BFSI & MIDCAPS

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BOBCAPS BFSI & Midcaps Conference: Key takeaways

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We hosted 23 corporates from the BFSI and midcap sectors for meetings with 50+ institutional clients at our conference in Mumbai on 13 September. Participants included listed and unlisted NBFCs, HFCs and SFBs, as well as large banks. A common theme of discussion across the BFSI space was the NBFC liquidity squeeze and banks' assurances of renewed credit to the segment. Many of the midcaps we hosted, spanning the building materials, logistics, utilities and infrastructure sectors, indicated signs of economic recovery in H2FY20.

Last-mile funding vital for stranded residential projects: With NBFCs and HFCs facing a severe liquidity crunch over the past year, several residential projects are stuck for want of last-mile funding; banks are also averse to lend in such instances – housing financiers view this as a potential solvency risk for developers in the near term, which could be alleviated only if the government provides some relief or a 1-2 year moratorium on loan repayment. That said, growth in housing loans of ticket size below Rs 2mn is strong and should see tailwinds from multiple government schemes and demand in tier-2 and 3 cities.

Transmission of rate cuts to improve: Banks are expected to pass on rate cuts more efficiently as they move to new external benchmarks after Oct'19. Any such transmission will have a lag effect as loans will be repriced only when they come up for renewal. NBFCs who attended our conference anticipate rate cuts in the range of 20-50bps by the RBI in the next 2-3 quarters. Systemic liquidity for NBFCs is expected to return in 3-6 months as revival in the capex cycle is likely to be delayed beyond 12 months, making NBFC funding the only source of big-ticket credit offtake for banks.

Economic activity turning around in select pockets: Logistics companies such as TCI Express pointed to a revival in volume growth during Q2FY20. Resilience in some end-user industries (pharma, retail and auto spares), more business from existing customers, and the addition of new clients are helping logistics players combat the economic slowdown.

In the building materials sector, the outlook remains challenging amid tepid demand conditions. The regulatory thrust on natural gas consumption will continue to benefit organised tile manufacturers (Cera Sanitaryware), while also ensuring sustained volume traction for gas utilities (Indraprastha Gas).

KEY CORPORATE PARTICIPANTS

Company	Ticker
Aavas Financiers	AAVAS IN
Adarin Engineering Tech	Not listed
Alembic Pharma	ALPM IN
CEAT	CEAT IN
Cera Sanitaryware	CRS IN
Greenply Industries	MTLM IN
HDFC Ltd	HDFC IN
Hinduja Leyland Finance	Not listed
Indraprastha Gas	IGL IN
Inox Leisure	INOL IN
ITD Cementation	ITCE IN
Jana Small Finance Bank	Not listed
Kotak Mahindra Bank	KMB IN
Mahindra Finance	MMFS IN
Manappuram Finance	MGFL IN
Sadbhav Engineering	SADE
Satin Creditcare Network	SATIN IN
Shriram City Union Finance	SCUF IN
TCI Express	TCIEXP IN
Zinka Logistics (Blackbuck)	Not listed

Key conference takeaways

Aavas Financiers

AAVAS IN | Market cap: US$ 1.7bn | CMP: Rs 1,530 | NOT RATED

- About 40% of Aavas Financiers' (Aavas) business typically occurs in the first half of the year and 60% in the second half. Average tenure of loans is ~14 years and of assets is ~7.5 years.

LAP forms 25% of the loan book, where average ticket size is Rs 0.8mn

- Loans against property (LAP) form 25% of the loan book, where average ticket size is Rs 0.8mn and average loan to value (LTV) is 50%.
- The housing loan book is split into 85% self-construction funding and 15% funding to apartments. About 60% of self-construction funding is for new sales. The company finances apartments that are 85-90% complete.
- Aavas has a positive asset-liability mismatch across buckets, relationships with a diversified set of lenders and a strong capital base.

