FIRST LIGHT

08 February 2021

RESEARCH

BOB Economics Research | Monetary Policy Review
Rates on hold, focus on liquidity

Container Corp of India | Target: Rs 425 | –9% | SELL
Earnings in line; LLF remains a key monitorable

Mahindra & Mahindra | Target: Rs 630 | –27% | SELL
Healthy Q3, valuations expensive – maintain SELL

Hero MotoCorp | Target: Rs 2,900 | –16% | SELL
Optimism priced in – maintain SELL

Alkem Labs | Target: Rs 3,750 | +27% | BUY
Q3 in line; strong free cash to support rerating

Gujarat Gas | Target: Rs 430 | +13% | BUY
Volumes ahead of estimates

SUMMARY

India Economics: Monetary Policy Review

MPC members unanimously voted to keep policy rate unchanged and maintain accommodative stance in the current and into next financial year. RBI did raise its growth estimate for H1FY22 up by 3%. It also raised its inflation estimate up by 0.2% and expects inflation to come down to 4.3% in Q3. We continue to believe we have come to an end to rate cycle. However, liquidity will remain accommodative. The focus will be on absorbing elevated supply of government paper through OMOs and banks (extension of HTM limit of 22% to Mar'23).

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	3,750
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	0bps	23bps	(50bps)
India 10Y yield (%)	6.07	(1bps)	25bps	(37bps)
USD/INR	72.96	0	0.1	(2.5)
Brent Crude (US$/bbl)	58.84	0.7	15.2	7.1
Dow	31,056	1.1	2.8	5.7
Shanghai	3,502	(0.4)	0	22.2
Sensex	50,614	0.7	5.1	22.5
India FII (US$ mn)	**3 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	8.8	(0.2)	(498.5)	(4,592.1)
FII-E	367.6	1,553.8	3,532.0	33,507.8

Source: Bank of Baroda Economics Research

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Container Corp of India

Container Corp's (CCRI) Q3FY21 revenue was a beat but EBITDA met our estimates. Revenue growth of 15% YoY was led by both volumes (+6%) and realisation (+8%). EBITDA was flat YoY due to a staff benefit provision (+13% ex-provision). A potentially favourable land licensing policy and renewed privatisation buzz are near-term triggers. Given the improved earnings outlook, we raise our target P/E to 17x (vs. 15x) and our Mar'22 TP to Rs 425 (vs. Rs 360). Maintain SELL as we await clarity on final land fees.

Click here for the full report.

Mahindra & Mahindra

M&M's (MM) Q3FY21 revenue was in line at Rs 140.6bn (+16% YoY). EBITDA margin beat our estimate at 17% and EBITDA/PAT increased 33%/78% YoY to Rs 23.9bn/Rs 17.4bn. Tractors performed well, clocking 23.4% EBIT margins (+400bps YoY); auto margins also expanded 40bps. We expect MM's tractor/auto segments to log a volume CAGR of 5%/15% over FY21-FY23, but a gross margin downtrend could curtail EBITDA margins. We continue to value the core business at 14x Mar'23E EPS and maintain our TP at Rs 630. SELL.

Click here for the full report.

Hero MotoCorp

Hero MotoCorp's (HMCL) Q3FY21 operating performance beat estimates due to above-expected gross margins. Revenue grew 40% YoY to Rs 97.8bn and EBITDA margin came in at 14.5% (12.4% est.). We expect operating performance to come under pressure given steep RM cost increases coupled with a likely QoQ drop in volumes. We continue to model for a 17% earnings CAGR over FY21-FY23 and retain our Mar'22 TP of Rs 2,900. Maintain SELL as current valuations look full at 18x FY23E EPS.

Click here for the full report.

Alkem Labs

Alkem Labs' Q3FY21 was in line, with sales/EBITDA growth at 6%/17% YoY. Gross margin was healthy at 61.7% and EBITDA margin beat estimates at 22.8% despite a surge in SGA spend (+27% QoQ, –5% YoY). India growth recovered to 6% YoY (trade generics up >20% YoY), but US sales were muted QoQ. Alkem is cautiously optimistic of achieving 4-5% India sales growth in FY21 led by acute business recovery and is confident of >150bps EBITDA margin gains over three years. Retain BUY with a new Mar'22 TP of Rs 3,750 on rollover (vs. Rs 3,600).

