FIRST LIGHT

11 February 2020

RESEARCH

Future Supply Chain Solutions | Target: Rs 450 | –1% | REDUCE
Limited growth visibility; cut to REDUCE

BOB Economics Research | Weekly Wrap
RBI policy lifts sentiment

Oil India | Target: Rs 225 | +68% | BUY
Volumes remain a drag

Dilip Buildcon | Target: Rs 540 | +41% | BUY
Lacklustre quarter; order inflows key to watch

GAIL | Target: Rs 160 | +31% | BUY
Operationally robust; demerger uncertainty priced in

Container Corp of India | Target: Rs 630 | +10% | ADD
Weak quarter; DFC trigger awaited

Kajaria Ceramics | Target: Rs 615 | +13% | ADD
All round miss

VRL Logistics | Target: Rs 325 | +24% | BUY
Soft quarter as macro challenges continue

SUMMARY

Future Supply Chain Solutions

Future Supply Chain (FSCSL) reported yet another weak quarter as standalone Q3FY20 revenue/EBITDA declined 5%/15% YoY (adj. for Ind-AS 116), causing a 59% drop in adj. PAT. Its anchor client is scaling back expansion and optimising supply chain spends, prompting FSCSL to consolidate its warehousing network by ~1mn sq ft. This casts a shadow on near-to-midterm growth prospects, prompting us to slash FY21-FY22 EPS by ~23-25%. We cut our Mar'21 TP to Rs 450 (vs. Rs 680) set at 19x FY22E EPS and downgrade the stock from BUY to REDUCE.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	(6bps)	(27bps)	(107bps)
India 10Y yield (%)	6.44	(1bps)	(9bps)	(91bps)
USD/INR	71.41	(0.3)	(0.3)	(0.3)
Brent Crude (US$/bbl)	54.47	(0.8)	(16.7)	(11.4)
Dow	29,103	(0.9)	0.5	16.2
Shanghai	2,876	0.3	(7.1)	8.4
Sensex	41,142	(0.4)	(0.7)	13.0
India FII (US$ mn)	**6 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	817.2	610.6	(958.3)	1,985.8
FII-E	(14.2)	448.5	1,821.2	9,210.4

Source: Bank of Baroda Economics Research

BOBCAPS Research
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India Economics: Weekly Wrap

While global yields inched up in US and Euro Area, yields were lower in China and India on the back of measures by PBoC and RBI. US economy continues to report higher than estimated manufacturing and services activity. Payroll additions are also robust. In India's case, RBI took measures to inject long-term liquidity of Rs 1tn to signal banks to lend, amongst other measures. As a result, 10Y yield fell by 16bps and Sensex gained by 3.5%. PMIs also showed improvement. FII inflows were robust at US$ 1.1bn giving strength to INR.

Click here for the full report.

Oil India

Oil India's (OINL) Q3FY20 earnings disappointed at Rs 4bn (–67% YoY). Key highlights: (a) EBITDA at Rs 11bn (–28% YoY) was a miss on high operating cost (at ~US$ 7.25/bbl), (b) oil (0.73mmt, –11% YoY) and gas (0.60bcm, –7% YoY) sale volumes underperformed, hit by political unrest in Assam. We cut FY20/21/22 earnings by 15%/6%/5% on low production volumes. On rollover, we have a revised Mar'21 TP of Rs 225 (from Rs 260). OINL's dividend announcement (Rs 9/sh) offers some respite.

Click here for the full report.

Dilip Buildcon

Dilip Buildcon's (DBL) Q3FY20 standalone revenue fell 4% YoY to Rs 23.8bn (Rs 25bn est.) due to the extended monsoon and delayed appointed dates. EBITDA margin was stable at 17.6% (17.5% est.) but adj. PAT dropped 41% YoY to Rs 1.2bn (Rs 1.3bn est.) due to higher depreciation post Ind-AS 116 adoption. The Dec'19 order backlog stood at Rs 212bn, 2.3x TTM revenues. Management has cut FY20 revenue guidance to ~Rs 95bn from ~Rs 100bn due to execution delays. We pare FY20/FY21/FY22 EPS 10%/8%/14% and roll to Mar'21 TP of Rs 540 (vs. Rs 560).

