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FIRST LIGHT

02 August 2019

RESEARCH

Future Supply Chain Solutions | Target: Rs 715 | +28% | BUY
Big earnings miss

ICICI Bank | Target: Rs 465 | +11% | BUY
20F filing highlights

Indian Oil Corporation | Target: Rs 205 | +50% | BUY
GRMs disappoint

Container Corp of India | Target: Rs 530 | +3% | REDUCE
Volume concerns overshadow otherwise decent quarter

SUMMARY

Future Supply Chain Solutions

Future Supply Chain (FSCSL) sharply underperformed our Q1FY20 profit estimates. Standalone revenue growth was healthy at 29% YoY, with contract logistics growing 44%, but slimmer gross margins (–490bps) caused a 5% YoY dip in EBITDA (adj. for Ind-AS 116). PAT nosedived 64% YoY on higher depreciation and interest cost. In our view, margins should recover from Q3 amid gradual pickup in utilisation of new warehousing space. We crop FY20/ FY21 EPS by 23%/9% and roll forward to a new Jun'20 TP of Rs 715 (vs. Rs 780).

Click here for the full report.

ICICI Bank

ICICI Bank's (ICICIBC) early delinquency indicators, as disclosed in its 20F filing for FY19, suggest corporate loan stress has been largely dealt with. Credit quality of the retail book has held up well, barring mild stress in the credit card portfolio where SMA-1/2 loans have risen 20bps YoY to 1.3%/0.7%. Potential problematic corporate loans receded further to 3.4% in FY19, while overall impaired loans reduced to 7.3%. The bank has ramped up coverage on impaired loans to 70% and is comfortable maintaining it at current levels. Reiterate BUY.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.01	(4bps)	1bps	(99bps)
India 10Y yield (%)	6.37	(2bps)	(51bps)	(133bps)
USD/INR	68.80	0.1	0.3	(0.5)
Brent Crude (US$/bbl)	65.17	0.7	(2.1)	(10.0)
Dow	26,864	(1.2)	1.0	6.0
Shanghai	2,933	(0.7)	(1.6)	3.8
Sensex	37,481	0.2	(4.9)	(0.1)
India FII (US$ mn)	**30 Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	37.0	1,102.1	2,530.4	1,985.8
FII-E	(98.2)	(1,721.4)	9,617.5	2,772.3

Source: Bank of Baroda Economics Research

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Indian Oil Corporation

IOCL's Q1FY20 EBITDA at Rs 76.6bn (ex-inventory gains) was marginally below estimates. Key Q1 highlights: (a) adj. GRM at US$ 3.6/bbl came in lower than estimates; (b) adj. marketing business EBITDA surprised positively at Rs 42bn (Rs 1,946/mt); (c) pipeline/petrochemicals EBITDA disappointed at Rs 16.2bn/Rs 6.9bn. Among OMCs, we find IOCL's refining segment best placed to take advantage of IMO regulations considering its high middle-distillate yields. Maintain TP at Rs 205 (after rollover to Sep'21 valuations).

Click here **for the full report.**

Container Corp of India

Container Corp (CCRI) reported a healthy operating performance in Q1FY20. Despite volumes dipping 1% YoY, higher realisations yielded in-line revenue of Rs 16.4bn. EBITDA at Rs 4bn (Rs 3.9bn adj. for Ind-AS 116 impact vs. Rs 3.8bn estimated) increased 26% YoY. But this resilience was overshadowed by a ~300bps market share loss in the EXIM segment, near-term volume growth concerns and a weaker realisation growth outlook. We maintain estimates while rolling over to a revised Jun'20 TP of Rs 530 (vs. Rs 520).

