

RESEARCH

BOB Economics Research | Weekly Wrap

Slowdown led by China and India

Sadbhav Engineering | Target: Rs 160 | +37% | BUY

Execution challenges continue to cloud growth

Logistics | Monthly Tracker

Slump in port volumes and container rail lead distance

SUMMARY

India Economics: Weekly Wrap

Global yields fell due to delay in finalizing US-China trade deal and weaker than estimated industrial output in China, US and UK. Stocks in China sold-off after weak retail sales and investments data. US equity markets rose as retail sales were buoyant. Indian equity markets were resilient even as industrial output fell to (-) 4.3% and retail inflation rose as government is expected to continue the reform process. Yields steepened as RBI is likely to cut rates in Dec'19 to prop growth and fiscal deficit may widen in the year.

[Click here for the full report.](#)

Sadbhav Engineering

Sadbhav Engineering's (SADE) Q2FY20 revenue missed estimates, dropping 18% YoY as the heavy monsoons hindered execution at key EPC projects and as AD award was delayed for newer contracts. EBITDA margins were healthy, rising 25bps YoY to 12.3% led by a better revenue mix, and PAT beat estimates at Rs 259mn (Rs 210mn est.; -33% YoY) due to a lower tax rate. We adjust FY20/FY21 EPS by +3%/-7% on changes in tax and revenue forecasts. Upon rollover, we have a reduced Mar'21 TP of Rs 160 (vs. Rs 175). Retain 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 (%)	1.83	1bps	6bps	(123bps)
India 10Y yield (%)*	6.69	(2bps)	1bps	(113bps)
USD/INR	71.79	0.3	(0.3)	0.2
Brent Crude (US\$/bbl)	63.30	1.6	7.8	(5.2)
Dow	28,005	0.8	3.6	10.2
Shanghai	2,891	(0.6)	(3.3)	7.9
Sensex	40,357	0.2	4.8	13.8
India FII (US\$ mn)	14 Nov	MTD	CYTD	FYTD
FII-D	(14.3)	525.8	5,212.6	4,668.0
FII-E	(59.8)	1,748.7	11,971.4	5,126.2

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

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Logistics: Monthly Tracker

High frequency indicators, a harbinger of the logistics industry's performance, worsened further in Oct'19, indicating a deepening slowdown. Major port volumes declined 5% YoY, a multi-year low, due to a broad-based drop across ports and commodities. Container rail volume ticked up (+2% YoY) but NTKM fell 5% due to a sharp 7% drop in lead distance. EXIM trade continued its double-digit slide, plunging 11% YoY. While demand for logistics services is likely to remain weak, a benign base from Nov'19 may provide some cushion.

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WEEKLY WRAP

18 November 2019

Slowdown led by China and India

Global yields fell due to delay in finalizing US-China trade deal and weaker than estimated industrial output in China, US and UK. Stocks in China sold-off after weak retail sales and investments data. US equity markets rose as retail sales were buoyant. Indian equity markets were resilient even as industrial output fell to (-) 4.3% and retail inflation rose as government is expected to continue the reform process. Yields steepened as RBI is likely to cut rates in Dec'19 to prop growth and fiscal deficit may widen in the year.

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Markets

- **Bonds:** Global yields closed lower on the back of flip-flop on US-China trade deal and weak industrial production in China, US and UK. Retail sales were below estimates in China but surprised positively in US. US 10Y yield fell by (11bps) followed by Germany (7bps). Crude prices rose by 1.3% (US\$ 63/bbl) as OPEC reported lower shale oil production in CY20. India's yield curve steepened after IIP growth fell to (-) 4.3% even as CPI inflation rose to 16-month high of 4.6%. System liquidity surplus was at Rs 2.5tn as on 15 Nov 2019 vs Rs 2.4tn in the previous week.
- **Currency:** Global currencies were mixed this week as developments in US-China trade deal dominated. DXY fell by (-) 0.4% in the week as US industrial production fell. CNY ended lower by (-) 0.2% on the back of weak macro prints (industrial production, retail sales). INR depreciated by (-) 0.7% this week on domestic growth and fiscal concerns.
- **Equity:** Global indices closed mixed amidst muted global growth outlook. Shanghai Comp fell the most (-2.5%), followed by FTSE (-0.8%). However, Dow rallied by 1.2% on hope of constructive trade talks between US and China in the coming week. Sensex rose by 0.1%, led by banking, auto and consumer goods stocks.
- **Upcoming key events:** In the current week, markets will closely watch US home sales data, flash PMI print of Eurozone, Germany and UK. Apart from this, US-China trade deal will also be in focus. US FOMC minutes would also give some guidance on future course of rates. On the domestic front, markets will look for any fresh cues on growth.