Click here for the full report.

GAIL

GAIL's Q3FY20 PAT was in line at Rs 10.2bn (–40% YoY). While gross margins outperformed across segments, earnings were muted due to high taxes. Key Q3 highlights: (a) gas trading EBITDA recovered to Rs 5.2bn (2x QoQ) on normalised margins, (b) gas transmission EBITDA outperformed at Rs 12.2bn (+14% YoY) despite lower volumes at 110mmscmd, and (c) LPG/petchem EBITDA beat estimates backed by better margins/volumes. Our TP remains unchanged at Rs 160 (rolled over to Mar'21).

Click here for the full report.

Container Corp of India

Container Corp's (CCRI IN) standalone Q3FY20 revenue declined 3% YoY on lower volumes and realisations. Operating margin resilience led to stable EBITDA but the absence of SEIS income (Rs 0.8bn in Q3FY19) dragged reported PAT down 36% YoY. While weak macro conditions will continue to weigh on growth, we see the DFC as a key trigger for the rail logistics business and expect CCRI to be the chief beneficiary by dint of its wide network and strong positioning. We trim FY20-FY22 EPS by 3-4% and move to a lower TP of Rs 630 vs. Rs 655.

Click here for the full report.

Kajaria Ceramics

Kajaria Ceramics (KJC) posted a below-expected Q3FY20 with revenue down 2% YoY due to flat volumes (+0.5% YoY) and lower realisations (–4.1% YoY). Operating margins contracted 90bps YoY to 15% due to higher employee costs, causing EBITDA/PBT to fall 8%/16%. Management expects better growth in FY21 backed by various government measures in the real estate sector. We cut FY20-FY22 earnings by ~8% each amid continued tough market conditions, and roll forward to a Mar'21 TP of Rs 615 (earlier Rs 625). Maintain ADD.

Click here for the full report.

VRL Logistics

VRL Logistics' (VRLL) Q3FY20 revenue grew at a tepid 1% YoY, with the goods/people transport segments growing at +3%/–8% YoY as the macro slowdown continued to take a toll. EBITDA/PBT (adj. for Ind-AS 116) fell 15%/20% YoY, below estimates. Lower tax rates contained the decline in PAT to 0.5% YoY. While growth is likely to be soft in the near term, we continue to like VRLL for its established moats in the LTL space and robust cash flows. We prune estimates and marginally revise our Mar'21 TP to Rs 325.

Click here for the full report.

REDUCE
TP: Rs 450 | ∀ 1%

FUTURE SUPPLY CHAIN SOLUTIONS | Logistics | 10 February 2020

Limited growth visibility; cut to REDUCE

Future Supply Chain (FSCSL) reported yet another weak quarter as standalone Q3FY20 revenue/EBITDA declined 5%/15% YoY (adj. for Ind-AS 116), causing a 59% drop in adj. PAT. Its anchor client is scaling back expansion and optimising supply chain spends, prompting FSCSL to consolidate its warehousing network by ~1mn sq ft. This casts a shadow on near-to-midterm growth prospects, prompting us to slash FY21-FY22 EPS by ~23-25%. We cut our Mar'21 TP to Rs 450 (vs. Rs 680) set at 19x FY22E EPS and downgrade the stock from BUY to REDUCE.

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Growth engines stuttering: Both FSCSL's key business segments witnessed sharp growth deceleration in Q3. Contract logistics grew at a meagre 0.4% YoY – the slowest since the Q3FY18 IPO, and express revenue fell 21% YoY, substantially underperforming other listed competitors. Insipid demand from anchor customers and discontinuation of an unprofitable non-anchor client hindered revenue growth for the quarter.

