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FIRST LIGHT

15 November 2018

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI inflation to ease

Mahindra & Mahindra | Target: Rs 880 | +14% | ADD

Healthy quarter

Motherson Sumi | Target: Rs 230 | +50% | BUY

Weak quarter, better outlook from CY19

Mahanagar Gas | Target: Rs 950 | +13% | ADD

Improving volume and margin outlook

Mayur Uniquoters | Target: Rs 565 | +55% | BUY

Margins slip on high RM costs and one-offs

SUMMARY

India Economics: Wholesale Inflation

WPI inflation increased from 5.1% in Sep'18 to 5.3% in Oct'18 led by higher international oil prices and a depreciating currency. Fuel & power inflation rose to 18.4% in Oct'18 from 16.6% in Sep'18. Even manufactured product inflation edged up to 4.5% in Oct'18 (4.2% in Sep'18). However, food prices remained benign led by decline in vegetable prices. With the recent fall in international oil prices and appreciation of the currency, we expect WPI inflation to trend down in H2. RBI will be holding rates in this financial year.

Click here for the full report.

Mahindra & Mahindra

Mahindra & Mahindra (MM) clocked a 7% YoY rise in Q2FY19 standalone revenue to Rs 129.9bn, with volumes up a modest 4% following a dip in tractor sales. EBITDA dropped 7% YoY to Rs 16bn as margins fell 180bps, while higher other income supported an 11% rise in adj. PAT to Rs 14.7bn. MM retained FY19 tractor growth guidance at 12-14%, but lowered its PV sales forecast to 7-8%. We factor in a reduced value of investments and roll over to a lower Sep'19 target price of Rs 880 (from Rs 980). ADD.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
GAIL	Buy	525
Petronet LNG	Buy	340
Reliance Industries	Buy	1,340
Tata Motors	Buy	270
TCS	Buy	2,360

MID-CAP IDEAS

Company	Rating	Target
Greenply Industries	Buy	250
L&T Infotech	Buy	2,070
Mayur Uniquoters	Buy	565
Mphasis	Buy	1,360
Supreme Industries	Add	1,370

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	3.14	(4bps)	(2bps)	73bps
India 10Y yield (%)	7.76	(4bps)	(22bps)	79bps
USD/INR	72.67	0.3	1.2	(11.1)
Brent Crude (US$/bbl)	65.47	(6.6)	(18.6)	3.7
Dow	25,286	(0.4)	(0.2)	7.9
Shanghai	2,655	0.9	1.8	(23.0)
Sensex	35,144	1.0	1.2	6.4
India FII (US$ mn)	**12 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(85.3)	586.8	(7,874.5)	(8,120.4)
FII-E	328.2	39.4	(5,718.7)	(7,844.2)

Source: Bank of Baroda Economics Research

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Motherson Sumi

Motherson Sumi (MSS) reported a subdued Q2FY19 – consolidated revenue grew 12.6% YoY partly due to the Reydel consolidation, but EBITDA margins dipped 60bps to 8.6% due to higher start-up costs and lower sales from new plants. This along with a heavier interest outlay caused adj. PAT to fall 15.6% YoY to Rs 3.7bn. We cut FY19/FY20/FY21 earnings estimates by 25%/20%/13% and lower our target P/E from 28x to 25x to factor in slower revenue ramp-up and lower margins at Reydel. Our Sep'19 target price reduces to Rs 230 (vs. Rs 300).

Click here for the full report.

Mahanagar Gas

Mahanagar Gas's (MAHGL) Q2FY19 adj. earnings outperformed estimates at Rs 1.4bn (+9.2% YoY, –3.5% QoQ). Key highlights for the quarter are (a) higher volumes of 272mmscm led by better CNG/PNG volume growth of +9.2%/+10.2% YoY and (b) healthy EBITDA margins of Rs 8.1/scm. As we roll over to Sep'19 and factor in a higher long-term growth trajectory (FY20E-FY21E EPS raised 2%/6%), our DCF-based target price moves to Rs 950 (vs. Rs 885). The recent crash in oil price offers a margin expansion trigger. ADD.

