FIRST LIGHT

12 February 2020

RESEARCH

Hexaware Technologies | Target: Rs 440 | +17% | BUY
Client-specific challenges receding; upgrade to BUY

BOB Economics Research | Monthly Chartbook
Growth seems to have bottomed out

Mahindra & Mahindra | Target: Rs 600 | +14% | ADD
Healthy core performance; subsidiaries a drag again

Petronet LNG | Target: Rs 400 | +52% | BUY
Margins improve, volumes underperform

Ashoka Buildcon | Target: Rs 170 | +62% | BUY
Disappointing quarter; execution to ramp up from FY21

Somany Ceramics | Target: Rs 345 | +55% | BUY
Revenues in line, margins lower

SUMMARY

Hexaware Technologies

An above-expected furlough impact and challenges at a large secondary-mortgage client marred revenue performance in Q4CY19. Dollar revenue growth at 1.8% QoQ fell short of our estimate of 3.1%, though EBITDA margins at 15.7% were a shade higher. Management expects client-specific challenges to abate, underpinning guidance for 15-17% YoY growth in CY20. We raise CY20/CY21 EPS slightly and roll forward to a Mar'21 TP of Rs 440 (vs. Rs 410). Upgrade to BUY (from ADD) on receding client overhang.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	(1bps)	(25bps)	(108bps)
India 10Y yield (%)	6.44	0bps	(15bps)	(91bps)
USD/INR	71.29	0.2	(0.5)	(0.2)
Brent Crude (US$/bbl)	53.27	(2.2)	(18.0)	(13.4)
Dow	29,277	0.6	1.6	16.9
Shanghai	2,890	0.5	(6.5)	8.9
Sensex	40,980	(0.4)	(1.5)	12.6
India FII (US$ mn)	**7 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	516.0	1,126.6	(442.3)	2,501.8
FII-E	1,395.7	1,844.2	3,216.8	10,606.0

Source: Bank of Baroda Economics Research

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India Economics: Monthly Chartbook

While government spending will be a drag on growth in Q4FY20 on the back of muted revenues, manufacturing and services sector PMI has risen to 8-year and 7-year high respectively. FII inflows are abundant and forex reserves are well on their way to cross US$ 500bn in FY21. Lower oil prices are also supportive. Budget has given a fillip to consumption. Rural consumption will improve in the near-term on the back of 9.5% increase in rabi sowing and relatively elevated domestic and global cereal prices. RBI too has taken measures to propel credit growth in certain segments and given relief to real estate sector. RBI is likely to support growth with another rate cut when inflation drops to its target of 4%.

Click here for the full report.

Mahindra & Mahindra

M&M's (MM) Q3 EBITDA at Rs 17.9bn (+5% YoY) beat estimates by ~5% on a strong margin uptick led by cost control and a richer auto model mix. MM took a Rs 6bn impairment on investments in SYMC and MUSA due to their weak performance. Given aggressive pricing by competition on recent BS-VI diesel launches, MM may have to absorb some portion of the cost rise. Tractors are likely to see cyclical recovery. We largely maintain earnings estimates but cut our SOTP target to Rs 600 (from Rs 625) to reflect higher holdco discount for subsidiaries.

Click here for the full report.

Petronet LNG

Petronet LNG's (PLNG) Q3FY20 EBITDA surged to Rs 11bn (+31% YoY) on account of higher marketing margins on spot LNG. Volumes at 233tbtu (+15% YoY) were below estimates, but higher EBITDA/mmbtu (+2.4% QoQ) made up for the volume underperformance. The outlook on volumes remains buoyant given sustained low LNG prices and nearing commissioning of the Kochi-Mangaluru pipeline. At 11x FY22E EPS, risk-reward remains favourable. We roll forward to an unchanged Mar'21 TP of Rs 400.

Click here for the full report.

