FIRST LIGHT

13 November 2019

RESEARCH

Mahanagar Gas | Target: Rs 890 | –8% | SELL

Volumes drag and margins peak out – downgrade to SELL

BOB Economics Research | IIP

IIP nosedives, case for another rate cut

BOB Economics Research | Weekly Wrap

India's inflation to rise above 4%

Lupin | Target: Rs 840 | +14% | ADD

Kyowa divestment – good value unlocking

Alkem Labs | Target: Rs 2,290 | +16% | BUY

Good Q2, tax cut drives EPS upgrade; retain BUY

Century Plyboards | Target: Rs 205 | +24% | BUY

Laminates and MDF perform well; plywood disappoints

Allcargo Logistics | Target: Rs 120 | +18% | BUY

CFS, P&E segments drag down profitability

HG Infra Engineering | Target: Rs 385 | +99% | BUY

Solid quarter; growth momentum to pick up in H2

Somany Ceramics | Target: Rs 340 | +84% | BUY

Margins surprise positively

SUMMARY

Mahanagar Gas

Mahanagar Gas's (MAHGL) Q2FY20 adj. PAT underperformed estimates at Rs 2.1bn (+57% YoY). Key Q2 highlights: (a) EBITDA margins disappointed at Rs 9.9/scm (–3.3% QoQ) on higher costs, and (b) volumes were muted at 276mmscm (+1.3% YoY). We broadly maintain FY20-FY22 earnings estimates as our volume growth cut (to 3.5% CAGR) is neutralised by lower tax rates. Our Sep'20 DCF-based TP changes to Rs 890 (vs. Rs 1,020) as we assume lower terminal growth (2%). Downgrade to SELL from ADD.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	200
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.94	2bps	36bps	(124bps)
India 10Y yield (%)*	6.75	3bps	9bps	(101bps)
USD/INR	71.29	(0.5)	(0.3)	1.7
Brent Crude (US$/bbl)	62.51	0.4	7.2	(10.9)
Dow	27,681	0.0	5.1	6.5
Shanghai	2,964	(0.5)	1.3	14.1
Sensex	40,324	(0.8)	5.6	14.7
India FII (US$ mn)	**7 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(146.7)	652.1	5,339.0	4,794.3
FII-E	126.0	626.9	10,849.7	4,004.5

Source: Bank of Baroda Economics Research | *7.26% GS 2029

BOBCAPS Research
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India Economics: IIP

Industrial growth declined by (-) 4.3%, lowest in the current series. The decline was led by capital goods at (-) 20.7%, followed by mining at (-) 8.5% and consumer durables at (-) 9.9%. Given the extent of the slowdown, even services sector has been impacted with services PMI contracting for Sep'19 and Oct'19. The sharp slowdown will not only impact Q2FY20 GDP print, but also growth in the coming months as consumer demand and credit off-take remains weak. The above backdrop calls for another rate cut by RBI in Dec'19.

Click here for the full report.

India Economics: Weekly Wrap

Global sentiment improved as US and China are near to a trade deal. Global equity markets and yields rose in response. Growth remains lacklustre because of which China and Thailand eased policy rates. China may look at another rate cut as Yuan has regained ground. On the domestic front, Moody's downgraded India's outlook to negative on growth and fiscal concerns and India opted out of RCEP. With muted growth, RBI may ignore an inflation print above 4% and reduce rates in Dec'19.

Click here for the full report.

Lupin

Lupin (LPC) has signed a definitive agreement with financial investor Unison to sell its entire 99.8% stake in Kyowa for an EV of US$ 520mn. This could unlock US$ 220mn-250mn (Rs 30-40/sh) of value for LPC considering the divested business has a weak growth & margin outlook due to regulatory pricing pressure. The deal is attractive at 2x annualised H1FY20 sales and 13x EBITDA and optimises LPC's capital structure to pursue M&A in key areas (specialty in US and India). Deal-based ROCE accretion is more pronounced than EPS, in our view.

Click here for the full report.

Alkem Labs

Alkem reported an 11% EBITDA beat in Q2 driven by a sales beat and better cost control. India grew 17.6% YoY; US sales grew 10% QoQ to US$ 76mn. Gross margin (excl. one-time cost) improved YoY. Prescription growth trend is healthy so far, and Alkem retains its mid-teen sales growth guidance for FY20. Trade generic business was flat at 15% of sales. H2 should benefit from more US launches and softer RM cost. We raise FY20/FY21 EPS by ~13% due to lower tax guidance of 10% and the India beat. Retain BUY; TP revised to Rs 2,290 (vs. Rs 2,230).