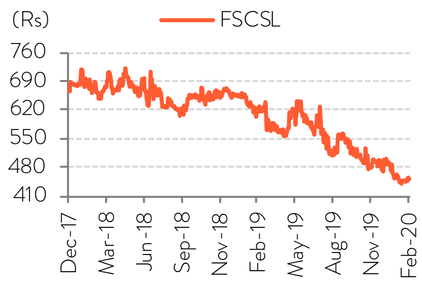
Limited growth visibility: To improve its cash flow and productivity, FSCSL's key anchor client (~60% of revenue comes from anchor clients) is closing non-profitable stores across formats and does not envisage any net space addition in the near future. Its transition to the food distribution centres set up by FSCSL has been delayed as well. Moreover, it is also aiming to reduce its supply chain spends. These headwinds have compelled FSCSL to close ~1mn sq ft of existing warehousing space and to cut its targeted net space addition guidance for FY21 from ~2.5-3mn sq ft to nil, limiting revenue growth visibility.

Downgrade to REDUCE: The sudden downshift in expansion strategy prompts us to slash EPS estimates for the company by 23-25% in FY21-FY22. We also cut our target P/E multiple to 19x vs. 22x earlier, leading to a reduced Mar'21 TP of Rs 450 (vs. Rs 680 earlier). Downgrade to REDUCE from BUY.

Ticker/Price	FSCSL IN/Rs 453
Market cap	US$ 253.8mn
Shares o/s	40mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 711/Rs 435
Promoter/FPI/DII	48%/3%/16%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,319	11,128	12,200	13,702	16,049
EBITDA (Rs mn)	1,332	1,485	1,355	1,689	2,140
Adj. net profit (Rs mn)	903	964	503	690	1,043
Adj. EPS (Rs)	22.5	24.0	11.5	15.7	23.7
Adj. EPS growth (%)	92.8	6.7	(52.4)	37.2	51.0
Adj. ROAE (%)	21.8	17.0	6.7	7.4	10.2
Adj. P/E (x)	20.1	18.8	39.5	28.8	19.1
EV/EBITDA (x)	14.0	12.2	13.6	10.6	7.6

Source: Company, BOBCAPS Research

WEEKLY WRAP

10 February 2020

RBI policy lifts sentiment

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While global yields inched up in US and Euro Area, yields were lower in China and India on the back of measures by PBoC and RBI. US economy continues to report higher than estimated manufacturing and services activity. Payroll additions are also robust. In India's case, RBI took measures to inject long-term liquidity of Rs 1tn to signal banks to lend, amongst other measures. As a result, 10Y yield fell by 16bps and Sensex gained by 3.5%. PMIs also showed improvement. FII inflows were robust at US$ 1.1bn giving strength to INR.

Markets

- **Bonds:** Except India and China, global yields closed higher. US 10Y yield rose the most by 8bps (1.58%) amidst better macro prints (manufacturing PMI, factory orders and jobs data). Oil prices fell by (-) 6.3% to US$ 54/bbl. India's 10Y yield fell by 16bps (6.44%) supported by lower oil prices and RBI's liquidity infusion measures. System liquidity surplus fell to Rs 3.2tn as on 7 Feb 2020 vs Rs 3.4tn in the previous week.

- **Currency:** Global currencies closed lower this week on concerns over the economic fallout of the coronavirus outbreak in China. CNY fell by (-) 0.9%. However, DXY rose by 1.3% in the week to a near 4-month high as US macro data remained robust (US ISM manufacturing and non-manufacturing index, payroll additions). GBP depreciated sharply by (-) 2.4% as investors await the crucial trade negotiations between EU and UK. INR fell by (-) 0.1%. FII inflows were US$ 1.1bn in the week.

- **Equity:** Barring Shanghai Comp, global indices ended the week in green led by strong global manufacturing and services PMI print. Dax (4.1%) surged the most. Dow rose by 3% supported by better than expected US jobs data. Sensex (3.5%) too ended higher after RBI took measures to support credit growth, while keeping rates unchanged.