Generates 10k-12k leads per month, of which a fourth are converted to business

- The company generates 10,000-12,000 leads per month, of which 30-40% are through social media. About 8,000 of these are serious leads as these prospects pay a Rs 1,500 login fee, and ~2,500 are usually converted into business.
- About 65% of customers are self-employed and 35% are salaried. Of the latter, 50% are government/semi-government employees.
- Sourcing is 100% inhouse which allows Aavas to approach the customer directly, thereby mitigating pricing risk. The company has a turnaround time of 12.5 days.
- The collection team of 350 personnel is also inhouse and is allocated automated beat routes.
- Over the last 18 months, Aavas has used a dedicated team studying data analytics to improve customer retention.
- About 89% of its borrowings are from long-term loans, assignments and NHB refinancing. Only 11% are from the debt market, a majority being from multilateral institutions such as International Finance Corporation and CDC.
- Management has guided for spreads of ~5.5% in FY20 and 2.6% ROA, and is comfortable with 8x leverage.

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Adarin Engineering Technologies

Not listed

Developer of proprietary ultracapacitor pack technology for EVs

- Adarin Engineering Technologies (Adarin) is a Bangalore-based EV mobility start-up incorporated in 2013. Adarin along with sister group company Shado has developed proprietary ultracapacitor pack technology and various subsystems for EVs. The company has filed for four patents on electric and electric hybrid vehicle technology.
- Management believes that lithium ion-based EVs are not suitable for Indian conditions given high temperature levels and space constraints to developing an extensive charging network. In contrast, ultracapacitor-based batteries can operate at high ambient temperatures. Their lifecycle is estimated at ~25,000 charge cycles.
- The company procures cells for its batteries from a Chinese company and has exclusive global rights for sale of miniaturised ultracapacitor batteries for a four-year period.
- Ultracapacitor batteries use DC-to-DC charging. Charging stations can use grid power with a three-phased connection. Alternatively, charging is also possible through battery packs.

New electric 3W Erick can charge fully in 5 minutes and run up to 70km at 50kmph

- The company recently unveiled an electric three-wheeler (3W) branded 'Erick' with passenger and cargo applications. A single charge takes only five minutes and delivers a range of 70km with 500kg of load-bearing capacity and speeds up to 50kmph.
- Capital cost for the Erick is ~2.5-3x that of a diesel 3W, but the total cost of ownership over five years is expected to be half that of a diesel vehicle. Running cost is ~Rs 1.5/km vs. Rs 5-6/km for a diesel 3W.
- The company has entered into an outsourcing arrangement with two companies for chassis and body manufacturing. Initial capacity is for 750 units/month which can be expanded to 5,000 units/month based on requirement.
- Adarin plans to initially focus on the B2B segment, with target customers engaged in ecommerce, e-logistics and last-mile aggregation. The company has garnered interest from a prominent ecommerce player. In addition, Adarin has received a letter of intent (LOI) from the second largest palm oil producer in Indonesia.

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Alembic Pharma

ALPM IN | Market cap: US$ 1.3bn | CMP: Rs 505 | NOT RATED

- Alembic Pharma (ALPM) expects near-to-mid-term earnings to be supported by the current set of US filings and margin expansion in the India business.
- The India business saw lacklustre growth in Q1FY20 but management expects some recovery in the quarters ahead and is targeting 7-10% growth for the year. So far, primary growth numbers are tracking well.

US launch pipeline of over 20 products in FY20

- ALPM has 60 commercial products in the US (7 partnered) and is looking to launch 20+ products in FY20. It remains confident of the portfolio breadth, supply chain and possible one-off opportunities in coming years.
- Of the ~70 ANDAs pending in the US, management believes 30 could have limited competition. Cumulative end market size of the pending files are ~US$ 30bn-35bn. The company expects the share of filings in injectables and ophthalmology to improve over the next two years (from ~5 ANDAs now).
- Capex for FY20 is planned at Rs 7bn. A sum of Rs 5.5bn is estimated to be capitalised during the year, which includes Rs 3bn on the dermatology unit and Rs 2.5bn on the general oral solids unit at Jarod, Gujarat. FDA inspection for the new injectables unit should broadly occur in late-FY21. Additional cost after commissioning of the planned capacity across four units (Panelav, Jarod, Halol, and Karkhadi) would be Rs 2.5bn per year.