Ashoka Buildcon

Hampered by the prolonged monsoons and delayed AD in HAM projects, Ashoka Buildcon's (ASBL) Q3FY20 revenue declined 8% YoY. EBITDA margin was stable at 12.6% (12.7% est.) while PAT dropped 16% YoY to Rs 855mn (Rs 867mn est.). ASBL's Dec'19 order backlog stood at Rs 95.5bn (incl. L1; 2.5x TTM revenues). Debtor days remained high at 139 days (119 in Sep'19), while net D/E held at 0.2x. We trim FY20/FY21/FY22 EPS by 4%/ 10%/2% and maintain BUY with a revised Mar'21 TP of Rs 170 (from Rs 190).

Click here for the full report.

Somany Ceramics

Somany Ceramics (SOMC) reported in-line consolidated revenue growth of 2.5% YoY to Rs 4.4bn in Q3FY20, aided by a 4% uptick in tile volumes. Consolidated operating margins expanded 100bps YoY to 9.2%, lower than estimates, with EBITDA rising 15% YoY. Management has guided for high single-digit or low double-digit growth in FY21 with improving margins. We cut FY20-FY22 PAT estimates by 4-7% and roll forward to a revised Mar'21 TP of Rs 345 (earlier Rs 340).

Click here for the full report.

BUY
TP: Rs 440 | 17%

HEXAWARE TECHNOLOGIES | IT Services | 11 February 2020

Client-specific challenges receding; upgrade to BUY

An above-expected furlough impact and challenges at a large secondary-mortgage client marred revenue performance in Q4CY19. Dollar revenue growth at 1.8% QoQ fell short of our estimate of 3.1%, though EBITDA margins at 15.7% were a shade higher. Management expects client-specific challenges to abate, underpinning guidance for 15-17% YoY growth in CY20. We raise CY20/CY21 EPS slightly and roll forward to a Mar'21 TP of Rs 440 (vs. Rs 410). Upgrade to BUY (from ADD) on receding client overhang.

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Revenue miss but slight beat on margins: The dual impact of above-expected furloughs and sharp revenue decline in a large BFSI account led to subdued dollar revenue growth of 1.8% QoQ for HEXW vs. 3.1% expected in Q3. Notably, dollar revenue from the top 6-10 and non-top 10 clients increased by 10.7% and 3.6% QoQ respectively. EBITDA margins at 15.7% were slightly better than estimates on higher ESOP cost reversal (adjustment as RSU 2014 programme came to an end).

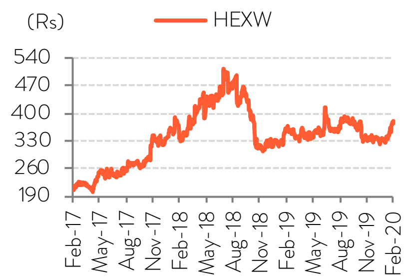
Guidance upbeat as client headwinds expected to abate: Management has guided for 15-17% YoY revenue growth in CY20 despite lingering revenue headwinds (~300bps) from its large BFSI client. HEXW expects this account to stabilise or improve, aiding a strong growth rebound for the company from Q2CY20.

Upgrade to BUY: We upgrade our rating from ADD to BUY on strong growth momentum outside the top 5 clients and management guidance of easing client-specific challenges. On raising CY20/CY21 EPS estimates marginally and rolling valuations over, we move to a new Mar'21 TP of Rs 440 (from Rs 410), set at an unchanged target P/E of 15.5x.

Ticker/Price	HEXW IN/Rs 375
Market cap	US$ 1.6bn
Shares o/s	302mn
3M ADV	US$ 2.3mn
52wk high/low	Rs 456/Rs 320
Promoter/FPI/DII	71%/15%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Dec	CY18A	CY19E	CY20E	CY21E	CY22E
Total revenue (Rs mn)	46,477	55,825	64,484	72,754	81,763
EBITDA (Rs mn)	7,335	8,778	9,811	11,259	12,650
Adj. net profit (Rs mn)	5,833	6,748	7,136	8,214	8,815
Adj. EPS (Rs)	19.3	22.3	23.6	27.2	29.1
Adj. EPS growth (%)	16.6	15.4	5.7	15.1	7.3
Adj. ROAE (%)	26.5	25.7	22.9	22.5	20.8
Adj. P/E (x)	19.4	16.8	15.9	13.8	12.9
EV/EBITDA (x)	14.8	12.2	10.5	8.7	7.4

