BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

06 November 2019

RESEARCH

TCI Express | Target: Rs 855 | +7% | ADD

In line quarter; downgrade to ADD on limited upside

Tech Mahindra | Target: Rs 740 | –4% | REDUCE

Enterprise business stage surprising growth

Divi's Labs | Target: Rs 1,765 | +5% | ADD

Good Q2 beat; FY20 margin guidance cut is negative

Gujarat Gas | Target: Rs 270 | +32% | BUY

Margins decline, robust volumes

Mahindra Logistics | Target: Rs 460 | +23% | BUY

Auto weakness mask strength in other verticals

SUMMARY

TCI Express

TCI Express (TCIEXP) posted in line operating performance in Q2, with revenue/EBITDA growth of 9%13% YoY. Lower tax rate catalysed a 60% YoY rise in PAT. Though growth ticked up vs. past two quarters, led by addition of SME clients, material growth recovery is still a few quarters away as externalities remain tough. We largely maintain earnings estimates for FY20-22 and move to a revised Mar'21 TP of Rs 855 (vs. Rs 840 earlier); downgrade to ADD from BUY due to limited upside post the recent rally.

Click here for the full report.

Tech Mahindra

Tech Mahindra reported better than expected Q2FY20 operating performance led by beat on both revenues and operating margins. Surprisingly the revenue growth was led by Enterprise business while communication business growth was modest at 1% QoQ. Robust deal wins at US$1.49bn were inline with expectations and boosted by AT&T deal. Attrition stayed elevated and cash generation was soft. We revise up FY21/22 EPS by 4/1% on Q2FY20 operational beat while retain REDUCE with revised tp of Rs 740.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	680
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.78	7bps	25bps	(142bps)
India 10Y yield (%)*	6.69	3bps	0bps	(112bps)
USD/INR	70.76	0.1	0.2	3.2
Brent Crude (US$/bbl)	62.13	0.7	6.4	(15.1)
Dow	27,462	0.4	3.3	7.9
Shanghai	2,975	0.6	2.1	11.6
Sensex	40,302	0.3	7.0	15.3
India FII (US$ mn)	**1 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	233.6	233.6	4,920.4	4,375.8
FII-E	255.0	255.0	10,477.7	3,632.5

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

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Divi's Labs

Overall Revenue/EBITDA were 13% ahead of our estimates but largely in-line with consensus. Key negative in Q2 were (1) subdued gross margins 58.9% which is 13-quarters low as CS mix were flat at 41% & high cost Chinese RM and (2) FY20 margin guidance cut to 34-36%. DIVI expects margin normalcy to be delayed and sales run-rate for next two quarter to stay at Q2 range. Cut FY20 EPS by 3%. Maintain ADD with revise TP of Rs 1,765 (earlier Rs 1,750). Upside in stock should remain capped, in our view.

Click here for the full report.

Gujarat Gas

Gujarat Gas (GUJGA) reported Q2 FY20 earnings below estimates at Rs 2.2bn (Adjusted for Rs 2.9 bn tax write-back; +5.3x YoY). Key highlights: a) higher than estimated volumes at 9.3 mmscmd (+38% YoY) and b) lower than estimated EBITDA margins at Rs4.3/scm (+67% YoY, -23% QoQ). It was surprising that GUJGA was able to grow volumes QoQ, despite high competition from alternate fuels. We raise FY20E earnings by 27.5% on low tax rates (marginal change for FY21/22), retaining Sept'20 TP at Rs 270.

Click here for the full report.

Mahindra Logistics

Mahindra Logistics (MLL) reported below expected performance in Q2FY20, with consolidated revenue/EBITDA (adj. for IND-AS 116) declining 8%/28% YoY. SCM/PTS segment revenues fell 9%/1% YoY. Plummeting auto volumes remain a near-term obstacle, but robust growth in non-Mahindra, non-auto (+17% YoY) & warehousing (+35%) segments, and robust client addition are encouraging long-term developments. We slash our FY20-22 earnings by 20-24% and roll to a Mar'21 TP of Rs 460 (Rs 525 earlier). Retain BUY.