- **Upcoming key events:** In the current week, markets await preliminary estimates of Q4CY19 GDP prints for UK, Taiwan, Germany and Euro Area. In addition, US CPI, industrial production and retail sales will also guide markets. On the domestic front, India's CPI, WPI, IIP and trade data are scheduled for release this week.

BUY
TP: Rs 225 | ⮝ 68%

OIL INDIA | Oil & Gas | 11 February 2020

Volumes remain a drag

Oil India's (OINL) Q3FY20 earnings disappointed at Rs 4bn (–67% YoY). Key highlights: (a) EBITDA at Rs 11bn (–28% YoY) was a miss on high operating cost (at ~US$ 7.25/bbl), (b) oil (0.73mmt, –11% YoY) and gas (0.60bcm, –7% YoY) sale volumes underperformed, hit by political unrest in Assam. We cut FY20/21/22 earnings by 15%/6%/5% on low production volumes. On rollover, we have a revised Mar'21 TP of Rs 225 (from Rs 260). OINL's dividend announcement (Rs 9/sh) offers some respite.

Rohit Ahuja | Harleen Manglani
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Operating cost trending below long-term estimates: While OINL's Q3 operating cost came in above estimates at US$ 7.25/bbl (US$ 6/bbl est.), it is trending below our FY21/FY22 forecast of ~US$ 9/bbl. We accordingly recalibrate our cost assumption for these years to US$ 7-8/bbl, which leads to marginal improvement in earnings.

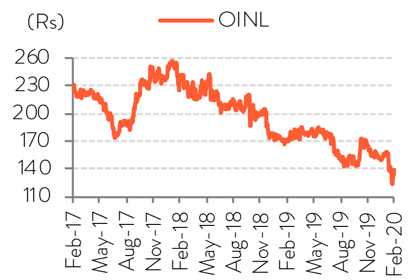
Political disruptions dent volumes: OINL's oil production continues to decline (0.75mmt, –11% YoY). Gas production also dipped in the current quarter (0.70bcm, –4.6% YoY), likely due to political disruptions. Oil and gas production continues to trend well below management's earlier guidance of 3.66mmt and 3.02bcm respectively for FY20. We thus cut our oil and gas production/sales estimates by ~10% over FY20-FY22.

Valuations pricing in the worst – maintain BUY: Current valuations at 4.5x FY22E EPS imply Brent at US$ 40/bbl and offer an unjustifiably steep discount to spot oil prices (US$ 55/bbl). Additionally, dividend yields at ~8.5%/11.5%/12% for FY20E/FY21E/FY22E render valuations extremely attractive. The stock seems to be pricing in the worst case, in our view.

Ticker/Price	OINL IN/Rs 134
Market cap	US$ 2.0bn
Shares o/s	1,084mn
3M ADV	US$ 2.8mn
52wk high/low	Rs 190/Rs 118
Promoter/FPI/DII	62%/5%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	106,565	137,350	134,035	158,444	171,003
EBITDA (Rs mn)	41,013	54,838	55,194	67,901	74,343
Adj. net profit (Rs mn)	26,679	32,693	33,466	42,575	45,982
Adj. EPS (Rs)	24.6	30.1	30.9	39.3	42.4
Adj. EPS growth (%)	12.1	22.5	2.4	27.2	8.0
Adj. ROAE (%)	9.4	11.8	11.7	14.0	14.1
Adj. P/E (x)	5.4	4.4	4.3	3.4	3.2
EV/EBITDA (x)	3.7	3.3	3.1	2.6	2.8

Source: Company, BOBCAPS Research

BUY
TP: Rs 540 | ⮝ 41%

DILIP BUILDCON | Infrastructure | 11 February 2020

Lacklustre quarter; order inflows key to watch

Dilip Buildcon's (DBL) Q3FY20 standalone revenue fell 4% YoY to Rs 23.8bn (Rs 25bn est.) due to the extended monsoon and delayed appointed dates. EBITDA margin was stable at 17.6% (17.5% est.) but adj. PAT dropped 41% YoY to Rs 1.2bn (Rs 1.3bn est.) due to higher depreciation post Ind-AS 116 adoption. The Dec'19 order backlog stood at Rs 212bn, 2.3x TTM revenues. Management has cut FY20 revenue guidance to ~Rs 95bn from ~Rs 100bn due to execution delays. We pare FY20/FY21/FY22 EPS 10%/8%/14% and roll to Mar'21 TP of Rs 540 (vs. Rs 560).

