FIRST LIGHT

14 October 2019

RESEARCH

BOB Economics Research | IIP
Broad based slowdown

Infosys
Guidance signals industrywide growth headwinds

Cipla
Goa 483s – no data integrity concerns but many procedurals; BUY

Oil & Gas | Q2FY20 Preview
GRMs rise but economic slowdown weighs on cyclicals

Pharmaceuticals | Q2FY20 Preview
India seasonality, stable US good for Alkem, DRRD; Cipla weak

Infrastructure | Q2FY20 Preview
Execution slackens; order flow a key monitorable

Logistics | Q2FY20 Preview
Expect a weak quarter all around

Building Materials | Q2FY20 Preview
Modest quarter

Banking | Credit Tracker
Loan growth drops below 9%

SUMMARY

India Economics: IIP

IIP growth slipped to (-) 1.1% in Aug'19 vs 4.6% in Jul'19, lowest in this series. Manufacturing output contracted by (-) 1.2% and electricity by (-) 0.9%. Capital goods and consumer durables slowed down the most at (-) 21% and (-) 9.1% respectively. Even infra/construction sector contracted. On FYTD basis, industrial production has increased at 2.4% vs 5.3% last year. A low base effect will prop growth in H2 along with higher spending by government. However, underlying weakness implies another 25bps cut by RBI in Dec'19.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
ONGC	Buy	200
TCS	Add	2,230
HPCL	Buy	400

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.67	8bps	2bps	(148bps)
India 10Y yield (%)	6.69	3bps	11bps	(130bps)
USD/INR	71.07	0	0.9	4.1
Brent Crude (US$/bbl)	59.10	1.3	(5.6)	(26.4)
Dow	26,497	0.6	(1.3)	5.8
Shanghai	2,948	0.8	(2.5)	14.1
Sensex	37,880	(0.8)	2.0	11.4
India FII (US$ mn)	**9 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	(87.2)	(19.2)	3,954.2	3,409.6
FII-E	(96.0)	(644.7)	7,516.0	670.8

Source: Bank of Baroda Economics Research

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Important disclosures, including any required research certifications, are provided at the end of this report.

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Infosys

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Oil & Gas: Q2FY20 Preview

Cyclical business fundamentals showed mixed trends in Q2FY20 – Singapore GRMs surged to US$ 6.5/bbl (+88% QoQ), while petrochemical cracks declined ~10% QoQ. We see improved earnings for RIL and OMCs on the back of higher GRMs and some improvement in marketing margins. Lower oil prices (–10% QoQ) could hit upstream PSU profitability, while the domestic gas price cut in October will aggravate earnings pressure. Sustained low spot LNG prices (–4.3% QoQ) could lift volumes and margins for all gas utilities.

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We expect Alkem and DRRD to report a good quarter with largely stable US sales QoQ. Cipla will see weakness both in India & the US but commentary is unlikely to be incrementally negative. LPC and SUNP could see a down quarter for the US due to a high Q1 base and lack of impactful launches. Pick-up in specialty assets has been weak (Ilumya, Solosec). India growth for our coverage ex-Cipla is forecast to improve to 14% YoY (vs. 11% in Q1). Expect strong EBITDA in Laurus and stable results from DIVI. EM fx/US$ is stable QoQ while JPY/INR is up 4%.

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Infrastructure: Q2FY20 Preview

Poor project execution due to the extended monsoons is expected to contain revenue growth at ~15% YoY for our infrastructure universe in Q2FY20. EBITDA margins should hold firm, but earnings are forecast to decline 8% YoY on higher interest, depreciation and taxes (post expiry of sec-80IA benefits). PNCL and HGIEL are likely to buck the trend with stronger earnings. DBL, KNRC and PNCL saw order inflows in Q2 vs. nil wins for other coverage stocks. We continue to prefer PNCL, HGIEL, KNRC and ASBL.

