

RESEARCH
Reliance Industries | Target: Rs 1,895 | -10% | SELL

Expanding footprint in retail

DCB Bank | Target: Rs 70 | -26% | SELL

Clarity on asset quality by Q3FY21

SUMMARY
Reliance Industries

RIL's retail business subsidiary – RRVL - announced ~Rs247 bn investment in Future enterprises (FEL). FEL would be amalgamating its subsidiaries spanning retail, logistics, warehousing and wholesale businesses into itself. This would give RRVL a strong foothold into FEL's massive retail value chain, and control over >20 mn sq ft of retail space spanning groceries, fashion, lifestyle, etc. RRVL would be absorbing FEL's Rs129 bn troubled debt, but gets FEL at ~0.9x FY20 sales, which may augur well over the long-term.

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

DCB Bank

Key takeaways from our recent interaction with the DCB Bank (DCBB) management: (1) 26% of loans are under moratorium in the second phase, though this includes many customers who did not pay April-July dues as dispensation was available. (2) Moratorium share of the CV book is at 48% but also includes customers that have partly paid dues. (3) Management does not expect any portfolio collapse as customer cash flow will strengthen with easing of lockdown restrictions. (4) A clear picture on asset quality may emerge by Dec'20 and slippages could peak by Sep'21.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.75	6bps	14bps	(74bps)
India 10Y yield (%)	6.15	(4bps)	30bps	(40bps)
USD/INR	73.82	0.7	1.4	(2.8)
Brent Crude (US\$/bbl)	45.09	(1.2)	3.9	(26.2)
Dow	28,492	0.6	7.2	8.1
Shanghai	3,350	0.6	4.5	15.9
Sensex	39,113	0.1	3.1	5.5
India FII (US\$ mn)	26 Aug	MTD	CYTD	FYTD
FII-D	56.0	(97.0)	(14,624.6)	(4,865.1)
FII-E	222.5	6,158.1	4,869.9	11,472.9

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 1,895 | ▼ 10%

RELIANCE INDUSTRIES

Oil & Gas

30 August 2020

Expanding footprint in retail

RIL's retail business subsidiary – RRVL - announced ~Rs247 bn investment in Future enterprises (FEL). FEL would be amalgamating its subsidiaries spanning retail, logistics, warehousing and wholesale businesses into itself. This would give RRVL a strong foothold into FEL's massive retail value chain, and control over >20 mn sq ft of retail space spanning groceries, fashion, lifestyle, etc. RRVL would be absorbing FEL's Rs129 bn troubled debt, but gets FEL at ~0.9x FY20 sales, which may augur well over the long-term.

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Taking control of a sinking retail empire: RRVL would get control of FEL's entire retail value chain - spanning retail stores to logistics to sourcing - a mega retail empire built by Kishore Biyani over last two decades (starting from the first pantaloon store in 1997). FEL couldn't capitalize on its 10 years' head start over RIL's retail venture, hit by failed diversification into insurance, capital markets, and real estates ventures. This was aggravated by mounting debt in core retail businesses, as FEL struggled to catch up with competition from both offline and online retailers. Recent pandemic made it worse for the FEL and other group companies, probably forcing them into this deal.

Strategic synergies: RIL gets access to >20 mn retail space owned by FEL (vs ~16 mn for RRVL), and ~1800 retail stores of FEL. Overall consumer facing businesses of future group have a revenue footprint of ~Rs250 bn in FY20 (adding ~15% to Rs1.6 trn existing revenues for retail) Additionally, RIL gets access to critical logistics infrastructures (cold chain, warehousing, etc.), mall ownerships and rentals businesses.

Priced in: While we await more details on precise stake that RIL would own in FEL, and financial impact in FY21 (given the uncertainty on pandemic), we don't anticipate see a major change in valuations. We maintain our SELL rating.

