

RESEARCH
Gujarat State Petronet | Target: Rs 255 | +22% | BUY

Volume surge, low LNG prices buoy outlook – upgrade to BUY

eClerx Services | Target: Rs 490 | –16% | SELL

No sign of respite on margins; cut to SELL

State Bank of India | Target: Rs 360 | +17% | BUY

Dismal quarter

Cera Sanitaryware | Target: Rs 3,060 | +26% | BUY

Inspid quarter

Mahindra Logistics | Target: Rs 515 | +30% | BUY

Disappointing quarter on all fronts

Astral Poly Technik | Target: Rs 1,195 | –2% | REDUCE

Piping segment aided by Rex acquisition spurs growth

Banking | Credit Tracker

June non-food credit growth sluggish at 11%

SUMMARY
Gujarat State Petronet

Gujarat State Petronet's (GUJS) Q1FY20 earnings outperformed estimates at Rs 2.1bn (+43% YoY), bolstered by higher volumes of 38mmscmd (+5% YoY). Management has guided for a robust volume trend over FY20–FY22 marked by base sales at 38–40mmscmd levels (vs. 35mmscmd earlier). We raise FY20/FY21 earnings by 25%/8% on upbeat volumes. Our DCF-based TP moves to Rs 255 (from Rs 185) as we upgrade earnings, reduce cost of equity assumptions, and roll over to Sep'21 valuations. Upgrade to BUY (from ADD).

[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 (%)	1.89	(12bps)	(13bps)	(109bps)
India 10Y yield (%)	6.42	5bps	(46bps)	(130bps)
USD/INR	69.06	(0.4)	(0.2)	(0.5)
Brent Crude (US\$/bbl)	60.50	(7.2)	(7.0)	(17.6)
Dow	26,583	(1.0)	(0.5)	5.0
Shanghai	2,909	(0.8)	(4.5)	5.1
Sensex	37,018	(1.2)	(6.7)	(0.4)
India FII (US\$ mn)	31 Jul	MTD	CYTD	FYTD
FII-D	123.5	1,225.7	2,654.0	2,109.3
FII-E	(212.9)	(1,934.2)	9,404.6	2,559.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



eClerx Services

eClerx (ECLX) underperformed sharply in the Jun'19 quarter as operating margins continued to sink well below estimates. An increasing onsite revenue mix and limited margin triggers will keep a lid on earnings growth, in our view. We slash our already below-consensus EPS estimates for FY20/FY21/FY22 by 21%/18%/16% and downgrade the stock from REDUCE to SELL on dimming growth visibility. We further lower our target P/E from 9x to 8.1x and bring our Jun'20 TP down from Rs 660 to Rs 490.

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

State Bank of India

State Bank of India's (SBIN) Q1FY20 PAT of Rs 23bn was in line with our estimate. Asset quality was a miss with the stressed book swelling to Rs 274bn (vs. Rs 77.6bn in Q4) as SBIN is resolving standard accounts worth Rs 191.4bn post RBI's 7 June circular. Fresh slippages more than doubled QoQ to Rs 162bn, and additional provisions of Rs 23bn were made towards DHFL and a renewable energy project. Management expects DHFL resolution in Q2. We cut FY20-FY21 EPS by 8-20% and revise our Mar'20 TP to Rs 360 (vs. Rs 375).

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

Cera Sanitaryware

Cera Sanitaryware (CRS) reported subpar Q1FY20 standalone revenue of Rs 2.7bn, down 4.8% YoY, with the sanitaryware segment declining 12.7%. Operating margins were up 60bps YoY to 13.2% on lower other expenses (-188bps), resulting in flat EBITDA. Despite a tepid Q1, management retained guidance of 14-15% revenue growth and 14.5-15% margins in FY20. We cut FY20/FY21 estimates by ~6% each, pare our target P/E to 26x in a tough demand climate, and roll over to a new Jun'20 TP of Rs 3,060 (vs. Rs 3,395).