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Logistics: Q2FY20 Preview

High frequency indicators (EXIM trade, rail freight and major port traffic), corroborated by industry checks, signal a feeble demand environment for logistics services. We expect median revenue growth for our coverage universe to decelerate to 7% YoY in Q2FY20 vs. 8%/15% in Q1/FY19. FSCSL and MLL are likely to see continued PBT shrinkage, while TCIEXP should report the highest PBT growth, followed by TRPC. EPS growth for select companies could be boosted by the lower corporate tax rate and write-back of excess Q1 provisions.

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Building Materials: Q2FY20 Preview

Building material companies under our coverage are expected to post a modest Q2FY20 as tough market conditions exact a toll on volumes. We estimate meagre 2-4% YoY volume growth for sanitaryware/plywood players, while tile players should do slightly better at 5-7%. Piping companies are likely to post a mixed performance with revenue growth ranging from 2-14% YoY. Management commentary on the demand and margin outlook for H2FY20 will be a key aspect to watch this earnings season.

Click here for the full report.

Banking: Credit Tracker

RBI data shows that credit growth for the fortnight ended 27 September slipped to a three-year low of 8.8% YoY. Deposit growth too declined to 9.4% vs. 10% the previous fortnight. Credit growth has been moderating over the past few quarters due to anaemic corporate demand and a slowdown in unsecured retail credit as well as lending to the services sector. Surprisingly, investment growth spiked to 7% YoY while SLR held at ~27%. Loan growth is expected to remain elusive in FY20 despite the shift in pricing power to banks from NBFCs.

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बैंक ऑफ़ बड़ौदा
Bank of Baroda

IIP

11 October 2019

Broad based slowdown

IIP growth slipped to (-) 1.1% in Aug'19 vs 4.6% in Jul'19, lowest in this series. Manufacturing output contracted by (-) 1.2% and electricity by (-) 0.9%. Capital goods and consumer durables slowed down the most at (-) 21% and (-) 9.1% respectively. Even infra/construction sector contracted. On FYTD basis, industrial production has increased at 2.4% vs 5.3% last year. A low base effect will prop growth in H2 along with higher spending by government. However, underlying weakness implies another 25bps cut by RBI in Dec'19.

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IIP growth plunges: Industrial output dropped to a low of (-) 1.1% in Aug'19 vs 4.6% in Jul'19. The worse than expected performance was led by manufacturing and electricity. While manufacturing output fell to almost 5-year low of (-) 1.2% vs 4.5% in Jul'19, electricity generation was down by (-) 0.9% vs 4.8% in Jul'19. Mining activity too slowed, albeit less sharply (0.1% vs 4.8% in Jul'19). Industrial growth in Jul-Aug'19 has slipped to 1.8% from 2.9% in Q1FY20. However, with government (Centre + states) capex seen reviving, we can expect some improvement in IIP in the coming months

Cap goods and consumer durables dragged growth lower: Capital goods output contracted by (-) 21% in Aug'19 compared with (-) 7.1% in Jul'19. Sharp decline was also seen in consumer durables (-9.1% in Aug'19 compared with -2.7% in Jul'19). Most consumption indicators such as non-oil non-gold imports and passenger car sales point to a slowdown in domestic consumption. Infrastructure and construction goods output has also declined by (-) 4.5% in Aug'19 compared with 3.5% increase seen in Jul'19. Even, consumer non-durables and intermediate goods output has decelerated to 4.1% and 7% in Aug'19 compared with 8.4% and 14.7% growth seen in Jul'19 respectively.

IIP to pick up in H2FY20: IIP growth is expected to pick up in the second half of the FY20 due to base effect (in H2FY19 IIP growth was 2.6% versus 5.2% in H1FY19). In addition, the recently announced hike in Dearness Allowance for central government employees along with expected pick-up in government capex is likely to boost domestic demand. However, muted private sector capex and consumption implies downside risks to growth may continue. We expect another 25bps cut in repo rate by RBI to support growth.

KEY HIGHLIGHTS

- IIP growth falls by (-) 1.1% from 4.6% in Jul'19.
- Manufacturing output declines to nearly 5-year low of (-) 1.2% vs 4.5% in Jul'19.
- Production of capital good and consumer durables act as major drags.

