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FIRST LIGHT

19 August 2019

RESEARCH

Ashoka Buildcon | Target: Rs 185 | +54% | BUY
Revenue miss; execution to scale up from H2FY20

Sadbhav Engineering | Target: Rs 180 | +44% | BUY
Execution challenges cloud FY20 outlook

KNR Constructions | Target: Rs 350 | +50% | BUY
Revenue disappoints but beat on margins; growth visibility intact

Logistics | Monthly Tracker
Major ports, container rail volumes improve; EXIM sluggish

SUMMARY

Ashoka Buildcon

Ashoka Buildcon's (ASBL) Q1FY20 revenue grew 28% YoY to Rs 8.8bn, below our estimate of Rs 11.8bn due to delayed execution of power T&D/ railways projects. EBITDA margin grew 60bps YoY to 12.5% (12.4% est.) on a better revenue mix, but PAT was flattish at Rs 647mn (Rs 739mn est.). The Jun'19 order backlog stood at Rs 90bn (2.4x TTM revenues). Better recoveries saw gross external debt decline by Rs 1.4bn QoQ to Rs 5.8bn. We trim our earnings by 2%/4% and roll over to a new Jun'20 TP of Rs 185 (vs. Rs 205).

Click here for the full report.

Sadbhav Engineering

Sadbhav Engineering's (SADE) Q1FY20 revenue underperformed estimates, dropping 8% YoY due to tardy execution of HAM projects and delayed AD award for newer contracts. EBITDA margins were healthy, rising 75bps YoY to 12.5%, but PAT nosedived 34% YoY on higher tax and interest cost. We downgrade FY20/FY21 EPS by 27%/35% given execution hurdles and the miss on revenue, but maintain BUY on cheap valuations post the 50% stock correction since April. On rollover, we have a reduced Jun'20 TP of Rs 180 (vs. Rs 295).

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current**	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.53	(18bps)	(56bps)	(134bps)
India 10Y yield (%)	6.63	11bps	20bps	(123bps)
USD/INR	71.27	0.2	(4.0)	(1.6)
Brent Crude (US$/bbl)	25,579	0.4	(6.5)	0.1
Dow	2,816	0.2	(4.3)	4.1
Shanghai	37,312	1.0	(4.1)	(0.9)
Sensex	58.23	(2.1)	(12.4)	(18.5)
India FII (US$ mn)	**13 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	(54.1)	109.7	2,763.6	2,219.0
FII-E	(78.6)	(1,564.5)	7,840.1	994.9

Source: Bank of Baroda Economics Research | **Refers to data as on 14.08.2019 for India

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KNR Constructions

KNR Constructions' (KNRC) Q1FY20 revenue dropped 17% YoY to Rs 4.6bn, >20% under estimates due to deferred AD award. EBITDA margin at 19.4% (–40bps YoY) beat our 15.5% forecast due to lower subcontracting cost and a better project mix. PAT fell 36% YoY on higher tax and interest cost. KNRC's Jun'19 order backlog stood at Rs 65bn (incl. L1 projects) or 3.2x TTM revenues. We trim FY20 EPS 6% and roll over to a new Jun'20 TP of Rs 350 (vs. Rs 365).

Click here for the full report.

Logistics: Monthly Tracker

High frequency indicators exhibited a mixed trend in Jul'19. Despite slowing manufacturing output (1.2% YoY vs. 4.5% in Jun'19) and weak EXIM trade (–6% YoY), cargo volumes at major ports were more resilient, growing 3.5% YoY after two months of decline. Container traffic at major ports also grew at a decent 6% YoY. Container rail volumes held steady at 4% YoY, but a surprise uptick in EXIM lead distance (+6%) led to better NTKM growth of 5%. We expect the next few months to be sluggish owing to a weak trade outlook and soft consumption.

Click here for the full report.