Click here for the full report.

Century Plyboards

Century Plyboards' (CPBI) standalone revenue growth for Q2FY20 was in line with estimates at 4.4% YoY, aided by the MDF (+27%) and laminate (+22%) segments. Standalone operating margins expanded 260bps to 15.7%, accompanied by a 25%/38% YoY increase in EBITDA/PAT. Management expects MDF and laminates to continue to steer growth in the near term while plywood remains soft. We broadly maintain our PAT estimates and roll forward to a Sep'20 TP of Rs 205 (earlier Rs 200). Retain BUY.

Click here for the full report.

Allcargo Logistics

Allcargo Logistics' (AGLL) Q2FY20 performance was below our estimates. Consolidated revenue grew 8% YoY to Rs 18.7bn (est. Rs 19.1bn) led by the MTO segment (+10% YoY). EBITDA margin (adj. for Ind-AS 116) contracted ~100bps YoY to 6.2% as CFS and P&E profitability slumped. We maintain a cautious near-term stance on the business due to continued headwinds across segments. Rolling valuations over, we move to a revised Mar'21 TP of Rs 120 (vs. Rs 125). Maintain BUY on current cheap valuations of 7.5x FY22E EPS.

Click here for the full report.

HG Infra Engineering

HG Infra's (HGIEL) Q2FY20 PAT grew ahead of estimates at 57% YoY, led by gross margin expansion, softer interest cost and a lower tax rate. Revenue was in line (+10.5% YoY) and EBITDA margin expanded 95bps YoY to 15.5% (14.9% est.) due to better operating efficiencies. Gross debt stood at Rs 3.4bn (0.3x net D/E). Order backlog totalled Rs 62.7bn (incl. L1), 2.9x TTM revenues. We increase FY20/FY21 earnings by 6-7% each and roll over to a revised Sep'20 TP of Rs 385 (vs. Rs 395).

Click here **for the full report.**

Somany Ceramics

Somany Ceramics (SOMC) reported in-line consolidated revenue growth of 7.9% YoY in Q2FY20 to Rs 4.2bn, aided by a 4.8% uptick in tile volumes. Consolidated operating margins expanded 385bps YoY to 10.6%, ahead of estimates, propelling increases of 69%/109% YoY in EBITDA/PBT. Management guided for stronger margins in FY20 but lower 7-8% volume growth in tiles (earlier high single-digit to low double-digit growth). We thus cut FY20-FY22 PAT by 4-5% and roll to an unchanged Sep'20 TP of Rs 340.

Click here **for the full report.**

SELL
TP: Rs 890 | ⮟ 8%

MAHANAGAR GAS | Oil & Gas | 12 November 2019

Volumes drag and margins peak out – downgrade to SELL

Rohit Ahuja | Harleen Manglani
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Mahanagar Gas's (MAHGL) Q2FY20 adj. PAT underperformed estimates at Rs 2.1bn (+57% YoY). Key Q2 highlights: (a) EBITDA margins disappointed at Rs 9.9/scm (–3.3% QoQ) on higher costs, and (b) volumes were muted at 276mmscm (+1.3% YoY). We broadly maintain FY20-FY22 earnings estimates as our volume growth cut (to 3.5% CAGR) is neutralised by lower tax rates. Our Sep'20 DCF-based TP changes to Rs 890 (vs. Rs 1,020) as we assume lower terminal growth (2%). Downgrade to SELL from ADD.

Muted volume growth: MAHGL's volume growth remained subpar, slowing to 1.3% YoY in Q2 (276mmscm). CNG (203mmscm, +1% YoY) was muted due to a high base and slowdown in the addition or conversion rate of vehicles using this fuel. We believe the downturn in CNG volume growth could continue over the long term given rising infrastructure constraints and improving alternate travel options in Mumbai (metro). We thus cut our volume growth estimates to 3.5% CAGR over FY20-FY22 from 4.5% earlier.

Margins appear to have peaked: EBITDA for Q2 were below estimates at Rs 9.9/scm (–3.3% QoQ). Among GAIL-owned CGD companies, MAHGL has the highest margins but the lowest volume growth. Hence, there is a high probability that the company may be forced to adopt a strategy of chasing volume growth at the expense of margins (like IGL).