Source: Company, BOBCAPS Research

Growth seems to have bottomed out

While government spending will be a drag on growth in Q4FY20 on the back of muted revenues, manufacturing and services sector PMI has risen to 8-year and 7-year high respectively. FII inflows are abundant and forex reserves are well on their way to cross US$ 500bn in FY21. Lower oil prices are also supportive. Budget has given a fillip to consumption. Rural consumption will improve in the near-term on the back of 9.5% increase in rabi sowing and relatively elevated domestic and global cereal prices. RBI too has taken measures to propel credit growth in certain segments and given relief to real estate sector. RBI is likely to support growth with another rate cut when inflation drops to its target of 4%.

Rual consumption to improve: While wholesale sales in auto sector remain muted, retail sales seem to be picking up as seen in uptick in vehicle loans. At the same time, broad sentiment remains subdued with RBI's consumer confidence index dipping to 83.7 in Jan'20 (85.7 in Nov'19). However, abundant water for rabi crops and 9.5% increase in sowing along with buoyant domestic and global cereal prices bodes well for demand outlook in the near-term.

Government spending a drag in Q3: In Q3FY20, general government spending eased to 13.3% from 23.1% in Q2 on 3MMA basis. Both Centre (17.7% in Q3 vs 28.6% in Q2) and states (9.3% vs 17.2%) reduced spending on the back of lower revenue in-take. Capex spending has fallen in both cases (Centre: 38.2% in Q3 vs 64.6% in Q2; States: -1% vs 8.1%). State tax receipts are muted (0.9% in FYTD20 vs 15.2% last year) driving the dip in spending. States have resorted to higher market borrowing at Rs 4.4tn (Apr'19-Jan'20) versus Rs 3.4tn in Apr'18-Jan'19.

RBI measures supported yields: India's 10Y yield rose by 5bps in Jan'19 ahead of the budget amidst fiscal concerns. Post budget however, yields fell supported by government's decision to keep gross borrowing unchanged at Rs 7.1tn, despite a fiscal slippage of 0.5% in FY20. Further, FY21 borrowing plan is pegged only slightly higher at Rs 7.8tn. Apart from this, RBI's recent measures ranging from withdrawal of 1% ceiling of banks to borrow from RBI and introduction of LTROs are a step towards keeping long end yields lower and infusing durable liquidity into the system. As a result, 10Y yield has fallen by 16bps MTD. FII inflows in debt also remain resilient at US$ 2.5bn in FYTD20.

INR to remain rangebound with an appreciating bias: While concerns over the economic fallout of the coronavirus outbreak dented demand for EM currencies (-1.1% in Jan'20), INR outperformed and closed stable. Even in Feb'20 INR has appreciated by 0.1%, compared with (-) 0.1% depreciation in EM currenices. FII inflows to India have increased (US$ 2.9bn in Feb'20). Further, lower oil prices are inherently positive for INR. Hence, INR is likely to remain stable in the near-term with an appreciating bias.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 600 | ⮝ 14%

MAHINDRA & MAHINDRA

| Automobiles | 11 February 2020

Healthy core performance; subsidiaries a drag again

M&M's (MM) Q3 EBITDA at Rs 17.9bn (+5% YoY) beat estimates by ~5% on a strong margin uptick led by cost control and a richer auto model mix. MM took a Rs 6bn impairment on investments in SYMC and MUSA due to their weak performance. Given aggressive pricing by competition on recent BS-VI diesel launches, MM may have to absorb some portion of the cost rise. Tractors are likely to see cyclical recovery. We largely maintain earnings estimates but cut our SOTP target to Rs 600 (from Rs 625) to reflect higher holdco discount for subsidiaries.

