BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

14 November 2019

RESEARCH

BOB Economics Research | Retail Inflation

CPI accelerates but core moderates

Mayur Uniquoters | Target: Rs 325 | +45% | BUY

Demand slowdown deepens

Aurobindo Pharma | Target: Rs 500 | +14% | ADD

Q2 beat; facility resolution, Sandoz key stock triggers

Muthoot Finance | Target: Rs 825 | +27% | BUY

Demand uptick to offset lower liability mobilisation

Finolex Industries | Target: Rs 625 | +7% | ADD

Lower PVC-EDC delta hurts profitability

SUMMARY

India Economics: Retail Inflation

Retail inflation rose to a 16-month high of 4.6% in Oct'19, breaching MPC's target of 4%, led by food inflation (especially vegetables at 26% and pulses at 11.7%). This is on the back of supply disruptions. Muted demand drove core inflation to its lowest in the current series at 3.4%. Health inflation fell by 210bps MoM, personal care by 120bps and household goods and services by 110bps. With growth likely to slip to 4.5% in Q2, MPC members are likely to emphasize on growth and thus cut rates by another 25bps in Dec'19.

Click here for the full report.

Mayur Uniquoters

Mayur Uniquoters' (MUNI) Q2FY20 standalone revenue declined 16% YoY amid a continued slowdown in user industries (footwear, auto) where volumes dropped 20% YoY. Standalone operating margins contracted 185bps YoY to 16.8% due to higher employee and other expenses, which offset gross margin gains of 140bps. EBITDA/PBT were down 24%/27% YoY. We cut FY20-FY22 PAT estimates by 7-12% due to the deepening downturn in user industries. Rolling valuations over, we have a Sep'20 TP of Rs 325 (Rs 335 earlier).

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 (%)	1.93	(1bps)	21bps	(121bps)
India 10Y yield (%)*	6.77	2bps	9bps	(99bps)
USD/INR	71.47	(0.3)	(0.3)	1.7
Brent Crude (US$/bbl)	62.06	(0.2)	4.6	(5.2)
Dow	27,691	0	3.4	9.5
Shanghai	2,915	0.2	(3.1)	9.8
Sensex	40,345	0.1	5.6	14.8
India FII (US$ mn)	**8 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(23.8)	628.3	5,315.2	4,770.5
FII-E	748.6	1,375.5	11,598.3	4,753.1

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

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Aurobindo Pharma

Sequential improvement in US sales to US$ 405mn and stable gross margins led to a modest beat overall in Q2. The pickup in US business is broad-based. Injectable sales increased 12% QoQ and management expects the momentum to continue. Aurobindo (ARBP) clarified that the Sandoz FTC delay is not product-specific and expects to submit CAPAs to the FDA for Units 1, 9 and 11 by 15 Nov (reinspection likely in Mar'20). We believe FDA clearance on Units 7 and 4 (inspection ongoing) will be key near-term stock triggers. Retain ADD.

Click here for the full report.

Muthoot Finance

Muthoot Finance's (MUTH) gold AUM increased 11% YoY to Rs 357bn in Q2FY20, the slowest growth in the last five quarters as the company calibrated LTV to 68%. Lower liability mobilisation led to lower disbursals. Demand uptick and robust collections largely offset incremental borrowing cost, keeping spreads buoyant at 14.4%. Stable expenses and low credit cost aided a 40% YoY increase in PBT to Rs 10.5bn. We largely retain FY20-FY22 estimates. Despite rolling valuations over, our Mar'21 TP remains at Rs 825.

Click here for the full report.

Finolex Industries

Finolex Industries (FNXP) reported above-expected Q2FY20 revenue growth of 6.3% YoY, aided by a 6% increase in PVC pipe volumes while PVC resins declined 4.7%. EBITDA margins shrank 880bps YoY to 14.2% due to lower PVC resin margins, following ~9% YoY contraction in the PVC-EDC delta – this pulled EBITDA/PBT down by 34%/32% YoY. Management maintained guidance for 12-14% volume growth in PVC pipes during FY20. We broadly retain estimates and roll over to a Sep'20 TP of Rs 625 (earlier Rs 610).