Click here for the full report.

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ADD
TP: Rs 855 | 7%

TCI EXPRESS | Logistics | 05 November 2019

In line quarter; downgrade to ADD on limited upside

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TCI Express (TCIEXP) posted in line operating performance in Q2, with revenue/EBITDA growth of 9%13% YoY. Lower tax rate catalysed a 60% YoY rise in PAT. Though growth ticked up vs. past two quarters, led by addition of SME clients, material growth recovery is still a few quarters away as externalities remain tough. We largely maintain earnings estimates for FY20-22 and move to a revised Mar'21 TP of Rs 855 (vs. Rs 840 earlier); downgrade to ADD from BUY due to limited upside post the recent rally.

Growth recovery eludes: Tonnage growth (+7% YoY) languished in single digits for the third consecutive quarter. Consumption slowdown, floods in some states, and disruptions in Kashmir restricted growth in Aug-Sep, after a ~12% rise in tonnage in Jul'19. Addition of new SME clients was the growth catalyst, while volume from existing customers was subdued across industry verticals.

Material uptick unlikely in H2FY20: Management has lowered FY20 revenue growth guidance to low double digit (implies 13-14% YoY increase in H2) from 17-18% earlier, given the challenging externalities. Festive season has also been below expectations. We build in a slightly lower 12% YoY growth for H2FY20.

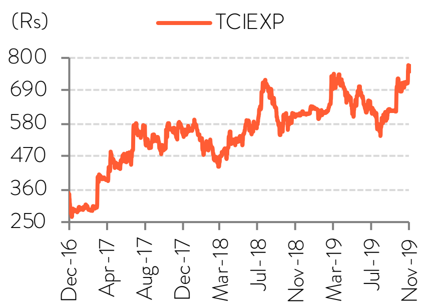
EBITDA margin resilient: Gross margin expansion (+255bps YoY), stemming from higher utilisation of vehicles and sorting centers, negated the impact of rise in employee (+97bps) and other expenses (+122bps), translating into 36bps YoY increase in EBITDA margin to 11.4%.

Downgrade to ADD: We largely maintain our FY20-FY22 estimates, and move to a revised Mar'21 TP of Rs 855 set at 23x P/E (vs. 26x earlier). Downgrade rating to ADD from BUY as upside from current level is capped.

Ticker/Price	TCIEXP IN/Rs 796
Market cap	US$ 431.2mn
Shares o/s	38mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 807/Rs 531
Promoter/FPI/DII	67%/4%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	11,174	13,056	15,331
EBITDA (Rs mn)	907	1,190	1,320	1,616	1,993
Adj. net profit (Rs mn)	584	728	942	1,155	1,423
Adj. EPS (Rs)	15.3	19.0	24.6	30.2	37.2
Adj. EPS growth (%)	55.8	24.7	29.4	22.5	23.2
Adj. ROAE (%)	31.8	30.7	30.7	29.1	28.3
Adj. P/E (x)	52.2	41.8	32.3	26.4	21.4
EV/EBITDA (x)	33.9	25.9	23.0	18.8	15.1

Source: Company, BOBCAPS Research

REDUCE
TP: Rs 740 | ⋎ 4%

TECH MAHINDRA | IT Services | 06 November 2019

Enterprise business stage surprising growth

Tech Mahindra reported better than expected Q2FY20 operating performance led by beat on both revenues and operating margins. Surprisingly the revenue growth was led by Enterprise business while communication business growth was modest at 1% QoQ. Robust deal wins at US$1.49bn were inline with expectations and boosted by AT&T deal. Attrition stayed elevated and cash generation was soft. We revise up FY21/22 EPS by 4/1% on Q2FY20 operational beat while retain REDUCE with revised tp of Rs 740.

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Enterprise business staged a growth surprise: Tech Mahindra reported better than expected Q2FY20 performance with 4.1% QoQ cc growth and 130 bps QoQ EBIT margin expansion V/s our estimate of 2.2% QoQ cc growth and 90 bps margin improvement. The growth composition was surprisingly contrasting compared to company's commentary in recent quarters and deal wins skewed by communication vertical. Revenue growth in Q2FY20 was led by Enterprise business (up 4.8% QoQ in dollar terms) and Communication business was relatively laggard with 1% QoQ dollar revenue growth.