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Margins ahead of estimates: Revenues for MM+MVML dipped 6% YoY to Rs 121bn, in line with estimates. Above-expected RM cost/sales was more than offset by lower opex cost/sales, aiding EBITDA growth of 5% YoY to Rs 17.9bn and EBITDA margin of 14.8% (+160bps YoY, +70bps QoQ). Auto EBIT margin improved by 150bps YoY/QoQ to 7.3% aided by cost-cutting efforts and a richer model mix. Tractor EBIT margin at 19.4% rose 20bps YoY/10bps QoQ. MM took a steep Rs 6bn provision for impairment of investments in Ssangyong (SYMC) and Mahindra USA (MUSA) to better align carrying value of assets.

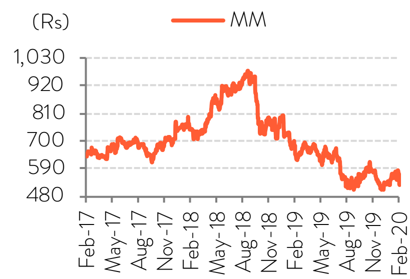
Turnaround at subsidiaries still some time away: MM has initiated a three-year plan for turning around SYMC. Operational improvement will be led by 3-4% material cost reduction, renegotiation on wage cost and lower interest outgo. MM plans to raise KRW 450bn-500bn to pare debt at SYMC by ~KRW 250bn and for future product development programmes. It expects MUSA to turn profitable in CY21 with inventory reduction and efficiency improvement.

Maintain ADD: MM's core auto business is trading at 12x FY21E EPS which we believe prices in muted earnings expectations for FY20-FY22. While our estimates are largely unchanged, we raise the holding company discount to 45% (from 35%) to reflect continued weakness in operating subsidiaries.

Ticker/Price	MM IN/Rs 524
Market cap	US$ 9.1bn
Shares o/s	1,242mn
3M ADV	US$ 25.6mn
52wk high/low	Rs 704/Rs 503
Promoter/FPI/DII	20%/34%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	475,774	528,482	487,800	519,725	569,877
EBITDA (Rs mn)	70,434	75,301	68,667	67,587	76,880
Adj. net profit (Rs mn)	41,896	54,239	43,711	42,530	49,241
Adj. EPS (Rs)	33.7	43.7	35.2	34.2	39.6
Adj. EPS growth (%)	24.1	29.5	(19.4)	(2.7)	15.8
Adj. ROAE (%)	14.6	16.6	11.8	10.5	11.2
Adj. P/E (x)	15.5	12.0	14.9	15.3	13.2
EV/EBITDA (x)	9.0	8.3	8.9	9.0	7.9

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 400 | ⮝ 52%

PETRONET LNG | Oil & Gas | 11 February 2020

Margins improve, volumes underperform

Petronet LNG's (PLNG) Q3FY20 EBITDA surged to Rs 11bn (+31% YoY) on account of higher marketing margins on spot LNG. Volumes at 233tbtu (+15% YoY) were below estimates, but higher EBITDA/mmbtu (+2.4% QoQ) made up for the volume underperformance. The outlook on volumes remains buoyant given sustained low LNG prices and nearing commissioning of the Kochi-Mangaluru pipeline. At 11x FY22E EPS, risk-reward remains favourable. We roll forward to an unchanged Mar'21 TP of Rs 400.

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Seasonal volume blip, outlook buoyant: PLNG's Q3 volumes were below estimates due to sub-100% utilisation at Dahej (seasonality factors) and commencement of Dabhol operations. Spot LNG offtake at 11tbtu beat estimates, driven by low spot prices (<US$ 3/mmbtu currently) due to the supply glut in the market. Management expects Dahej terminal utilisation to return to >100% levels, while the Kochi terminal could ramp up from Q1FY21 after commissioning of the Kochi-Mangaluru pipeline by GAIL (expected by Apr'20).