Downgrade to SELL: We cut our DCF-based value for MAHGL to Rs 890 (from Rs 1,020) as we lower terminal growth assumptions to 2% (from 5%), driven by concerns over long-term volume growth. Additionally, margins seem to have peaked out and we now estimate EBITDA/scm at ~Rs 10 over FY20-FY22.

KEY FINANCIALS

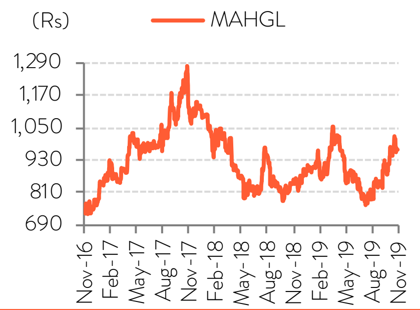
Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	22,330	27,911	33,122	36,170	39,016
EBITDA (Rs mn)	7,801	8,855	11,085	11,590	12,065
Adj. net profit (Rs mn)	4,780	5,467	7,828	8,152	8,450
Adj. EPS (Rs)	48.4	55.3	79.3	82.5	85.5
Adj. EPS growth (%)	21.5	14.4	43.2	4.1	3.7
Adj. ROAE (%)	24.3	24.2	30.4	28.2	26.1
Adj. P/E (x)	20.0	17.5	12.2	11.7	11.3
EV/EBITDA (x)	12.1	10.7	8.4	7.9	7.4

Source: Company, BOBCAPS Research

Ticker/Price	MAHGL IN/Rs 969
Market cap	US$ 1.3bn
Shares o/s	99mn
3M ADV	US$ 9.5mn
52wk high/low	Rs 1,067/Rs 754
Promoter/FPI/DII	33%/29%/39%

Source: NSE

STOCK PERFORMANCE



Source: NSE

IIP

11 November 2019

IIP nosedives, case for another rate cut

Sameer Narang
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Industrial growth declined by (-) 4.3%, lowest in the current series. The decline was led by capital goods at (-) 20.7%, followed by mining at (-) 8.5% and consumer durables at (-) 9.9%. Given the extent of the slowdown, even services sector has been impacted with services PMI contracting for Sep'19 and Oct'19. The sharp slowdown will not only impact Q2FY20 GDP print, but also growth in the coming months as consumer demand and credit off-take remains weak. The above backdrop calls for another rate cut by RBI in Dec'19.

IIP growth slumps: Industrial output contracted by (-) 4.3% in Sep'19, lowest in the current series, from (-) 1.4% in Aug'19, led by a drop across all sectors. Mining output slipped to more than 5-year low of (-) 8.5% in Sep'19. Manufacturing output too dropped by (-) 3.9% in Sep'19 compared with (-) 1.6% in Aug'19. Within manufacturing the decline was led by motor vehicles (-24.8%), furniture (-23.6%) and fabricated metals (-22%). Electricity generation fell to (-) 2.6% in Sep'19 (-0.9% in Aug'19). In H1FY20, industrial growth now stands at 1.3% versus 5.2% in H1FY19. The slowdown is driven by broad-based drop across sectors. Manufacturing at 1% vs 5.4% last year, mining at 1% vs 3.2% and electricity at 3.8% from 6.2%.

Cap goods and durables dragged growth lower: Capital goods production continued its double digit decline at (-) 20.7% in Sep'19 vs (-) 21.4% in Aug'19. It's the 9th consecutive month of decline. In H1FY20, capital goods output has fallen by (-) 10.2% compared with an increase of 7.6% in H1FY19. Except intermediate goods, all other use based components declined in Sep'19. Even FMCG goods output which was seeing a mild recovery declined by (-) 0.4% in Sep'19 (increase of 3.1% in Aug'19). FMCG output has increased by 5.3% in H1FY20 vs 4% in H1FY19. Consumer durables output also fell at a sharper pace of (-) 9.9% vs (-) 9.1% in Aug'19 (-5% in H1FY20 vs increase of 8.1% in H1FY19). Infra/construction goods also declined by (-) 6.4% in Sep'19 vs (-) 4.8% in Aug'19 (-1.1% in H1FY20 vs increase of 8.7% in H1FY19).

Base may support IIP in H2: Owing to base effect, IIP growth is expected to improve in H2. IIP increased by 5.2% in H1FY19 and 2.6% in H2FY19. However, weak demand and sluggish credit off-take suggests that recovery process may take longer and extend into next financial year. The current growth outlook calls for another rate cut by RBI in Dec'19.