Click here for the full report.

RETAIL INFLATION

13 November 2019

CPI accelerates but core moderates

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Retail inflation rose to a 16-month high of 4.6% in Oct'19, breaching MPC's target of 4%, led by food inflation (especially vegetables at 26% and pulses at 11.7%). This is on the back of supply disruptions. Muted demand drove core inflation to its lowest in the current series at 3.4%. Health inflation fell by 210bps MoM, personal care by 120bps and household goods and services by 110bps. With growth likely to slip to 4.5% in Q2, MPC members are likely to emphasize on growth and thus cut rates by another 25bps in Dec'19.

KEY HIGHLIGHTS

- CPI inflation rises to 4.6% in Oct'19 led by food.
- Food inflation jumps to 7.9% in Oct'19 from 5.1% in Sep'19 led by vegetables (26.1%) and pulses (11.7%).
- Core inflation drops to its lowest in the current series to 3.4% in Oct'19.

Food inflation jumps further: Headline CPI breached MPC's 4% target at 4.6% in Oct'19 from 4% in Sep'19, led by food. Food inflation rose to a 39-month high of 7.9% in Oct'19 from 5.1% in Sep'19. This was led by sharp increase in vegetable prices at 26.1% versus 15.5% in Sep'19. In addition, prices of fruits accelerated at a 15-month high of 4.1% versus 0.8% in Sep'19. Prices of pulses too rose at a 37-month high of 11.7% versus 8.4% in Sep'19. The bigger question is that is there a structural tailwind to this or is just cyclical. We believe in a backdrop of muted demand, most of this is driven by impact of unseasonal rains and low base and is likely to reverse.

Core dips sharply as demand fades: CPI inflation excluding food and fuel edged down by 50bps to 3.4% in Oct'19 compared with 3.9% in Sep'19 and 6.2% in Oct'18. Except clothing and footwear, all categories of core inflation softened in Oct'19. The sharpest decline was seen in health (down by 210bps on MoM basis), personal care items (120bps) and household goods and services (110bps). The dip in global crude prices (-4.3% on MoM basis) and base effect pushed transport and communication and personal care and effects inflation lower. Given muted consumption and investment demand, we expect core inflation to remain below 4% in H2FY20.

Rate cut on the cards: Despite headline CPI above MPC's 4% target, we expect another rate cut in Dec'19 as growth in Q2 is likely to dip to 4.5% from 5% in Q1. Growth in FY20 is now expected at 5.2% from our earlier estimate of 6.2% with a gradual pick-up to 6.2% in FY21. While MPC members will raise concerns on inflation, the focus will remain on growth and thus the 25bps rate cut. Rate trajectory post Dec'19 policy depends upon fiscal outlook for FY21. Subdued growth and fiscal restraint may warrant another rate cut in Feb'20 or Apr'20 policy to bring real rates lower.

BUY
TP: Rs 325 | 45%

MAYUR UNIQUOTERS | Textiles | 13 November 2019

Demand slowdown deepens

Mayur Uniquoters' (MUNI) Q2FY20 standalone revenue declined 16% YoY amid a continued slowdown in user industries (footwear, auto) where volumes dropped 20% YoY. Standalone operating margins contracted 185bps YoY to 16.8% due to higher employee and other expenses, which offset gross margin gains of 140bps. EBITDA/PBT were down 24%/27% YoY. We cut FY20-FY22 PAT estimates by 7-12% due to the deepening downturn in user industries. Rolling valuations over, we have a Sep'20 TP of Rs 325 (Rs 335 earlier).

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Continued weakness in user industries dents revenue: MUNI reported a 16% YoY decline in standalone revenue to Rs 1.2bn for Q2FY20, with volumes contracting 20% YoY. Volumes sagged across verticals – the auto replacement segment was down 42% and footwear 37%. Management sees a bleak near-term demand outlook pending recovery in auto sales. The new PU plant will start trial production in November and commercial production from December this year.