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CEAT

CEAT IN | Market cap: US$ 523mn | CMP: Rs 925 | NOT RATED

Hyundai/KIA tie-ups in PCRs offer near-term visibility for offtake from new capacity

- CEAT's medium-term focus is on increasing its presence in the passenger car radial (PCR) segment, where it commands ~10% market share. Additional capacities are likely to kick in from Dec'19. New OEM tie-ups with Hyundai and KIA provide near-term visibility for offtake from fresh capacities.
- Following capacity expansion in the truck and bus radial (TBR) segment in Feb'19, CEAT has gained 50bps of market share from a low base of ~3%.
- Post levy of anti-dumping duty, Chinese TBR imports continue to languish at 40,000-50,000 tyres a month vs. 150,000 earlier.
- In the two-wheeler (2W) segment, CEAT has held on to its 28-30% market share. Among recent entrants, Maxxis is a credible competitor with capacity

of 500,000 units/month. Backed by OEM partnerships with HMSI and Yamaha, Maxxis is currently selling 150,000-200,000 units/month.

- Profitability in the 2W replacement segment has moderated as MRF has not taken pricing action here over the past couple of years. Currently, the PCR replacement segment has the highest segmental margins at an industry level.
- CEAT posted 3-4% YoY volume growth in the replacement segment in Q1FY20. Management does not see much downside from these levels.

Replacement demand unlikely to soften further

- The company has cut back its capex plans from Rs 13bn to Rs 11bn (standalone) for FY20 in light of weak demand conditions. Current debt stands at Rs 17bn. Despite its massive capex outlay over the next 2-3 years, management believes the debt/equity ratio will not breach 1x and 3x on debt/EBITDA basis.

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Cera Sanitaryware

CRS IN | Market cap: US$ 468mn | CMP: Rs 2,577 | Target: Rs 3,060 | BUY

- Cera Sanitaryware (CRS) is the largest player in India's sanitaryware market with ~22% market share. This industry is estimated to grow at 7-8%.

Sanitaryware price increase of 3-5% in Q1 retained despite tepid demand

- Demand conditions remain tepid and the company expects H1FY20 to be largely flattish YoY, with some improvement in H2.
- CRS has nonetheless been able to retain the 3-5% price increase taken in Q1FY20 in the sanitaryware segment. It does not see any pressure on the margin front and expects to achieve ~14.5% levels for FY20.
- Management believes market dynamics in the tiles business will improve given the National Green Tribunal's (NGT) Mar'19 order banning the use of coal-based gas, which earlier gave unorganised players a cost advantage. Tiles now account for ~20% of CRS's revenue.

Making steady inroads in faucetware segment

- The faucetware segment is seeing good traction and a wide portfolio of ~800 SKUs has enabled the company to become a major player alongside the likes of HSIL and Grohe (Jaquar remains the undisputed leader). Faucetware now accounts for ~23% of revenues and has margins above the company average.
- Management has no plans to enter into newer categories beyond the current portfolio of sanitaryware, faucetware and tiles.
- As of FY19, distribution is via a network of 2,840 dealers and 11,300 retailers spread across the country. South India (~45% of revenue) is CRS's largest market, followed by the north (~25%) and west (~22%).

- About 72% of revenues come from retail sales and the balance from the institutional segment.
- Management intends to continue with the strategy of deploying 50-60% of operating cash flows towards dividend and capex.
- Working capital will remain under tight control, as seen historically.

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Greenply Industries

MTLM IN | Market cap: US$ 261mn | CMP: Rs 152 | Target: Rs 195 | BUY

India operations guided to grow at 8-10% this year

- Greenply Industries (GIL) is the joint largest organised plywood player in the country along with Century Plyboard (CPBI).
- Amid a tepid domestic demand environment, the company estimates 8-10% revenue growth from India operations during FY20.
- Management does not anticipate significant margin headwinds from the raw material perspective and thus expects to achieve ~11% operating margins in the India business for FY20.
- Gabon operations are seeing an uptick and should deliver ~Rs 2bn of turnover in FY20 (vs. ~Rs 1.3bn in FY19). Margins are likely to improve to ~18%, as guided at the start of the year.
- Face veneer prices have reduced in the domestic market over the past few months, but are unlikely to affect profitability much.
- The company has ~1,870 dealers and 6,000 retailers spread across the country, serviced by 25 branches.
- Besides the dealer-retailer network, GIL continues to focus on influencers such as architects and contractors. It now has 6,200 registered architects and 12,900 contractors as part of its loyalty programme, which enables better market penetration.
- The company has no substantial capex plans for India as it envisages growth via outsourcing and better capacity utilisation at existing plants.