KEY HIGHLIGHTS

- IIP slumps to (-) 4.3%.
- Broad based decline in IIP.
- IIP growth may improve in H2FY20.

WEEKLY WRAP

11 November 2019

India's inflation to rise above 4%

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Global sentiment improved as US and China are near to a trade deal. Global equity markets and yields rose in response. Growth remains lacklustre because of which China and Thailand eased policy rates. China may look at another rate cut as Yuan has regained ground. On the domestic front, Moody's downgraded India's outlook to negative on growth and fiscal concerns and India opted out of RCEP. With muted growth, RBI may ignore an inflation print above 4% and reduce rates in Dec'19.

Markets

- **Bonds:** Except China, global yields closed higher over developments on US-China trade deal. US 10Y yield rose the most by 23bps (1.94%). However, global growth indicators remained muted. Bank of Thailand reduced policy rate to its lowest since CY09. Crude prices rose by 1.3% (US$ 63/bbl). India's 10Y yield rose by 9bps (6.75%) as fiscal concerns aggravated over lacklustre direct tax collection and Moody's downgrade of India's sovereign credit rating. System liquidity surplus was at Rs 2.4tn as on 08 Nov 2019 vs Rs 2.7tn in the previous week.

- **Currency:** Barring CNY, other global currencies ended lower this week as developments over US-China trade deal weighed. DXY rose by 1.1% in the week. CNY rose by 0.6% to its highest level since Aug'19 on hopes of finalisation of a trade deal. EUR fell by (-) 1.3% as European Commission cut the growth forecast for the region by 10bps to 1.1% in CY19. INR depreciated by (-) 0.7% as Moody's downgraded India's outlook to negative. FII inflows were US$ 790mn in the week.

- **Equity:** Driven by optimism around US-China trade deal and better than expected corporate earnings, global indices ended higher this week. Nikkei surged by 2.4%, followed by Dax (2.1%) and Dow (1.2%) which continued its winning streak. Following positive global cues, Sensex too ended the week (0.4%) in green pushed up by real estate and metal stocks.

- **Upcoming key events:** In the current week, markets await industrial production data for China, US, Euro Area and Japan. Q3 GDP print of Japan's and Euro Area is also awaited. On the domestic front, industrial production, WPI, CPI, and trade data is scheduled for release.

ADD

TP: Rs 840 | ⮝ 14%

LUPIN | Pharmaceuticals | 12 November 2019

Kyowa divestment – good value unlocking

Lupin (LPC) has signed a definitive agreement with financial investor Unison to sell its entire 99.8% stake in Kyowa for an EV of US$ 520mn. This could unlock US$ 220mn-250mn (Rs 30-40/sh) of value for LPC considering the divested business has a weak growth & margin outlook due to regulatory pricing pressure. The deal is attractive at 2x annualised H1FY20 sales and 13x EBITDA and optimises LPC's capital structure to pursue M&A in key areas (specialty in US and India). Deal-based ROCE accretion is more pronounced than EPS, in our view.

Vivek Kumar
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Deal details: LPC expects to generate net cash inflow of US$ 300mn from the deal, after repaying Kyowa's debt of US$ 176mn, transaction cost and tax liability. The divesture includes CNS generics, long-listed specialty products and human capital, but excludes biosimilar Enbrel/YLB where LPC has the flexibility to monetise the asset at a future date. In the mid-term, LPC will continue to meet supply commitments on generic products that have margins on par with the company average. Greater clarity on deal closure is expected in 3-4 months.

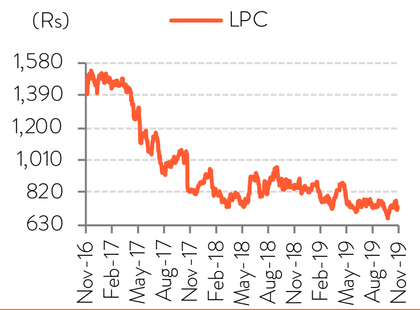
Financial implications: Based on our **FY21 pro forma analysis (Fig 1)**, we believe the divestment will be 2-3% EPS accretive from Year 1, assuming reduction in net debt by Rs 2.5bn and savings in interest and depreciation to the extent of Rs 2.5bn-2.8bn per year. However, we see meaningful improvement in core ROCE of at least 130bps over our current FY21 estimates.

