

**RESEARCH**
**BOB Economics Research | Wholesale Inflation**

WPI food inflation rises sharply

**Future Supply Chain Solutions | Target: Rs 780 | +25% | BUY**

Growth momentum continues

**Kajaria Ceramics | Target: Rs 640 | +9% | ADD**

Tough climate but management optimistic on growth

**SUMMARY**
**India Economics: Wholesale Inflation**

WPI inflation moderated to 3.1% in Apr'19 from 3.2% in Mar'19 led by dip in fuel and power (3.8% in Apr'19 from 5.4% in Mar'19) and manufactured inflation (1.7% in Apr'19 from 2.2% in Mar'19). However, food inflation rose to 4.9% in Apr'19 (3.9% in Mar'19), a 25-month high, driven by higher vegetable and protein prices. With international oil prices hovering at US\$ 71/ bbl, a depreciating currency and rising domestic food inflation, we believe RBI may wait out in the June policy to assess the evolving growth-inflation dynamics.

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

**Future Supply Chain Solutions**

Future Supply Chain Solutions (FSCSL) reported strong standalone revenue growth of 33% YoY in Q4FY19, led by robust traction in contract logistics (+42% YoY). Decline in gross margins (-333bps YoY) were offset by lower staff (-332bps) and other expenses (-149bps), translating to EBITDA margin expansion of 147bps YoY to 14.2%. Continued traction in contract logistics is encouraging. We broadly maintain FY21 estimates while raising FY20 PAT by 34% factoring in nil tax outgo; our Mar'20 TP stays at Rs 780. BUY.

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

**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	620
<a href="#">GAIL</a>	Buy	515
<a href="#">ONGC</a>	Buy	225
<a href="#">TCS</a>	Buy	2,390
<a href="#">HPCL</a>	Sell	145

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Balkrishna Ind</a>	Buy	1,310
<a href="#">Future Supply</a>	Buy	780
<a href="#">Greenply Industries</a>	Buy	230
<a href="#">Laurus Labs</a>	Buy	495
<a href="#">PNC Infratech</a>	Buy	210

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.40	(7bps)	(16bps)	(60bps)
India 10Y yield* (%)	7.48	(3bps)	(9bps)	(35bps)
USD/INR	70.54	(0.9)	(2)	(4.5)
Brent Crude (US\$/bbl)	70.23	(0.6)	(1.8)	(10.2)
Dow	25,325	(2.4)	(4.1)	1.7
Shanghai	2,904	(1.2)	(8.9)	(8.5)
Sensex	37,091	(1)	(4.3)	4.3
India FII (US\$ mn)	10 May	MTD	CYTD	FYTD
FII-D	(39.8)	(588.1)	(889.4)	(1,905.8)
FII-E	(178.6)	147.9	9,915.2	1,620.5

Source: Bank of Baroda Economics Research

\*Based on 7.17% GS 2028

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## Kajaria Ceramics

Key takeaways from today's Kajaria Ceramics (KJC) analyst meet: (1) The demand climate remains challenging and is likely to improve only in FY21. India's tile industry witnessed flattish growth in FY19 which is expected to continue into FY20. (2) KJC has 10% volume market share in India and plans to increase this to 14% over the next three years. Volume growth is guided at 15% for the next three years starting FY20. (3) KJC expects stronger growth ahead led by the recent National Green Tribunal (NGT) order in Morbi, Gujarat, and better e-way bill enforcement.

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

## WHOLESALE INFLATION

14 May 2019

### WPI food inflation rises sharply

WPI inflation moderated to 3.1% in Apr'19 from 3.2% in Mar'19 led by dip in fuel and power (3.8% in Apr'19 from 5.4% in Mar'19) and manufactured inflation (1.7% in Apr'19 from 2.2% in Mar'19). However, food inflation rose to 4.9% in Apr'19 (3.9% in Mar'19), a 25-month high, driven by higher vegetable and protein prices. With international oil prices hovering at US\$ 71/ bbl, a depreciating currency and rising domestic food inflation, we believe RBI may wait out in the June policy to assess the evolving growth-inflation dynamics.

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**Uptick in food inflation:** WPI food inflation rose to 4.9% YoY in Apr'19 from 3.9% in Mar'19, a 25-month high. The increase this month too was driven by acceleration in vegetable prices which were up by 40.6% in Apr'19 as against an increase of 28.1% in Mar'19. Retail prices will also see a gradual pass-through. Prices of pulses too accelerated to 15.3% in Apr'19 compared with 9.1% in Mar'19. So was the case with egg, meat and fish prices of which rose by 6.9%, climbing to almost 5-year high from 5.9% in Mar'19. However, cereal inflation has decelerated to 8.4% in Apr'19 from 8.9% in Mar'19 led by dip in wheat inflation to 7.5% in Apr'19 from 10.1% in Mar'19.

**Fuel & power inflation decelerates:** Fuel & power inflation retreated from 3-month high of 5.4% in Mar'19 to 3.8% in Apr'19. All sub components saw deceleration in rate of increase with electricity index easing the most at 2.3% vs 5% in Mar'19, followed by mineral oil index at 5.8% vs 7.3% in Mar'19. While international asset prices are falling on the back of trade dispute between US and China, oil prices seem to be holding on. Average oil prices in FY19 were at similar level as today. However, a depreciating currency and geo-political risks may trigger inflationary pressure.