Click here **for the full report.**

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BUY
TP: Rs 715 | ⮝ 28%

FUTURE SUPPLY CHAIN SOLUTIONS | Logistics | 01 August 2019

Big earnings miss

Future Supply Chain (FSCSL) sharply underperformed our Q1FY20 profit estimates. Standalone revenue growth was healthy at 29% YoY, with contract logistics growing 44%, but slimmer gross margins (–490bps) caused a 5% YoY dip in EBITDA (adj. for Ind-AS 116). PAT nosedived 64% YoY on higher depreciation and interest cost. In our view, margins should recover from Q3 amid gradual pickup in utilisation of new warehousing space. We crop FY20/ FY21 EPS by 23%/9% and roll forward to a new Jun'20 TP of Rs 715 (vs. Rs 780).

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Contract logistics on strong footing: FSCSL's contract logistics segment maintained its upward trajectory, growing at 44% YoY, fueled by demand from both anchor and non-anchor customers. Three clients were added in this segment during Q1 – a food company, apparel brand and a global electronics manufacturer. Robust new client traction should drive the segment's growth going ahead. Express logistics revenue declined 4% YoY due to lower yield per trip (from higher intra-state movement of goods) and a demand slowdown.

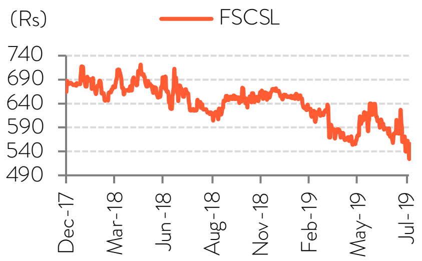
EBITDA margin disappoints but likely to recover: FSCSL added 0.7mn sq ft of warehousing space in Q1, primarily as food distribution centres. Delays by the anchor customer in switching its supply chain processes to the new distribution model translated into lower utilisation of the newly added space. Consequently, the company's EBITDA margin plunged 325bps YoY to 9.2% in Q1. FSCSL expects its client to transition to the new distribution centres over the next 3-4 months, which should boost utilisation and revive margins.

Maintain BUY: We scale back FY20/FY21 earnings estimates by 23%/9% and also cut our target P/E to 24x from 25x given the near-term margin pressure. Maintain BUY as we continue to like FSCSL for its entrenched presence in growing 3PL verticals, sustained growth momentum and robust clientele.

Ticker/Price	FSCSL IN/Rs 557
Market cap	US$ 322.6mn
Shares o/s	40mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 711/Rs 490
Promoter/FPI/DII	52%/5%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	903	964	933	1,136	1,381
Adj. EPS (Rs)	22.5	24.0	23.3	28.3	34.4
Adj. EPS growth (%)	92.8	6.7	(3.2)	21.7	21.5
Adj. ROAE (%)	21.8	17.0	14.5	15.3	16.0
Adj. P/E (x)	24.7	23.2	23.9	19.7	16.2
EV/EBITDA (x)	17.0	14.7	14.3	9.7	8.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 465 | ⮝ 11%

ICICI BANK | Banking | 01 August 2019

20F filing highlights

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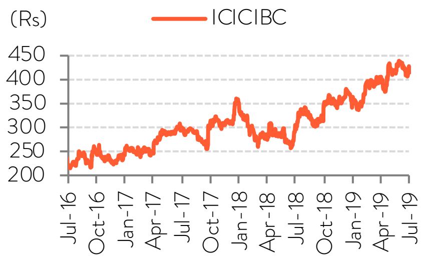
ICICI Bank's (ICICIBC) early delinquency indicators, as disclosed in its 20F filing for FY19, suggest corporate loan stress has been largely dealt with. Credit quality of the retail book has held up well, barring mild stress in the credit card portfolio where SMA-1/2 loans have risen 20bps YoY to 1.3%/0.7%. Potential problematic corporate loans receded further to 3.4% in FY19, while overall impaired loans reduced to 7.3%. The bank has ramped up coverage on impaired loans to 70% and is comfortable maintaining it at current levels. Reiterate BUY.