Other update from the call: (1) Kyowa sales were US$ 128mn in H1FY20 (US$ 250mn in FY19) with normalised EBITDA margins in the 15-18% range. (2) Gavis impairment can potentially be relooked by FY20-end. (3) LPC will negotiate ongoing supplies to Kyowa. (4) Japan FTC to respond on deal approval in the next 30 days. (5) LPC plans to reduce its net debt by US$ 460mn.

Ticker/Price	LPC IN/Rs 736
Market cap	US$ 4.7bn
Shares o/s	453mn
3M ADV	US$ 14.8mn
52wk high/low	Rs 906/Rs 646
Promoter/FPI/DII	47%/25%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	158,021	167,010	177,435	196,191	210,728
EBITDA (Rs mn)	31,453	27,020	30,142	35,304	39,624
Adj. net profit (Rs mn)	17,137	9,464	10,319	14,809	17,125
Adj. EPS (Rs)	37.9	20.9	22.8	32.7	37.8
Adj. EPS growth (%)	(41.5)	(44.8)	9.0	43.5	15.6
Adj. ROAE (%)	12.6	6.9	7.4	10.3	11.3
Adj. P/E (x)	19.4	35.2	32.3	22.5	19.4
EV/EBITDA (x)	12.2	14.3	12.7	11.0	9.7

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,290 | ⮝ 16%

ALKEM LABS | Pharmaceuticals | 11 November 2019

Good Q2, tax cut drives EPS upgrade; retain BUY

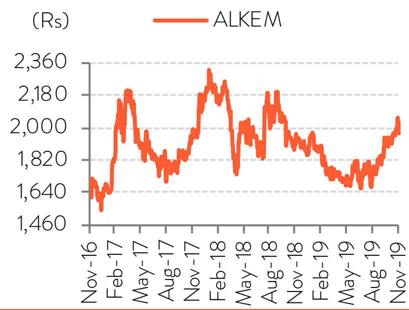
Vivek Kumar
research@bobcaps.in

Alkem reported an 11% EBITDA beat in Q2 driven by a sales beat and better cost control. India grew 17.6% YoY; US sales grew 10% QoQ to US$ 76mn. Gross margin (excl. one-time cost) improved YoY. Prescription growth trend is healthy so far, and Alkem retains its mid-teen sales growth guidance for FY20. Trade generic business was flat at 15% of sales. H2 should benefit from more US launches and softer RM cost. We raise FY20/FY21 EPS by ~13% due to lower tax guidance of 10% and the India beat. Retain BUY; TP revised to Rs 2,290 (vs. Rs 2,230).

Ticker/Price	ALKEM IN/Rs 1,972
Market cap	US$ 3.3bn
Shares o/s	120mn
3M ADV	US$ 1.2mn
52wk high/low	Rs 2,079/Rs 1,660
Promoter/FPI/DII	66%/2%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

India business upbeat, one-time cost hits gross margins: Q2 India sales growth was better than estimates at 17.6% YoY (acute up 15%, chronic 24%), with normalised generics business (15% of sales). Alkem sees no change on the 1.5% industry volume growth pattern so far and its prescription growth trend is heathy. Gross margin fell 146bps QoQ due to a higher anti-infective mix plus one-off cost related to material used for R&D activities (1ppt impact) which should be recouped. Alkem maintained its mid-teen growth guidance for FY20.

11% EBITDA beat, US sales steady: US sales at US$ 76mn rose 10% QoQ led by a stable base and limited contribution from sartans. H2 should be launch-heavy and hence we expect the quarterly run-rate to improve, with scale-up in existing products (gVesicare, Ampyra). H1 US sales totalled US$ 144mn and is tracking well with our full-year FY20 estimate of US$ 311mn. Cost control was visible in Q2 as well, with SG&A increasing 11% YoY vs. 17% growth in sales.

Other key highlights: (1) Only 20-30% of targeted cost saving realised; rest to reflect in next two years. (2) Field force steady at ~10,000 with ~24% attrition. (3) Increase in net debt over Mar-Sep'19 due to higher working capital; will ease in coming quarters. (4) FY20 tax guided at 10% (15% earlier).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	64,218	73,558	82,096	91,948	102,662
EBITDA (Rs mn)	10,284	11,135	13,324	15,958	18,696
Adj. net profit (Rs mn)	6,309	7,298	10,263	12,608	13,682
Adj. EPS (Rs)	52.8	61.0	85.9	105.5	114.4
Adj. EPS growth (%)	(29.3)	15.7	40.6	22.8	8.5
Adj. ROAE (%)	15.8	16.3	20.0	21.0	19.5
Adj. P/E (x)	37.4	32.3	23.0	18.7	17.2
EV/EBITDA (x)	22.9	21.3	17.7	14.3	11.9