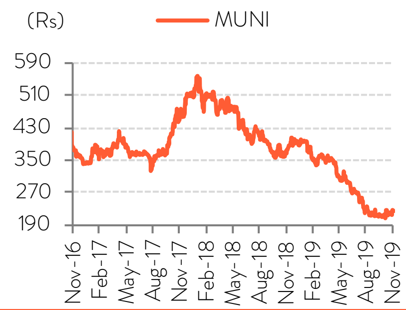
Operating margins contract: Despite gross margin expansion (+140bps), MUNI reported a 185bps drop in standalone operating margins to 16.8% due to higher employee cost (+90bps) and other expenditure (+240bps) – this dragged EBITDA/PBT down 24%/27% YoY. Gross margins expanded due to a better product mix whereas other expenses increased due to a Rs 20mn provision for bad debts and another Rs 20mn in fair value adjustment.

Maintain BUY: In light of the sustained downturn in end-user verticals, we cut FY20-FY22 PAT estimates by 7-12%. Maintain BUY with a revised Sep'20 TP of Rs 325 (vs. Rs 335), set at an unchanged 15x one-year forward P/E.

Ticker/Price	MUNI IN/Rs 224
Market cap	US$ 140.7mn
Shares o/s	45mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 406/Rs 202
Promoter/FPI/DII	61%/13%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,700	5,913	5,399	6,723	7,816
EBITDA (Rs mn)	1,500	1,292	942	1,338	1,579
Adj. net profit (Rs mn)	905	727	688	892	1,079
Adj. EPS (Rs)	20.0	16.0	15.2	19.7	23.8
Adj. EPS growth (%)	21.9	(19.7)	(5.3)	29.6	21.0
Adj. ROAE (%)	21.7	15.0	12.7	14.9	16.2
Adj. P/E (x)	11.2	14.0	14.7	11.4	9.4
EV/EBITDA (x)	5.9	6.5	8.8	6.2	5.0

Source: Company, BOBCAPS Research

ADD
TP: Rs 500 | ⮝ 14%

AUROBINDO PHARMA | Pharmaceuticals | 13 November 2019

Q2 beat; facility resolution, Sandoz key stock triggers

Sequential improvement in US sales to US$ 405mn and stable gross margins led to a modest beat overall in Q2. The pickup in US business is broad-based. Injectable sales increased 12% QoQ and management expects the momentum to continue. Aurobindo (ARBP) clarified that the Sandoz FTC delay is not product-specific and expects to submit CAPAs to the FDA for Units 1, 9 and 11 by 15 Nov (reinspection likely in Mar'20). We believe FDA clearance on Units 7 and 4 (inspection ongoing) will be key near-term stock triggers. Retain ADD.

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Steady gross margins to sustain; good US beat continues: ARBP saw best-ever US sales of US$ 405mn in Q2 (+6% QoQ), led by good volume growth in the base portfolio and Eugia ramp-up. Management confirmed that all types of sartans have been discontinued except for Losartan. Valsartan has been re-filed under the CB-30 route and approval is expected in the near term. Spectrum's annualised sales of US$ 100mn are tracking above estimates. Injectable sales rose 12% QoQ to US$ 75mn; management expects the Q2 run-rate to sustain in H2. Gross margins were steady QoQ at 57.7% on a higher US mix. ARBP aims to be debt-free on the existing business (ex-Sandoz) in next 3 years.