Ticker/Price	RIL IN/Rs 2,116
Market cap	US\$ 195.3bn
Shares o/s	6,762mn
3M ADV	US\$ 548.1mn
52wk high/low	Rs 2,199/Rs 876
Promoter/FPI/DII	49%/24%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	3,785,945	4,794,554	4,604,317
EBITDA (Rs mn)	841,670	882,170	938,561	1,412,455	1,729,258
Adj. net profit (Rs mn)	400,860	443,240	484,225	771,058	1,016,206
Adj. EPS (Rs)	59.3	65.6	71.6	114.0	150.3
Adj. EPS growth (%)	13.6	10.6	9.2	59.2	31.8
Adj. ROAE (%)	11.7	11.1	10.5	13.8	15.9
Adj. P/E (x)	35.7	32.3	29.5	18.6	14.1
EV/EBITDA (x)	19.3	18.7	18.1	11.9	9.5

Source: Company, BOBCAPS Research



SELL

TP: Rs 70 | ▼ 26%

DCB BANK

Banking

28 August 2020

Clarity on asset quality by Q3FY21

We present key takeaways from our recent interaction with the management of DCB Bank (DCBB):

- DCBB has 26% of loans under moratorium in the second phase, though this includes many customers who did not pay their April-July dues as dispensation was available. Collection efficiency has been improving across geographies since April.
- Moratorium share of the CV book is at 48% but also includes customers that have partly paid dues. DCBB has ~30k CV clients with no big-ticket exposure. Truck movement and hence CV sales will pick up if the economy improves.
- Management does not expect any portfolio collapse as customer cash flow will strengthen with easing of lockdown restrictions. Also, a large chunk of the bank's portfolio is secured which will limit the loss given default (LGD).
- The SMA book has reduced from ~Rs 19bn in Mar'20 to ~Rs 4.8bn in Jul'20 given healthy collections. Management does not expect slippages from SMA-0 while that from SMA-1/2 may be miniscule.
- A clear picture on asset quality may emerge by Dec'20 and slippages could peak by Sep'21. About 20-25% of customers may require handholding, either in terms of top-ups, ECLGS or restructuring (MSME).
- Tepid disbursements coupled with repayments in the mortgage portfolio (42% of loans) may lead to 5% contraction in loan book for FY21. Efforts have been stepped up to expand the retail gold loan business (avg. ticket size: Rs 0.1mn-0.2mn) and increase the share of salaried customers in home loans (to 50% from 21% currently). Agri & inclusive banking (AIB) business is back to normal with the highest tractor loans disbursed in June.
- DCBB aims to bring down the cost-to-assets ratio to ~2.2% in two years by focusing on digital initiatives and conscious headcount replacement. It has an enabling resolution to raise equity capital worth Rs 5bn.
- Cost of funds is declining steadily as bulk deposits are being replaced by retail deposits. Deploying excess liquidity should bring NIM back to ~3.6%.
- The velocity of electronic transactions in cash, credit, overdraft and current accounts has reached ~90% of pre-Covid levels.

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Ticker/Price	DCBB IN/Rs 95
Market cap	US\$ 400.5mn
Shares o/s	310mn
3M ADV	US\$ 4.1mn
52wk high/low	Rs 218/Rs 58
Promoter/FPI/DII	15%/15%/70%

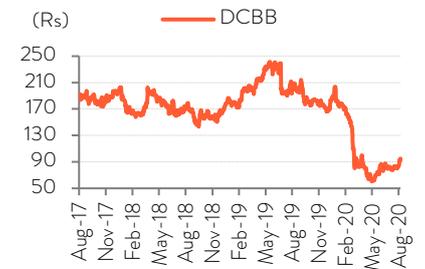
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Net interest income	11,672	12,336	13,889
NII growth (%)	(7.7)	5.7	12.6
Adj. net profit (Rs mn)	2,270	2,887	3,756
EPS (Rs)	6.6	7.8	10.1
P/E (x)	14.2	12.2	9.4
P/BV (x)	0.9	0.8	0.8
ROA (%)	0.6	0.7	0.8
ROE (%)	6.0	6.7	8.2

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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