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ADD
TP: Rs 860 | ⮝ 6%

INFOSYS | IT Services | 12 October 2019

Guidance signals industrywide growth headwinds

Infosys (INFO) met expectations with 3.3% QoQ CC revenue growth and 21.7% EBIT margins, delivering a better performance than TCS in Q2FY20. Management's H2 outlook, as inferred from its below-expected revenue guidance and cautious BFSI/retail commentary, echoes the weakening growth trends seen at TCS and signals industrywide challenges ahead. We keep FY21/FY22 EPS estimates broadly unchanged and roll forward to a Sep'20 TP of Rs 860 (Rs 820 earlier). Retain ADD.

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In-line operating performance: INFO's operating performance met expectations, with 3.3% QoQ CC revenue growth and EBIT margins at 21.7%. Revenue growth was aided by a 90bps increase in share of inorganic revenues. Improved utilisation and a better offshore mix supported 120bps QoQ EBIT margin expansion despite the partial impact of a wage hike. Compensation revision for senior management will be effected in Q3FY20.

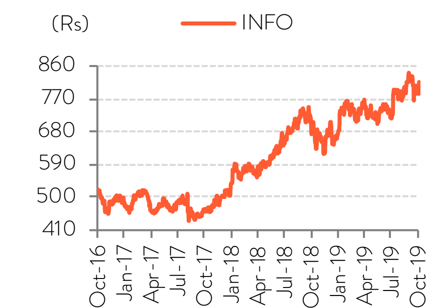
Strong deal wins but largely renewal-led: Large deal wins held strong at US$ 2.8bn (up 5% QoQ and 40% YoY), but were shored up by a higher proportion of renewals (at 90% vs. <50% renewal deal contribution in the prior two quarters).

Revised revenue guidance implies growth moderation in H2: From 8.5-10% guided earlier, INFO now expects FY20 revenue growth of 9-10% YoY CC, below our expectation of an upward reset to 9.5-10.5%. This implies a CQGR of −0.6% to +0.6% for the remaining two quarters of FY20 vs. +2.4%/+2.2% reported/organic CQGR in the same period last year. In a gloomy readthrough for the sector, we note the trend similarities with TCS, namely a soft BFSI and retail outlook along with growth moderation in H2.

Ticker/Price	INFO IN/Rs 815
Market cap	US$ 49.9bn
Shares o/s	4,349mn
3M ADV	US$ 93.4mn
52wk high/low	Rs 847/Rs 600
Promoter/FPI/DII	13%/35%/52%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	7,05,220	8,26,760	8,91,741	9,78,255	10,82,541
EBITDA (Rs mn)	1,90,100	2,08,890	2,18,425	2,52,046	2,78,916
Adj. net profit (Rs mn)	1,60,280	1,54,170	1,62,781	1,81,375	2,04,186
Adj. EPS (Rs)	36.9	35.4	37.7	42.0	47.3
Adj. EPS growth (%)	17.3	(4.0)	6.6	11.4	12.6
Adj. ROAE (%)	23.9	24.5	25.5	25.6	26.0
Adj. P/E (x)	22.1	23.0	21.6	19.4	17.2
EV/EBITDA (x)	17.5	16.0	15.5	13.2	11.7

Source: Company, BOBCAPS Research

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BUY
TP: Rs 555 | ⮝ 31%

CIPLA | Pharmaceuticals | 12 October 2019

Goa 483s – no data integrity concerns but many procedurals; BUY

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Cipla has received 12 observation from the USFDA's inspection of its Goa facility over 16-27 Sep. The inspectors were June P Page, Thomas Arista and Rajiv R Srivastava. Their observations mostly centered around the injectable unit. We believe these are largely procedurals with no data integrity issues. Escalation risk to OAI is very low. The facility accounts for 25-30% of US sales and 6% of FY19 sales (~3% based on single source product, per company). Cipla expects to reply to the FDA on its proposed CAPA within 15 days. Retain BUY, TP Rs 555.