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HDFC

HDFC IN | Market cap: US$ 49.4bn | CMP: Rs 2,047 | NOT RATED

- Interest subvention was being misused by a few real estate developers as they took advantage of 100% upfront loan disbursal. Instead, HDFC's management advocates linking disbursals to the stage of project completion.
- The regulation to ban subvention is effective for housing finance companies (HFC) but not NBFCs, and thus results in regulatory arbitrage. HDFC believes this discounting tool is likely to return in some other innovative form, where customer protection is built into the product.
- Inventories of builders are declining due to discounts being offered over the last 6-9 months.

Projects stuck for want of last-mile funding a solvency risk for developers

- With NBFCs and HFCs facing a severe liquidity crunch over the past year, several residential projects have been stuck for want of last-mile funding; banks are also unwilling to lend in such instances – management believes this may become a solvency risk for developers in the near term, which could be alleviated if the government provides some relief or a 1-2 year moratorium, subject to certain conditions.
- HDFC believes the housing finance business model is likely to change, in that HFCs will not originate 100% of loans and are instead likely to co-originate, as well as sell-down loans.
- With HFCs coming under the RBI's purview, regulations will become harmonised. NHB will continue with its role of inspecting and refinancing HFCs, besides facilitating government programmes.

Rate cut transmission may not occur even with external benchmarking

- As per HDFC's management, rate cut transmission may not occur even if banks move to external benchmarking. Banks are reluctant to lower deposit rates but are being asked to cut lending rates, which will result in spread compression. Also, market rates are not a function of the repo. While the repo rate has come down, risk levels have gone up and liquidity is scarce. As of Q1FY20, HDFC is borrowing 100bps over G-sec in the bond market vs. 130bps in Nov'18. The long-term average spread over G-sec is 90bps.

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Hinduja Leyland Finance

Not listed

- Hinduja Leyland Finance (HLF) was incorporated in 2010 and has a diversified product portfolio. The company finances medium and heavy commercial vehicles, light commercial vehicles, tractors, two-wheelers, three-wheelers and construction equipment, besides offering loans against property and financing other smaller NBFCs.
- Its 100% subsidiary Hinduja Housing Finance (HHF) is engaged in affordable housing finance.

Consolidated book size of Rs 267bn as of FY19

- HLF's book size as on FY19 was Rs 254bn with Rs 13bn in HHF. The company has diversified its portfolio to ensure healthy NIMs and also to maintain growth during the cyclicity of individual product categories.
- Though CV sales have declined in the last couple of months, management expects H2FY20 to be better due to a decent monsoon and likely pre-buying of vehicles ahead of BS-VI migration from Apr'20.
- While the company did not go ahead with the DRHP filed in 2016 and again in 2018, capital has not been a constraint as shareholders have infused four rounds of equity in the last three years.

Unlike peers, liquidity has not been a constraint; beat AUM targets by >Rs 14bn in FY19

- Amid a difficult period for most NBFCs due to liquidity constraints over the last one year, HLF has been insulated by its strong parentage, past track record and good governance structure. In FY19, it surpassed its AUM targets by more than Rs 14bn.
- The company has a positive ALM across buckets and its collection is typically higher than liabilities. Hence, all its borrowings are directed towards fresh lending and not repayment of liabilities.
- Since repo rates have been reduced by 110bps in the last four MPC meetings and banks are also sitting on surplus funds, management expects the overall liquidity situation to improve in Q3 and Q4 for all sectors. There should also be a softening of interest rates as some transmission is expected to flow to NBFCs due to lower rates in the banking system.
- The vehicle scrappage policy will be a boost to the new CV segment as and when it comes through.