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

Mahindra Logistics

Subdued user industries exacted a heavy toll on Mahindra Logistics' (MLL) Q1FY20 performance. Consolidated revenue/EBITDA (adj. for Ind-AS 116) declined 3%/28% YoY and adj. PAT fell 19% YoY, translating into massive earnings miss. Though headwinds emanating from plunging auto sales pose near-term growth hurdles, long-term prospects remain intact, in our view. We crop FY20/FY21 earnings by 14%/10% and cut our target P/E multiple to 27x (from 30x). Rolling valuations over, our Jun'20 TP moves to Rs 515 (from Rs 600).

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

Astral Poly Technik

Astral Poly Technik (ASTRA) reported marginally better consolidated revenue growth than expected at 27% YoY in Q1FY20. The piping segment grew 38% YoY aided by the acquisition of Rex Poly in Q2FY19, whereas adhesives grew just 2%. EBITDA margins contracted 100bps YoY to 15.3% due to lower margins in piping, which limited growth in EBITDA to 20%. We maintain our estimates and roll over to a Jun'20 TP of Rs 1,195 (from Rs 1,140). Valuations remain rich at 45.1x FY21E P/E and hence we retain our REDUCE rating.

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

Banking: Credit Tracker

RBI data on sectoral credit deployment for Jun'19 indicates that non-food lending increased at a subdued 11.1% YoY for the month. This is primarily because growth in the services sector that forms ~27% of credit has been coming off considerably over the last few months. Lending to the industrial segment, albeit weak, held at 6.4% YoY while agricultural credit grew 8.7%. Retail growth at 16.6% YoY was stable following a 19% rise in home loans which offset ebbing unsecured loan momentum.

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

BUY
TP: Rs 255 | ▲ 22%

**GUJARAT STATE
PETRONET**

Oil & Gas

03 August 2019

Volume surge, low LNG prices buoy outlook – upgrade to BUY

Gujarat State Petronet’s (GUJS) Q1FY20 earnings outperformed estimates at Rs 2.1bn (+43% YoY), bolstered by higher volumes of 38mmscmd (+5% YoY). Management has guided for a robust volume trend over FY20-FY22 marked by base sales at 38-40mmscmd levels (vs. 35mmscmd earlier). We raise FY20/FY21 earnings by 25%/8% on upbeat volumes. Our DCF-based TP moves to Rs 255 (from Rs 185) as we upgrade earnings, reduce cost of equity assumptions, and roll over to Sep’21 valuations. Upgrade to BUY (from ADD).

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

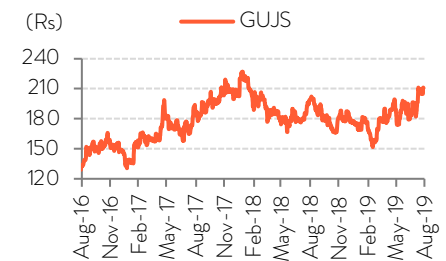
Volume surge, low LNG prices to sustain demand: Q1 volumes at 38mmscmd (+5% YoY) surpassed estimates following a surge in demand from CGD (10.3mmscmd, +41%) and other small industrial units (5.35mmscmd, +13%). Management indicated that current volumes are at ~40mmscmd led by higher consumption from the power segment on low spot LNG prices (~US\$ 4/mmmbtu).

Ticker/Price	GUJS IN/Rs 210
Market cap	US\$ 1.7bn
Shares o/s	564mn
3M ADV	US\$ 1.2mn
52wk high/low	Rs 217/Rs 149
Promoter/FPI/DII	38%/15%/47%

Source: NSE

While GUJS could see volume losses (4-5mmscmd) from commissioning of RIL’s petcoke gasification plant, this can be bridged by incremental demand from power and CGD over FY20-FY21. The company’s exclusive pipeline connectivity to new LNG terminals (Mundra from Sep’19 and Pipavav/Chhara over 2-3 years) gives it a supply advantage to tap more volumes.