Click here for the full report.

Mayur Uniquoters

Mayur Uniquoters (MUNI) reported marginally above-expected Q2FY19 revenue growth of 7.2% YoY. Operating margins slipped 600bps YoY to 18.7% due to higher RM cost and other expenses, inducing EBITDA/PAT declines of 18.8%/11% YoY. Management has guided for better margins ahead backed by softer RM cost, higher exports (which earn better margins), and price hikes of ~4% taken in October. We cut FY19E/FY20E PAT by 5%/9% to build in lower margins and roll over to a Sep'19 target price of Rs 565 (from Rs 595).

Click here for the full report.

WHOLESALE INFLATION

14 November 2018

WPI inflation to ease

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WPI inflation increased from 5.1% in Sep'18 to 5.3% in Oct'18 led by higher international oil prices and a depreciating currency. Fuel & power inflation rose to 18.4% in Oct'18 from 16.6% in Sep'18. Even manufactured product inflation edged up to 4.5% in Oct'18 (4.2% in Sep'18). However, food prices remained benign led by decline in vegetable prices. With the recent fall in international oil prices and appreciation of the currency, we expect WPI inflation to trend down in H2. RBI will be holding rates in this financial year.

Food inflation dips: WPI food index declined by (-) 0.6% in Oct'18 compared with an increase of 0.1% in Sep'18. The drop in food index is led by vegetable prices which were down by (-) 18.7% in Oct'18 compared with (-) 3.8% dip in Sep'18. Notably, out of seven months in the year, food index has seen an absolute YoY decline in three months compared with only one such dip in FY18. This again is led by prices of vegetables which have seen an absolute YoY decline in five out of seven months. However, prices of cereals have seen an uptick with index showing an increase of 6.2% in Oct'18, highest in last eighteen months.

Fuel & power inflation to cool down: Fuel & power index increased by 18.4% in Oct'18 versus 16.6% increase seen in Sep'18. Within fuel & power, minerals index reported an increase of 30.3% in Oct'18 which was in-line with jump in international oil prices to US$81/bbl in Oct'18 from US$58/bbl in Oct'17. INR too contributed to the increase in the fuel index as it depreciated by 11.7% on a YoY basis in Oct'18. With international oil prices falling by 12.6% to an average of US$71/bbl (MTD basis), we expect fuel inflation to cool down in H2FY19.

Core inflation picks up, but will ease: After declining for two consecutive months, both core and manufactured product inflation picked up in Oct'18 to 5.1% and 4.5% from 4.8% and 4.2% respectively in Sep'18. The increase was broad-based. Furniture (4.3%), basic metals (13.8%) and tobacco (0.5%) drove core inflation higher. A depreciating currency (1.9% on a MoM basis) also contributed to higher core inflation. However, INR has appreciated by 1.1% and international commodity prices have fallen by (-) 0.1% on a MTD basis. The above backdrop points to dip in core inflation in H2.

RESULT REVIEW

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ADD
TP: Rs 880 | ⮝ 14%

MAHINDRA & MAHINDRA | Automobiles | 14 November 2018

Healthy quarter

Mahindra & Mahindra (MM) clocked a 7% YoY rise in Q2FY19 standalone revenue to Rs 129.9bn, with volumes up a modest 4% following a dip in tractor sales. EBITDA dropped 7% YoY to Rs 16bn as margins fell 180bps, while higher other income supported an 11% rise in adj. PAT to Rs 14.7bn. MM retained FY19 tractor growth guidance at 12-14%, but lowered its PV sales forecast to 7-8%. We factor in a reduced value of investments and roll over to a lower Sep'19 target price of Rs 880 (from Rs 980). ADD.