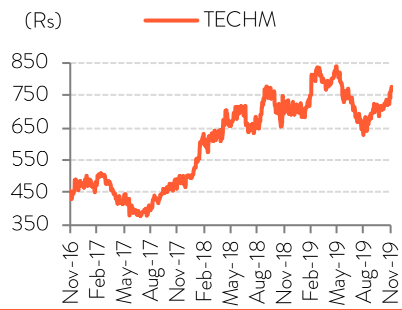
Mixed bag internals: Deal wins at US$1.49bn (~3x the recent quarterly run rate) was largely on expected lined boosted by AT&T deal. Headcount addition was skewed by 7,193 BPO employee addition while IT services headcount contracted by 1496 people on QoQ basis. Attrition at 21% continued to be elevated. Cash generation (CFO to EBITDA at 51.3%) was soft.

Reiterate REDUCE: We revise up FY21/22 EPS by ~4%/1% respectively as we accommodate Sep'19 quarter performance. Retain REDUCE with revised Sep'20 TP of Rs 740, (V/s Rs 660 earlier) based on target P/E of 12.5x.

Ticker/Price	TECHM IN/Rs 773
Market cap	US$ 9.6bn
Shares o/s	873mn
3M ADV	US$ 29.9mn
52wk high/low	Rs 847/Rs 607
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	3,07,729	3,47,421	3,64,153	3,97,481	4,35,530
EBITDA (Rs mn)	47,169	63,368	60,868	70,345	80,749
Adj. net profit (Rs mn)	38,001	42,975	42,975	48,115	53,455
Adj. EPS (Rs)	42.7	47.7	48.8	54.6	60.7
Adj. EPS growth (%)	33.6	11.9	2.2	12.0	11.1
Adj. ROAE (%)	21.0	21.4	19.5	19.5	19.4
Adj. P/E (x)	18.1	16.2	15.8	14.2	12.7
EV/EBITDA (x)	14.2	10.6	11.0	9.1	7.5

Source: Company, BOBCAPS Research

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ADD
TP: Rs 1,765 | ⮝ 5%

DIVI'S LABS | Pharmaceuticals | 05 November 2019

Good Q2 beat; FY20 margin guidance cut is negative

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Overall Revenue/EBITDA were 13% ahead of our estimates but largely in-line with consensus. Key negative in Q2 were (1) subdued gross margins 58.9% which is 13-quarters low as CS mix were flat at 41% & high cost Chinese RM and (2) FY20 margin guidance cut to 34-36%. DIVI expects margin normalcy to be delayed and sales run-rate for next two quarter to stay at Q2 range. Cut FY20 EPS by 3%. Maintain ADD with revise TP of Rs 1,765 (earlier Rs 1,750). Upside in stock should remain capped, in our view.

FY20 margin guidance lowered: Divi's has lowered its EBITDA margins guidance for FY20 to 34-36% (from 37-38%), following 1H margin of 34.2% and higher material prices in generic segment. This has impacted our FY20 EPS by 3% however FY21/22 is unchanged. Q2 gross margins were down 132bps at 58.9% on weak product mix – CS business grew 9% YoY with Sales mix at 41%, flat QoQ and new customer addition in generic APIs leading to high cost inventory procurement to ensure consistency of supplies. Backward integration of several APIs is progressing well, but the flow through benefit could take some more time (likely Q4).

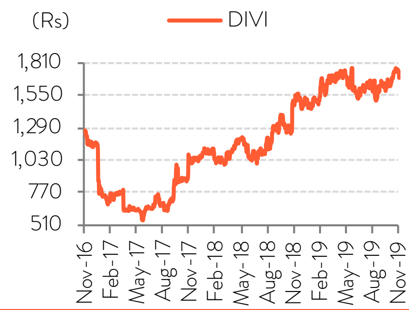
Call highlights: (1) Divi's had to stock up for more inventories as several other customers are asking for volumes. (2) Q2 forex gains was Rs 129mn. (3) Implementation of total capex of Rs 16.9bn is on track. (4) Q2/1H capitalisation was Rs 920mn/2.1bn – expected total capitalisation is at Rs 12bn in FY20 incl. CWIP. (5) Nutraceutical Sales were up 140% YoY to Rs 2.6bn.