Click here **for the full report.**

Gujarat Gas

Gujarat Gas' (GUJGA) Q3FY21 performance sustained the traction seen in Q2, with adj. PAT doubling YoY to Rs 3.9bn. Q3 highlights: (a) Volumes beat estimates at 11.45mmscmd (+23% YoY, +16% QoQ), and (b) EBITDA margins were in line at Rs 5.8/scm (+35% YoY). Despite a surge in spot LNG prices (>US$ 20/mmbtu), GUJGA's current volumes are holding at 11.5mmscmd aided by improved industrial activity. On rolling valuations over, we move to a new Mar'22 TP of Rs 430 (vs. Rs 400). Volume acceleration calls for higher multiples – BUY.

Click here **for the full report.**

MONETARY POLICY REVIEW

05 February 2021

Rates on hold, focus on liquidity

MPC members unanimously voted to keep policy rate unchanged and maintain accommodative stance in the current and into next financial year. RBI did raise its growth estimate for H1FY22 up by 3%. It also raised its inflation estimate up by 0.2% and expects inflation to come down to 4.3% in Q3. We continue to believe we have come to an end to rate cycle. However, liquidity will remain accommodative. The focus will be on absorbing elevated supply of government paper through OMOs and banks (extension of HTM limit of 22% to Mar'23).

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KEY HIGHLIGHTS

- Policy rate kept unchanged at 4%, accommodative stance to continue.
- CPI forecast for Q4FY21 has been revised downwards by 0.6%. CPI estimate for H1FY22 revised upwards to 5.1% from 4.9%.
- GDP forecast for H1FY22 revised upwards to 17.3% from 14.2% earlier. For FY22, GDP growth expected at 10.5%.

Status quo: MPC members unanimously voted to keep key policy rates unchanged and continue with accommodative stance as long as necessary—at least during current financial year and into next year—to revive growth.

GDP growth expected at 10.5% in FY22: RBI notes that growth impulses have strengthened in Jan'21 as seen in improvement in capacity utilisation, consumer confidence and electricity demand. While rural demand is holding up well, urban demand is likely to improve with rollout of vaccine. Thus, RBI has revised its H1FY22 growth estimate to 8.3-26.2% from 6.5-21.9%. For FY22 growth estimate is 10.5% from 7.7% contraction in FY21. We believe both the estimates may be revised upwards given the underlying economic momentum.

CPI forecasts revised: While RBI now expects inflation to fall to 5.2% in Q4FY21 from 5.8% earlier, inflation in H1FY22 is estimated to be higher at 5-5.2% from 4.6-5.2% earlier. The upward revision in H1 is led by entrenched core inflation, rising commodity prices and normalisation of economic activity. RBI expects inflation to come down to 4.3% in Q3 led by a favourable base. With inflation estimated to remain above target of 4% (under revision), we do not see RBI cutting rates. RBI supports continuity of existing regime.

Liquidity support for government borrowing: RBI reiterated its commitment to provide ample liquidity. One of the primary objective next year is to meet government's extended borrowing. For this, new bonds bought by banks next year will quality for HTM segment which was revised to 22% of NDTL till Mar'23. While this along with RBI's OMOs will ensure demand for government bonds, excess liquidity with the banking system is being reduced by normalisation of CRR from 3% in 2 phases- 3.5% from 27 Mar 2021 and 4% from 22 May 2021. RBI is also tapping retail investors directly now with direct access to g-sec market.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 425 | ∀ 9%

CONTAINER CORP OF INDIA | Logistics | 06 February 2021

Earnings in line; LLF remains a key monitorable

Container Corp's (CCRI) Q3FY21 revenue was a beat but EBITDA met our estimates. Revenue growth of 15% YoY was led by both volumes (+6%) and realisation (+8%). EBITDA was flat YoY due to a staff benefit provision (+13% ex-provision). A potentially favourable land licensing policy and renewed privatisation buzz are near-term triggers. Given the improved earnings outlook, we raise our target P/E to 17x (vs. 15x) and our Mar'22 TP to Rs 425 (vs. Rs 360). Maintain SELL as we await clarity on final land fees.