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Prolonged monsoon clouds growth: DBL's Q3 revenue fell 4% YoY to Rs 23.8bn as the extended monsoons hit project execution. Management has cut FY20 order inflow/revenue guidance to Rs 100bn (from Rs 120bn)/Rs 95bn due to execution delays and tardy award of appointed dates (AD) for HAM projects.

PAT drops 41%: Adoption of Ind-AS 116 saw depreciation expense rising 34% YoY. Further, DBL has not shifted to the new tax regime due to unutilised MAT credit of Rs 3.8bn. Adj. PAT thus declined 40.6% YoY to Rs 1.2bn. DBL reported exceptional income of Rs 40mn relating to profit on transfer of stake in subsidiaries, which slightly cushioned reported PAT (–38.6% YoY to Rs 1.3bn).

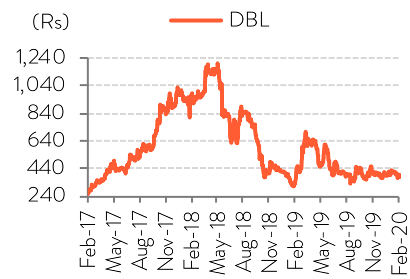
Leverage improves; working capital stretched: Led by recovery of mobilisation advances (Rs 3.8bn), standalone gross debt reduced by Rs 0.9bn QoQ to Rs 33.9bn. Net D/E stood at 0.9x and Mar'20 guidance is at 0.8x – this shall be achieved via advance receipts on HAM/EPC projects and marginal capex. Net working capital cycle extended to 107 days vs. 87 as on Mar'19 (100 days as on Sep'19) due to delays in receivables (FY20 guidance at 100-105 days).

Maintain BUY: We cut FY20/FY21/FY22 earnings 10%/8%/14% to bake in lower revenues and other income. Rolling forward, we have a new Mar'21 TP of Rs 540.

Ticker/Price	DBL IN/Rs 384
Market cap	US$ 736.4mn
Shares o/s	137mn
3M ADV	US$ 1.6mn
52wk high/low	Rs 735/Rs 316
Promoter/FPI/DII	75%/9%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	77,459	91,182	94,082	1,07,358	1,13,317
EBITDA (Rs mn)	14,028	16,044	16,659	18,809	19,840
Adj. net profit (Rs mn)	6,355	7,607	4,716	5,659	6,425
Adj. EPS (Rs)	46.5	55.6	34.5	41.4	47.0
Adj. EPS growth (%)	63.4	19.7	(38.0)	20.0	13.5
Adj. ROAE (%)	29.5	26.9	13.7	14.4	14.2
Adj. P/E (x)	8.3	6.9	11.1	9.3	8.2
EV/EBITDA (x)	5.5	4.9	5.0	4.5	4.2

Source: Company, BOBCAPS Research

BUY
TP: Rs 160 | 31%

GAIL | Oil & Gas | 10 February 2020

Operationally robust; demerger uncertainty priced in

GAIL's Q3FY20 PAT was in line at Rs 10.2bn (–40% YoY). While gross margins outperformed across segments, earnings were muted due to high taxes. Key Q3 highlights: (a) gas trading EBITDA recovered to Rs 5.2bn (2x QoQ) on normalised margins, (b) gas transmission EBITDA outperformed at Rs 12.2bn (+14% YoY) despite lower volumes at 110mmscmd, and (c) LPG/ petchem EBITDA beat estimates backed by better margins/volumes. Our TP remains unchanged at Rs 160 (rolled over to Mar'21).