Retain ADD but upside capped: At 26x FY21 P/E, we believe stock is largely pricing in growth recovery in FY21 (expect 23% growth). Our EPS for FY20 is cut to Rs52 (1H was Rs23) and FY21 is Rs 64 (unchanged). Stock has traded at 3Y/5Y historical mean of 24-25x.

Ticker/Price	DIVI IN/Rs 1,687
Market cap	US$ 6.3bn
Shares o/s	266mn
3M ADV	US$ 12.5mn
52wk high/low	Rs 1,779/Rs 1,420
Promoter/FPI/DII	52%/17%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	38,906	49,462	54,713	63,852	74,121
EBITDA (Rs mn)	12,608	18,719	19,828	24,545	29,975
Adj. net profit (Rs mn)	8,482	13,219	13,902	17,104	20,988
Adj. EPS (Rs)	31.9	49.8	52.4	64.4	79.1
Adj. EPS growth (%)	(22.9)	55.8	5.2	23.0	22.7
Adj. ROAE (%)	15.0	20.6	19.3	21.4	22.8
Adj. P/E (x)	52.8	33.9	32.2	26.2	21.3
EV/EBITDA (x)	34.2	22.9	21.6	17.3	14.1

Source: Company, BOBCAPS Research

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BUY
TP: Rs 270 | ⮝ 32%

GUJARAT GAS | Oil & Gas | 05 November 2019

Margins decline, robust volumes

Gujarat Gas (GUJGA) reported Q2 FY20 earnings below estimates at Rs 2.2bn (Adjusted for Rs 2.9 bn tax write-back; +5.3x YoY). Key highlights: a) higher than estimated volumes at 9.3 mmscmd (+38% YoY) and b) lower than estimated EBITDA margins at Rs4.3/scm (+67% YoY, -23% QoQ). It was surprising that GUJGA was able to grow volumes QoQ, despite high competition from alternate fuels. We raise FY20E earnings by 27.5% on low tax rates (marginal change for FY21/22), retaining Sept'20 TP at Rs 270.

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Buoyant volumes: GUJGA reported better than estimated volumes at 9.3 mmscmd, retaining volumes from Morbi. GUJGA management sees more volume potential from Morbi, expecting to average at ~9.5 mmscmd levels in H2 FY20. Although ceramic units have challenged the NGT order in higher courts, we see limited options for them to alter this order considering stringent legal standing for pollution control.

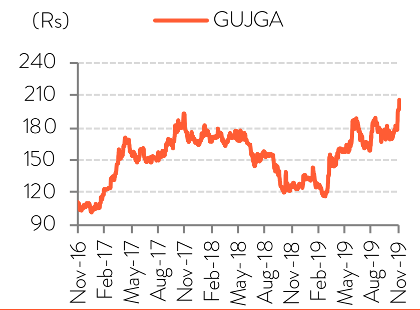
Margins decline: EBITDA margins under-performed at Rs4.3/scm in Q2 FY20, despite tepid spot LNG prices (at ~US$4.5/mmbtu). GUJGA had to resort to price cuts in Jul'19 to retain ceramic customers, as LPG prices had crashed to levels below spot LNG. Recent recovery in oil prices (>US$60/bbl) has made spot LNG again attractive relative to LPG, that could ensure some margin recovery in H2 FY20. GUJGA management expects to sustain EBITDA at ~Rs5/scm levels, as customers in Morbi have become more sticky post the court order.

Undemanding valuations: At 11.7x FY22E EPS, GUJGA's valuations remain one of the lowest among CGD peers (~16x for IGL/MAHGL). This gap may get bridged gradually, given stability in volumes and margins.