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Modest revenue growth, other income supports PAT: Led by volume/realisation growth of 4.4%/2.1% YoY, MM's standalone revenue grew 6.6% to Rs 129.9bn. Gross margins dropped 230bps YoY while EBITDA margins fell 180bps YoY (–140bps QoQ) to 12.4% on higher other expenses, leading to a 7% dip in EBITDA to Rs 16bn. MM reported an exceptional gain of Rs 1.3bn on (1) sale offset by impairment of certain long-term investments, and (2) Rs 1.2bn deferred tax benefit relating to unabsorbed long-term capital losses. Above-expected other income supported adj. PAT growth of 10.5% YoY to Rs 14.7bn.

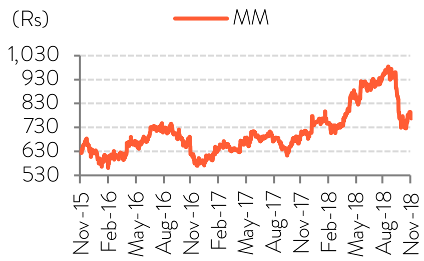
Outlook for FY19: Management has maintained its FY19 tractor growth guidance at 12-14%, with a bias towards the lower end of the range vs. the upper end earlier. PV growth guidance has been pruned to 7-8% given subdued demand during the festive season. MM's UV launch 'Alturas' is scheduled for 24 November, besides the rollout of 'S201' in Q4FY19. The recently launched 'Marazzo' has seen total bookings of 13,500 units to date, with 9,000 units already supplied to dealers and a waiting period of 6-8 weeks.

Maintain ADD: We trim FY19-FY21 earnings estimates by 2-3% and factor in a reduced value of listed investments and higher costs associated with new launches. On rollover to Sep'19, our SOTP-based TP moves to Rs 880 (from Rs 980).

Ticker/Price	MM IN/Rs 770
Market cap	US$ 13.2bn
Shares o/s	1,243mn
3M ADV	US$ 35.3mn
52wk high/low	Rs 993/Rs 682
Promoter/FPI/DII	22%/34%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	32,320	40,308	49,140	52,220	53,307
Adj. EPS (Rs)	26.3	32.8	40.0	42.5	43.4
Adj. EPS growth (%)	(2.3)	37.9	16.1	7.9	2.2
Adj. ROAE (%)	12.1	13.3	14.4	13.7	12.7
Adj. P/E (x)	29.2	23.4	19.2	18.1	17.7
EV/EBITDA (x)	20.7	15.1	12.8	11.9	11.7

Source: Company, BOBCAPS Research

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BUY
TP: Rs 230 | ⋀ 50%

MOTHERSON SUMI | Auto Components | 14 November 2018

Weak quarter, better outlook from CY19

Motherson Sumi (MSS) reported a subdued Q2FY19 – consolidated revenue grew 12.6% YoY partly due to the Reydel consolidation, but EBITDA margins dipped 60bps to 8.6% due to higher start-up costs and lower sales from new plants. This along with a heavier interest outlay caused adj. PAT to fall 15.6% YoY to Rs 3.7bn. We cut FY19/FY20/FY21 earnings estimates by 25%/20%/13% and lower our target P/E from 28x to 25x to factor in slower revenue ramp-up and lower margins at Reydel. Our Sep'19 target price reduces to Rs 230 (vs. Rs 300).

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Weak Q2: MSS's Q2 sales grew 12.6% YoY to Rs 151bn. However, excluding the consolidation of Reydel, revenue growth was just 3%. EBITDA for the quarter increased at a muted 5.8% YoY to Rs 13bn and operating margins fell 100bps QoQ to 8.6% (–60bps YoY), mainly due to a weaker performance at SMP (in which Reydel has been integrated). With higher interest outlay, this resulted in adj. PAT declining 15.6% YoY to Rs 3.7bn.