Ticker/Price	ICICIBC IN/Rs 417
Market cap	US$ 38.9bn
Shares o/s	6,435mn
3M ADV	US$ 105.5mn
52wk high/low	Rs 444/Rs 294
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Early delinquencies moderate further: ICICIBC's FY19 asset ageing analysis suggests that the 31-60-day portfolio (0.6% of loans) has moderated to its lowest point since a recent peak of 5.7% in FY15, while the 61-90-day book (0.3%) is stable YoY. Data continues to suggest low risk of corporate slippage. The retail book has been holding up well barring credit cards which saw mild deterioration in SMA-1/2 loans from 1.1%/0.5% in FY18 to 1.3%/0.7% in FY19.

Reduction in impaired loans a positive: Potential problematic loans, where management has reservations about borrowers' ability to meet loan repayment terms, moderated to 3.4% of corporate advances in FY19 vs. 3.6% last year following downgrades to NPA. Overall impaired loans declined to 7.3% vs. 10% in FY18 on lower stress from the corporate portfolio.

Material improvement in coverage ratio: Coverage on impaired loans rose to ~70% in FY19 vs. <50% last year. Management thus continues to guide for credit costs at 1.2-1.3% of advances in FY20.

Maintain BUY: We like ICICIBC for its receding asset quality pangs, normalising credit costs and reviving loan growth. Maintain BUY with a Mar'20 TP of Rs 465 which values the core business at 1.9x FY21E P/BV.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	67,774	33,633	147,225	195,651	237,151
EPS (Rs)	11.1	5.2	22.8	30.3	36.8
P/E (x)	37.7	79.8	18.3	13.7	11.3
P/BV (x)	2.5	2.5	2.3	2.0	1.8
ROA (%)	0.8	0.4	1.4	1.6	1.7
ROE (%)	6.6	3.2	13.1	15.8	16.9

Source: Company, BOBCAPS Research

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BUY
TP: Rs 205 | ⮝ 50%

INDIAN OIL CORP | Oil & Gas | 01 August 2019

GRMs disappoint

IOCL's Q1FY20 EBITDA at Rs 76.6bn (ex-inventory gains) was marginally below estimates. Key Q1 highlights: (a) adj. GRM at US$ 3.6/bbl came in lower than estimates; (b) adj. marketing business EBITDA surprised positively at Rs 42bn (Rs 1,946/mt); (c) pipeline/petrochemicals EBITDA disappointed at Rs 16.2bn/Rs 6.9bn. Among OMCs, we find IOCL's refining segment best placed to take advantage of IMO regulations considering its high middle-distillate yields. Maintain TP at Rs 205 (after rollover to Sep'21 valuations).

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GRMs remain a drag; all hopes of recovery pinned on IMO: IOCL's management indicated a normalised GRM level of US$ 2.27/bbl for Q1FY20, which underperformed the benchmark Singapore GRM (US$ 3.5/bbl). The recent increase in Singapore GRM may augur well for Q2FY20 earnings.

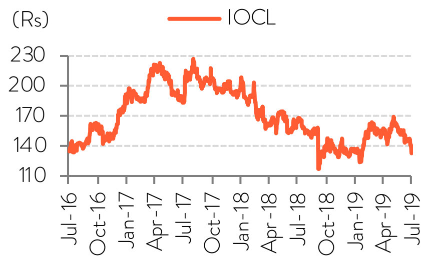
A relatively high diesel slate in IOCL's refining portfolio puts it in an advantageous position in the runup to IMO regulations (from Jan'20) that are expected to push diesel spreads above US$ 20/bbl (from ~US$ 14 currently). Paradip refinery utilisation has normalised to ~100% now, and commissioning of the 680ktpa polypropylene (PP) facility (from Jul'19) could enhance GRMs at the refinery.

Marketing earnings improve while others weaken: Management indicated that Q1FY20 marketing business EBITDA of Rs 42bn looks sustainable as IOCL gains traction in ATF and industrial product sales (while ceding bulk diesel market share to other players). Pipeline business EBITDA was below estimates at Rs 16bn (flat YoY) due to lower volumes (21.9mmt, –4% YoY). Petchem was affected by both lower margins (–30% YoY) and volumes (–18% YoY). Petchem volumes are expected to normalise from Q2FY20 when the new PP plant in Paradip comes into play.