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BUY
TP: Rs 185 | ⮝ 54%

ASHOKA BUILDCON | Infrastructure | 16 August 2019

Revenue miss; execution to scale up from H2FY20

Ashoka Buildcon's (ASBL) Q1FY20 revenue grew 28% YoY to Rs 8.8bn, below our estimate of Rs 11.8bn due to delayed execution of power T&D/ railways projects. EBITDA margin grew 60bps YoY to 12.5% (12.4% est.) on a better revenue mix, but PAT was flattish at Rs 647mn (Rs 739mn est.). The Jun'19 order backlog stood at Rs 90bn (2.4x TTM revenues). Better recoveries saw gross external debt decline by Rs 1.4bn QoQ to Rs 5.8bn. We trim our earnings by 2%/4% and roll over to a new Jun'20 TP of Rs 185 (vs. Rs 205).

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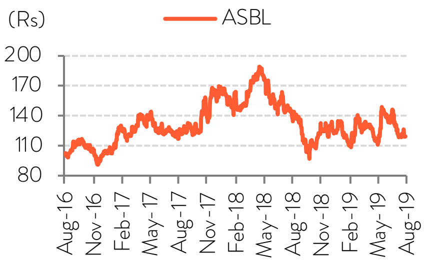
Ticker/Price	ASBL IN/Rs 120
Market cap	US$ 472.3mn
Shares o/s	281mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 155/Rs 93
Promoter/FPI/DII	54%/4%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Delayed execution behind miss on revenue: Q1 revenue grew 28% YoY to Rs 8.8bn, but came in below estimates due to a delayed start in execution of newer power T&D/railways projects, where segmental revenue plunged 51% QoQ to Rs 1.5bn. Revenue from the roads segment also declined 27% QoQ to Rs 6.8bn due to delayed award of appointed dates (AD). Heavy monsoons are likely to cap Q2 revenue as well. With AD award for the two HAM projects guided by Oct'19, we expect revenue to gather pace from H2FY20.

PAT growth muted: EBITDA grew 35% YoY to Rs 1.1bn (Rs 1.5bn est.) and margins expanded 60bps YoY to 12.5% (12.4% est.) led by a favourable revenue mix (~82% road and 18% power T&D). Higher interest cost (+25% YoY) and depreciation (+96% YoY) dulled PAT growth at 1% YoY to Rs 647mn.

Gross debt reduces; power T&D receivables a drag: Debt fell to Rs 5.8bn as on Jun'19 (Rs 7.2bn as on Mar'19), and management guided for Rs 5bn-6bn levels by Mar'20. Power T&D segment has receivables (incl. unbilled revenues) of ~Rs 5.5bn. Receivables are guided at 100 days by Mar'20 (105-110 days in T&D).

Maintain BUY: We cut FY20/FY21 EPS by 2%/4% on below-estimated revenue partly set off by softer interest cost, and move to a Jun'20 TP of Rs 185.

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,370	3,332	2,966	3,346	3,585
Adj. EPS (Rs)	8.4	11.9	10.6	11.9	12.8
Adj. EPS growth (%)	34.6	40.6	(11.0)	12.8	7.2
Adj. ROAE (%)	13.0	16.1	12.7	12.8	12.3
Adj. P/E (x)	14.2	10.1	11.4	10.1	9.4
EV/EBITDA (x)	11.9	6.6	7.2	6.3	5.8

Source: Company, BOBCAPS Research

BUY
TP: Rs 180 | ⮝ 44%

SADBHAV ENGINEERING | Infrastructure | 16 August 2019

Execution challenges cloud FY20 outlook

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Sadbhav Engineering's (SADE) Q1FY20 revenue underperformed estimates, dropping 8% YoY due to tardy execution of HAM projects and delayed AD award for newer contracts. EBITDA margins were healthy, rising 75bps YoY to 12.5%, but PAT nosedived 34% YoY on higher tax and interest cost. We downgrade FY20/FY21 EPS by 27%/35% given execution hurdles and the miss on revenue, but maintain BUY on cheap valuations post the 50% stock correction since April. On rollover, we have a reduced Jun'20 TP of Rs 180 (vs. Rs 295).

Execution slowdown brings growth to a halt: Q1 revenue declined 8% YoY to Rs 8.4bn vs. our estimate of Rs 9.8bn due to slow execution in ongoing HAM projects (ROW issues) and delays in receipt of appointed dates (AD) for the HAM contracts bagged in Q4FY18. SADE also terminated the Vizag Port road project due to land acquisition issues, which depleted the Jun'19 order backlog. As a result, its FY20 revenue guidance remains muted at Rs 36bn (+1.4% YoY). We now expect a modest revenue CAGR of 9.4% over FY19-FY22.