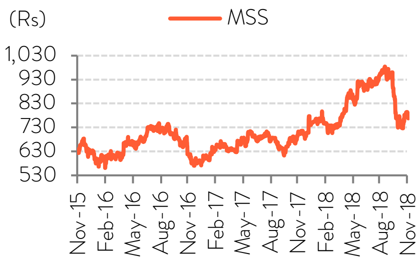
Segment wise performance: MSS's standalone performance remained muted as higher costs shaved 250bps off EBITDA margins YoY to 16.8%. SMR's revenues grew just 0.6% YoY to EUR 380mn, while its EBITDA margin rose 50bps YoY to 11.1%. SMP's revenues increased 4% YoY to EUR 840mn and margins stood at 6.5% (–130bps YoY). PKC clocked 12.3% revenue growth to EUR 274mn while margins expanded 140bps to 8.8%. SMRP BV's has a healthy order book of EUR 19.5bn (up from EUR 17.2bn in FY18) and execution on orders worth EUR 2.5bn started in H1FY19. MSS has a strong revenue target of US$ 18bn for FY20.

Maintain BUY: We cut earnings estimates to factor in slower ramp-up at MSS's new plants and the impact of lower margins at Reydel. Maintain BUY with a reduced Sep'19 target price of Rs 230 (previously Rs 300).

Ticker/Price	MSS IN/Rs 153
Market cap	US$ 6.7bn
Shares o/s	3,158mn
3M ADV	US$ 12.4mn
52wk high/low	Rs 265/Rs 147
Promoter/FPI/DII	62%/17%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	16,224	17,214	18,463	26,132	32,513
Adj. EPS (Rs)	5.1	5.5	5.8	8.3	10.3
Adj. EPS growth (%)	25.6	6.1	7.3	41.5	24.4
Adj. ROAE (%)	24.0	21.5	21.6	25.9	28.0
Adj. P/E (x)	29.8	28.1	26.2	18.5	14.9
EV/EBITDA (x)	11.2	8.5	7.8	6.3	5.3

Source: Company, BOBCAPS Research

ADD

TP: Rs 950 | 13%

MAHANAGAR GAS | Oil & Gas | 14 November 2018

Improving volume and margin outlook

Mahanagar Gas's (MAHGL) Q2FY19 adj. earnings outperformed estimates at Rs 1.4bn (+9.2% YoY, –3.5% QoQ). Key highlights for the quarter are (a) higher volumes of 272mmscm led by better CNG/PNG volume growth of +9.2%/+10.2% YoY and (b) healthy EBITDA margins of Rs 8.1/scm. As we roll over to Sep'19 and factor in a higher long-term growth trajectory (FY20E-FY21E EPS raised 2%/6%), our DCF-based target price moves to Rs 950 (vs. Rs 885). The recent crash in oil price offers a margin expansion trigger. ADD.

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Robust CNG volume growth: MAHGL's volumes rose to 272mmscm (+9.5% YoY, +4.2% QoQ) in Q2FY19. CNG volumes swelled to 200mmscm (+9.2% YoY, +3.8% QoQ) as vehicle conversion rates (to CNG) remain high. Management hinted at rising per-capita consumption of CNG backed by higher utilisation of vehicles running on this fuel. PNG volumes grew 10.2% YoY, led by domestic PNG sales (34mmscm, +11.8% YoY) and healthy industrial growth (38mmscm, +8.9% YoY). Despite the outperformance, management retained its medium-to-long term volume growth guidance of ~7% (over FY19-FY21).

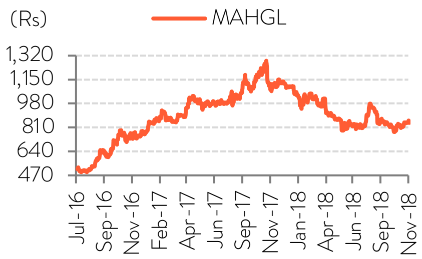
Margins outperform: EBITDA margins at Rs 8.1/scm beat our expectations. We maintain margin estimates around these levels as accelerating CNG volumes and the recent decline in oil prices offer enough levers for the company to either expand or maintain current margins.