Ticker/Price	GUJGA IN/Rs 205
Market cap	US$ 2.0bn
Shares o/s	688mn
3M ADV	US$ 1.2mn
52wk high/low	Rs 213/Rs 115
Promoter/FPI/DII	61%/12%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	61,743	77,544	120,558	138,467	146,207
EBITDA (Rs mn)	8,951	9,836	15,593	18,407	19,326
Adj. net profit (Rs mn)	2,914	4,160	11,502	11,103	12,097
Adj. EPS (Rs)	4.2	6.0	16.7	16.1	17.6
Adj. EPS growth (%)	32.7	42.8	176.5	(3.5)	9.0
Adj. ROAE (%)	16.7	20.6	44.2	36.5	38.5
Adj. P/E (x)	48.5	34.0	12.3	12.7	11.7
EV/EBITDA (x)	18.3	16.5	10.2	8.5	7.9

Source: Company, BOBCAPS Research

BUY

TP: Rs 460 | 23%

MAHINDRA LOGISTICS | Logistics | 05 November 2019

Auto weakness mask strength in other verticals

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Mahindra Logistics (MLL) reported below expected performance in Q2FY20, with consolidated revenue/EBITDA (adj. for IND-AS 116) declining 8%/28% YoY. SCM/PTS segment revenues fell 9%/1% YoY. Plummeting auto volumes remain a near-term obstacle, but robust growth in non-Mahindra, non-auto (+17% YoY) & warehousing (+35%) segments, and robust client addition are encouraging long-term developments. We slash our FY20-22 earnings by 20-24% and roll to a Mar'21 TP of Rs 460 (Rs 525 earlier). Retain BUY.

Plunging auto volumes take toll: Revenue from Mahindra Group clients plummeted 19% YoY, triggering a 9% fall in SCM revenue. Non-Mahindra auto revenue also declined 15%. Management expects some green shoots in Q4, but a sustained recovery in these segments hinge on a revival in auto cycle.

Non-auto verticals buoyant: Key non-auto verticals – consumer, pharma, e-commerce – sustained strong growth trajectory (+35% YoY) aided by new clients added over recent quarters. Client addition was robust across verticals (FMCG, apparel, auto) in Q2 as well. Warehousing growth was sturdy (+35% YoY), as reflected in hefty space addition (1.1mn sq ft in H1). Buoyancy in non-auto verticals should partially cushion lower auto revenues going ahead.

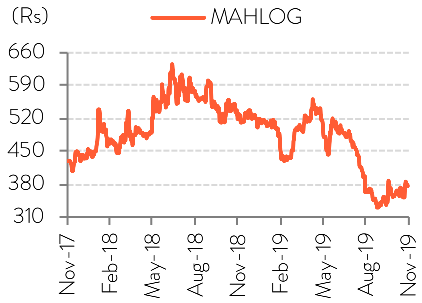
Margin disappoints again: Gross margin expanded 60bps YoY to 8.8% (adj. for IND-AS 116) due to higher contribution from the value-added segments. However, lower absorption of fixed expenses following a revenue dip negated its impact, leading to 80bps YoY fall in EBITDA margin to 2.9%.

TP reduced: We cut FY20E/FY21E/FY22E earnings by 24%/22%/20% and move to a revised Mar'21 TP of Rs 460 set at 25x P/E (vs. 27x). Retain BUY.

Ticker/Price	MAHLOG IN/Rs 373
Market cap	US$ 376.8mn
Shares o/s	71mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 578/Rs 317
Promoter/FPI/DII	59%/12%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	34,161	38,513	37,531	42,135	48,673
EBITDA (Rs mn)	1,197	1,512	1,220	1,574	2,025
Adj. net profit (Rs mn)	640	856	747	1,019	1,312
Adj. EPS (Rs)	9.0	12.0	10.5	14.3	18.4
Adj. EPS growth (%)	34.1	33.2	(12.8)	36.4	28.8
Adj. ROAE (%)	16.7	18.7	14.2	17.1	19.7
Adj. P/E (x)	41.4	31.1	35.7	26.1	20.3
EV/EBITDA (x)	21.6	17.1	20.9	15.8	12.3

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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