STOCK PERFORMANCE



Source: NSE

Margins improve but could remain under pressure: Higher volumes (+18% QoQ) led to operating margin gains of 255bps QoQ to 78.4%. However, recent capacity augmentation to ~45mmscmd through compressors may keep margins in check.

Upgrade to BUY: Low LNG prices coupled with new LNG regasification capacities at Dahej and Mundra have favourably altered the volume outlook for GUJS over FY20-FY22. At 12.3x FY21E EPS, valuations thus look attractive.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	6,684	7,947	8,899	9,605	11,215
Adj. EPS (Rs)	11.9	14.1	15.8	17.0	19.9
Adj. EPS growth (%)	34.5	18.9	12.0	7.9	16.8
Adj. ROAE (%)	14.2	15.2	15.1	14.6	15.2
Adj. P/E (x)	17.7	14.9	13.3	12.3	10.5
EV/EBITDA (x)	10.2	9.5	8.7	8.6	7.4

Source: Company, BOBCAPS Research



SELL

TP: Rs 490 | ▼ 16%

ECLERX SERVICES

| IT Services

| 03 August 2019

No sign of respite on margins; cut to SELL

eClerx (ECLX) underperformed sharply in the Jun'19 quarter as operating margins continued to sink well below estimates. An increasing onsite revenue mix and limited margin triggers will keep a lid on earnings growth, in our view. We slash our already below-consensus EPS estimates for FY20/FY21/FY22 by 21%/18%/16% and downgrade the stock from REDUCE to SELL on dimming growth visibility. We further lower our target P/E from 9x to 8.1x and bring our Jun'20 TP down from Rs 660 to Rs 490.

Ruchi Burde

research@bobcaps.in

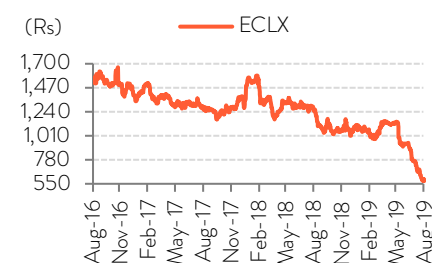
Operating margins sink again: ECLX reported historical low EBIT margins of 13.8% (inclusive of Ind-AS 116 changes), down 480bps QoQ/580bps YoY and lower than our/consensus estimates of 17.3% margins. Consequently, reported EBIT at Rs 489mn fell 22% short of expectations. Revenues at US\$ 50.9mn declined 0.6% QoQ vs. our estimate of 1.5% QoQ growth.

Ticker/Price	ECLX IN/Rs 581
Market cap	US\$ 314.2mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,290/Rs 556
Promoter/FPI/DII	50%/25%/25%

Source: NSE

Persistent business risks: Over the past three years, the twin troubles of offshore revenue leakage (-3.6% CAGR) and onsite business growth (+30.6% CAGR) with an inherently lower margin profile have cramped ECLX's operational performance. We see continued business risks from a lack of visibility on offshore business growth and deflation in revenue productivity. As to the latter, dollar revenue per delivery employee has declined at a 2.3% CAGR over FY17- FY19 despite the onsite revenue mix rising to 22.3% in FY19 vs. 13.5% in FY17. Onsite revenue productivity has also fallen at a 19% CAGR for FY17-FY19.

