BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

18 November 2019

RESEARCH

Mphasis | Target: Rs 1,020 | +14% | ADD

Cut to ADD on HP/DXC channel uncertainty

BOB Economics Research | Trade

Imports see a sharp dip, exports steady

KNR Constructions | Target: Rs 340 | +39% | BUY

Strong quarter; revenue guidance cut on project delays

Ashoka Buildcon | Target: Rs 190 | +101% | BUY

Subdued execution, growth to pick up in H2

PNC Infratech | Target: Rs 245 | +30% | BUY

Strong quarter, momentum to continue

SUMMARY

Mphasis

Mphasis' (MPHL) Q2FY20 revenue at US$ 306mn met estimates, marked by strong traction in the direct channel business. HP/DXC channel revenues fell QoQ after 12 consecutive growth quarters. Management is targeting above-industry growth in the direct core business and industry-level growth in DXC/HP for FY20. Amid an uncertain outlook on HP/DXC post the latter's change of guard, we reset our target P/E from 15x to 14x, yielding a new Sep'20 TP of Rs 1,020 (vs. Rs 1,150), and trim our rating a notch to ADD (vs. BUY).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.82	(7bps)	9bps	(129bps)
India 10Y yield (%)*	6.71	(2bps)	3bps	(105bps)
USD/INR	71.97	0.2	(1.0)	0
Brent Crude (US$/bbl)	62.28	(0.1)	4.9	(6.5)
Dow	27,782	0	3.7	9.9
Shanghai	2,910	0.2	(3.3)	9.1
Sensex	40,286	0.4	5.4	14.3
India FII (US$ mn)	**11 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(136.3)	540.1	5,226.9	4,682.2
FII-E	211.8	1,808.5	12,031.3	5,186.1

Source: Bank of Baroda Economics Research | *7.26% GS 2029

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India Economics: Trade

India's trade deficit in Oct'19 remained steady at US$ 11.1bn versus US$ 10.9bn in Sep'19. Exports fell by (-) 1.1%. Pharma, gems & jewellery and engineering goods showed maximum positive traction. Led by a decline in both oil and non-oil-non-gold imports, imports fell by (-) 16.3%. Lower oil prices and muted domestic consumption explain this. Hence, trade deficit will be lower at US$ 175bn versus US$ 180bn in FY19. While INR has depreciated by (-) 1.2% MTD, a lower trade deficit and buoyant inflows should provide some support.

Click here for the full report.

KNR Constructions

KNR Constructions' (KNRC) Q2FY20 core revenue ex-arbitral awards grew 26% YoY and core EBITDA margin beat estimates at 20.6% (+60bps YoY). A higher tax rate saw core recurring PAT drop 24% YoY to Rs 342mn – still ahead of our Rs 300mn forecast. The Sep'19 order backlog stood at Rs 67bn or 3.1x TTM revenues (incl. L1 projects). We scale back FY20/FY21 EPS by 11%/22% given management has cut revenue guidance from ~Rs 25bn to Rs 23bn- 24bn; rolling valuations over, we have a new Mar'21 TP of Rs 340 (vs. Rs 360). BUY.

Click here for the full report.

Ashoka Buildcon

Ashoka Buildcon's (ASBL) Q2FY20 execution remained muted due to the extended monsoons, with revenue growth at 7.6% YoY. Led by a favourable revenue mix and cost reversals, EBITDA margin increased 140bps YoY to 14.9%. Margin expansion and higher other income (+150% YoY) supported PAT growth of 17% YoY to Rs 727mn (Rs 531mn est.). The Sep'19 order backlog stood at Rs 97.5bn (incl. L1 of Rs 23bn; 2.5x TTM revenues). We raise FY20-FY21 EPS by 9%/15% and roll to a Mar'21 TP of Rs 190 (from Rs 185).

Click here for the full report.

PNC Infratech

PNC Infratech's (PNCL) Q2FY20 core revenue ex-arbitral awards grew 92% YoY. Core EBITDA margin was in line at 13.8% (+45bps YoY) while core recurring PAT at Rs 619mn was below our estimate of Rs 688mn due to a higher tax rate, but was up 76% YoY. The Sep'19 order backlog totaled Rs 119bn or 2.8x TTM revenues (incl. L1 projects). Gross debt declined QoQ to Rs 3.8bn led by improved recoveries, mobilisation advances and claim proceeds. We trim FY20/ FY21 earnings by 7%/6% and roll to a new Mar'21 TP of Rs 245 (vs. Rs 250). BUY.