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Volume growth returns, realisation healthy: After six successive quarters of YoY decline, handling volumes rose 6% YoY (+9% QoQ) in Q3. Originating volumes also increased 11% YoY. Lower empty share, a Rs 5,000/teu surcharge at the TKD terminal, and a slight rise in lead distance lifted realisation by 8% YoY. Given the faster-than-anticipated volume revival, CCRI has now guided for a volume drop of 5% or less in FY21 vs. 10% earlier. The company's market share among CTOs stands at 66.7% in 9MFY21, up from 66% in FY20.

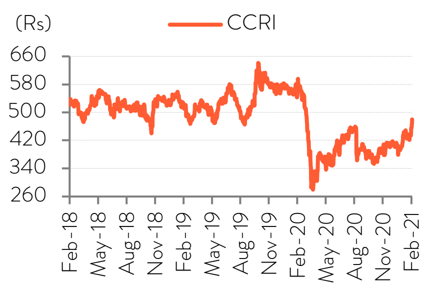
Staff costs, higher LLF cramp margin: Though rail freight (–260bps YoY) and other expenses (–70bps) were lower, a rise in employee (+170bps) and other operating costs (+470bps) depleted EBITDA margin by 315bps YoY to 21.2%. Staff cost included a Rs 496mn provision for retirement medical benefit liability, while higher land license fee (LLF) inflated other operating cost. Despite flat YoY EBITDA, PAT rose 36% YoY propelled by lower tax and higher other income.

LLF policy awaited: Per media articles, the Indian Railways may soon lower the LLF to 3% from 6% of underlying land value, though the final amount may still be higher than CCRI's assessment. This could pave the way for privatisation and serve as a potential rerating trigger. Completion of the first stretch of DFC also bodes well. We await clarity on the LLF before revisiting our SELL rating.

Ticker/Price	CCRI IN/Rs 467
Market cap	US$ 3.9bn
Shares o/s	609mn
3M ADV	US$ 17.8mn
52wk high/low	Rs 602/Rs 263
Promoter/FPI/DII	55%/23%/16%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	62,770	75,688	87,858
EBITDA (Rs mn)	14,079	16,749	13,311	19,445	22,979
Adj. net profit (Rs mn)	12,154	12,574	8,188	12,823	15,243
Adj. EPS (Rs)	19.9	20.6	13.4	21.0	25.0
Adj. EPS growth (%)	14.5	3.5	(34.9)	56.6	18.9
Adj. ROAE (%)	12.3	12.3	7.9	11.6	12.8
Adj. P/E (x)	23.4	22.6	34.7	22.2	18.7
EV/EBITDA (x)	18.9	16.5	20.8	13.4	11.2

Source: Company, BOBCAPS Research

SELL
TP: Rs 630 | ⮟ 27%

MAHINDRA & MAHINDRA | Automobiles | 05 February 2021

Healthy Q3, valuations expensive – maintain SELL

M&M's (MM) Q3FY21 revenue was in line at Rs 140.6bn (+16% YoY). EBITDA margin beat our estimate at 17% and EBITDA/PAT increased 33%/78% YoY to Rs 23.9bn/Rs 17.4bn. Tractors performed well, clocking 23.4% EBIT margins (+400bps YoY); auto margins also expanded 40bps. We expect MM's tractor/auto segments to log a volume CAGR of 5%/15% over FY21-FY23, but a gross margin downtrend could curtail EBITDA margins. We continue to value the core business at 14x Mar'23E EPS and maintain our TP at Rs 630. SELL.

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Healthy operating performance: Revenues for MM+MVML grew 16% YoY to Rs 140.6bn, meeting our estimates. Below-expected gross margins were more than offset by better operating efficiencies, resulting in EBITDA growth of 33% YoY to Rs 23.9bn (Rs 20bn est.) and an EBITDA margin of 17% (+220bps YoY). A significant jump in interest burden was nullified by higher other income, resulting in adj. PAT growth of 78% YoY to Rs 17.4bn. MM reported one-off impairment charges of Rs 12.1bn in Q3.