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Gas transmission volumes underperform: While Q3 gas transmission volumes were lower than expected at ~110mmscmd (+2.4% YoY), tariffs beat estimates at Rs 1.56/scm (+5.2% YoY), leading to outperformance on EBITDA. Commissioning of the Kochi-Mangalore (Q1FY21) and Jagdishpur-Haldia pipelines (by end-FY22) could add ~15mmscmd to volumes from FY22. With the issue of tariffs now being settled for good, GAIL's pipeline business potential looks increasingly buoyant given new LNG regasification and expected improvement in domestic gas production (from RIL and ONGC).

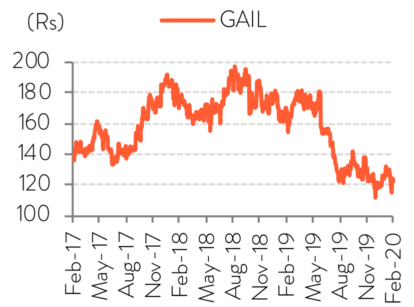
Gas trading recovers: Q3 gas trading EBITDA recovered to Rs 5.2bn (–22% YoY, 2x QoQ), helped by low spot LNG prices. Prices for long-term contracts (at US$ 6-7/mmbtu)) remain disconnected from spot LNG prices (<US$ 3/mmbtu currently), putting pressure on volume expansion prospects (trading volumes remained flat YoY at 96mmscmd).

Reiterate BUY: At 9x FY22E EPS, GAIL offers attractive risk-reward, pricing in most of the concerns. Management continues to deny the possibility of a split in business segments, but this event appears to be priced in. Our SOTP target price of Rs 160 builds in worst-case assumptions across segments.

Ticker/Price	GAIL IN/Rs 122
Market cap	US$ 7.7bn
Shares o/s	4,510mn
3M ADV	US$ 18.9mn
52wk high/low	Rs 183/Rs 110
Promoter/FPI/DII	53%/19%/29%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	574,866	802,795	546,413	654,786	716,354
EBITDA (Rs mn)	76,339	95,556	74,011	90,053	94,617
Adj. net profit (Rs mn)	46,000	63,525	54,448	61,957	61,473
Adj. EPS (Rs)	10.2	14.1	12.1	13.7	13.6
Adj. EPS growth (%)	43.1	38.1	(14.3)	13.8	(0.8)
Adj. ROAE (%)	11.7	15.1	11.8	12.4	11.6
Adj. P/E (x)	11.9	8.6	10.1	8.9	8.9
EV/EBITDA (x)	7.6	5.8	7.3	6.1	6.0

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 630 | ⮝ 10%

CONTAINER CORP OF INDIA | Logistics | 10 February 2020

Weak quarter; DFC trigger awaited

Container Corp's (CCRI IN) standalone Q3FY20 revenue declined 3% YoY on lower volumes and realisations. Operating margin resilience led to stable EBITDA but the absence of SEIS income (Rs 0.8bn in Q3FY19) dragged reported PAT down 36% YoY. While weak macro conditions will continue to weigh on growth, we see the DFC as a key trigger for the rail logistics business and expect CCRI to be the chief beneficiary by dint of its wide network and strong positioning. We trim FY20-FY22 EPS by 3-4% and move to a lower TP of Rs 630 vs. Rs 655.

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Market share slump continues: Handling/originating volumes fell 1.7%/3.5% YoY amidst weak EXIM trade and domestic consumption. More disappointingly, realisations also fell 1.2% YoY/6.5% QoQ due to a higher share of empty containers and sequential decline in lead distance (-1.4%). CCRI has lost substantial market share in Q3/9M (~570/~630bps YoY per our estimate) due to its conscious decision to stay away from low-margin, short-haul business.

EBITDA margin resilient: Volume headwinds and lower double stacking notwithstanding, CCRI's EBITDA margin (adj. for Ind-AS 116) rose 44bps YoY to 21.7%, aided by lower rail freight and empty running costs. EXIM EBIT margin expanded 480bps YoY, but the domestic margin contracted sharply (-650bps) due to losses in the coastal shipping operations.