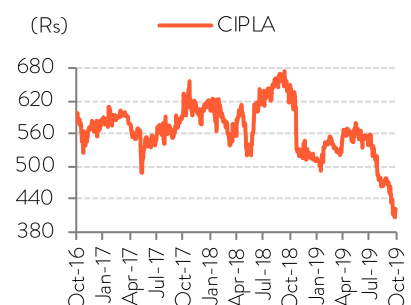
Ticker/Price	CIPLA IN/Rs 422
Market cap	US$ 4.8bn
Shares o/s	806mn
3M ADV	US$ 15.4mn
52wk high/low	Rs 652/Rs 403
Promoter/FPI/DII	37%/26%/13%

Source: NSE

Many procedurals – earnings won't be impacted: We believe chances of official action indicated (OAI) classification are low in the absence of quality integrity and data integrity issues in Form 483. However, there are several procedural issues where resolution could take time. Cipla clarified that dependence on the Goa unit for existing sales based on a single sourced product would be ~US$ 50mn-60mn or 2.5% of FY19 sales (6% on total product basis). Also, none of the pending files from this site are due for approval in the next 15 months. Hence, we don't think earning growth should be affected.

Observations centre on aseptic fill area: The FDA has pointed out: (1) multiple instances of a thick layer of product residual being present on the air exhaust duct; (2) unclean production equipment; (3) deficiency in non-viable particle (NVP) monitoring in the sterile filtration area, evaluation of airflow pattern and equipment qualification; and (4) need for inclusion of SOPs on sanitisation efficacy around the production area and sampling procedures for in-process material testing (details on Page 2).

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	152,181	163,604	164,283	173,998	187,695
EBITDA (Rs mn)	28,254	30,955	31,122	33,681	37,480
Adj. net profit (Rs mn)	12,340	13,409	14,515	16,400	19,037
Adj. EPS (Rs)	15.3	16.6	18.0	20.4	23.6
Adj. EPS growth (%)	(0.2)	8.7	8.2	13.0	16.1
Adj. ROAE (%)	8.9	9.0	9.2	9.6	10.2
Adj. P/E (x)	27.6	25.4	23.4	20.7	17.9
EV/EBITDA (x)	13.0	11.6	11.4	9.9	8.4

Source: Company, BOBCAPS Research

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OIL & GAS | Q2FY20 Preview | 12 October 2019

GRMs rise but economic slowdown weighs on cyclicals

Rohit Ahuja | Harleen Manglani
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Cyclical business fundamentals showed mixed trends in Q2FY20 – Singapore GRMs surged to US$ 6.5/bbl (+88% QoQ), while petrochemical cracks declined ~10% QoQ. We see improved earnings for RIL and OMCs on the back of higher GRMs and some improvement in marketing margins. Lower oil prices (–10% QoQ) could hit upstream PSU profitability, while the domestic gas price cut in October will aggravate earnings pressure. Sustained low spot LNG prices (–4.3% QoQ) could lift volumes and margins for all gas utilities.

GRMs improve: Singapore GRMs averaged US$ 6.5/bbl for Q2FY20 due to expansion in middle distillate cracks, while light distillate cracks remained under pressure. Margins have broken above the five-year average (~US$ 6.33) and may sustain at current levels in anticipation of IMO-led demand disruption. Diesel cracks (~US$ 15/bbl) still look some distance away from levels anticipated post IMO (>US$ 20/bbl), and risks from a global economic slowdown look potent enough to restrict further upsides on diesel cracks. We prefer to wait until Q4FY20 before raising our long-term GRM estimates.

Slowdown concerns visible in petrochemicals: Per unit polymer and polyester margins have been trending lower, by ~10% QoQ in Q2FY20. A visible slowdown in industrial activity across China, Europe and the US has hurt petrochemical product demand. Consequently, we expect RIL's integrated petchem margins to fall ~10% QoQ. GAIL's petchem margins for the quarter could be affected by lower PE prices (down ~11% QoQ).

LNG prices remain muted: Spot LNG prices continue to trend lower, declining to US$ 4.4/mmbtu (–4.3% QoQ), maintaining the gap with long-term LNG (volumes from Qatar averaged at ~US$ 9/mmbtu). This has led to improved demand for gas across segments, with consumption up ~10mmscmd QoQ, implying gains on both margins and volumes across gas utilities.