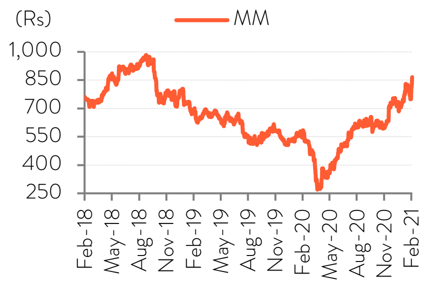
Spiking RM costs to weigh on operating performance: We expect MM's tractor/auto segments to witness a 5%/15% volume CAGR over FY21-FY23. Rising commodity costs are likely to impact gross margins. Steel forms ~60% of the raw material used in a car. Since Sep'20, steel prices have surged >90%, which can have a devastating impact on margins, alongside the rise in rubber and crude derivative prices.

Maintain SELL: We estimate a 12% revenue CAGR for MM over FY21-FY23, though margin headwinds are expected to cap earnings growth at 5%. We continue to value the core business at 14x Mar'23E EPS and assign a 30% holding company discount to subsidiaries, yielding a Mar'22 TP of Rs 630. Retain SELL as current valuations look rich at 23x FY23E core EPS (adj. for subs. Value of Rs. 230).

Ticker/Price	MM IN/Rs 867
Market cap	US$ 14.7bn
Shares o/s	1,242mn
3M ADV	US$ 66.1mn
52wk high/low	Rs 894/Rs 245
Promoter/FPI/DII	20%/34%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	528,482	448,655	430,558	497,341	539,596
EBITDA (Rs mn)	75,301	63,506	67,844	69,237	75,143
Adj. net profit (Rs mn)	54,239	35,509	41,625	42,228	45,778
Adj. EPS (Rs)	43.7	28.6	33.5	34.0	36.9
Adj. EPS growth (%)	29.5	(34.5)	17.2	1.4	8.4
Adj. ROAE (%)	16.6	10.2	11.9	11.4	11.5
Adj. P/E (x)	19.8	30.3	25.9	25.5	23.5
EV/EBITDA (x)	14.0	16.3	15.3	15.2	14.0

Source: Company, BOBCAPS Research

SELL
TP: Rs 2,900 | ∀ 16%

HERO MOTOCORP | Automobiles | 05 February 2021

Optimism priced in – maintain SELL

Hero MotoCorp's (HMCL) Q3FY21 operating performance beat estimates due to above-expected gross margins. Revenue grew 40% YoY to Rs 97.8bn and EBITDA margin came in at 14.5% (12.4% est.). We expect operating performance to come under pressure given steep RM cost increases coupled with a likely QoQ drop in volumes. We continue to model for a 17% earnings CAGR over FY21-FY23 and retain our Mar'22 TP of Rs 2,900. Maintain SELL as current valuations look full at 18x FY23E EPS.

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Operational beat: Q3 revenue at Rs 97.8bn (+40% YoY) came in marginally ahead of our estimate of Rs 94bn, driven by a strong 17% YoY jump in ASP while volumes for the quarter grew 20% YoY. Sequential improvement in gross margin and better operating efficiencies led to a 210bps beat on EBITDA margin to 14.5%. Adj. PAT grew 23% YoY to Rs 10.8bn, 27% ahead of our projection supported by above-expected other income.

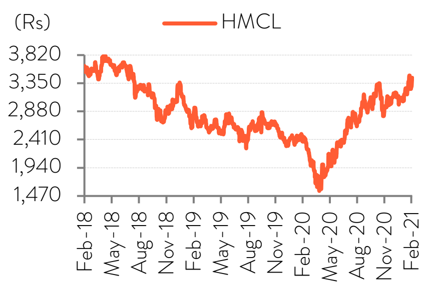
Near-term margin headwinds: With inventories at regular levels, sustainability of production will now depend on a pickup in retail sales. In addition, we remain cautious on operating margin performance as we believe the sharp rise in prices of key inputs such as aluminium and steel is likely to weaken gross margins by >200bps in Q4 from Q3 levels of 29.5%. HMCL took a blended price increase of ~2% in Oct'20 but would need further hikes to fully offset raw material cost inflation.

