M ADV	US$ 4.9mn
52wk high/low	Rs 512/Rs 158
Promoter/FPI/DII	47%/12%/22%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	16,922	18,974	2,515	18,164	22,484
EBITDA (Rs mn)	3,092	5,968	(1,499)	5,627	7,327
Adj. net profit (Rs mn)	1,385	150	(3,133)	505	1,535
Adj. EPS (Rs)	13.5	1.5	(27.9)	4.5	13.6
Adj. EPS growth (%)	5.4	(89.2)	(2005.6)	(116.1)	204.1
Adj. ROAE (%)	17.0	1.9	(48.9)	7.1	17.8
Adj. P/E (x)	24.4	225.7	(11.8)	73.6	24.2
EV/EBITDA (x)	12.9	6.5	(25.5)	6.8	5.2

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 330 | ⮝ 32%

TRANSPORT CORP OF INDIA | Logistics | 04 February 2021

A lot to like

Transport Corp's (TRPC) Q3FY21 print beat estimates on all fronts. Consolidated revenue rose 14% YoY to Rs 8.1bn (est. Rs 7.4bn), boosted by 24% growth in SCS revenue. EBITDA/adj. PAT jumped 23%/55% YoY. We expect TRPC's growth to accelerate in coming quarters supported by recovery in key-client industry verticals (auto, bulk goods), rising LTL volumes and a benign base. The improving outlook prompts us to raise FY21/FY22/FY23 EBITDA estimates by 13%/5%/5%. On rollover, our Mar'22 TP rises to Rs 330 (vs. Rs 300). BUY.

Sayan Das Sharma
research@bobcaps.in

SCS segment rebounds: TRPC's supply chain segment grew at a strong 24% YoY led by a cyclical recovery in the key auto vertical (~80% of segment revenue). Steady client addition in the FMCG and e-commerce verticals over past quarters also lent a fillip to growth. Sustained momentum in the TCI-Concor JV (+62%/+64% YoY in Q3/9M) spurred an 11% YoY uptick in consolidated freight revenue, though traction in road freight (standalone) was relatively muted at 2%. Seaways growth eased to 4.9% YoY vs. 9% in Q2 due to limited capacity as one ship was in dry dock.

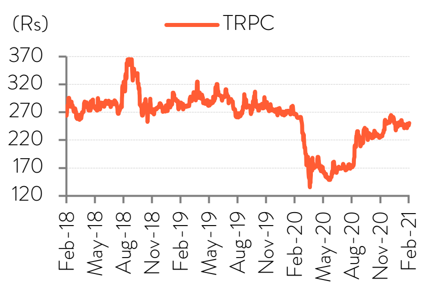
EBITDA margin at multi-quarter high: Higher gross margins (+20bps YoY), coupled with lower staff costs (–80bps) saw EBITDA margin scale up to 9.9% (+70bps), the highest in seven quarters. SCS/freight EBIT margins expanded 122bps/77bps YoY to 6.7%/4.2%. Seaways EBIT margin fell 24bps to 22.6%.

Tailwinds converging: We expect TRPC to be a prime beneficiary of the ongoing economic recovery owing to its unmatched multi-modal capabilities. A cyclical upturn in the key auto vertical augurs well for the SCS segment, whereas a rising share of LTL and gradual uptick in freight availability should boost the freight segment. An improving balance sheet – net debt has declined to Rs 2.5bn from Rs 3.4bn in FY20 – is another positive.

Ticker/Price	TRPC IN/Rs 250
Market cap	US$ 262.8mn
Shares o/s	77mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 280/Rs 122
Promoter/FPI/DII	67%/2%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	27,320	31,705	35,383
EBITDA (Rs mn)	2,495	2,405	2,508	3,030	3,507
Adj. net profit (Rs mn)	1,460	1,531	1,408	1,692	1,978
Adj. EPS (Rs)	19.0	19.9	18.3	22.0	25.7
Adj. EPS growth (%)	17.7	4.6	(8.0)	20.2	16.9
Adj. ROAE (%)	17.7	16.0	12.9	13.8	14.4
Adj. P/E (x)	13.2	12.6	13.7	11.4	9.7
EV/EBITDA (x)	9.3	9.8	9.3	7.6	6.5

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 490 | ^ 22%

SOMANY CERAMICS | Construction Materials | 04 February 2021

Strong operational performance, outlook improving

Arun Baid
research@bobcaps.in

Somany Ceramics' (SOMC) consolidated revenue grew 13% YoY to Rs 4.9bn in Q3FY21 as tile volumes grew 12%. Operating margins expanded 365bps YoY to 12.9%, fuelling 57%/151% YoY growth in EBITDA/PBT. Management expects a better Q4 and high double-digit tile volume growth with at least 12% margins in FY22. We raise FY21-FY23 EBITDA estimates by 15-17% to bake in the faster-than-expected recovery and strong margin guidance. We also increase our target P/E to 20x (from 15x) and roll to a revised Mar'22 TP of Rs 490 (from Rs 280).

Double-digit volume growth: SOMC reported Rs 4.9bn consolidated revenue in Q3, with tile volumes up 12% YoY. Bathware & allied revenue increased 6.5% YoY. Per management, demand continued to be driven by tier-2-and-below cities. The company expects a better Q4 as all plants are operating at 100% capacity and sanitaryware availability has normalised. Volume growth for FY22 is guided to be in the high double digits for tiles as Morbi players continue to focus on exports and 40-50% revenue growth in the bathware and allied segment (off a low base).