Cyclicals offer value: Marketing margins to remain flattish QoQ for all three OMCs despite mixed trends in petrol (+11% QoQ) and diesel (–12% QoQ) margins. Among OMCs, we prefer IOCL and HPCL, given improvement in marketing business valuations (post privatisation roadmap for BPCL) and GRM recovery. RIL remains the primary beneficiary of IMO, and hence offers value if GRMs were to surge above our estimates.

KEY RECOMMENDATIONS

Ticker	Rating
RIL IN	BUY
HPCL IN	BUY
ONGC IN	BUY
GAIL IN	BUY
PLNG IN	BUY
GUJGA IN	BUY

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PHARMACEUTICALS | Q2FY20 Preview | 11 October 2019

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Key to watch: (1) Alkem Labs: Commentary on potential regulatory action on margin capping, FDA update for Daman unit. **(2) Aurobindo (ARBP):** Business impact due to Form 483 at formulation unit 7, Sandoz deal, CAPAs progress at three API units. **(3) Cipla:** Incremental risk to India & US base run-rate, gProventil launch, readthrough on Goa 483s (12 observations in Sep'19). **(4) Dr Reddy's (DRRD):** Inventory write-off risk in the US post Nuvaring CRL (complete response letter), Srikakulam/CTO6 reinspection, cost control. **(5) Divi's (DIVI):** Gross margin QoQ. **(6) Lupin (LPC):** Levo capacity addition, Solosec uptick, remediation progress (Goa, Indore-2, Somerset). **(7) Sun Pharma (SUNP):** Rapid pickup in Skyrizi Rx which is now 10x of Ilumya.

RECOMMENDATION SNAPSHOT

Ticker	Rating
ALKEM IN	BUY
ARBP IN	ADD
CIPLA IN	BUY
DIVI IN	ADD
DRRD IN	ADD
LAURUS IN	BUY
LPC IN	ADD
SUNP IN	REDUCE

FIG 1 – Q2FY20: US REVENUE EXPECTATIONS

(US$ mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20E	QoQ (%)	YoY (%)
ALKEM	63	69	74	69	69	73	6.1	5.1
ARBP	283	318	338	352	384	380	(1.1)	19.5
CIPLA	101	108	118	162	160	130	(18.7)	20.1
DRRD	237	210	209	212	233	237	1.6	13.0
LPC	177	178	197	247	220	193	(12.3)	8.2
SUNP (ex-Taro)	225	183	186	264	260	210	(19.2)	14.7
TARO	155	159	176	180	161	161	0.0	1.4

Source: Company, BOBCAPS Research

FIG 2 – Q2FY20 PREVIEW: GOOD FOR ALKEM & DRRD, BEST-EVER EBITDA FOR LAURUS, WEAK FOR CIPLA

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA Margin (%)		
	Q2FY20E	YoY (%)	QoQ (%)	Q2FY20E	YoY (%)	QoQ (%)	Q2FY20E	YoY (%)	QoQ (%)	Q2FY20E	Q2FY19	Q1FY20
ALKEM	21,368	11.4	15.5	4,083	12.1	54.3	2,899	13.9	56.1	19.1	19.0	14.3
ARBP	54,409	14.5	(0.1)	11,434	11.4	(0.3)	6,464	(4.7)	1.1	21.0	21.6	21.1
CIPLA	39,099	(2.5)	(2.0)	6,924	(1.3)	(23.5)	3,128	(16.9)	(34.6)	17.7	17.5	22.7
DRRD	43,216	13.8	12.4	8,488	14.7	16.8	4,548	(9.7)	(31.4)	19.6	19.5	18.9
LPC	44,867	13.6	1.5	7,647	39.1	(11.1)	2,948	9.0	(2.7)	17.0	13.9	19.5
SUNP	76,097	11.1	(7.9)	14,584	1.3	(19.6)	9,715	(2.6)	(26.4)	19.2	21.0	22.0
DIVI	12,425	(3.3)	9.0	4,280	(16.8)	11.3	2,990	(13.1)	9.4	34.4	40.0	33.7
LAURUS	6,438	9.5	16.9	1,192	57.3	43.1	390	139.0	157.7	18.5	12.9	15.1
Sector Agg.	**297,918**	**9.7**	**1.0**	**58,631**	**8.3**	**(5.2)**	**33,081**	**(3.9)**	**(14.7)**	**19.7**	**19.9**	**21.0**