Maintain SELL: We expect HMCL to clock a revenue/EBITDA/PAT CAGR of 12%/15%/17% during FY21-FY23. In our view, most positives are priced in at current valuations of 18x FY23E EPS. Maintain SELL with a Mar'22 TP of Rs 2,900, which values the stock at an unchanged 15x one-year forward EPS.

Ticker/Price	HMCL IN/Rs 3,441
Market cap	US$ 9.4bn
Shares o/s	200mn
3M ADV	US$ 59.1mn
52wk high/low	Rs 3,520/Rs 1,475
Promoter/FPI/DII	35%/32%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	336,505	288,361	307,895	349,030	384,492
EBITDA (Rs mn)	49,301	39,580	38,115	44,583	49,973
Adj. net profit (Rs mn)	33,849	29,559	28,141	33,939	38,283
Adj. EPS (Rs)	169.5	148.0	140.9	170.0	191.7
Adj. EPS growth (%)	(8.5)	(12.7)	(4.8)	20.6	12.8
Adj. ROAE (%)	26.3	20.9	17.6	19.1	19.2
Adj. P/E (x)	20.3	23.2	24.4	20.2	17.9
EV/EBITDA (x)	13.9	17.3	18.0	15.1	13.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 3,750 | ⮝ 27%

ALKEM LABS | Pharmaceuticals | 05 February 2021

Q3 in line; strong free cash to support rerating

Alkem Labs' Q3FY21 was in line, with sales/EBITDA growth at 6%/17% YoY. Gross margin was healthy at 61.7% and EBITDA margin beat estimates at 22.8% despite a surge in SGA spend (+27% QoQ, –5% YoY). India growth recovered to 6% YoY (trade generics up >20% YoY), but US sales were muted QoQ. Alkem is cautiously optimistic of achieving 4-5% India sales growth in FY21 led by acute business recovery and is confident of >150bps EBITDA margin gains over three years. Retain BUY with a new Mar'22 TP of Rs 3,750 on rollover (vs. Rs 3,600).

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India trade generics remain robust; US to rebound in Q4: Growth in the trade generics business held strong (>20%) and prescription (Rx) sales rebounded QoQ. Generics share has moderated to ~23% (from 27% in H1) with Rx pickup; this is expected to normalise to 20% levels by FY22. India sales grew 6% YoY as acute business recovered and larger brands continued to do well. US sales were muted QoQ at US$ 84mn and should revive in Q4 on new launches (seven approvals in Q3). Management retains its 15-20% US growth guidance for FY21-FY23. We expect a US/India sales CAGR of 17%/8% for this period.

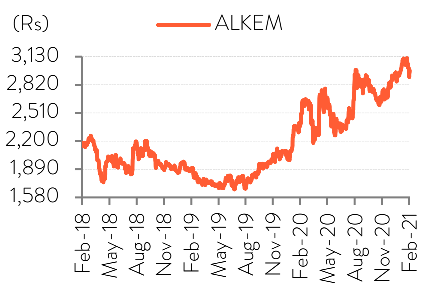
EBITDA margin healthy; gross margin surprises positively: Q3 gross margin sustained at a robust 61.7% (+120bps QoQ) despite recovery in acute portfolio growth, implying underlying US margins have improved. Chronic business remains slow. Alkem expects to sustain ~62% gross margins in coming quarters. SGA spends have largely normalised in Q3 (+27% QoQ) but are still down 5% YoY – management reiterated that some part of savings is structural and should support FY22 EBITDA margins (guided at 20-21% vs. an exceptional 23% print in FY21).

Earnings call highlights: (1) Sustainable market share gains in larger brands during Covid. (2) India business can see small sized M&A in FY22. (3) Other income includes onetime brand monetisation. (4) Cash levels: Rs 8bn.