STOCK PERFORMANCE



Source: NSE

Downgrade to SELL: We reduce our already below-consensus EPS estimates for FY20/FY21 by 21%/18% as we prune EBIT margin assumptions to 15.5%/16.4% vs. 18.5%/19% earlier to bake in the rising share of onsite revenue. Consensus earnings build in >200bps margin expansion over FY19-FY21 and are at risk of downgrade. Cut to SELL.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,887	2,283	1,824	2,246	2,500
Adj. EPS (Rs)	74.5	60.1	48.4	59.7	66.4
Adj. EPS growth (%)	(15.7)	(19.4)	(19.3)	23.2	11.3
Adj. ROAE (%)	23.9	20.2	16.8	19.2	19.8
Adj. P/E (x)	7.8	9.7	12.0	9.7	8.7
EV/EBITDA (x)	5.0	5.7	6.4	5.2	4.4

Source: Company, BOBCAPS Research



BUY

TP: Rs 360 | ▲ 17%

STATE BANK OF INDIA

Banking

02 August 2019

Dismal quarter

State Bank of India's (SBIN) Q1FY20 PAT of Rs 23bn was in line with our estimate. Asset quality was a miss with the stressed book swelling to Rs 274bn (vs. Rs 77.6bn in Q4) as SBIN is resolving standard accounts worth Rs 191.4bn post RBI's 7 June circular. Fresh slippages more than doubled QoQ to Rs 162bn, and additional provisions of Rs 23bn were made towards DHFL and a renewable energy project. Management expects DHFL resolution in Q2. We cut FY20-FY21 EPS by 8-20% and revise our Mar'20 TP to Rs 360 (vs. Rs 375).

Vikesh Mehta

research@bobcaps.in

Asset quality deteriorates: Fresh slippages at Rs 162bn (vs. Rs 75bn in Q4FY19) included (1) a Maharatna PSU account worth Rs 20bn that saw a delays in signing the inter-creditor agreement, (2) agri slippages worth Rs 20bn from one state in the wake of the farm loan waiver, and (c) SME slippages of Rs 40bn (Rs 70bn in Q1FY19) as RBI's restructuring dispensation was withdrawn.

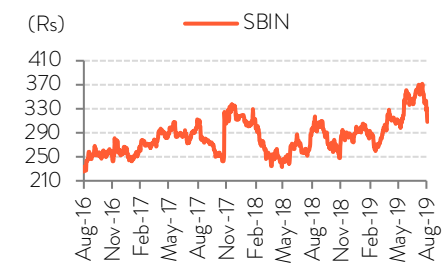
SBIN's stressed book (incl. SMA) swelled to Rs 274bn (vs Rs 77.6bn in Q4) as the bank is resolving standard accounts worth Rs 191.4bn, including DHFL and a renewable energy project together worth ~Rs 140bn, post RBI's 7 June circular. Credit cost guidance is intact at 1.4% for FY20 while PCR on SBIN's corporate book stands at 71%.

Loan growth stable; NIM set to improve: Loan growth at 14% YoY was steady, underpinned by a ~12%/19% increase in corporate/retail credit. Retail loan growth was fuelled by a ~28% rise in home loans. Domestic NIM increased 6bps QoQ to 3% (FY20 guidance at 3.15%). Interest reversals stood at Rs 27.9bn as interest accrued was reversed on agriculture loan slippage in Q1.

Maintain BUY: We cut FY20-FY21 EPS by 8-20% following the spike in SBIN's stressed book, but continue to value the core business at 1.1x FY21E P/ABV.

Ticker/Price	SBIN IN/Rs 308
Market cap	US\$ 39.6bn
Shares o/s	8,925mn
3M ADV	US\$ 119.4mn
52wk high/low	Rs 374/Rs 247
Promoter/FPI/DII	59%/9%/32%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	(65,474)	8,622	326,988	340,757	409,881
EPS (Rs)	(7.7)	1.0	36.6	38.2	45.9
P/E (x)	(39.8)	319.3	8.4	8.1	6.7
P/BV (x)	1.3	1.2	1.1	1.0	0.9
ROA (%)	(0.2)	0.0	0.8	0.8	0.8
ROE (%)	(3.2)	0.4	13.6	12.4	13.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 3,060 | ▲ 26%

CERA SANITARYWARE

Construction Materials

02 August 2019

Insipid quarter

Cera Sanitaryware (CRS) reported subpar Q1FY20 standalone revenue of Rs 2.7bn, down 4.8% YoY, with the sanitaryware segment declining 12.7%. Operating margins were up 60bps YoY to 13.2% on lower other expenses (-188bps), resulting in flat EBITDA. Despite a tepid Q1, management retained guidance of 14-15% revenue growth and 14.5-15% margins in FY20. We cut FY20/FY21 estimates by ~6% each, pare our target P/E to 26x in a tough demand climate, and roll over to a new Jun'20 TP of Rs 3,060 (vs. Rs 3,395).