**Core inflation dips:** Both core and manufactured product inflation cooled off in Apr'19. While core inflation fell to 1.9% in Apr'19 from 2.5% in Mar'19, manufactured product inflation eased to 1.7% from 2.2% in Mar'19. The moderation was led by wood, base metals, computer & electronic products, motor vehicles & other manufacturing products. Only 6 out of 22 items registered higher growth. The decline in international commodity prices has been transmitted in local prices. The current global backdrop favours the above trend to continue.



**BUY**  
TP: Rs 780 | ▲ 25%

**FUTURE SUPPLY CHAIN SOLUTIONS**

| Logistics

| 14 May 2019

**Growth momentum continues**

**Future Supply Chain Solutions (FSCSL) reported strong standalone revenue growth of 33% YoY in Q4FY19, led by robust traction in contract logistics (+42% YoY). Decline in gross margins (-333bps YoY) were offset by lower staff (-332bps) and other expenses (-149bps), translating to EBITDA margin expansion of 147bps YoY to 14.2%. Continued traction in contract logistics is encouraging. We broadly maintain FY21 estimates while raising FY20 PAT by 34% factoring in nil tax outgo; our Mar'20 TP stays at Rs 780. BUY.**

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**Last-mile delivery segment realigned:** FSCSL has demerged its last-mile delivery business (earlier part of Vulcan Express) into a subsidiary and retained Vulcan's contract logistics business in the standalone entity. The reported financials have been restated to reflect this restructuring.

**Growth continues unabated:** FSCSL maintained its strong growth trajectory (33%/34% in Q4FY19/FY19), especially in contract logistics which grew 42% YoY in Q4 led by traction from both anchor and non-anchor customers. The express segment grew 8% YoY. The company onboarded 12 clients in FY19 in contract logistics which should contribute to FY20 growth. FSCSL maintains its target of 2.5-3mn sq ft of warehouse space addition in FY20, on the heels of 3.1mn sq ft added in FY19 (current space totals 7.7mn sq ft).

**Operating leverage benefits:** Despite lower gross margins - down 333 bps YoY owing to less-than-optimal utilisation of the newly added warehousing space - better absorption of fixed expenses led to EBITDA margin expansion of 147bps YoY. PAT (from continued operations) leaped to Rs 266mn from Rs 79mn in Q4FY18 driven by higher EBITDA and lower depreciation.

**Maintain BUY:** Our Mar'20 TP of Rs 780 is set at 25x one-year fwd P/E.

Ticker/Price	FSCSL IN/Rs 622
Market cap	US\$ 354.0mn
Shares o/s	40mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 699/Rs 551
Promoter/FPI/DII	52%/5%/19%

Source: NSE

**STOCK PERFORMANCE**



Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	458	903	964	1,204	1,244
Adj. EPS (Rs)	11.7	22.5	24.0	30.0	31.0
Adj. EPS growth (%)	55.6	92.8	6.7	24.9	3.3
Adj. ROAE (%)	16.9	21.8	17.0	18.3	16.1
Adj. P/E (x)	53.2	27.6	25.9	20.7	20.0
EV/EBITDA (x)	34.6	19.0	16.5	13.8	10.1

Source: Company, BOBCAPS Research



ADD

TP: Rs 640 | ▲ 9%

KAJARIA CERAMICS

Construction Materials

14 May 2019

## Tough climate but management optimistic on growth

### Key takeaways from today's Kajaria Ceramics (KJC) analyst meet:

- The demand climate remains challenging and is likely to improve only in FY21. India's tile industry witnessed flattish growth in FY19 which is expected to continue into FY20.
- About 70% of KJC's revenues continue to be derived from the retail segment, enabling it to weather the tough demand environment.
- KJC has 10% volume market share in India and plans to increase this to 14% over the next three years. Volume growth is guided at 15% for the next three years starting FY20.
- Management expects sanitaryware and faucetware revenues to grow at 30%, while plywood revenue is guided to increase ~3x to Rs 500mn in FY20.
- KJC expects stronger growth ahead led by the recent National Green Tribunal (NGT) order in Morbi, Gujarat, and better e-way bill enforcement.
- Post the NGT ruling, competitor ceramic units in Morbi will either shift to gas-based power plants over the next few months or shut down. Morbi players have already started taking price hikes due to increased costs.
- Higher gas prices in FY19 led to a Rs 500mn hit on profits. The company is hopeful of a better margin trend ahead.
- KJC has increased its dealer network from 1,400 to 1,500 and upped the exclusive dealer count from 200 to 240 in FY19. Exclusive dealers contribute ~30% of the company's turnover.
- Management plans to extend KJC's presence from 370 constituencies of India to all 541 going ahead.
- A&P spends stood at Rs 1bn in FY19 which will rise to Rs 1.05bn in FY20. Bollywood star Ranveer Singh has been roped in as brand ambassador for the plywood division.
- The company is planning capex of Rs 2bn over the next two years which includes Rs 1.5bn on the new plant in South India, Rs 210mn on sanitaryware plant expansion and the rest as maintenance capex.
- Joint ventures made a loss of Rs 50mn-60mn in FY19 but are expected to contribute Rs 100mn in FY20.

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Ticker/Price	KJC IN/Rs 586
Market cap	US\$ 1.3bn
Shares o/s	159mn
3M ADV	US\$ 4.3mn
52wk high/low	Rs 635/Rs 310
Promoter/FPI/DII	48%/26%/26%

Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	2,314	3,072	3,616
Adj. EPS (Rs)	14.6	19.3	22.8
Adj. EPS growth (%)	(1.2)	32.8	17.7
Adj. ROAE (%)	15.8	18.2	18.6
Adj. P/E (x)	40.2	30.3	25.8
EV/EBITDA (x)	20.8	16.0	13.7

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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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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