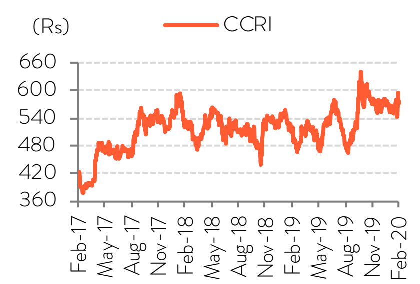
DFC trigger awaited: Per CCRI, the first DFC stretch connecting Gujarat ports is to come online by Jun'20, enabling it to offer transit time guarantee. From its experience running time-bound trains, management believes many manufacturers will shift to rail from road. We expect CCRI to be a key beneficiary of this shift.

Maintain ADD: We trim our FY20-FY22 earnings estimate by 3-4% each, translating to a revised Mar'21 TP of Rs 630 (Rs 655 earlier). Maintain ADD.

Ticker/Price	CCRI IN/Rs 572
Market cap	US$ 4.9bn
Shares o/s	609mn
3M ADV	US$ 9.6mn
52wk high/low	Rs 666/Rs 460
Promoter/FPI/DII	55%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,098	66,417	78,961	94,699
EBITDA (Rs mn)	12,067	14,078	15,284	19,789	24,286
Adj. net profit (Rs mn)	10,619	12,154	10,227	12,469	15,153
Adj. EPS (Rs)	17.4	19.9	16.8	20.5	24.9
Adj. EPS growth (%)	12.4	14.5	(15.9)	21.9	21.5
Adj. ROAE (%)	11.7	12.3	9.9	11.6	13.1
Adj. P/E (x)	32.8	28.7	34.1	28.0	23.0
EV/EBITDA (x)	27.2	23.5	22.4	17.6	14.2

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 615 | 13%

KAJARIA CERAMICS | Construction Materials | 10 February 2020

All round miss

Kajaria Ceramics (KJC) posted a below-expected Q3FY20 with revenue down 2% YoY due to flat volumes (+0.5% YoY) and lower realisations (–4.1% YoY). Operating margins contracted 90bps YoY to 15% due to higher employee costs, causing EBITDA/PBT to fall 8%/16%. Management expects better growth in FY21 backed by various government measures in the real estate sector. We cut FY20-FY22 earnings by ~8% each amid continued tough market conditions, and roll forward to a Mar'21 TP of Rs 615 (earlier Rs 625). Maintain ADD.

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Flat volume growth: KJC's Q3 revenue declined 2% YoY to Rs 7.4bn as realisations fell 4.1% YoY (–1% QoQ) and volumes grew 0.5% YoY. As per management, volume growth was tepid due to continue weakness in the real estate market, the general economic slowdown and tight liquidity. Enhanced working capital discipline further exacerbated the weakness in sales. Management expects better growth in FY21 led by various government initiatives to finish incomplete real estate projects and a general improvement in liquidity.

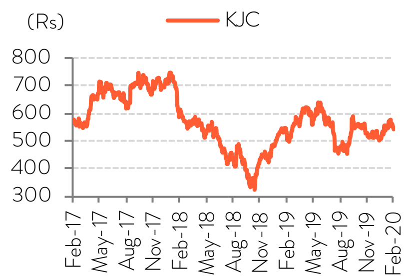
Operating margins decline: Operating margins contracted 90bps YoY to 15% (+30bps QoQ) due to higher employee cost (+124bps YoY, +10bps QoQ), which was partly set off by lower other expenditure (–23bps YoY). EBITDA/PBT declined 8%/16% YoY. Employee cost as a percentage of sales increased YoY due to negative operating leverage. KJC reported 15% margins in 9MFY20 and management has guided for similar levels going ahead.

Maintain ADD: Given the 9MFY20 underperformance and challenging demand climate, we cut FY20-FY22 earnings estimates by ~8% each. On rollover, we move to a Mar'21 TP of Rs 615 (earlier Rs 625).