Arun Baid

research@bobcaps.in

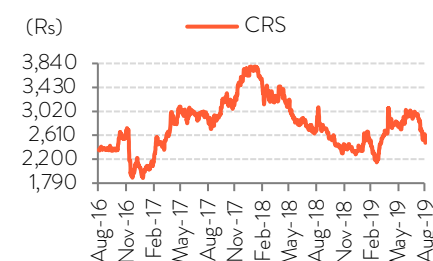
Revenue slippage led by sanitaryware segment: CRS reported a 4.8% YoY decrease in standalone revenue to Rs 2.7bn in Q1, with the sanitaryware segment down 12.7% whereas faucets/tiles grew 9%/2%. As per management, revenue performance was undermined by a lacklustre demand environment during the recent general elections. A dull Q1 notwithstanding, CRS expects to achieve earlier guided topline growth of 14-15% in FY20.

Ticker/Price	CRS IN/Rs 2,424
Market cap	US\$ 453.2mn
Shares o/s	13mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 3,195/Rs 2,144
Promoter/FPI/DII	55%/8%/38%

Source: NSE

Standalone operating margins expand 60bps: CRS's standalone operating margins rose 60bps due to lower other expenses (-188bps YoY), partially offset by higher employee cost (+115bps YoY), which translated to flat EBITDA YoY. Adj. PAT declined 7% YoY due to higher interest/depreciation (+94%/+54%) which nullified the 51% rise in other income. Management retained its operating margin guidance of ~14.5-15% for FY20.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: CRS's Q1 results have sharply underperformed expectations, prompting us to cut FY20/FY21 PAT estimates by ~6% each. We also reset our target one-year forward P/E multiple down from 28x to 26x amid a challenging demand climate. Rolling valuations forward, we have a revised June'20 TP of Rs 3,060 vs. Rs 3,395 earlier.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	970	1,010	1,274	1,478	1,678
Adj. EPS (Rs)	74.6	77.7	98.0	113.6	129.0
Adj. EPS growth (%)	0.9	4.1	26.1	16.0	13.6
Adj. ROAE (%)	17.2	15.5	16.9	17.1	16.9
Adj. P/E (x)	32.5	31.2	24.7	21.3	18.8
EV/EBITDA (x)	18.4	16.1	14.1	12.5	11.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 515 | ▲ 30%

MAHINDRA LOGISTICS

Logistics

02 August 2019

Disappointing quarter on all fronts

Subdued user industries exacted a heavy toll on Mahindra Logistics' (MLL) Q1FY20 performance. Consolidated revenue/EBITDA (adj. for Ind-AS 116) declined 3%/28% YoY and adj. PAT fell 19% YoY, translating into massive earnings miss. Though headwinds emanating from plunging auto sales pose near-term growth hurdles, long-term prospects remain intact, in our view. We crop FY20/FY21 earnings by 14%/10% and cut our target P/E multiple to 27x (from 30x). Rolling valuations over, our Jun'20 TP moves to Rs 515 (from Rs 600).

Sayan Das Sharma

research@bobcaps.in

Slowdown takes a toll: Plummeting auto volumes triggered a 6% YoY dip in SCM anchor segment revenue. More surprisingly, non-Mahindra, non-auto revenues also dipped 0.4% YoY, as a large bulk player scaled down its business to MLL. Growth in pharma and consumer, the addition of marquee clients, and sustained momentum in the warehousing segment (+25% YoY) were the only positives. The topline is likely to be under pressure in FY20, with revival contingent upon recovery in auto and other user industries.