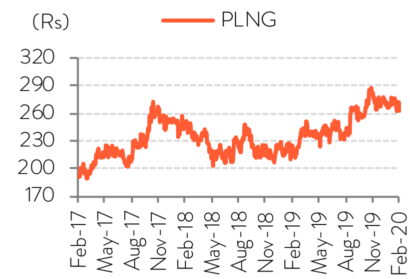
EBITDA margins improve on high utilisation: EBITDA/mmbtu was above estimates at Rs 47.5 led by higher margins on spot LNG volumes. PLNG has raised Dahej tariffs by 5% from Jan'20, in line with its annual contract arrangements – implying margins could sustain in Q4FY20. Uncertainty on Kochi terminal tariffs persists (could be revised down by ~25% from FY21 on higher offtake).

Maintain BUY: PLNG's earnings visibility remains buoyant backed by long term contracts at Dahej, while the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks by FY23.

Ticker/Price	PLNG IN/Rs 264
Market cap	US$ 5.5bn
Shares o/s	1,500mn
3M ADV	US$ 8.0mn
52wk high/low	Rs 299/Rs 211
Promoter/FPI/DII	50%/27%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	405,806	491,243	494,655
EBITDA (Rs mn)	33,124	32,935	45,420	51,364	53,226
Adj. net profit (Rs mn)	20,779	21,554	32,617	35,664	37,994
Adj. EPS (Rs)	13.9	14.4	21.7	23.8	25.3
Adj. EPS growth (%)	21.8	3.7	51.3	9.3	6.5
Adj. ROAE (%)	23.3	21.6	29.9	28.9	27.0
Adj. P/E (x)	19.0	18.3	12.1	11.1	10.4
EV/EBITDA (x)	12.3	12.4	8.6	7.2	6.7

Source: Company, BOBCAPS Research

BUY
TP: Rs 170 | ⮝ 62%

ASHOKA BUILDCON | Infrastructure | 11 February 2020

Disappointing quarter; execution to ramp up from FY21

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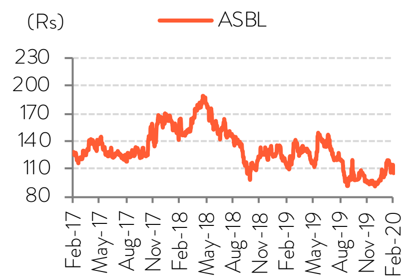
Hampered by the prolonged monsoons and delayed AD in HAM projects, Ashoka Buildcon's (ASBL) Q3FY20 revenue declined 8% YoY. EBITDA margin was stable at 12.6% (12.7% est.) while PAT dropped 16% YoY to Rs 855mn (Rs 867mn est.). ASBL's Dec'19 order backlog stood at Rs 95.5bn (incl. L1; 2.5x TTM revenues). Debtor days remained high at 139 days (119 in Sep'19), while net D/E held at 0.2x. We trim FY20/FY21/FY22 EPS by 4%/ 10%/2% and maintain BUY with a revised Mar'21 TP of Rs 170 (from Rs 190).

Ticker/Price	ASBL IN/Rs 105
Market cap	US$ 412.5mn
Shares o/s	281mn
3M ADV	US$ 1.2mn
52wk high/low	Rs 155/Rs 88
Promoter/FPI/DII	54%/4%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Prolonged monsoon, delayed AD hit execution: Q3 revenue fell 7.7% YoY to Rs 9.8bn vs. Rs 10.7bn estimated due to the extended monsoons (Vadodara-Kim/ Karnataka HAM projects most affected) and delayed award of appointed dates (AD) on HAM contracts. Revenue growth from the roads segment remained muted at Rs 7.4bn (+0.7% YoY), while power T&D (incl. railways) declined 32% YoY to Rs 1.7bn. Management has cut FY20 revenue growth guidance to ~15% from ~25%. With AD awarded for the two HAM projects in Oct'19 and for the Bundelkhand project in Dec'19, we expect a FY19-FY22 revenue CAGR of 13%.

Gross debt rises; power T&D receivables unchanged: Gross external debt went up to Rs 5.1bn as on Dec'19 (Rs 4.6bn as on Sep'19), but net D/E was unchanged QoQ at 0.2x. Debtor days remained high at 139 days due to higher receivables from the power T&D segment at ~Rs 6bn (unchanged QoQ). Collections were healthy at ~Rs 4bn in Jan'20 (roads EPC work from SPVs).