Source: Company, BOBCAPS Research

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INFRASTRUCTURE | Q2FY20 Preview | 11 October 2019

Execution slackens; order flow a key monitorable

Poor project execution due to the extended monsoons is expected to contain revenue growth at ~15% YoY for our infrastructure universe in Q2FY20. EBITDA margins should hold firm, but earnings are forecast to decline 8% YoY on higher interest, depreciation and taxes (post expiry of sec-80IA benefits). PNCL and HGIEL are likely to buck the trend with stronger earnings. DBL, KNRC and PNCL saw order inflows in Q2 vs. nil wins for other coverage stocks. We continue to prefer PNCL, HGIEL, KNRC and ASBL.

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Heavy rains dampen execution: We expect moderate revenue growth of ~15% YoY for our coverage stocks in Q2 as a strong, extended monsoon season has hampered the pace of project execution. PNCL is likely to clock robust revenue growth of ~70% YoY led by a high executable order backlog and low base. EBITDA margins for our coverage look to be stable, barring a 300bps YoY drop forecast for KNRC as its share of lucrative irrigation projects ebbs.

Order flow muted: Order inflows failed to revive after elections as expected, due to land acquisition issues and delayed disbursals amid a change of guard at various state governments. We believe NHAI awarding could pick up from Nov'19 post elections in Haryana and Maharashtra, and expect ~5,000km to be awarded in FY20 vs. NHAI's target of ~6,000km. The book-to-bill ratio for road developers remains strong at 2.1-3.1x as on Sep'19 despite muted orders.

Higher effective tax rate to mar earnings: The discontinuation of section 80IA benefits will raise tax rates for most road developers. We expect PNCL and HGIEL to buck the trend with YoY earnings growth of 96% (low base) and 33% (corporate tax cut benefits) respectively, while other players under our coverage are headed for declines.

Gradual award of appointed dates a key positive: As at end-Sep'19, ADs for only 13 of the 46 HAM projects won by our coverage universe were pending from NHAI (vs. 19 as at end-Jun'19), leading to a better executable order backlog for most companies. Our management interactions suggest the balance dates could be awarded in Q3 (9 projects) / Q4 (4 projects).

Stay selective: Execution visibility on the existing order backlog remains intact, albeit with some lag due to delayed ADs, even as India's road sector holds immense opportunities. We stay selective and prefer PNCL, HGIEL, KNRC and ASBL.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
ASBL IN	98	185	BUY
DBL IN	376	610	BUY
HGINFRA IN	268	395	BUY
KNRC IN	208	360	BUY
PNCL IN	170	250	BUY
SADE IN	131	175	BUY

Price & Target in Rupees | Price as of 10 Oct 2019

ORDER BACKLOG as on Sep'19E*

Ticker	Backlog (Rs bn)	Book-to-bill (x)	Executable (%)
ASBL IN	82.3	2.1	72.8
DBL IN	209.2	2.3	69.5
HGINFRA IN	52.3	2.5	52.7
KNRC IN	65.5	3.1	63.6
PNCL IN	120.0	2.9	83.4
SADE IN	94.0	2.7	72.4

Source: Company, BOBCAPS Research I
*Includes L1 projects

LOGISTICS | Q2FY20 Preview | 11 October 2019

Expect a weak quarter all around

Sayan Das Sharma
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High frequency indicators (EXIM trade, rail freight and major port traffic), corroborated by industry checks, signal a feeble demand environment for logistics services. We expect median revenue growth for our coverage universe to decelerate to 7% YoY in Q2FY20 vs. 8%/15% in Q1/FY19. FSCSL and MLL are likely to see continued PBT shrinkage, while TCIEXP should report the highest PBT growth, followed by TRPC. EPS growth for select companies could be boosted by the lower corporate tax rate and write-back of excess Q1 provisions.