Source: Company, BOBCAPS Research

BUY
TP: Rs 205 | ⮝ 24%

CENTURY PLYBOARDS | Construction Materials | 11 November 2019

Laminates and MDF perform well; plywood disappoints

Century Plyboards' (CPBI) standalone revenue growth for Q2FY20 was in line with estimates at 4.4% YoY, aided by the MDF (+27%) and laminate (+22%) segments. Standalone operating margins expanded 260bps to 15.7%, accompanied by a 25%/38% YoY increase in EBITDA/PAT. Management expects MDF and laminates to continue to steer growth in the near term while plywood remains soft. We broadly maintain our PAT estimates and roll forward to a Sep'20 TP of Rs 205 (earlier Rs 200). Retain BUY.

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MDF and laminate segments step up; plywood underperforms: CPBI's standalone revenue grew 4.4% YoY to Rs 5.9bn, led by the MDF (+27%) and laminate (+22%) businesses. The plywood segment declined 1.8% YoY as commercial veneer sales plunged 36% due to sluggish demand. Management has guided for ~2% growth in plywood (earlier 5%), ~15% growth in laminates and ~20% utilisation in MDF for FY20.

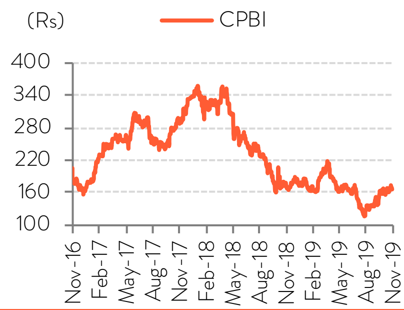
EBITDA margins expand: CPBI's gross margins increased 200bps YoY whereas other expenditure declined 72bps YoY, yielding EBITDA/PAT growth of 25%/38% YoY. Laminate EBITDA margins expanded 640bps YoY (390bps QoQ) to 14.4% on lower raw material cost. MDF saw a 16ppt surge to 22.3% (–120bps QoQ) due to higher capacity utilisation and a better product mix. Management has guided for plywood margins at ~14%, MDF margins at ~20% (on better utilisation) and laminates at 12% due to a decline in raw material cost in FY20.

Maintain BUY: We broadly maintain our PAT estimates and roll over to a Sep'20 TP of Rs 205 (Rs 200 earlier). We continue to like CPBI for its comprehensive product portfolio, strong brand and wide distribution. BUY.

Ticker/Price	CPBI IN/Rs 165
Market cap	US$ 513.1mn
Shares o/s	223mn
3M ADV	US$ 0.5mn
52wk high/low	Rs 222/Rs 112
Promoter/FPI/DII	73%/7%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	20,239	22,804	23,911	26,195	28,718
EBITDA (Rs mn)	3,334	3,124	3,682	4,062	4,511
Adj. net profit (Rs mn)	1,598	1,542	1,790	2,184	2,445
Adj. EPS (Rs)	7.2	6.9	8.1	9.8	11.0
Adj. EPS growth (%)	(5.4)	(3.5)	16.1	22.0	12.0
Adj. ROAE (%)	20.4	16.9	17.0	17.9	17.3
Adj. P/E (x)	22.9	23.7	20.4	16.8	15.0
EV/EBITDA (x)	12.6	13.5	11.3	9.9	8.6

Source: Company, BOBCAPS Research

BUY
TP: Rs 120 | ⮝ 18%

ALLCARGO LOGISTICS | Logistics | 11 November 2019

CFS, P&E segments drag down profitability

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Allcargo Logistics' (AGLL) Q2FY20 performance was below our estimates. Consolidated revenue grew 8% YoY to Rs 18.7bn (est. Rs 19.1bn) led by the MTO segment (+10% YoY). EBITDA margin (adj. for Ind-AS 116) contracted ~100bps YoY to 6.2% as CFS and P&E profitability slumped. We maintain a cautious near-term stance on the business due to continued headwinds across segments. Rolling valuations over, we move to a revised Mar'21 TP of Rs 120 (vs. Rs 125). Maintain BUY on current cheap valuations of 7.5x FY22E EPS.