Click here for the full report.

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ADD
TP: Rs 1,020 | ⮝ 14%

MPHASIS | IT Services | 15 November 2019

Cut to ADD on HP/DXC channel uncertainty

Mphasis' (MPHL) Q2FY20 revenue at US$ 306mn met estimates, marked by strong traction in the direct channel business. HP/DXC channel revenues fell QoQ after 12 consecutive growth quarters. Management is targeting above-industry growth in the direct core business and industry-level growth in DXC/HP for FY20. Amid an uncertain outlook on HP/DXC post the latter's change of guard, we reset our target P/E from 15x to 14x, yielding a new Sep'20 TP of Rs 1,020 (vs. Rs 1,150), and trim our rating a notch to ADD (vs. BUY).

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In-line operating performance: MPHL reported 3.1% QoQ CC revenue growth, largely in line with our estimate of 2.9%, on the back of strong traction in the direct channel business. Direct channel dollar revenue increased by 3.9% QoQ while HP/DXC dollar revenue declined sequentially by 0.5%. We highlight that this marks the first quarter of sequential revenue decline in the HP/DXC business post the MSA (master service agreement) with MPHL in Q1FY17. EBIT margin came in at 16.1% (+60bps QoQ) vs. our estimate of 16.6%.

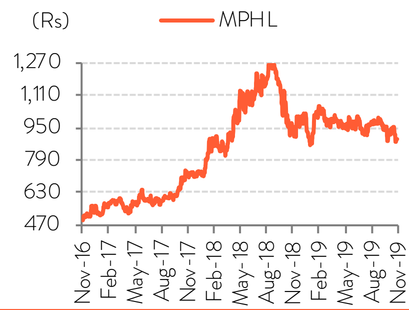
Guidance intact: Management maintained its guidance of above-industry growth in the direct core business, industry-level growth in DXC/HP and 15.5-17% EBIT margins for FY20.

Change of guard and strategy at DXC Tech: In mid-Sep'19, DXC Technology announced the appointment of a new CEO who last week set out a bold strategy that includes the divestment of three business units (a fourth of revenues). This change of guard and strategy raises risks for MPHL considering that the HP/DXC business accounts for 27.6% in Q2FY20 of its revenue. MPHL's management sees little impact, citing a status quo on the relationship and insignificant exposure to the business identified for divestment.

Ticker/Price	MPHL IN/Rs 893
Market cap	US$ 2.3bn
Shares o/s	186mn
3M ADV	US$ 2.0mn
52wk high/low	Rs 1,063/Rs 858
Promoter/FPI/DII	52%/29%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	65,459	77,311	86,518	97,186	1,08,185
EBITDA (Rs mn)	10,626	13,240	15,700	18,712	20,860
Adj. net profit (Rs mn)	8,507	10,734	10,877	12,355	14,078
Adj. EPS (Rs)	44.1	57.7	58.4	66.4	75.6
Adj. EPS growth (%)	14.9	30.9	1.3	13.6	13.9
Adj. ROAE (%)	14.6	20.0	19.8	20.5	21.2
Adj. P/E (x)	20.3	15.5	15.3	13.5	11.8
EV/EBITDA (x)	15.3	12.5	10.5	9.0	7.8

Source: Company, BOBCAPS Research

TRADE

15 November 2019

Imports see a sharp dip, exports steady

India's trade deficit in Oct'19 remained steady at US$ 11.1bn versus US$ 10.9bn in Sep'19. Exports fell by (-) 1.1%. Pharma, gems & jewellery and engineering goods showed maximum positive traction. Led by a decline in both oil and non-oil-non-gold imports, imports fell by (-) 16.3%. Lower oil prices and muted domestic consumption explain this. Hence, trade deficit will be lower at US$ 175bn versus US$ 180bn in FY19. While INR has depreciated by (-) 1.2% MTD, a lower trade deficit and buoyant inflows should provide some support.