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Indraprastha Gas

IGL IN | Market cap: US$ 3.3bn | CMP: Rs 334 | Target: Rs 425 | BUY

Planning a big push into Ajmer to exploit city's extensive highway network

- Indraprastha Gas's (IGL) volume growth strategy is to aggressively target cities with an extensive network of national highways. Ajmer (Rajasthan) fits well into this strategy, with 600km of national highways passing through it. IGL aims to add 198 CNG stations in Ajmer over eight years, as per the Minimum Work Program (MWP).
- Management expects the entire Delhi-Mumbai highway to be connected to the gas pipeline network by Dec'20. This could open up a significant CNG volume opportunity for the city gas distribution (CGD) industry, especially from commercial vehicles.
- The company plans to add ~56 CNG stations in FY20, including 30 in the NCR, 10 in Gurgaon (Haryana), 7 in Muzaffarnagar (Uttar Pradesh), 5 in Karnal (Haryana), and 2 each in Rewari (Haryana) and Ajmer (Rajasthan).
- In Delhi, ~2,000 CNG buses are expected to be rolled out by Aug'20 (1,000 each by DTC and DIMTS). Half of these should come through by Feb'20, around the timeline for state elections.

Low EV threat perception; volumes guided to grow at least 10% over 2-3 years

- IGL's management sees marginal impact on CNG volume growth from electric vehicles over 10 years. Around 1,000 electric buses are expected to come up over 2-3 years, in tandem with the 2,000 CNG buses. E-rickshaw (three-wheeler) additions could total ~5,000, while ~3mn CNG 3Ws run parallelly. A lack of fast-charging infrastructure would remain a major deterrent over the next decade, per the company.
- Overall, management expects to sustain at least ~10% volume growth over 2-3 years and maintain operating margins at ~Rs 6/scm.
- Annual capex guidance stands at ~Rs 11bn for FY20, of which Rs 5bn-6bn is earmarked for existing geographical areas (GA).

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Inox Leisure

INOL IN | Market cap: US$ 443mn | CMP: Rs 309 | NOT RATED

- As per Inox Leisure's (INOL) management, footfalls and F&B spends haven't been affected much by the domestic consumption slowdown. Advertisement spends, however, have been hit, with the BFSI, real estate and automobile segments, in particular, pruning ad spends.

Several blockbuster movies likely to drive healthy operating performance in Q2

- Strong content is likely to augment operating performance in Q2FY20. Several movies have done well during the quarter – Super 30, Spider Man Far From Home, Batla House, Mission Mangal and Saaho have all been blockbusters. Consequently, INOL expects Q2 to be a strong and well-rounded quarter across segments (exhibition, F&B, advertisement).
- Management has lowered FY20 screen addition guidance to 70 from 80 as it is facing some hurdles with clearances. A total of 27 screens have been opened in FY20 YTD. The company is targeting the addition of 850-900 screens over the next several years, largely concentrated in North India.
- Going forward, INOL will focus on expanding the presence of premium screens (branded Insignia). About 10-15 Insignia screens will be added per year to the existing portfolio of 25-30. Capex per screen is higher at Rs 35mn-40mn vs. Rs 25mn-30mn for standard screens. While seating capacity is lower, this is compensated for by higher average ticket prices (ATP), ad rates and spends per head (SPH).

Expects ATP/SPH to grow at 5-6%/8-10% annually

- Management expects ATP to grow by 5-6% every year and F&B SPH by 8-10%. The company sees scope to increase ad inventory from 15mins/movie currently to 18-20mins/movie, which should continue to drive ad revenue.
- INOL remains open to acquisition opportunities but believes that valuation expectations have become unreasonable after the recent buying spree by large multiplex chains.

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ITD Cementation

ITCE IN | Market cap: US$ 166mn | CMP: Rs 69 | NOT RATED

Recently won a Rs 11bn CPWD redevelopment project in New Delhi

- ITD Cementation (ITCE) has a ~Rs 128bn of current order backlog (including L1 projects worth ~Rs 15bn), which is executable over 2.5-3 years. It recently won a Rs 11bn CPWD redevelopment project in New Delhi, executable over seven years (27 months for construction and the balance period for operation & maintenance).
- Margins from the Bangalore Metro project were drained by delays due to right-of-way/utility shifting issues, resulting in cost overruns, and hence the project will be a no profit-no loss proposition. The current outstanding order backlog here stands at ~Rs 9.5bn; the company expects revenue of Rs 6bn in FY20 and the balance in FY21. The client has been notified of these issues and as per the contact, ITCE can make claims for cost overruns.

- Revenue from the Kolkata metro project will be affected going forward due to a temporary stoppage of work after the company hit an underground water body (sand aquifer – shallow groundwater reserve). This mishap also resulted in damage to a few buildings in the vicinity. ITCE indicated that it will bear no financial impact/liability due to this mishap.