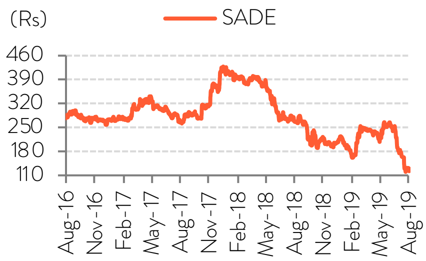
Loans & advances to SIPL swell; debt stays high: Loans & advances to subsidiary SIPL swelled by Rs 1bn QoQ to Rs 6.3bn mainly to support equity investments in HAM projects. Standalone gross debt increased by Rs 400mn QoQ to Rs 15.3bn; net D/E as on Jun'19 was at 0.7x (unchanged QoQ). We expect gearing to moderate to 0.5x as on Mar'21 as receivables improve backed by a rising share of revenue from HAM projects (which have a faster payment schedule vis-à-vis EPC).

Maintain BUY on cheap valuations: We slash FY20/FY21 EPS by 27%/35% to accommodate the disappointing Q1 revenues and hence reduce our SOTP-based TP to Rs 180. The stock has corrected ~50% since Apr'19 and appears to be largely pricing in the negatives. We find valuations of the core EPC business comfortable at 7x/5.6x FY20E/FY21E EPS and thus maintain BUY.

Ticker/Price	SADE IN/Rs 125
Market cap	US$ 300.9mn
Shares o/s	172mn
3M ADV	US$ 0.8mn
52wk high/low	Rs 308/Rs 115
Promoter/FPI/DII	47%/13%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,206	1,862	1,562	1,944	2,345
Adj. EPS (Rs)	12.9	10.9	9.1	11.3	13.7
Adj. EPS growth (%)	17.4	(15.6)	(16.1)	24.5	20.6
Adj. ROAE (%)	12.5	9.5	7.4	8.6	9.6
Adj. P/E (x)	9.7	11.5	13.7	11.0	9.1
EV/EBITDA (x)	9.4	8.4	8.5	7.1	6.1

Source: Company, BOBCAPS Research

RESULT REVIEW

BUY
TP: Rs 350 | ⮝ 50%

KNR CONSTRUCTIONS | Infrastructure | 17 August 2019

Revenue disappoints but beat on margins; growth visibility intact

KNR Constructions' (KNRC) Q1FY20 revenue dropped 17% YoY to Rs 4.6bn, >20% under estimates due to deferred AD award. EBITDA margin at 19.4% (–40bps YoY) beat our 15.5% forecast due to lower subcontracting cost and a better project mix. PAT fell 36% YoY on higher tax and interest cost. KNRC's Jun'19 order backlog stood at Rs 65bn (incl. L1 projects) or 3.2x TTM revenues. We trim FY20 EPS 6% and roll over to a new Jun'20 TP of Rs 350 (vs. Rs 365).

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Non-receipt of AD hinders execution; expect better H2: Q1 revenue declined 17% YoY to Rs 4.6bn (Rs 5.9bn est.) as the expected appointed dates (AD) did not materialise, pushing back the execution of HAM projects. KNRC also saw a drag from unbilled revenue of Rs 400mn-500mn (booked in Q2). The order backlog as on Jun'19 stood at Rs 65.2bn (incl. L1 projects of Rs 18.9bn), with visibility of 3.2x TTM revenues.

The company expects to bag a ~Rs 8.5bn irrigation subcontracting project from Mega Engineering in Telangana. We model for a revenue CAGR of 20% over FY19-FY22 led by likely AD award in the KSHIP HAM project by end-Sep'19 and start of irrigation works (EPC value of ~Rs 17bn) post monsoon.