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KEY HIGHLIGHTS

- Export growth at (-) 1.1% versus (-) 6.6% in Sep'19.
- Imports contract further by (-) 16.3% compared with (-) 13.8% in Sep'19.
- Trade deficit steady at US$ 11bn versus US$ 10.9bn in Sep'19.

Exports still decelerating: Contraction in India's export growth eased to (-) 1.1% in Oct'19 from (-) 6.6% in Sep'19. The improvement was led by 12.6% jump in pharma products (8.7% in Sep'19) followed by gems & jewellery (+6% vs -5.6% in Sep'19) and engineering goods (1.2% vs -6.2% in Sep'19). Oil exports fell, albeit at a lower pace of (-) 14.6% compared with (-) 18.6% decline in Sep'19. In FYTD20, export growth has dipped by (-) 2.3% vs 13.3% increase seen in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to contract. Given the global backdrop of trade war and economic slowdown, exports are unlikely to pick-up.

Imports contract further: Following a (-) 13.8% decline in Sep'19, imports fell further in Oct'19 by (-) 16.3%, a 39-month low. Oil imports led the decline at (-) 31.8% vs (-) 18.3% in Sep'19 as oil prices declined by (-) 26% on a YoY basis. With weak domestic demand, non-oil-non-gold imports contracted by (-) 10% in Oct'19 vs (-) 8.9% in Sep'19. Within this, import of ores (-46.7%), coal (-28.7%) and precious metals (-17.6%) contracted the most. Contraction in capital goods continued for the 5th straight month, albeit at a slower pace of (-) 6.1% vs (-) 9.4% in Sep'19. Despite higher gold price, gold imports rose by 4.7% in Oct'19 vs (-) 50.8% in Sep'19 supported by festive buying.

Trade deficit set to narrow in FY20: India's trade deficit remained broadly stable at US$ 11bn in Oct'19 vs US$ 10.9bn in Sep'19. While exports have fallen by (-) 2.3% in FYTD20, imports have fallen at a much sharper pace of (-) 7.2% due to lower oil prices and weak domestic consumption. This has helped to curtail the trade deficit to US$ 98bn vs US$ 117bn last year. As a result, we expect CAD to narrow to 1.5% of GDP in FY20. While INR has depreciated recently, lower trade deficit as well as FII inflows (US$ 9.9bn in FYTD20) will ensure that it remains stable in range of 70-72/$ in FY20.

BUY
TP: Rs 340 | ⮝ 39%

KNR CONSTRUCTIONS | Infrastructure | 17 November 2019

Strong quarter; revenue guidance cut on project delays

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KNR Constructions' (KNRC) Q2FY20 core revenue ex-arbitral awards grew 26% YoY and core EBITDA margin beat estimates at 20.6% (+60bps YoY). A higher tax rate saw core recurring PAT drop 24% YoY to Rs 342mn – still ahead of our Rs 300mn forecast. The Sep'19 order backlog stood at Rs 67bn or 3.1x TTM revenues (incl. L1 projects). We scale back FY20/FY21 EPS by 11%/22% given management has cut revenue guidance from ~Rs 25bn to Rs 23bn- 24bn; rolling valuations over, we have a new Mar'21 TP of Rs 340 (vs. Rs 360). BUY.

Strong execution and better margins: A healthy pace of execution on HAM projects and the irrigation contract from Mega Engineering aided core revenue growth of 25.6% YoY to Rs 5.2bn (Rs 4.6bn est). Led by favourable arbitration awards of Rs 232mn (net basis), reported revenue grew 31% YoY to Rs 5.5bn. Core EBITDA margin was up 60bps YoY to 20.6% vs. 17% estimated (+300bps YoY to 23% incl. arbitral awards), backed by a better revenue mix. Reported PAT surged 56% YoY to Rs 701mn after including the impact of favourable claims.

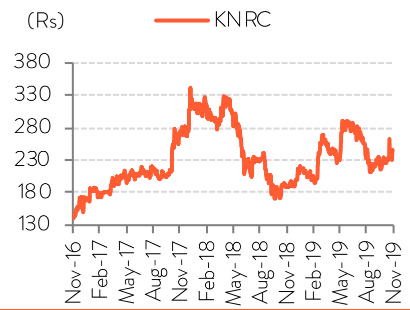
Guidance cut: Management has pared FY20 revenue guidance from ~Rs 25bn to Rs 23bn-24bn due to an execution slowdown in the Navayuga Engineering irrigation project (land issues), delayed award of appointed dates (AD) in the two remaining HAM projects and cancellation of a Rs 3.5bn HAM contract.