  The outstanding order backlog on this project stands at Rs 3.5bn (~9.5km tunneling work completed, ~700mtr of work pending). The company is yet to ascertain when work will recommence.

Standalone/consolidated revenue guidance of Rs 20bn/ Rs 27bn-30bn for FY20

- Management's FY20 guidance is as follows: revenue at ~Rs 20bn (standalone) / Rs 27bn-30bn (consolidated), EBITDA margin in high single digits, and capex at Rs 700mn-800mn. For FY21, revenue is guided to grow ~20%.
- ITCE's current outstanding bid pipeline stands at Rs 110bn-120bn. Key bids include two packages for underground Bangalore metro projects worth Rs 20bn each (Reach 6 line) and two naval defence projects of Rs 15bn each.
- In terms of key upcoming opportunities, management has identified the Delhi Metro phase-IV (6-7 packages; mix of underground & elevated works worth Rs 20bn-30bn each) and the Patna/Surat/Lucknow Metro projects (currently in DPR stage). These can come up for bids by end-Mar'20.

  In addition, tender's worth ~Rs 20bn for foundation work on the upcoming Mumbai-Ahmedabad bullet train project (the company's area of expertise) are likely to be bid out in a couple of months. ITCE plan to bid for the same in joint venture with a partner.

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Jana Small Finance Bank

Not listed

- Jana Small Finance Bank (Jana) has a presence in 21 states through a network of over 250 branches.
- The bank had a deposit base of Rs 42bn as of FY19, largely retail in nature. It offers 6% interest on savings account deposits, but has a low CASA ratio currently. Management believes this ratio can improve with better brand value and product offerings.

New loan book built post-demonetisation has only 0.4% delinquency

- Jana's loan book stood at ~Rs 62bn as of FY19 vs. Rs 120bn pre-demonetisation. According to management, attaining a book size equivalent to pre-note ban levels appears attainable in the short term.

- The bank's GNPA/NNPA ratio stood at 8.1%/4.4% as on FY19. However, share of the new loan book built post-demonetisation has increased meaningfully and carries a delinquency rate of only 0.4%.
- CAR stood at 18% as on FY19 and capital raise, if any, will be a function of the bank's growth requirements.
- Jana announced the launch of its small finance bank in Mar'18 and received scheduled status recently in Aug'19; as per RBI guidelines, the deadline for this entity to list is Mar'21.

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Kotak Mahindra Bank

KMB IN | Market cap: US$ 39.3bn | CMP: Rs 1,475 | NOT RATED

Continues to gain market share from PSBs in corporate credit segment

- Kotak Mahindra Bank (KMB) maintained its guidance of ~20% YoY loan growth in FY20. Despite the dearth of greenfield capex, it continues to gain market share from public sector banks in the corporate credit segment.
- Management remains cautious on unsecured lending and believes rates here will fall due to the recent reduction in risk weights on personal loans and also monetary easing by the RBI.
- Investment in technology remains a continuous process at KMB that is gradually yielding results in the form of swifter turnaround time for various products. As per management, the uplift in productivity is operational costs.

Back to acquiring 0.5mn customers a month post court order on Aadhar e-KYC

- KMB is back to acquiring 0.5mn customers a month following the court ordinance allowing use of 'Aadhar' as an e-KYC identity document.
- The acquisition cost for 'Kotak 811' online bank accounts is 80% lower than the traditional route. This product targets the mass market and has the 15-to-35 age group forming 80% of customers.
- The bank aims to continue growing its CASA on an organic basis, with a special focus on scaling up savings deposits.
- Credit cost guidance has been maintained at 50-60bps for FY20, with no negative surprises expected on asset quality.
- Management believes it is too early to gauge the impact of loans linked to external benchmarks on NIM, but expects banks with high CASA to manage this transition smoothly.

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Mahindra & Mahindra Financial Services

MMFS IN | Market cap: US$ 2.9bn | CMP: Rs 331 | NOT RATED

Planning an offshore bond raise

- Mahindra & Mahindra Financial (MMFS) is planning an offshore bond raise.
- Management has guided for 0-5% disbursement growth in FY20, credit cost of 160-200bps (in FY21 as well), and a 36-37% cost-to-income ratio as opex likely contracts by Rs 1bn YoY. LTV is limited to 75%.
- New purchases from cab aggregators have come down, as per the company.
- Branch expansion mostly takes place due to splitting of existing branches, where business volumes have increased beyond staff capacity.