Maintain ADD: The city gas distribution (CGD) business has recently seen a positive shift in outlook, especially given renewed demand for CNG across large cities (Mumbai/Delhi). At ~14x FY21E EPS, MAHGL offer value considering sustained 23%+ ROE and accelerating volume growth. Expansion into new areas (such as Raigad district where the company recently commissioned six CNG stations) enhances long-term volume growth prospects (FY21 onwards).

Ticker/Price	MAHGL IN/Rs 842
Market cap	US$ 1.2bn
Shares o/s	99mn
3M ADV	US$ 11.1mn
52wk high/low	Rs 1,163/Rs 756
Promoter/FPI/DII	43%/19%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	3,934	4,779	5,480	5,850	6,272
Adj. EPS (Rs)	39.8	48.4	55.5	59.2	63.5
Adj. EPS growth (%)	14.5	21.5	14.7	6.8	7.2
Adj. ROAE (%)	22.1	24.3	24.8	23.9	23.3
Adj. P/E (x)	21.1	17.4	15.2	14.2	13.3
EV/EBITDA (x)	12.6	10.5	9.6	8.9	8.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 565 | ⮝ 55%

MAYUR UNIQUOTERS | Textiles | 14 November 2018

Margins slip on high RM costs and one-offs

Mayur Uniquoters (MUNI) reported marginally above-expected Q2FY19 revenue growth of 7.2% YoY. Operating margins slipped 600bps YoY to 18.7% due to higher RM cost and other expenses, inducing EBITDA/PAT declines of 18.8%/11% YoY. Management has guided for better margins ahead backed by softer RM cost, higher exports (which earn better margins), and price hikes of ~4% taken in October. We cut FY19E/FY20E PAT by 5%/9% to build in lower margins and roll over to a Sep'19 target price of Rs 565 (from Rs 595).

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Modest revenue growth: MUNI reported revenues of Rs 1.5bn for Q2FY19 (+7.2% YoY), with volumes growing 11.6% and realisations declining 4%. The company saw high growth in the domestic auto OEM segment (+48% YoY), whereas the footwear segment grew at ~8% YoY. Exports declined 23% YoY as the company did inventory correction at its US and Mexico warehouses, which pushed down realisations. Management has guided for normal export revenues in H2FY19.

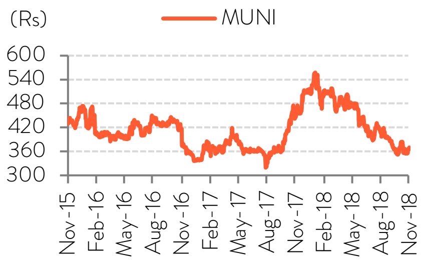
Profits decline: Operating margins contracted 600bps YoY to 18.7% due to higher raw material cost (+310bps) and other expenses (+270bps), causing EBITDA to drop 18.8% YoY. Higher other income (+46%) limited the decline in PAT to 11% YoY. Gross margins fell 310bps YoY due to higher RM prices (+15% in H1) as crude prices rose and as tough market conditions prevented a pass-through of costs. Lower exports also hit margins. Other expenses included one-offs for the Mercedes audit and hiring of shop-floor consultants.

Maintain BUY: We cut FY19/FY20 PAT estimates by 5%/9% given a below-expected operating performance in H1FY19 and roll over to a revised Sep'19 TP of Rs 565. We continue to like MUNI for its strong balance sheet, high return ratios and market leadership in India's PVC synthetic leather industry.

Ticker/Price	MUNI IN/Rs 365
Market cap	US$ 228.7mn
Shares o/s	45mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 570/Rs 350
Promoter/FPI/DII	61%/16%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	743	905	914	1,061	1,175
Adj. EPS (Rs)	16.4	20.0	20.2	23.4	25.9
Adj. EPS growth (%)	(3.3)	21.9	1.0	16.0	10.7
Adj. ROAE (%)	20.6	21.7	19.0	19.3	18.7
Adj. P/E (x)	22.3	18.3	18.1	15.6	14.1
EV/EBITDA (x)	12.2	10.2	10.3	8.4	7.6

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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