Ticker/Price	IOCL IN/Rs 137
Market cap	US$ 19.3bn
Shares o/s	9,712mn
3M ADV	US$ 29.1mn
52wk high/low	Rs 172/Rs 105
Promoter/FPI/DII	52%/8%/40%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	221,911	173,837	169,594	186,135	204,676
Adj. EPS (Rs)	23.4	18.9	18.5	20.3	22.3
Adj. EPS growth (%)	11.7	(19.1)	(2.4)	9.8	10.0
Adj. ROAE (%)	20.6	15.4	15.0	15.9	16.5
Adj. P/E (x)	5.8	7.2	7.4	6.8	6.1
EV/EBITDA (x)	4.7	5.5	6.0	5.0	4.9

Source: Company, BOBCAPS Research

RESULT REVIEW

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REDUCE
TP: Rs 530 | ▲ 3%

CONTAINER CORP OF INDIA | Logistics | 01 August 2019

Volume concerns overshadow otherwise decent quarter

Container Corp (CCRI) reported a healthy operating performance in Q1FY20. Despite volumes dipping 1% YoY, higher realisations yielded in-line revenue of Rs 16.4bn. EBITDA at Rs 4bn (Rs 3.9bn adj. for Ind-AS 116 impact vs. Rs 3.8bn estimated) increased 26% YoY. But this resilience was overshadowed by a ~300bps market share loss in the EXIM segment, near-term volume growth concerns and a weaker realisation growth outlook. We maintain estimates while rolling over to a revised Jun'20 TP of Rs 530 (vs. Rs 520).

Sayan Das Sharma
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Realisation gains offset weak volumes: Q1 handling/originating volumes slipped 1%/6% YoY amidst a soft trade environment, but a healthy YoY uptick in realisation (10%+) drove topline growth of 9% YoY. Realisations fell sequentially despite a price hike of 4% in Mar'19, due to lower lead distances and a higher share of empties. Double-stacking trains declined to 758 vs. 829 in Q1FY19.

EBITDA growth strong: Led by a 360bps YoY decline in rail freight expenses, CCRI posted EBITDA margin expansion of 324bps YoY to 24.6% (~23.7% after Ind-AS adjustments). In the absence of a DGFT notification, no SEIS income was booked during the quarter vs. Rs 708mn in Q1FY19. This coupled with higher depreciation/interest cost dragged PAT down 10% YoY to Rs 2.3bn.

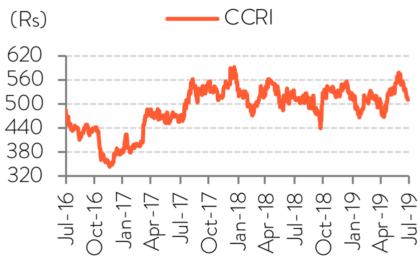
Market share loss a concern: CCRI has lost market share in the EXIM segment (–300bps to 68%) and in key ports such as JNPT and Mundra, as it didn't pursue low-margin and short lead distance business opportunities. Revenue growth now hinges on volume revival, with realisation gains seen ebbing in Q2.

Maintain REDUCE: Although Q1 EBITDA beat our estimate, we maintain our FY20/FY21 forecasts as volume growth is likely to remain sedate in the near term. We roll over valuations and marginally increase our Jun'20 TP to Rs 530.

Ticker/Price	CCRI IN/Rs 515
Market cap	US$ 4.5bn
Shares o/s	609mn
3M ADV	US$ 5.9mn
52wk high/low	Rs 583/Rs 461
Promoter/FPI/DII	55%/28%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	10,619	12,154	12,517	12,556	15,269
Adj. EPS (Rs)	17.4	19.9	20.5	20.6	25.1
Adj. EPS growth (%)	12.4	14.5	3.0	0.3	21.6
Adj. ROAE (%)	11.6	12.3	11.7	11.0	12.5
Adj. P/E (x)	29.6	25.8	25.1	25.0	20.6
EV/EBITDA (x)	24.7	20.4	18.7	14.8	12.1

Source: Company, BOBCAPS Research

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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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