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Manappuram Finance

MGFL IN | Market cap: US$ 1.5bn | CMP: Rs 125 | NOT RATED

- Manappuram Finance's (MGFL) loan strategy is to focus on short-term lending. About 90% of its book comprises loans with a tenor of less than three months. Further, 80-85% of its three-month loans are renewed.

Upswing in gold prices has prompted 5-10% of customers to avail of increased LTV

- The upswing in gold prices has seen 5-10% of MGFL's customers availing of an increase in LTV.
- Management has guided for 10-12% loan growth in FY20 with 5% ROA. North India will grow faster than South India as competition is more intense in the latter region.
- In vehicle finance and home loans, MGFL's business philosophy is to cross-sell to the gold finance customer base. At present, the company has an 18-20% overlap in vehicle and gold loan customers.
- Higher auction frequency has engendered better customer discipline without raising customer attrition.

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Sadbhav Engineering

SADE IN | Market cap: US$ 340mn | CMP: Rs 142 | Target: Rs 180 | BUY

Rs 7.6bn Bhimasar Bhuj project terminated due to ROW issues

- Sadbhav Engineering (SADE) has terminated the Rs 7.6bn Bhimasar Bhuj NHAI HAM project due to right-of-way issues, resulting in an adjusted order backlog of Rs 100.5bn as on Jun'19 (2.9x TTM revenue) vs. Rs 108.1bn earlier.
- Construction works on the four HAM projects of Rampur-Kathgodam Pkg I, Bhavnagar Talaja, BRT Tiger Reserve and Udaipur Bypass Pkg IV are likely to be completed in FY20.
- Land acquisition status is in the 3H stage for the remaining two HAM projects, at 55-57% levels for Tumkur-Shivamoga (Pkg III) and 76% for Vadodara-Kim (execution likely to begin after the monsoon).
- FY20 revenue/operating margin guidance is at Rs 36bn-37bn/12-12.25%.
- Management expects promoters' pledged shares to be freed by Mar-Apr'20 (16.7% of shareholding). About 10% of pledged shares are towards NCD issue (maturing end-Mar'20) and the balance are against outstanding borrowings of Rs 820mn (to be replaced by loans against property by end-Mar'20).
- The valuation report on the merger of SADE and subsidiary SIPL (Sadbhav Infrastructure Projects) is likely to be submitted in a month's time.

Update on SIPL

- SIPL has invested Rs 5.4bn of the Rs 12bn equity requirement on its HAM portfolio (post termination of two contracts); the balance equity is likely to be invested over 2-2.5 years.

Conclusion of stake sake of 9 BOT assets to IndInfravit trust by mid-Nov'19

- The company expects to conclude the stake sale in nine operational BOT assets to the IndInfravit trust by mid-Nov'19 (post requisite approvals).
- In the Maharashtra Border Check Post project, 18 of 24 check posts are operational (daily toll collection of Rs 6.5mn), 5 are to commence by Q3/Q4FY20 (construction work complete; awaiting approvals), and 1 will be cancelled due to land issues. Once all 23 check posts are operationalised, daily toll collections can reach Rs 8.1mn-8.2mn. The company is also planning to sell stake in the entire project (invested equity ~Rs 4.85bn, debt ~Rs 11bn).
- In FY20, SIPL expects combined loss funding of Rs 700mn-750mn in the Rohtak-Panipat and Rohtak-Hissar BOT (toll) projects.
- The company is likely to bid for HAM tenders worth Rs 20bn-25bn in FY20.

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Satin Credit Care

SATIN IN | Market cap: US$ 186mn | CMP: Rs 272 | NOT RATED

FY20 AUM guided to grow 25-30%, largely volume-led

- Satin Credit Care's (Satin) management has guided for 25-30% AUM growth in FY20. Of this, 10% will be ticket-size driven and 15% volume-led. About 35% of AUM will be off-balance sheet in FY20.
- PAT for the year is guided at Rs 2.6bn.
- The company's relationship with IndusInd Bank is progressing well, and Satin has sourced Rs 6.5bn worth of loans for the bank in FY20 YTD. It has started originating microfinance loans for IDFC Bank on similar lines.
- To tide over the market-wide fund crunch, the company is carrying excess liquidity of up to 90 days vs. 45 days earlier, which is sapping margins. It currently has Rs 18bn of liquidity.