Margin disappoints: While MLL's gross margin was resilient (operating expenses down ~70bps YoY), higher employee cost (+23%/+175bps YoY) led to 110bps YoY EBITDA margin contraction to 3.3%. Interest earned on tax refund boosted other income (+140%), cushioning the fall in adj. PAT (-19% YoY). Given muted topline growth, we expect margins to remain subdued in FY20.

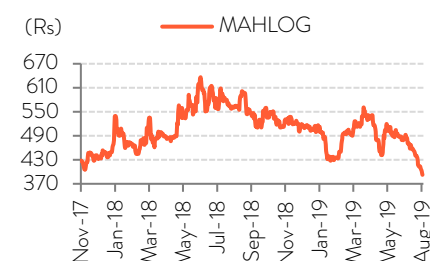
Structural potential intact: While acknowledging the bleak short-term outlook, we remain constructive on MLL's long-term potential given 3PL industry growth prospects, robust positioning and clientele, and a strong balance sheet.

Revise TP to Rs 515: We cut FY20/FY21 earnings and reset to a lower target P/E of 27x to allow for a tough demand climate, leading to a TP of Rs 515.

Ticker/Price	MAHLOG IN/Rs 396
Market cap	US\$ 407.1mn
Shares o/s	71mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 578/Rs 376
Promoter/FPI/DII	59%/10%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	640	856	957	1,280	1,589
Adj. EPS (Rs)	9.0	12.0	13.4	17.9	22.2
Adj. EPS growth (%)	34.1	33.2	11.7	33.8	24.1
Adj. ROAE (%)	16.7	18.7	17.9	20.7	22.4
Adj. P/E (x)	44.0	33.1	29.6	22.1	17.8
EV/EBITDA (x)	23.0	18.2	17.1	12.4	10.0

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 1,195 | ▼ 2%

ASTRAL POLY TECHNIK

Plastic Products

02 August 2019

Piping segment aided by Rex acquisition spurs growth

Astral Poly Technik (ASTRA) reported marginally better consolidated revenue growth than expected at 27% YoY in Q1FY20. The piping segment grew 38% YoY aided by the acquisition of Rex Poly in Q2FY19, whereas adhesives grew just 2%. EBITDA margins contracted 100bps YoY to 15.3% due to lower margins in piping, which limited growth in EBITDA to 20%. We maintain our estimates and roll over to a Jun'20 TP of Rs 1,195 (from Rs 1,140). Valuations remain rich at 45.1x FY21E P/E and hence we retain our REDUCE rating.

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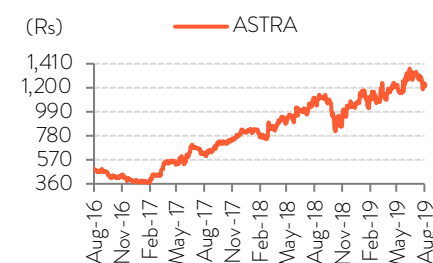
Rex Poly boosts revenue growth: ASTRA's Q1 consolidated revenue grew 27% YoY to Rs 6.1bn, aided by the Rex Polyextrusion buyout (ex-Rex growth was ~18.8% YoY). PVC pipe standalone revenues grew 38% YoY but the adhesives business was up only 2.1% due to a shift in distribution model that will be completed by Q2. Pipe volumes increased 41% YoY spurred by the Rex acquisition in Q2FY19 (~28% growth ex-Rex). Management retained its FY20 outlook of ~15% volume growth in piping, but reduced adhesive guidance to double digits (earlier 20%) due to the distribution transition.