Ticker/Price	KJC IN/Rs 545
Market cap	US$ 1.2bn
Shares o/s	159mn
3M ADV	US$ 1.4mn
52wk high/low	Rs 650/Rs 443
Promoter/FPI/DII	48%/24%/28%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	27,106	29,562	29,707	32,780	36,573
EBITDA (Rs mn)	4,564	4,495	4,453	5,091	5,826
Adj. net profit (Rs mn)	2,342	2,314	2,557	3,015	3,513
Adj. EPS (Rs)	14.7	14.6	16.1	19.0	22.1
Adj. EPS growth (%)	(7.4)	(1.2)	10.5	17.9	16.5
Adj. ROAE (%)	18.5	15.8	15.3	16.0	16.5
Adj. P/E (x)	37.0	37.4	33.9	28.7	24.7
EV/EBITDA (x)	19.4	19.5	19.3	16.6	14.3

Source: Company, BOBCAPS Research

RESULT REVIEW

BUY
TP: Rs 325 | ⮝ 24%

VRL LOGISTICS | Logistics | 10 February 2020

Soft quarter as macro challenges continue

VRL Logistics' (VRLL) Q3FY20 revenue grew at a tepid 1% YoY, with the goods/people transport segments growing at +3%/–8% YoY as the macro slowdown continued to take a toll. EBITDA/PBT (adj. for Ind-AS 116) fell 15%/20% YoY, below estimates. Lower tax rates contained the decline in PAT to 0.5% YoY. While growth is likely to be soft in the near term, we continue to like VRLL for its established moats in the LTL space and robust cash flows. We prune estimates and marginally revise our Mar'21 TP to Rs 325.

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Goods transport (GT) – tonnage rises, realisations muted: VRLL's discount-led customer acquisition strategy yielded a robust tonnage increase of 11% YoY in Q3FY20, but realisations declined 7%, capping GT revenue growth at a tepid 2.8%. A bulk of the volume growth came from new customers, while demand from existing customers was flat. The Surat transshipment hub is scaling up well (+25% QoQ). We expect GT segment growth to remain muted for the next few quarters, with sustainable recovery contingent upon economic revival.

People transport (PT) – consolidation over: In Q3, PT revenue dropped 8% YoY. The number of passengers declined 11% YoY, owing to a reduction in fleet size (354 buses vs. 381 in Q3FY19), while realisations rose 4%. Consolidation of PT operations is largely over as the current operating routes are fairly profitable. VRLL aims to replace 40-50 buses where licences are set to expire soon.

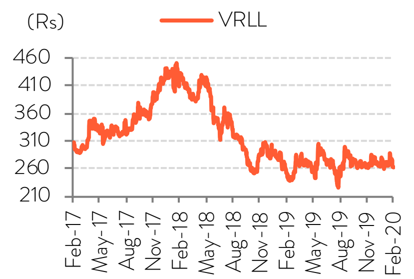
Margin pressure continues: VRLL's EBITDA margin (adj. for Ind-AS 116) contracted 195bps to 10.7% due to higher repair & maintenance and driver charges. GT EBITDA margin dropped 380bps YoY, but PT saw a 45bps rise.

Reiterate BUY: We pare FY20-FY22 earnings estimates by 1-2% and move to a revised Mar'21 TP of Rs 325 vs. Rs 330 earlier.

Ticker/Price	VRLL IN/Rs 263
Market cap	US$ 333.2mn
Shares o/s	90mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 316/Rs 222
Promoter/FPI/DII	68%/6%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	19,223	21,095	21,421	23,248	25,002
EBITDA (Rs mn)	2,342	2,440	3,180	3,550	3,818
Adj. net profit (Rs mn)	926	919	1,084	1,177	1,343
Adj. EPS (Rs)	10.2	10.2	12.0	13.0	14.9
Adj. EPS growth (%)	32.7	(0.7)	17.9	8.6	14.2
Adj. ROAE (%)	16.3	14.8	16.2	16.3	17.3
Adj. P/E (x)	25.7	25.9	21.9	20.2	17.7
EV/EBITDA (x)	11.1	10.3	7.8	7.0	6.4

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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