Industry indicators signal weak demand: Core EXIM trade (non-oil, non-gold) declined 3% YoY during Jul-Aug'19 (vs. +0.4% in Q1FY20, US$ terms), Indian Railway's container traffic tapered off to –0.2% YoY (vs. +5% in Q1), while major port traffic growth languished at 1.5% YoY. This is hurting EXIM-focused players such as Container Corp (CCRI) which reported a provisional volume decline of 2% YoY in Q2. The domestic climate isn't much better as auto sales plummet and industrial activity weakens. We thus expect median revenue growth of 7% YoY for our coverage universe vs. 8% in Q1FY19 and 15% in FY19.

TCIEXP to outperform on PBT growth: We expect TCI Express (TCIEXP) to report 9% YoY revenue growth aided by new SME clients; this along with 26bps operating margin expansion should catalyse 14% YoY PBT growth – the highest for our coverage. CCRI's EBITDA is likely to be flat as a realisation hike negates softer volumes, but we forecast 23% lower PBT in the absence of SEIS income (Rs 1bn in Q2FY19). The auto slowdown will continue to weigh on Mahindra Logistics (MLL) despite some cushion from growth in non-auto segments – expect revenue/PBT declines of 6%/19% YoY. Transport Corp's (TRPC) seaways segment should drive 5% YoY topline growth and 40bps margin expansion, aiding a 13% rise in PBT.

Tax sops a profit booster: The lower corporate tax rate and write-back of excess Q1 tax provisioning is likely to boost profitability for some companies. TCIEXP could see PAT growth of 50% YoY, while MLL is estimated to grow 6% YoY. Tax benefits should soften the decline in CCRI's PAT to 15% YoY.

Top picks: We keep our ratings and earnings estimates unchanged. Our preference for asset-light models within the logistics space continues, and we reiterate TCIEXP, MLL and FSCSL as our top fundamental ideas. TRPC remains a top value pick.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	98	125	BUY
CCRI IN	564	575	ADD
FSCSL IN	509	730	BUY
MAHLOG IN	365	525	BUY
TCIEXP IN	715	840	BUY
TPRC IN	273	365	BUY

Price & Target in Rupees I MAHLOG = MLL

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BUILDING MATERIALS | Q2FY20 Preview | 11 October 2019

Modest quarter

Building material companies under our coverage are expected to post a modest Q2FY20 as tough market conditions exact a toll on volumes. We estimate meagre 2-4% YoY volume growth for sanitaryware/plywood players, while tile players should do slightly better at 5-7%. Piping companies are likely to post a mixed performance with revenue growth ranging from 2-14% YoY. Management commentary on the demand and margin outlook for H2FY20 will be a key aspect to watch this earnings season.

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Anaemic quarter: Due to dull market conditions and floods in some major markets, we expect building material companies to report a muted Q2. We forecast mid-single-digit volume growth for tile companies under our coverage, viz. Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). In the plywood segment, Greenply Industries (GIL) and Century Plyboards (CPBI) will likely see volumes inch up in low single digits. In MDF, however, CPBI is expected to grow revenues by ~30% YoY due to a low base and benefits of price hikes undertaken during the quarter.

Sanitaryware players such as Cera Sanitaryware (CRS) will likely report a subdued quarter as core category volumes remain in a slump. In the pipes segment, we estimate 14% YoY revenue growth for Astral Polytechnik (ASTRA) aided by price increases in CPVC and the acquisition of Rex Poly, whereas Supreme Industries (SI) and Finolex Industries (FNXP) are forecast to have modest topline growth in a seasonally soft quarter.

Operating margin gains for tile/plywood players: Lower input prices are likely to push up EBITDA margins for tile players in Q2 (+25bps/+95bps YoY for KJC/SOMC). In the plywood segment, CPBI could clock ~150bps YoY margin expansion off a low base. Among pipe players, FNXP could see margins contracting YoY due to a lower PVC-EDC delta, whereas ASTRA is forecast to report a 100bps YoY uptick on the back of better CPVC profitability. CRS should witness ~50bps YoY margin expansion off a soft base.

