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FIRST LIGHT

20 December 2019

RESEARCH

BOB Economics Research | December MPC Minutes

Room for further easing remains

Transport Corp of India | Target: Rs 365 | +33% | BUY

NDR takeaways

SUMMARY

India Economics: December MPC Minutes

MPC members voted unanimously to keep policy rate and stance unchanged. MPC members believe further monetary space exists. However, members would like to see if vegetable inflation transmits into other food prices and persists. Moreover, fiscal policy and Budget is keenly awaited to see how growth evolves in the future. While growth is likely to improve next year to 6.1%, it will be below potential and thus calls for further policy easing once inflation projections turn favourable well below target of 4% from Jun'20.

Click here for the full report.

Transport Corp of India

We hosted the senior management of Transport Corp of India (TRPC) for investor meetings. Management's long-term business outlook was positive yet realistic, in our view. Following are the key takeaways – (1) Growth recovery next year, (2) Multi-modal capabilities the need of the hour, (3) Client wins, warehousing to drive supply chain business, (4) LTL share to rise.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
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	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.92	4bps	10bps	(84bps)
India 10Y yield (%)	6.71	(4bps)	23bps	(51bps)
USD/INR	70.97	0	1.2	(0.8)
Brent Crude (US$/bbl)	66.17	0.1	6.0	15.6
Dow	28,239	(0.1)	0.7	21.1
Shanghai	3,017	(0.2)	3.7	18.3
Sensex	41,559	0.5	3.2	13.9
India FII (US$ mn)	**17 Dec**	**MTD**	**CYTD**	**FYTD**
FII-D	(86.7)	(406.5)	3,838.3	3,293.7
FII-E	170.9	216.6	13,589.0	6,743.8

Source: Bank of Baroda Economics Research

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DECEMBER MPC MINUTES

19 December 2019

Room for further easing remains

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MPC members voted unanimously to keep policy rate and stance unchanged. MPC members believe further monetary space exists. However, members would like to see if vegetable inflation transmits into other food prices and persists. Moreover, fiscal policy and Budget is keenly awaited to see how growth evolves in the future. While growth is likely to improve next year to 6.1%, it will be below potential and thus calls for further policy easing once inflation projections turn favourable well below target of 4% from Jun'20.

KEY HIGHLIGHTS

- MPC members await the Union Budget.
- Inflation projections will turn favourable below 4% target from Q1FY21.
- Space remains for further rate cuts.

Monetary, fiscal policy to revive growth: While delving into current slowdown, MPC members believed that sharp deceleration in capacity utilisation and investment demand requires a co-ordinated policy response. RBI has reduced policy rates but 135bps and government has announced a number of measures. FDI/FPI inflows have also improved. MPC members await the Budget and see further policy response from government to boost growth. In addition, monetary transmission will improve as seen in 9bps reduction in WATDR in Oct'19 compared with overall reduction of 16bps since Feb'19.

How persistent will food inflation be: MPC members unanimously agreed that vegetable prices will subside. However, Dr. Patra said that it remains to be seen if rise in non-vegetable food inflation into milk and pulses will subside or persist. At the same time, drop in core inflation to 3.4% shows slack in the economy. Notably, Dr Pami Dua did point out private sector GVA increased by 3.1% in Q2 implying weak demand conditions. Dr. Ghate, however suggested that muted core inflation may not sustain as it is more supply constrained and may pick up. Hence, given the recent upturn in headline CPI, members wanted to see trajectory of inflation before reducing rates any further.

Further rate cuts on the table: MPC is not averse to further rate cuts as growth is far below potential. RBI Governor himself pointed out that there is policy space which needs to be appropriately timed. However, the current pause is a result of sharp acceleration in food inflation. Members are also awaiting fiscal response in the Budget. Dr. Dholakia believes any cut in government spending at this point will be counter cyclical. In our view, room for further rate cuts will open up once inflation falls below RBI's target of 4%, as per RBI's current projection in Q2FY21. However, policy response may be seen in Jun'20 as 12-month forward inflation trajectory will be sub-4% by then.

BUY
TP: Rs 365 | ⮝ 33%

TRANSPORT CORP OF INDIA | Logistics | 19 December 2019

NDR takeaways

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We hosted the senior management of Transport Corp of India (TRPC) for investor meetings. Management's long-term business outlook was positive yet realistic, in our view. Following are the key takeaways –

Growth recovery next year: As per the company, sustained growth recovery is likely only post monsoons (and BS-VI implementation) next year, barring some seasonal upticks. Management expects broad-based growth across segments to catalyse a ~15%/18-20% topline/bottomline CAGR over the next three years, with ROE reaching 20% by end-FY21. Annual capex is planned at Rs 1.2bn-1.5bn.

Multi-modal capabilities the need of the hour: TRPC is one of the few players in India with a presence across road, coastal shipping and rail (through its JV with Container Corp) – this allows it to offer nimble, customised solutions to clients. Management believes multi-modal capabilities are critical for future prospects as alternative modes will gain share from road transport. Onset of the Dedicated Freight Corridor bodes well as TRPC can utilise rail as a common carrier and offer rail-based solutions to its vast clientele.

Client wins, warehousing to drive supply chain business: TRPC's SCS segment has been relatively resilient (–2.5% YoY in H1FY20) vs. double-digit contraction in auto production (~80% of topline), due to (1) faster growth in warehousing, (2) addition of two new auto clients, and (3) growth in spare parts distribution. Management expects the segment to revive in line with recovery in auto production, while warehousing should log a 20%+ CAGR in the next few years.

LTL share to rise: TRPC expects LTL share in freight revenue to reach 40% in two years from 33% at present, driving segmental margin and ROCE expansion. In H1FY20, the auto and industrial verticals within freight contracted sharply, while consumer products and textiles fared better. In the seaways segment, the newly added ship has reached steady utilisation, but management highlighted pricing pressure in the west coast due to competition.

Our view: Our positive stance on TRPC stems from its multi-modal capabilities, strong positioning across freight, 3PL and seaways divisions, and its healthy earnings growth potential (17% CAGR over FY19-FY22E). The stock is currently trading at an attractive P/E of 9x on FY22E EPS. We reiterate our SOTP-based Mar'21 fair value of Rs 365. TRPC remains our top value pick.

Ticker/Price	TRPC IN/Rs 273
Market cap	US$ 294.8mn
Shares o/s	77mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 330/Rs 250
Promoter/FPI/DII	67%/2%/10%

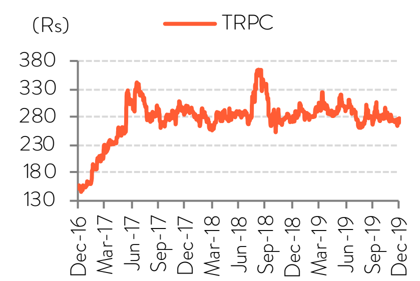
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	29,433	34,312	40,109
EBITDA (Rs mn)	2,741	3,305	3,935
Adj. net profit (Rs mn)	1,647	1,902	2,322
Adj. EPS (Rs)	21.5	24.8	30.3
Adj. EPS growth (%)	12.8	15.5	22.0
Adj. ROAE (%)	17.1	17.0	17.9
Adj. P/E (x)	12.7	11.0	9.0
EV/EBITDA (x)	9.3	7.6	6.3

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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