Receivables stretched; leverage under control: Debtor days remained high at 53 days vs. 40 as on Mar'19. As per management, the debtor cycle is likely to remain stretched due to execution of fast-pace irrigation projects. Gross standalone debt declined by Rs 256mn QoQ to Rs 3.2bn and net D/E remained in check at 0.2x as on Sep'19 (unchanged QoQ).

Ticker/Price	KNRC IN/Rs 245
Market cap	US$ 479.7mn
Shares o/s	141mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 303/Rs 181
Promoter/FPI/DII	55%/3%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	19,317	21,373	23,705	29,173	33,145
EBITDA (Rs mn)	3,861	4,270	4,160	5,102	5,787
Adj. net profit (Rs mn)	2,721	2,468	1,818	2,215	2,579
Adj. EPS (Rs)	19.3	17.6	12.9	15.8	18.3
Adj. EPS growth (%)	61.8	(9.3)	(26.4)	21.9	16.4
Adj. ROAE (%)	26.5	19.2	12.0	12.8	13.1
Adj. P/E (x)	12.7	14.0	18.9	15.6	13.4
EV/EBITDA (x)	9.2	8.5	8.9	7.4	6.6

Source: Company, BOBCAPS Research

RESULT REVIEW

BUY
TP: Rs 190 | 101%

ASHOKA BUILDCON | Infrastructure | 16 November 2019

Subdued execution, growth to pick up in H2

Ashoka Buildcon's (ASBL) Q2FY20 execution remained muted due to the extended monsoons, with revenue growth at 7.6% YoY. Led by a favourable revenue mix and cost reversals, EBITDA margin increased 140bps YoY to 14.9%. Margin expansion and higher other income (+150% YoY) supported PAT growth of 17% YoY to Rs 727mn (Rs 531mn est.). The Sep'19 order backlog stood at Rs 97.5bn (incl. L1 of Rs 23bn; 2.5x TTM revenues). We raise FY20-FY21 EPS by 9%/15% and roll to a Mar'21 TP of Rs 190 (from Rs 185).

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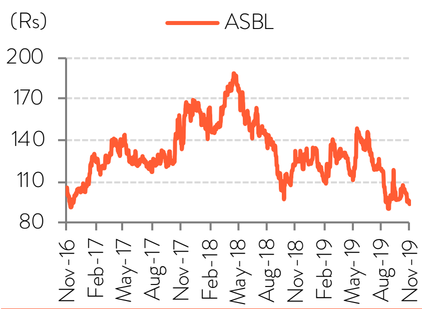
Ticker/Price	ASBL IN/Rs 94
Market cap	US$ 369.0mn
Shares o/s	281mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 155/Rs 88
Promoter/FPI/DII	54%/4%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Protracted monsoon slowed execution: ASBL's Q2 revenue growth was subdued at 7.6% YoY to Rs 8.2bn due to the extended monsoons, delayed award of appointed dates (AD) on HAM contracts, and execution slowdown in TOT EPC projects (land hurdles). As a result, management has cut FY20 revenue growth guidance from 25-30% to 20-25%. With AD awarded for the two HAM projects in Oct'19, land acquisition in place for TOT EPC projects (Rs 8.1bn), and AD for the Bundelkhand project guided to come through in Dec'19, we expect revenue to gather pace from H2FY20.

EBITDA margins expand: Cost reversals in a couple of projects (>90% complete) led to 140bps YoY margin expansion to 14.9% (12.6% estimated). As per management, future margins should remain stable in the range of 12-13%.

Gross debt reduces; receivables from power T&D improve: Better recoveries saw debt decline to Rs 4.6bn as on Sep'19 (Rs 5.8bn as on Jun'19); ASBL has guided for ~Rs 6bn levels by Mar'20. Net D/E was at 0.2x. Power T&D receivables improved to Rs 6.3bn as of Sep'19 from Rs 7.5bn as of Mar'19.