CFS, P&E disappoint: After growing for three quarters, P&E revenue slumped 19% YoY in Q2 as subdued demand from core end-user sectors weighed on capacity utilisation. Consequently, the segment posted an EBIT loss of Rs 54mn (vs. a loss of Rs 10mn YoY). CFS segment volume/revenue was flat (+0.6%/–0.3% YoY), hit by lower dwell time at CFSs and weaker imports. Segmental EBIT plunged 24% YoY on a poor volume mix and cost increases.

MTO segment steady: Backed by market share gains in the LCL and FCL categories, MTO volume/realisation grew 6%/4% YoY. However, slowing global container trade (~+2% in Q2, as per management) remains an overhang on near-term growth prospects.

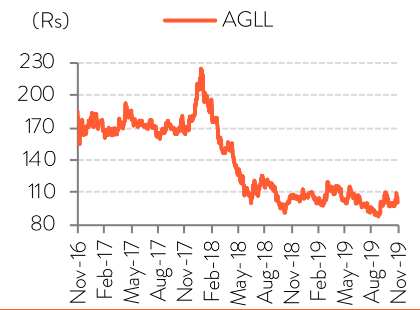
Logistics park revenue from Q4: AGLL plans to deliver ~3mn sq ft of logistics park space to clients in H2 and expects to generate ~Rs 60mn/month of revenue from end-Q3. Segmental capex was ~Rs 1.2bn in Q2FY20.

Reduce TP: We prune FY20-FY22 earnings estimates by ~1.5% each. Given the tough business climate, we also lower our target P/E multiple for the core business to 9x (from 10x). On rollover, we have a new Mar'21 TP of Rs 120.

Ticker/Price	AGLL IN/Rs 102
Market cap	US$ 350.0mn
Shares o/s	246mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 124/Rs 87
Promoter/FPI/DII	70%/12%/4%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,492	68,949	75,616	85,413	96,486
EBITDA (Rs mn)	3,771	4,485	4,967	5,758	6,681
Adj. net profit (Rs mn)	1,808	2,478	2,519	2,847	3,205
Adj. EPS (Rs)	7.4	10.1	10.3	11.6	13.0
Adj. EPS growth (%)	(26.9)	42.5	1.6	13.0	12.6
Adj. ROAE (%)	9.6	12.5	12.1	12.5	12.9
Adj. P/E (x)	13.8	10.1	9.9	8.8	7.8
EV/EBITDA (x)	7.5	5.9	5.8	5.2	4.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 385 | ⮝ 99%

HG INFRA ENGINEERING | Infrastructure | 11 November 2019

Solid quarter; growth momentum to pick up in H2

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HG Infra's (HGIEL) Q2FY20 PAT grew ahead of estimates at 57% YoY, led by gross margin expansion, softer interest cost and a lower tax rate. Revenue was in line (+10.5% YoY) and EBITDA margin expanded 95bps YoY to 15.5% (14.9% est.) due to better operating efficiencies. Gross debt stood at Rs 3.4bn (0.3x net D/E). Order backlog totalled Rs 62.7bn (incl. L1), 2.9x TTM revenues. We increase FY20/FY21 earnings by 6-7% each and roll over to a revised Sep'20 TP of Rs 385 (vs. Rs 395).

Ticker/Price	HGINFRA IN/Rs 194
Market cap	US$ 176.9mn
Shares o/s	65mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 308/Rs 173
Promoter/FPI/DII	74%/0%/16%

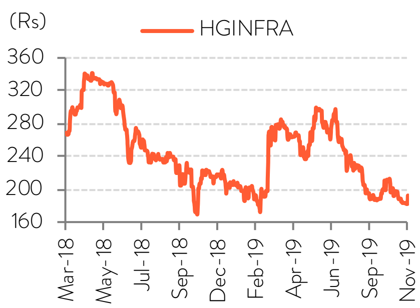
Source: NSE

Revenue in line; operating efficiencies aid margin expansion: Q2 revenue grew 10.5% YoY to Rs 4.7bn, subdued by the heavy monsoons. Gross margin expansion of ~75bps YoY and various cost efficiency measures resulted in EBITDA margin expansion of 95bps YoY to 15.5% and EBITDA growth of 18% YoY to Rs 733bn. PAT increased 57% YoY to Rs 386mn supported by reduced interest cost and a lower tax rate at 18.6% (22.4% est.; moved to new tax regime). FY20 revenue/EBITDA margin guidance remains at Rs 25bn/~15%.