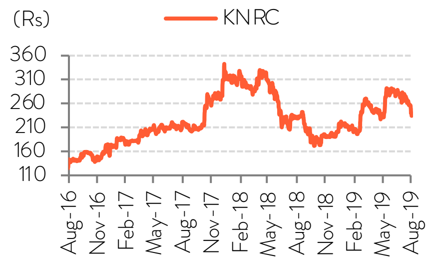
Receivable days elongated but leverage under control: KNRC executed ~Rs 2bn of work on its three NHAI HAM projects in Q1. But payments were delayed, resulting in high receivable days of 58 days (40 as on Mar'19). Net D/E remained under control at 0.2x as on Jun'19 (unchanged QoQ).

Maintain BUY: We adjust FY20/FY21 earnings by –5.8%/+1.1% to build in the Q1 performance and roll forward to a revised Jun'20 TP of Rs 350 (from Rs 365).

Ticker/Price	KNRC IN/Rs 233
Market cap	US$ 461.7mn
Shares o/s	141mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 303/Rs 165
Promoter/FPI/DII	55%/3%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,721	2,468	1,999	2,800	2,577
Adj. EPS (Rs)	19.3	17.6	14.2	19.9	18.3
Adj. EPS growth (%)	61.8	(9.3)	(19.0)	40.1	(8.0)
Adj. ROAE (%)	26.5	19.2	13.1	15.8	12.7
Adj. P/E (x)	12.1	13.3	16.4	11.7	12.7
EV/EBITDA (x)	8.8	8.1	8.3	5.9	5.8

Source: Company, BOBCAPS Research

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LOGISTICS | Monthly Tracker | 16 August 2019

Major ports, container rail volumes improve; EXIM sluggish

High frequency indicators exhibited a mixed trend in Jul'19. Despite slowing manufacturing output (1.2% YoY vs. 4.5% in Jun'19) and weak EXIM trade (–6% YoY), cargo volumes at major ports were more resilient, growing 3.5% YoY after two months of decline. Container traffic at major ports also grew at a decent 6% YoY. Container rail volumes held steady at 4% YoY, but a surprise uptick in EXIM lead distance (+6%) led to better NTKM growth of 5%. We expect the next few months to be sluggish owing to a weak trade outlook and soft consumption.

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Container traffic at major ports ticks up: Container traffic growth at major ports accelerated to 6% YoY in Jul'19. Kandla (+90% YoY, in TEUs) and Vizag (+21%) drove this growth, supported by Tuticorin (+12%) and New Mangalore (+33%). Container volumes at Chennai dipped 5% YoY. JNPT volumes (+0.2% YoY) languished for the second consecutive month. Overall cargo traffic grew 3.5% YoY, after two consecutive months of decline (0.5% YoY dip in both May-Jun'19).

Container rail volumes – EXIM NTKM growth a positive: Container rail volumes inched up 4.3% YoY in July vs 3.4% in June. This was lower than the 6% growth in container traffic at major ports, indicating possible market share loss for rail. Despite sedate volume growth of 1.9%, EXIM net tonne-km (NTKM) grew at a decent 8% YoY as EXIM lead distance increased 6%, reversing a long declining trend. Domestic NTKMs, however, declined 3.4% YoY as a 16% plunge in lead distance negated healthy volume growth of 15%. Container rail volumes are likely to remain tepid for the next couple of months, barring a material uptick in India's EXIM trade, as the base over Aug-Oct'18 is unfavourable.

EXIM trade remains weak, IIP growth softens: Merchandise EXIM trade declined 5.8% YoY in Jul'19 (US$ terms) after a 9% decrease in Jun'19. While exports rose 2.2% YoY led by a 5.2% uptick in non-oil and non-gold exports, imports declined 10.4% YoY amidst a domestic consumption slowdown. Non-oil, non-gold imports declined 2.2% YoY. Jun'19 IIP growth decelerated to 2% YoY (4.5% in May'19), with manufacturing output growth slowing to 1.2%.

Headwinds to persist in near term: We expect most high frequency indicators to remain subdued over the next 2-3 months, given a weak global trade outlook and domestic consumption slowdown.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	94	125	BUY
CCRI IN	476	530	ADD
FSCS IN	516	715	BUY
MAHLOG IN	370	515	BUY
TCIEXP IN	612	785	BUY
TRPC IN	264	365	BUY

Price & Target in Rupees

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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