Ticker/Price	ALKEM IN/Rs 2,944
Market cap	US$ 4.8bn
Shares o/s	120mn
3M ADV	US$ 4.6mn
52wk high/low	Rs 3,152/Rs 1,881
Promoter/FPI/DII	62%/4%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	73,558	82,983	91,288	101,943	113,526
EBITDA (Rs mn)	11,135	14,730	20,767	21,621	24,768
Adj. net profit (Rs mn)	7,298	11,270	15,960	16,662	19,276
Adj. EPS (Rs)	61.0	94.3	133.5	139.4	161.2
Adj. EPS growth (%)	15.7	54.4	41.6	4.4	15.7
Adj. ROAE (%)	16.3	22.7	27.4	23.6	22.8
Adj. P/E (x)	48.2	31.2	22.1	21.1	18.3
EV/EBITDA (x)	31.7	24.0	17.0	16.1	13.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 430 | ⮝ 13%

GUJARAT GAS | Oil & Gas | 06 February 2021

Volumes ahead of estimates

Gujarat Gas' (GUJGA) Q3FY21 performance sustained the traction seen in Q2, with adj. PAT doubling YoY to Rs 3.9bn. Q3 highlights: (a) Volumes beat estimates at 11.45mmscmd (+23% YoY, +16% QoQ), and (b) EBITDA margins were in line at Rs 5.8/scm (+35% YoY). Despite a surge in spot LNG prices (>US$ 20/mmbtu), GUJGA's current volumes are holding at 11.5mmscmd aided by improved industrial activity. On rolling valuations over, we move to a new Mar'22 TP of Rs 430 (vs. Rs 400). Volume acceleration calls for higher multiples – BUY.

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Volumes accelerate: Volumes improved to 11.45mmscmd despite a spike in LNG prices, driven by resilience in the industrial segment (9.2mmscmd, +17% QoQ), followed by CNG (1.5mmscmd, +20% QoQ). Strong recovery in consumption from ceramic units (primarily in Morbi) and the chemicals segment continued to aid industrial volumes. Domestic PNG grew 11% YoY to 0.64mmscmd. We expect CNG volumes to generate >10% CAGR over FY21-FY23 as the state of Gujarat emerges fully out of lockdown.

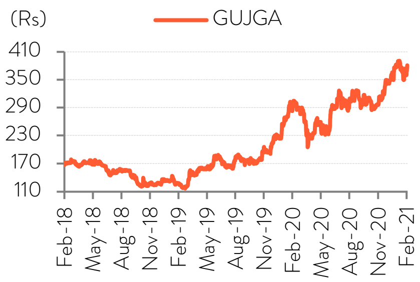
LNG price surge dilutes margins: GUJGA's margins were in line at Rs 5.8/scm, declining 28% QoQ (but up 35% YoY) owing to a surge in LNG prices. Margins could decline further to ~Rs 5/scm in Q4 considering the recent sharp increase in spot prices (>US$ 20/mmbtu). However, once LNG prices stabilise, we expect the company to consistently average at Rs 6-7/scm EBITDA as incremental volumes bring in advantages of scale.

Maintain BUY: GUJGA is trading at 14.3x FY23E EPS, well below peers such as Indraprastha Gas (~17x). Considering acceleration in volumes (well ahead of peers), valuations leave ample room for upsides. Over the long term, an improving volume mix and relatively benign oil prices augur well for margins and represent an upside risk to earnings.

Ticker/Price	GUJGA IN/Rs 380
Market cap	US$ 3.6bn
Shares o/s	688mn
3M ADV	US$ 4.9mn
52wk high/low	Rs 412/Rs 191
Promoter/FPI/DII	61%/9%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	77,544	103,003	80,419	96,998	106,288
EBITDA (Rs mn)	9,846	16,343	20,746	24,890	27,091
Adj. net profit (Rs mn)	4,170	9,058	13,005	16,349	18,285
Adj. EPS (Rs)	6.1	13.2	18.9	23.7	26.6
Adj. EPS growth (%)	43.1	117.2	43.6	25.7	11.8
Adj. ROAE (%)	20.7	33.1	35.1	36.7	36.2
Adj. P/E (x)	62.7	28.9	20.1	16.0	14.3
EV/EBITDA (x)	28.7	17.2	13.3	10.9	9.8

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)

Rating distribution

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