Order inflows subdued: As against a strong Rs 39bn print in FY19, order inflows remain subdued at ~Rs 9.5bn in FY20 YTD. FY20 guidance stands at Rs 35bn-40bn and management expects a pickup in ordering from NHAI by end-Dec'19. We assume inflows of Rs 29.5bn in FY20 building in delays due to funding constraints and land acquisition hurdles.

Maintain BUY: We increase our FY20/FY21 earnings estimates by 6-7% each led by revenue/margin expansion and lower interest costs. At the same time, we pare our target P/E for the EPC business from 10x to 9x due to near-term headwinds to order inflows and also high competition and aggressive bidding in the EPC space. On rolling valuations forward, our TP stands at Rs 385.

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,927	20,098	24,992	30,454	33,571
EBITDA (Rs mn)	2,081	3,032	3,772	4,552	5,018
Adj. net profit (Rs mn)	843	1,236	1,933	2,381	2,623
Adj. EPS (Rs)	20.3	19.0	29.7	36.5	40.2
Adj. EPS growth (%)	(31.7)	(6.4)	56.4	23.2	10.2
Adj. ROAE (%)	23.5	20.6	25.6	24.7	21.6
Adj. P/E (x)	9.6	10.2	6.5	5.3	4.8
EV/EBITDA (x)	6.8	4.8	4.1	3.4	3.0

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 340 | ⮝ 84%

SOMANY CERAMICS | Construction Materials | 11 November 2019

Margins surprise positively

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Somany Ceramics (SOMC) reported in-line consolidated revenue growth of 7.9% YoY in Q2FY20 to Rs 4.2bn, aided by a 4.8% uptick in tile volumes. Consolidated operating margins expanded 385bps YoY to 10.6%, ahead of estimates, propelling increases of 69%/109% YoY in EBITDA/PBT. Management guided for stronger margins in FY20 but lower 7-8% volume growth in tiles (earlier high single-digit to low double-digit growth). We thus cut FY20-FY22 PAT by 4-5% and roll to an unchanged Sep'20 TP of Rs 340.

Modest volume growth: SOMC reported 7.9% YoY consolidated topline growth, with revenue from the tiles segment increasing 6.8% (as volumes/ realisations rose 4.8%/2%) and sanitaryware & allied revenue also rising ~6.8% YoY. Volumes were affected by the tepid demand conditions, floods in several geographies and the shutdown in Kashmir during the quarter. SOMC indicated that volume growth in H2 should be similar to that in H1 (6.3%).

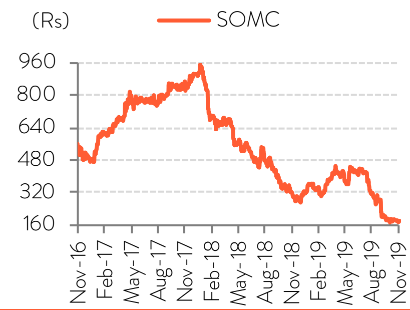
Operating margins expand: Consolidated operating margins increased 385bps YoY to 10.6% due to gross margin expansion (+433bps), aiding EBITDA growth of 69% YoY. Gross margins benefited from a better product mix and lower gas prices YoY. The company has provided for a sum of Rs 261.8mn due from Mentor Financial Services during the quarter, which affected reported PAT. Management stated that cash flows in future would be primarily used for debt repayment and not treasury operations.

Maintain BUY: We cut FY20-FY22 EPS estimates by 4-5% on lower growth guidance; rolling valuations forward, we have an unchanged Sep'20 TP of Rs 340. The stock is trading at a cheap 9x FY21E EPS and could remain subdued pending better internal control and use of cash flow for debt reduction.

Ticker/Price	SOMC IN/Rs 185
Market cap	US$ 109.6mn
Shares o/s	42mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 472/Rs 174
Promoter/FPI/DII	51%/3%/45%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	17,119	17,110	18,195	20,313	22,653
EBITDA (Rs mn)	1,878	1,576	1,865	2,133	2,390
Adj. net profit (Rs mn)	730	490	649	870	1,060
Adj. EPS (Rs)	17.2	11.6	15.3	20.5	25.0
Adj. EPS growth (%)	(24.7)	(32.9)	32.6	34.1	21.8
Adj. ROAE (%)	13.2	8.2	10.2	12.5	13.4
Adj. P/E (x)	10.7	16.0	12.1	9.0	7.4
EV/EBITDA (x)	6.7	7.5	6.7	5.4	4.5

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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