BUY

TP: Rs 160 | ▲ 37%

**SADBHAV
ENGINEERING**

Infrastructure

18 November 2019

Execution challenges continue to cloud growth

Sadbhav Engineering's (SADE) Q2FY20 revenue missed estimates, dropping 18% YoY as the heavy monsoons hindered execution at key EPC projects and as AD award was delayed for newer contracts. EBITDA margins were healthy, rising 25bps YoY to 12.3% led by a better revenue mix, and PAT beat estimates at Rs 259mn (Rs 210mn est.; -33% YoY) due to a lower tax rate. We adjust FY20/FY21 EPS by +3%/–7% on changes in tax and revenue forecasts. Upon rollover, we have a reduced Mar'21 TP of Rs 160 (vs. Rs 175). Retain BUY.

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Execution slowdown brings growth to a halt: Q2 revenue declined 18% YoY to Rs 5.7bn (Rs 6.5bn est.) due to (i) slow execution in ongoing EPC projects (Mumbai-Nagpur Expressway, Lucknow Ring Road Pkg 2) owing to the heavy, protracted monsoons, and (ii) delays in receipt of appointed dates (AD) for HAM contracts bagged in Q4FY18. SADE also terminated the Bhimasar-Bhuj road project due to land acquisition issues, which depleted the Sep'19 order backlog. As a result, its FY20 revenue guidance remains muted at Rs 35bn (flat YoY). We now expect a moderate revenue CAGR of 5% over FY19-FY22.

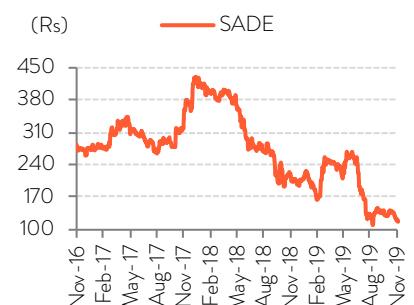
Loans to SIPL swell: Loans & advances to subsidiary SIPL swelled by Rs 1.7bn QoQ to Rs 8bn mainly to support equity investments in HAM projects. Standalone gross debt rose Rs 250mn QoQ to Rs 15.6bn; net D/E as on Sep'19 was at 0.7x (unchanged QoQ).

Receivables remain high: The debtor cycle remained stretched at ~215 days vs. 169 days as on Mar'19 due to outstanding payments of Rs 5.8bn in relation to cost escalation/change of scope/GST issues. We expect debtor days to moderate, supported by improved recoveries and a rising share of HAM revenue from H2FY20 (faster payment schedule than EPC).

Ticker/Price	SADE IN/Rs 117
Market cap	US\$ 278.7mn
Shares o/s	172mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 274/Rs 109
Promoter/FPI/DII	47%/13%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	35,051	35,492	34,013	37,709	40,584
EBITDA (Rs mn)	4,151	4,279	4,156	4,594	4,957
Adj. net profit (Rs mn)	2,207	1,862	1,672	2,003	2,270
Adj. EPS (Rs)	12.9	10.9	9.7	11.7	13.2
Adj. EPS growth (%)	17.5	(15.6)	(10.2)	19.8	13.4
Adj. ROAE (%)	12.5	9.5	7.9	8.8	9.2
Adj. P/E (x)	9.1	10.8	12.0	10.0	8.8
EV/EBITDA (x)	9.0	8.1	8.5	7.6	6.8

Source: Company, BOBCAPS Research



Slump in port volumes and container rail lead distance

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Container rail volumes tick up but NTKM drops: After two consecutive months of decline, container rail volumes increased 2% YoY in Oct'19 led by EXIM (+6% YoY). Domestic volumes, however, fell 14% as the consumption slowdown deepened. EXIM volume growth outpaced container traffic at major ports (flat YoY in tonnage terms), indicating possible market share gains for rail. However, NTKM fell 5% YoY (EXIM/domestic +0.1%/ -17%) as a sharp fall in lead distance (-7% YoY) negated the impact of higher volumes.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	95	120	BUY
CCRI IN	571	655	ADD
FSCS IN	500	680	BUY
MAHLOG IN	397	460	BUY
TCIEXP IN	758	855	ADD
TRPC IN	280	365	BUY

Price & Target in Rupees

Volumes at major ports sink: Total cargo at major ports dropped 5% YoY to 56.9mt in Oct'19, the worst decline since Apr'13, indicating a deepening slowdown in global trade and domestic demand. All but three major ports posted declines, led by New Mangalore (-33% YoY), Ennore (-22%) and Chennai (-10%). Vizag (+8% YoY), Kandla (+2%) and Cochin (+5%) were resilient.

Container movement at major ports was flat YoY in tonnage terms (-0.1%) in Oct'19, but plunged 12% in TEU terms. Key container ports of JNPT (-23% YoY) and Chennai (-12%) reported steep volume declines.

EXIM trade continues to slide, Sep industrial output slumps: Merchandise EXIM trade declined 11% YoY in Oct'19 (US\$ terms) after a similar decline in Sep'19. Exports/imports dropped 1%/16% YoY owing to sluggish global and domestic demand. Sep'19 industrial output slumped -4.3% YoY (-1.4% in Aug'19), owing to a broad-based slowdown across the manufacturing (-4%) and mining (-9%) sectors.

Benign base to lend support: The near-term outlook for EXIM and domestic trade, and therefore logistics services, remains soft. That said, the base effect for most high frequency indicators turns benign starting November, which may lend some support to growth going ahead.



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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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