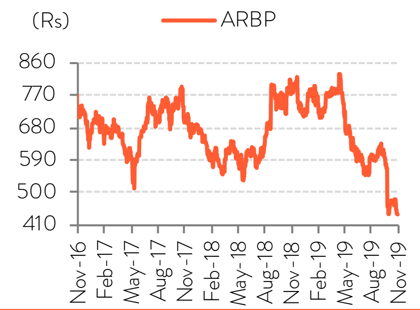
Clearance on Units 7 & 4 key to stock: While an outcome of the ongoing FDA inspection at Unit 4 (injectable unit & ~5% of FY21E sales) is awaited, the risk-reward looks reasonable with the stock trading at 9.3x FY21E EPS (40% disc. to peers). Expect another 5% downside in the worst case (warning letter for Unit 7).

Downside risks: Escalation of Unit 7 observations (10% of topline), adverse outcome on Unit 4 inspection, Sandoz consolidation delays, and penalty risk from Aceto supply sabotage claim.

Ticker/Price	ARBP IN/Rs 438
Market cap	US$ 3.6bn
Shares o/s	586mn
3M ADV	US$ 26.5mn
52wk high/low	Rs 838/Rs 431
Promoter/FPI/DII	52%/19%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	164,630	195,634	224,492	279,710	286,632
EBITDA (Rs mn)	37,718	39,519	46,597	53,325	54,858
Adj. net profit (Rs mn)	24,227	24,126	26,953	27,511	27,809
Adj. EPS (Rs)	41.3	41.2	46.0	47.0	47.5
Adj. EPS growth (%)	5.3	(0.4)	11.7	2.1	1.1
Adj. ROAE (%)	23.1	18.8	17.8	15.7	13.9
Adj. P/E (x)	10.6	10.6	9.5	9.3	9.2
EV/EBITDA (x)	7.6	7.4	6.6	5.7	6.5

Source: Company, BOBCAPS Research

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BUY
TP: Rs 825 | 27%

MUTHOOT FINANCE | NBFC | 13 November 2019

Demand uptick to offset lower liability mobilisation

Muthoot Finance's (MUTH) gold AUM increased 11% YoY to Rs 357bn in Q2FY20, the slowest growth in the last five quarters as the company calibrated LTV to 68%. Lower liability mobilisation led to lower disbursals. Demand uptick and robust collections largely offset incremental borrowing cost, keeping spreads buoyant at 14.4%. Stable expenses and low credit cost aided a 40% YoY increase in PBT to Rs 10.5bn. We largely retain FY20-FY22 estimates. Despite rolling valuations over, our Mar'21 TP remains at Rs 825.

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LTV calibration dampens loan growth: Gold loan AUM increased 11% YoY (the slowest pace in the last five quarters) to Rs 357bn as the company calibrated its LTV due to increasing gold prices. Gold tonnage came off by 3% QoQ to 171t as customers pledged lower amounts of gold. Due to higher collections, yields (calc.) spiked ~270bps QoQ to 23.9%.

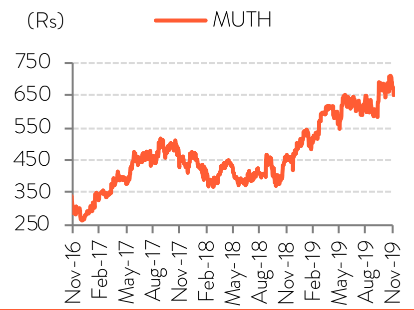
Foreign borrowing to weigh on borrowing cost: Reduced liability mobilisation from banks led MUTH to access foreign debt markets. The company has raised US$ 450mn at a higher cost than the domestic cost of funds (of ~9.5%). Calculated spreads increased ~240bps YoY to 14.4%. We believe the demand uptick will largely offset the incremental cost of funds, keeping spreads stable.

Strong expense control, credit cost in check: MUTH's expense ratio remained close to the 18-quarter average at 4.4% due to stable employee expense and rent. Though credit costs surged 25bps YoY owing to Rs 141mn in write-offs, PBT increased 40% YoY to Rs 10.5bn.