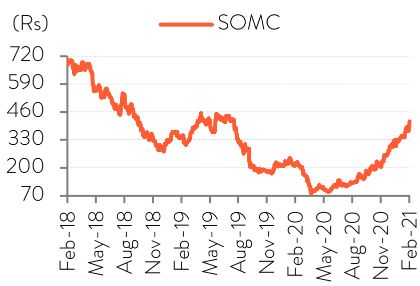
Robust margins: Gross margins increased 375bps YoY on account of a better product mix while higher employee cost (+115bps) was offset by lower other expenses (–103bps YoY). Consolidated EBITDA margin thus expanded 365bps YoY. EBITDA/PBT for the quarter grew 57%/151% YoY. Management believes it can deliver operating margins of at least ~12% in Q4 and FY22.

Maintain BUY: SOMC's result beat, swift recovery and strong margin guidance prompt us to hike FY21-FY23 PAT estimates by 24-47%. We raise our target one-year forward P/E to 20x (from 15x), in line with the 5Y average, given improving demand and a stronger balance sheet position. On rollover, we have a revised Mar'22 TP of Rs 490.

Ticker/Price	SOMC IN/Rs 403
Market cap	US$ 233.9mn
Shares o/s	42mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 430/Rs 77
Promoter/FPI/DII	55%/2%/43%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	17,110	16,030	15,942	19,351	21,730
EBITDA (Rs mn)	1,576	1,299	1,579	2,092	2,371
Adj. net profit (Rs mn)	490	220	459	836	1,034
Adj. EPS (Rs)	11.6	5.2	10.8	19.7	24.4
Adj. EPS growth (%)	(32.9)	(55.1)	108.5	82.1	23.8
Adj. ROAE (%)	8.2	3.6	7.3	12.1	13.3
Adj. P/E (x)	34.9	77.6	37.2	20.4	16.5
EV/EBITDA (x)	13.6	16.5	13.7	9.9	8.2

Source: Company, BOBCAPS Research

SELL
TP: Rs 140 | ∀ 43%

APOLLO TYRES | Auto Components | 04 February 2021

Positives priced in; maintain SELL

Apollo Tyres (APTY) delivered an operational beat in Q3FY21. Consolidated revenue grew 17% YoY to Rs 51.5bn, EBITDA margin expanded 700bps to 19.2%, and adj. PAT increased 155% YoY to Rs 4.5bn. In our view, positives in the form of domestic volume growth and a better performance in Europe are priced in, even as inflation in natural rubber (up ~30% over the last three months) and crude derivatives is likely to squeeze margins. We find current valuations at 28x FY23E EPS rich and maintain SELL.

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

Strong operating performance: Consolidated Q3FY21 revenue was 15% ahead of our estimate at Rs 51.5bn (+17% YoY), mainly owing to better volume growth in the replacement segment and revenue from European operations. Sequential gross margin expansion of 125bps (vs. a 350bps decline expected) and higher operating efficiencies further augmented the EBITDA margin which expanded 700bps YoY to 19.2%. Adj. PAT surged 2.5x to Rs 4.5bn.

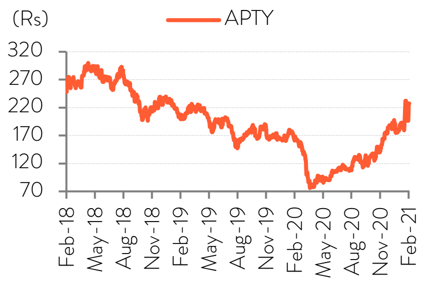
Surge in commodity prices to erode earnings: With the >30% rise in both rubber and brent crude prices from Q2FY21 levels, we anticipate gross margin deterioration for tyre companies (see our recent report **Spiking RM costs to puncture earnings**). To mitigate this impact, players will have to effect price hikes of over 15% which looks difficult. APTY took a price increase of ~2% in Dec'20 and management alluded to further hikes by end-Q4. We bake in a decline of ~180bps YoY in APTY's FY22 gross margin, resulting in a drop in operating margin and earnings.

Valuations full – maintain SELL: The stock has rallied 75% during the last three months and is now trading at 28x FY23E EPS. In our view, most of the optimism over volumes, margins and Europe sales is in the price. We maintain our TP of Rs 140 (16x Mar'23E EPS) and our rating at SELL on expensive valuations.

Ticker/Price	APTY IN/Rs 244
Market cap	US$ 1.9bn
Shares o/s	572mn
3M ADV	US$ 36.9mn
52wk high/low	Rs 256/Rs 73
Promoter/FPI/DII	41%/23%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	175,488	163,270	169,402	194,327	212,751
EBITDA (Rs mn)	17,762	19,155	24,480	23,709	25,948
Adj. net profit (Rs mn)	6,798	4,764	6,023	4,831	5,489
Adj. EPS (Rs)	15.4	8.3	10.4	7.6	8.6
Adj. EPS growth (%)	(6.1)	(29.9)	26.4	(27.8)	13.6
Adj. ROAE (%)	6.8	4.8	5.3	4.1	4.5
Adj. P/E (x)	15.9	29.3	23.4	32.1	28.2
EV/EBITDA (x)	9.9	9.5	7.8	8.2	7.5

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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