Maintain BUY: Due to the slowdown in ordering activity, management has cut FY20 order inflow guidance from Rs 60bn-70bn to Rs 50bn-60bn and also scaled back revenue growth guidance from 25% to 15%. Hence, we pare our FY20/FY21/FY22 EPS by 4%/10%/2% and move to a new Mar'21 TP of Rs 170.

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	24,483	38,206	40,526	48,154	55,439
EBITDA (Rs mn)	2,954	5,152	5,288	6,140	6,831
Adj. net profit (Rs mn)	2,390	3,332	3,369	3,747	4,136
Adj. EPS (Rs)	8.5	11.9	12.0	13.3	14.7
Adj. EPS growth (%)	35.7	39.4	1.1	11.2	10.4
Adj. ROAE (%)	13.1	16.1	14.3	14.0	13.6
Adj. P/E (x)	12.3	8.8	8.7	7.8	7.1
EV/EBITDA (x)	10.9	5.9	6.3	5.9	5.2

Source: Company, BOBCAPS Research

BUY
TP: Rs 345 | 55%

SOMANY CERAMICS | Construction Materials | 11 February 2020

Revenues in line, margins lower

Somany Ceramics (SOMC) reported in-line consolidated revenue growth of 2.5% YoY to Rs 4.4bn in Q3FY20, aided by a 4% uptick in tile volumes. Consolidated operating margins expanded 100bps YoY to 9.2%, lower than estimates, with EBITDA rising 15% YoY. Management has guided for high single-digit or low double-digit growth in FY21 with improving margins. We cut FY20-FY22 PAT estimates by 4-7% and roll forward to a revised Mar'21 TP of Rs 345 (earlier Rs 340).

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Modest volume growth: SOMC reported 2.5% YoY consolidated topline growth, with revenue from the tiles segment increasing 1.3% (volumes up 4.2%, realisations down 2.7%) and sanitaryware & allied revenue rising ~5.7% YoY. Volumes were affected by the continued weak demand conditions and tight working capital discipline. Management expects the tiles segment to post volume growth in high single-digits/low double-digits in FY21. The company reiterated its continued focus on working capital discipline despite the tough market.

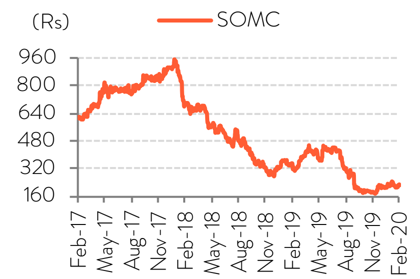
Operating margins increase: Despite a 40bps dip in gross margin, consolidated operating margins increased 100bps YoY (–135 bps QoQ) to 9.2% due to lower other expenses (–145bps YoY), aiding EBITDA growth of 15% YoY. Gross margins declined due to pricing pressure on PVT/GVT and a change in product mix. Management has indicated that operating margins should improve in FY21 over FY20 as capacity utilisation increases.

Maintain BUY: We trim FY20-FY22 EPS estimates by 4-7% due to continued tepid market conditions. Maintain BUY and roll forward to a Mar'21 TP of Rs 345 (earlier Rs 340), set at an unchanged P/E of 15x.

Ticker/Price	SOMC IN/Rs 223
Market cap	US$ 132.5mn
Shares o/s	42mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 472/Rs 170
Promoter/FPI/DII	51%/3%/46%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	17,119	17,110	18,022	19,847	21,989
EBITDA (Rs mn)	1,878	1,576	1,847	2,064	2,298
Adj. net profit (Rs mn)	730	490	625	808	983
Adj. EPS (Rs)	17.2	11.6	14.7	19.1	23.2
Adj. EPS growth (%)	(24.7)	(32.9)	27.6	29.3	21.6
Adj. ROAE (%)	13.2	8.2	9.9	11.7	12.7
Adj. P/E (x)	13.0	19.3	15.1	11.7	9.6
EV/EBITDA (x)	6.6	8.8	7.5	6.6	5.6

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)

Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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