Ticker/Price	MUTH IN/Rs 650
Market cap	US$ 3.6bn
Shares o/s	401mn
3M ADV	US$ 8.2mn
52wk high/low	Rs 719/Rs 543
Promoter/FPI/DII	73%/15%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	42,707	45,202	50,787	58,289	66,344
NII growth (%)	27.7	5.8	12.4	14.8	13.8
Adj. net profit (Rs mn)	17,776	19,721	25,507	29,554	34,038
EPS (Rs)	44.4	49.2	63.7	73.8	85.0
P/E (x)	14.6	13.2	10.2	8.8	7.7
P/BV (x)	3.3	2.7	2.2	1.9	1.6
ROA (%)	5.8	5.7	6.3	6.5	6.5
ROE (%)	24.8	22.4	23.9	23.4	22.9

Source: Company, BOBCAPS Research

RESULT REVIEW

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ADD
TP: Rs 625 | 7%

FINOLEX INDUSTRIES | Plastic Products | 13 November 2019

Lower PVC-EDC delta hurts profitability

Finolex Industries (FNXP) reported above-expected Q2FY20 revenue growth of 6.3% YoY, aided by a 6% increase in PVC pipe volumes while PVC resins declined 4.7%. EBITDA margins shrank 880bps YoY to 14.2% due to lower PVC resin margins, following ~9% YoY contraction in the PVC-EDC delta – this pulled EBITDA/PBT down by 34%/32% YoY. Management maintained guidance for 12-14% volume growth in PVC pipes during FY20. We broadly retain estimates and roll over to a Sep'20 TP of Rs 625 (earlier Rs 610).

Arun Baid
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Modest revenue growth: FNXP's Q2 revenue increased 6.3% YoY to Rs 5.8bn. The PVC resin segment declined 7.3% YoY with both volumes/realisations slipping 4.7%/2.8% YoY, while PVC pipes & fittings grew 9.9% YoY backed by higher volumes/realisations of 6.1%/3.6% YoY. Pipe volumes were dampened by heavy rains during the quarter. During H1FY20, PVC pipe & fitting volumes grew 13.6% YoY; management expects similar growth in the busy H2 season and hence retained its FY20 guidance of 12-14% growth in PVC pipe volumes.

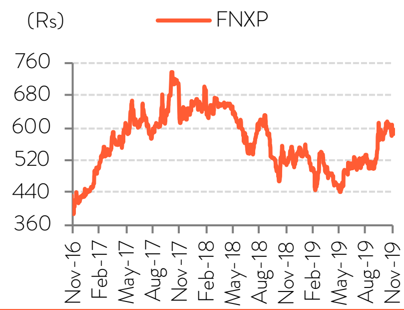
Lower PVC-EDC delta compresses margins: FNXP's operating margins plunged 880bps YoY as raw material cost surged 730bps – consequently, EBITDA/PBT dropped 34%/32% YoY. The PVC resin segment saw EBIT margins collapse ~13ppt YoY due to hardening ethylene di-chloride (EDC) prices and sliding PVC prices, which led to a ~9% YoY drop in PVC-EDC delta. The delta has remained at similar levels (~US$ 590/mt) during October.

Maintain ADD: We largely maintain our earnings estimates and roll forward to a Sep'20 TP of Rs 625 (earlier Rs 610), set at an unchanged 20x one-year forward P/E.

Ticker/Price	FNXP IN/Rs 586
Market cap	US$ 1.0bn
Shares o/s	124mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 627/Rs 437
Promoter/FPI/DII	52%/2%/45%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	27,378	30,913	34,955	38,041	41,532
EBITDA (Rs mn)	4,839	6,043	5,041	5,324	5,767
Adj. net profit (Rs mn)	2,993	3,857	3,538	3,706	4,061
Adj. EPS (Rs)	24.1	31.1	28.5	29.9	32.7
Adj. EPS growth (%)	(15.7)	28.9	(8.3)	4.7	9.6
Adj. ROAE (%)	11.7	14.4	13.4	13.3	13.8
Adj. P/E (x)	24.3	18.8	20.5	19.6	17.9
EV/EBITDA (x)	15.1	12.1	14.1	12.8	11.8

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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