Maintain BUY: We raise estimates led by higher margins and other income (partly offset by a high tax rate) and move to a new TP of Rs 190 (vs. Rs 185).

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	24,483	38,206	45,093	51,515	55,131
EBITDA (Rs mn)	2,954	5,152	5,777	6,624	6,879
Adj. net profit (Rs mn)	2,390	3,332	3,521	4,173	4,202
Adj. EPS (Rs)	8.5	11.9	12.5	14.9	15.0
Adj. EPS growth (%)	35.7	39.4	5.7	18.5	0.7
Adj. ROAE (%)	13.1	16.1	14.9	15.3	13.5
Adj. P/E (x)	11.1	8.0	7.5	6.4	6.3
EV/EBITDA (x)	9.4	5.2	5.9	5.1	4.7

Source: Company, BOBCAPS Research

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BUY
TP: Rs 245 | ↑ 30%

PNC INFRATECH | Infrastructure | 17 November 2019

Strong quarter, momentum to continue

Jiten Rushi
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PNC Infratech's (PNCL) Q2FY20 core revenue ex-arbitral awards grew 92% YoY. Core EBITDA margin was in line at 13.8% (+45bps YoY) while core recurring PAT at Rs 619mn was below our estimate of Rs 688mn due to a higher tax rate, but was up 76% YoY. The Sep'19 order backlog totaled Rs 119bn or 2.8x TTM revenues (incl. L1 projects). Gross debt declined QoQ to Rs 3.8bn led by improved recoveries, mobilisation advances and claim proceeds. We trim FY20/ FY21 earnings by 7%/6% and roll to a new Mar'21 TP of Rs 245 (vs. Rs 250). BUY.

Healthy pace of execution: Core revenue grew 92% YoY to Rs 10.7bn (Rs 9.5bn est.) as execution proceeded apace on HAM projects and the Mumbai Nagpur Expressway EPC contract. Favourable arbitration awards of Rs 1.1bn drove a 110% YoY rise in reported revenue to Rs 11.8bn. An improved revenue mix aided core EBITDA margin expansion of 45bps YoY to 13.8% (+845bps YoY to 21.8% incl. arbitral awards). Reported PAT surged 5.9x YoY to Rs 2.1bn after including the impact of claims and interest on claims.

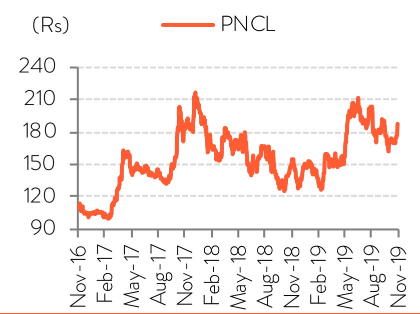
Leverage at comfortable levels: Led by improved recoveries, receipt of mobilisation advances and proceeds from claims, PNCL's gross debt position improved to Rs 3.8bn vs. Rs 4.5bn as on Jun'19 (net D/E at 0.03x vs. 0.2x). Management has guided for gross debt of ~Rs 5bn as on Mar'20.

FY20 revenue guidance upgraded: Management has revised its revenue growth guidance to 50-60% as against ~45% earlier (our estimate at 65%). Guidance for EBITDA margins stands at 13.5-14%, capex at Rs 1.25bn-1.5bn and order inflows at Rs 60bn-70bn. Management expects the debtor cycle at 90 days and working capital at 100 days as on Mar'20.

Ticker/Price	PNCL IN/Rs 188
Market cap	US$ 671.5mn
Shares o/s	257mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 219/Rs 126
Promoter/FPI/DII	56%/6%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	17,983	30,716	50,593	61,241	63,870
EBITDA (Rs mn)	2,606	4,320	6,956	8,453	8,816
Adj. net profit (Rs mn)	1,604	2,326	3,447	4,389	4,548
Adj. EPS (Rs)	6.3	9.1	13.4	17.1	17.7
Adj. EPS growth (%)	(13.0)	45.0	48.2	27.3	3.6
Adj. ROAE (%)	9.5	11.9	14.6	15.6	14.0
Adj. P/E (x)	30.1	20.7	14.0	11.0	10.6
EV/EBITDA (x)	18.9	11.2	7.0	6.4	6.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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