

## RESEARCH

### Banking | Q3FY20 Preview

Recoveries to aid earnings

### Building Materials | Q3FY20 Preview

Tepid quarter

## SUMMARY

### Banking: Q3FY20 Preview

Q3FY20 is likely to be a soft quarter in terms of business momentum as systemic loan growth has remained lackluster. However, we could see market share gains by banks with strong capital position and solid franchise. Credit costs could decline given recoveries from large corporate NPA resolutions may more than offset provision towards a few known stressed accounts. We expect ICICIB to be a clear beneficiary of these recoveries as SBIN faces the risk of flagging DHFL as NPA. Margins are expected to remain broadly stable.

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### Building Materials: Q3FY20 Preview

Building material companies under our coverage are expected to post a tepid Q3FY20 as market conditions remained challenging, thus taking a toll on volumes. We estimate 3-5% YoY volume growth for tile players and 2-3% YoY volume growth for plywood players. Piping companies are likely to post a mixed performance with revenue growth ranging from 4-13% YoY. Management commentary on demand and margin outlook for Q4FY20/FY21 will be a key aspect to watch.

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## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,860
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.87	6bps	5bps	(84bps)
India 10Y yield (%)	6.56	0bps	(11bps)	(103bps)
USD/INR	71.71	0.2	(0.9)	(1.8)
Brent Crude (US\$/bbl)	65.44	(4.1)	1.9	6.5
Dow	28,745	0.6	3.0	20.4
Shanghai	3,067	(1.2)	5.2	20.5
Sensex	40,818	(0.1)	0.8	12.7
India FII (US\$ mn)	6 Jan	MTD	CYTD	FYTD
FII-D	(474.1)	(844.5)	(844.5)	2,099.6
FII-E	(2.6)	381.8	381.8	7,771.0

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## BANKING

Q3FY20 Preview

09 January 2020

**Recoveries to aid earnings**

**Q3FY20 is likely to be a soft quarter in terms of business momentum as systemic loan growth has remained lackluster. However, we could see market share gains by banks with strong capital position and solid franchise. Credit costs could decline given recoveries from large corporate NPA resolutions may more than offset provision towards a few known stressed accounts. We expect ICICIBC to be a clear beneficiary of these recoveries as SBIN faces the risk of flagging DHFL as NPA. Margins are expected to remain broadly stable.**

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**NCLT recoveries to aid asset quality:** Headline Gross and Net NPAs are likely to improve for select corporate banks given recoveries from a few large corporate NPA resolutions (Essar Steel, Ruchi Soya, JP Power and RattanIndia Power) under NCLT. AXSB sold its Essar Steel exposure to ARCs hence recoveries will be via security receipts. Few NBFCs, including DHFL will be classified as NPA but banks have been providing for couple these accounts and hence unlikely to offset recoveries.

**Loan growth slips:** Overall systemic loan growth has moderated to ~7% YoY in Q3FY20 vs. ~9% in the previous quarter. Slower corporate loan growth has led to subdued credit growth given that retail continues to be an outlier with ~16% YoY growth. Private banks will continue with their market share gains as public banks are likely to be impacted the most with slower credit growth. Loan growth for HDFCB and IIB is expected to remain strong ~20% but banks may lower their credit growth guidance.

**NIMs to remain largely stable:** Most banks have cut their MCLR by up to 75bps over the last nine months even as growth in unsecured retail loans has moderated, which is likely to put pressure on yields. However, this may be offset by a reduction in term deposit rates over the last few months, lower interest reversals and one-off interest recognition on NPA recoveries.

**Earnings growth strong:** We believe, banks will witness an improved performance as recovery in a few large corporate stressed cases during the quarter should lower provisions and drive strong earnings growth. We expect ~18% YoY growth in operating profit for the banks under our coverage driven by strong NII growth. More so, corporate private banks should benefit from lower tax rate post the DTA markdown.

**KEY RECOMMENDATIONS**

Ticker	Rating
AXSB IN	BUY
HDFCB IN	BUY
ICICIBC IN	BUY
IIB IN	BUY
KMB IN	BUY
SBIN IN	BUY
YES IN	SELL



## Tepid quarter

**Building material companies under our coverage are expected to post a tepid Q3FY20 as market conditions remained challenging, thus taking a toll on volumes. We estimate 3-5% YoY volume growth for tile players and 2-3% YoY volume growth for plywood players. Piping companies are likely to post a mixed performance with revenue growth ranging from 4-13% YoY.**

**Management commentary on demand and margin outlook for Q4FY20/FY21 will be a key aspect to watch.**

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**Insipid quarter:** Due to continued tough market conditions, we expect building material companies to report a muted Q2. We forecast low-single-digit volume growth for tile companies under our coverage, viz. Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). In the plywood segment, Greenply Industries (GIL) and Century Plyboards (CPBI) will likely see modest low single digit volume growth. In MDF, CPBI is expected to report flat growth YoY (+15% QoQ) due to near-peak utilization of capacity.

Sanitaryware players such as Cera Sanitaryware (CRS) will likely report a subdued quarter as core category volumes remain in a slump. In the pipes segment, we estimate 12.9% YoY revenue growth for Astral Polytechnik (ASTRA) aided by price increases in CPVC, whereas Supreme Industries (SI) and Finolex Industries (FNXP) are forecast to have modest topline growth.

**Operating margin gains for some pipe/plywood players:** Among pipe players, ASTRA is forecast to report operating margins increase of 270bps YoY on the back of better CPVC profitability. Also, SI will report margin increase of ~70bps YoY due to a tepid base whereas FNXP could see margins contracting YoY due to a lower PVC-EDC delta. In tile companies, KJC is expected to witness a decline of 90bpsYoYin margins whereas SOMC will see an increase of 165bps YoY (-70bps QoQ) due to a tepid base. In the plywood segment, CPBI could clock ~290bps YoY margin expansion off a low base. CRS should witness ~180bps YoY margin decline due to adverse product mix and tepid sales. For the quarter we expect CPBI to report healthy EBIDTA growth due to a tepid base whereas ASTRA to report strong results aided by price increases in CPVC.

**Key areas to watch:** Managements' outlook on revenues and margins for Q4FY20/FY21 will be a key monitorable.

## KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
KJC IN	550	625	ADD
SOMC IN	217	340	BUY
CRS IN	2,587	3,040	BUY
MTLM IN	170	210	BUY
CPBI IN	163	205	BUY
ASTRA IN	1,140	1,080	REDUCE
FNXP IN	543	625	ADD
SI IN	1,148	1,235	ADD
GREENP IN	46	48	BUY

Price & Target in Rupees



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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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