Ticker/Price	ASTRA IN/Rs 1,219
Market cap	US\$ 2.1bn
Shares o/s	121mn
3M ADV	US\$ 0.9mn
52wk high/low	Rs 1,380/Rs 816
Promoter/FPI/DII	58%/20%/22%

Source: NSE

Consolidated margins fall 100bps YoY: ASTRA's operating margins contracted 100bps YoY to 15.3% due to lower piping margins. EBITDA grew 20% YoY but adj. PAT increased just 7% due to higher depreciation/interest cost of 52%/61% which countered a surge in other income (+75% YoY). Piping operating margins slid 126bps YoY to 15.5% due to inventory loss. Management continues to expect 15% margins in pipes and a better showing in adhesives for FY20.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: Though we like ASTRA for its strong brand name, wide reach and robust pipes portfolio, valuations at 45x FY21E P/E are rich. Maintain REDUCE with a revised Jun'20 TP of Rs 1,195, set at 42x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,697	1,994	2,644	3,262	3,974
Adj. EPS (Rs)	14.1	16.5	21.9	27.1	33.0
Adj. EPS growth (%)	19.9	17.5	32.6	23.4	21.8
Adj. ROAE (%)	18.2	17.4	19.1	20.2	21.0
Adj. P/E (x)	86.6	73.7	55.6	45.1	37.0
EV/EBITDA (x)	47.1	38.6	31.6	26.6	22.4

Source: Company, BOBCAPS Research



June non-food credit growth sluggish at 11%

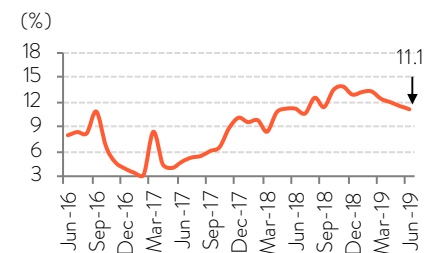
RBI data on sectoral credit deployment for Jun'19 indicates that non-food lending increased at a subdued 11.1% YoY for the month. This is primarily because growth in the services sector that forms ~27% of credit has been coming off considerably over the last few months. Lending to the industrial segment, albeit weak, held at 6.4% YoY while agricultural credit grew 8.7%. Retail growth at 16.6% YoY was stable following a 19% rise in home loans which offset ebbing unsecured loan momentum.

Vikesh Mehta

research@bobcaps.in

Retail credit growth stable at ~17%: Home loans have been a vital driver of retail credit over the past few months, growing 18.9% YoY in Jun'19 vs. 15.8% in Jun'18 and exhibiting steady improvement amid the slowdown in unsecured credit and sharp deceleration in auto loans. Credit card loans shrank ~400bps YoY to 27.5%, while loans against shares (-5.4% YoY) and fixed deposits (-1.2%), as well as education (-1.5%) and consumer durable finance (-71.5%) all moderated in June.

NON-FOOD CREDIT GROWTH



Source: RBI, BOBCAPS Research

Infrastructure aids industrial lending: Lending to the infrastructure sector, which forms ~37% of industrial credit, grew 15% YoY in June (vs. 17.9% in May). The chemicals and engineering sectors also grew at a 11% and 8% respectively. Within infrastructure, power/telecom/roads/other infra segments grew by 10%/21%/15%/34%. Over the past few months, we have seen a mild uptick in credit growth of large industries (+7.6% YoY), while that of medium/micro & small industries was lacklustre. Metals sector loans, which form ~13% of industrial credit, declined for the 17th straight month to 10.3%.

Services sector momentum continues to dwindle: Credit growth to the services sector declined to 13% YoY (vs. 23% YoY in Jun'18), marred by a slowdown in segments such as trade (+8.9% YoY), professional services (+9.9% YoY), other services (-1.4% YoY) and computer software. On the other hand, agriculture (~13% of credit) grew 8.7% YoY vs. 7.8% in May.

Expect sub-15% loan growth in FY20: We do not expect any material improvement in credit growth for FY20. That said, market share gains by private banks are likely to continue.



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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