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Shriram City Union Finance

SCUF IN | Market cap: US$ 1.2bn | CMP: Rs 1,329 | NOT RATED

- Shriram City Union's (SCUF) management indicated that the company's asset-liability mismatch is positive across buckets and within its comfort zone.

Term loans from banks a sticky source of funds

- Cost of funds is a challenge as it could be a while before lower rates percolate down. Fixed deposits account for 15-20% of SCUF's liabilities. Contrary to the street's perception, term loans from banks are also a considerably sticky source, as per management.
- As of Mar'19, the company has migrated to 90dpd, leading to an optical increase in GNPA. In fact, loan losses have not deviated from historical levels of 2-2.5%.
- Collection from SMEs is cheque-based. If cheques bounce, the company can collect cash as well.
- SCUF expects GNPA to improve in Q2FY20. For FY21, management is targeting ~7% levels. The company is comfortable running NPA numbers at higher levels optically, as it is confident that customers will repay loans with only a few days' delay depending on their business cycles.
- A firm decision on the foreign currency borrowings earlier planned for Oct'19 is yet to crystallise.

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TCI Express

TCIEXP IN | Market cap: US$ 335mn | CMP: Rs 626 | Target: Rs 785 | BUY

Volume growth has bounced back in July-August

- As per management, TCI Express's (TCIEXP) volume growth has bounced back in July-August, after election-related uncertainty and a general consumption slowdown led to meagre 2% YoY tonnage growth in Q1FY20. Riding on this recovery, the company expects to post double-digit YoY revenue growth in Q2FY20.
- Resilience in some end-user industries (pharma, retail and auto spare parts), more business from existing customers, and the addition of new clients are all helping the company combat the slowdown and deliver a growth recovery.
- Management has maintained its guidance of 15% topline growth in FY20. Volume growth is likely to be at 11-12%. Existing client accounts are estimated to contribute 10% of this growth, through a combination of higher volumes and lane addition by the company, while new clients will bring in the balance.

New auto client added in Q2

- Traction in client addition remains healthy. TCIEXP has recently added an automobile OEM to its roster, while continuing to expand the SME portfolio. The existing client base is well diversified with over 200,000 entities and the top 10 clients accounting for less than 10% of revenue.
- Management remains committed to adding 100 branches every year, thus reaching 1,000 branches by FY22 from 710 in Q1FY20.
- The company reiterated its capex plan of spending Rs 4bn over the next five years towards expansion of sorting centres, transitioning from leased to owned centres, and automation. Management expects ROCE at owned centres to be on par with that under the leased model. The FY20 capex target has been raised to Rs 800mn from Rs 600mn as some approvals have come through.

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Zinka Logistics (Blackbuck)

Not listed

- By offering a platform for demand and network aggregation, Blackbuck strives to address the inefficiencies in India's freight transportation ecosystem that prevent seamless connectivity between available freight and truck supply.
- The company has had transactions with ~600,000 trucks on its platform to date, generating repeat business with ~200,000 of these (2-3 transactions per month). It has 110-120 corporate customers and 700-800 SME clients, and has turned profitable at the gross profit level from FY19.

Transit time for trucks has not declined materially even after GST and e-way bill rollout

- GST and E-way bill implementation have not yielded the expected benefits yet, as per the management. Transit time has not reduced materially on key routes as documents are still checked frequently at check-posts, causing delays. The e-way bill has streamlined documentation but not reduced the audit process, which prevents the full benefits from accruing.
- The consumption slowdown has affected the freight transportation industry, subduing almost all end-user industries – for example, the company has witnessed a decline in business from consumer durable and metal companies in recent times.
- Revised axle load norms have led to a 10-20% increase in trucking capacity – 16t trucks are now able to carry 17.5-19t of goods. However, the benefit has been only to bulk carriers, as containerised cargo has been largely unaffected. About 15-18% of trucks on the company's platform have availed of the axle load benefits.
- Availability of private equity funding has dried up as compared to the past few years.

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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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