Key areas to watch: Managements' outlook on revenues and margins for H2FY20 will be a key monitorable. We also await announcements regarding the planned deployment of cost savings from the reduced corporate tax rate.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
KJC IN	562	650	BUY
SOMC IN	187	340	BUY
CRS IN	2,471	3,135	BUY
MTLM IN	155	200	BUY
CPBI IN	162	200	BUY
ASTRA IN	1,163	1,005	REDUCE
FNXP IN	583	610	ADD
SI IN	1,202	1,210	ADD

Price & Target in Rupees

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BANKING | Credit Tracker | 12 October 2019

Loan growth drops below 9%

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RBI data shows that credit growth for the fortnight ended 27 September slipped to a three-year low of 8.8% YoY. Deposit growth too declined to 9.4% vs. 10% the previous fortnight. Credit growth has been moderating over the past few quarters due to anaemic corporate demand and a slowdown in unsecured retail credit as well as lending to the services sector. Surprisingly, investment growth spiked to 7% YoY while SLR held at ~27%. Loan growth is expected to remain elusive in FY20 despite the shift in pricing power to banks from NBFCs.

Deposit growth down to 9.4%: Deposit growth for the fortnight ended 27 September declined to 9.4% but remains broadly in line with the trend seen over the past couple of quarters. The pressure on deposit mobilisation should ease with slowing credit growth, offering banks an opportunity to further lower term deposit rates. In absolute terms, deposits grew by Rs 1.8tn FoF to Rs 129tn.

Credit growth slips further: As per RBI data, credit growth for the fortnight ended 27 September stood at 8.8% YoY. In absolute terms, credit offtake increased by Rs 0.6tn FoF to Rs 98tn. RBI data on sectoral deployment of credit for Aug'19 suggests that corporate loan growth has dipped to 4%. Retail credit growth had been hovering at ~17% over the past few months amid a strong uptick in home and other personal loans. But in Aug'19, growth slipped to an 11-month low of 15.6%, led by a downturn across retail segments.

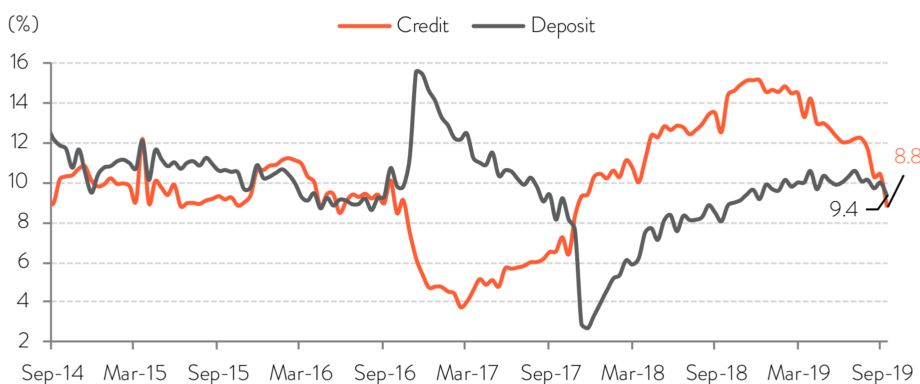
Bleak outlook for FY20: We do not expect any material improvement in credit growth for FY20. At the same time, as PSBs grapple with the mega consolidation exercise, private banks will be able to step in and augment market share.

KEY DATA

Particulars	28-Sep-18	27-Sep-19
Deposits (Rs tn)	118.0	129.1
YoY growth (%)	8.1	9.4
YTD growth (%)	3.3	2.7
Loans (Rs tn)	89.8	97.7
YoY growth (%)	12.5	8.8
YTD growth (%)	4.1	0.0
CD ratio (%)	76.1	75.7
SLR ratio (%)	27.2	26.8

Source: RBI, BOBCAPS Research

FIG 1 – CREDIT AND DEPOSIT GROWTH IN THE BANKING SYSTEM



Source: RBI, 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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