FIRST LIGHT

13 August 2019

RESEARCH

Reliance Industries | Target: Rs 1,430 | +23% | BUY
AGM highlights: Deleveraging via stake sale in cash cows

Mahanagar Gas | Target: Rs 870 | +11% | ADD
Margins surge, volumes drag; raise to ADD on positive risk-reward

BOB Economics Research | Monthly Chartbook
Global easing cycle on the way

BOB Economics Research | IIP
IIP growth moderates

GAIL | Target: Rs 175 | +41% | BUY
Pricing in the worst case

Divi's Labs | Target: Rs 1,750 | +5% | REDUCE
Lacklustre Q1, normalcy expected from Q3

Mphasis | Target: Rs 1,150 | +20% | BUY
Analyst meet takeaways: Staying agile amid structural demand shift

Oil India | Target: Rs 240 | +60% | BUY
Low costs drive earnings, but volumes remain a drag

Allcargo Logistics | Target: Rs 125 | +30% | BUY
In-line quarter

SUMMARY

Reliance Industries

Chairman Mukesh Ambani's FY19 AGM speech laid out several key milestones: (a) deleveraging by FY21 through stake sales in refining/petchem (U$ 15bn inflow), petroleum retail (US$ 1bn inflow) and fibre InVIT; (b) enhancing shareholder value via higher dividend payouts, more bonus issuances and listing of RJio & Retail over five years; and (c) expanding RJio's value proposition by way of lateral offerings such as FTTH, set-top box and cloud services. We upgrade RIL to BUY (from ADD) and raise our TP 7% to Rs 1,430 on deleveraging initiatives.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	230
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	245
Laurus Labs	Buy	480
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.72	1bps	(33bps)	(121bps)
India 10Y yield (%)	6.40	3bps	(16bps)	(134bps)
USD/INR	70.70	0.3	(3.0)	(2.9)
Brent Crude (US$/bbl)	57.38	2.0	(10.5)	(20.4)
Dow	26,378	1.4	(1.6)	3.4
Shanghai	2,795	0.9	(4.7)	0
Sensex	37,327	1.7	(3.6)	(1.8)
India FII (US$ mn)	**7 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	153.3	79.7	2,733.7	2,189.0
FII-E	(72.1)	(1,229.6)	8,175.0	1,329.8

Source: Bank of Baroda Economics Research

BOBCAPS Research
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Mahanagar Gas

Mahanagar Gas's (MAHGL) Q1FY20 PAT was well above estimates at Rs 1.7bn (+20% YoY). While EBITDA margins surged to Rs 10.3/scm (+20% YoY), volumes underperformed at 270mmscm (+3.3% YoY) as the company seemed to fall back on its earnings growth strategy of margin expansion at the cost of volumes. We raise FY20/FY21 earnings by 22%/16% on higher margins. Our DCF-based TP improves to Rs 870 (vs. Rs 800) on rollover to Sep'21 valuations and lower COE. We upgrade the stock to ADD (from SELL).

Click here for the full report.

India Economics: Monthly Chartbook

Consumption and investment demand remained subdued with decline in auto sales, non-oil-non-gold imports, capital goods production and imports. Slowdown also impacted government revenues which are likely to improve as a result of additional taxes proposed in Budget. While monsoon rains have improved lately, sowing is behind last year's levels and will impact rural incomes and demand. Monetary stimulus by RBI will help in reducing interest costs and thus improve demand and sentiment with a lag. Given the global backdrop of easing interest rates, we believe RBI will further cut rates to stimulate demand.

Click here for the full report.

India Economics: IIP

Industrial growth edged down to a four month low of 2% in Jun'19 compared with 4.6% in May'19. An unfavourable base coupled with subdued domestic consumption and capex along with muted exports acted as a drag. Electricity and FMCG were the bright spots. Capital goods, durables and infra slowed the most in Jun'19. Even so, industrial growth in Q1FY20 has fared better than Q4FY19. A similar trend will be seen in H2 on the back of base effect. However, underlying drivers of demand remain weak for now.

Click here for the full report.

GAIL

GAIL's Q1FY20 PAT/EBITDA surpassed estimates at Rs 13bn/Rs 23bn (+2.2%/flat YoY). Operationally, gross margins outperformed across segments, barring petchem. Key Q1 highlights: (a) gas trading EBITDA surged 56% YoY, (b) gas transmission volumes dipped 1.5% YoY, and (c) LPG EBITDA outperformed. We reduce FY20/FY21 earnings by 17%/15% as the cyclical downturn compresses LPG/petchem margins. Our TP changes to Rs 175 (from Rs 245) as we roll over to Sep'21 valuations.

Click here **for the full report.**

Divi's Labs

Q1FY20 saw a lackluster with a revenue/EBITDA miss of 2%/5% led by continued consumption of high-cost RM and a weak product mix (lower CS contribution at 41%, flat QoQ). DIVI expects margin normalcy to be restored from Q3, while sales run-rate should improve from Q2. We believe the asking rate for the rest of the year is steep given FY20 guidance of 10% revenue growth and 37-38% margins. Maintain REDUCE; on rollover, we have a Sep'20 TP of Rs 1,750 (vs. Rs 1,680). Expect the stock to be weak in the medium term.

Click here **for the full report.**

Mphasis

Mphasis (MPHL), at its analyst meet, highlighted its constant strategic adaption to stay aligned with the changing technology demands of clients. MPHL continues to successfully identify growth opportunities in BFSI, its largest vertical at ~57% of FY19 revenue, even as peers struggle. Blackstone's connect with large global banks and financial institutions could offer added upsides. We stay optimistic on MPHL's growth prospects backed by differentiated growth avenues, namely HP/DXC and Blackstone portfolio companies.

Click here **for the full report.**

Oil India

Oil India's (OINL) Q1 FY20 earnings at Rs 6.3bn (-11% YoY) was above estimates. Key highlights: (a) EBITDA at Rs13.5 bn (-4% YoY) was above estimates on low operating costs (at ~US7.7$/bbl), (b) Oil (0.80 mmt, -1.6% YoY) and Gas (0.61 bcm, +2.7% YoY) sales volumes were in-line. However, we trim FY20/FY21 earnings by 19%/17.4% on cutting oil price estimates (US$65/bbl and US$70/bbl) and production estimates. Our TP gets revised to Rs 240 (as we also roll over to Sept'21 valuations).

Click here **for the full report.**

Allcargo Logistics

Allcargo Logistics (AGLL) reported an in-line topline of Rs 18bn, up 12% YoY. MTO/CFS/P&E revenue grew 10%/8%/62% YoY. EBITDA rose 18% YoY (adj. for Ind-AS 116) aided by P&E/CFS, while adj. PAT increased 19% to Rs 645mn. Though Q1 was a decent quarter, we expect growth to moderate in the remainder of FY20 as industry headwinds are intensifying. We broadly maintain earnings estimates, but reduce our target P/E multiple to 10x from 11x earlier. Rolling valuations forward, we lower our Jun'20 TP to Rs 125 (Rs 135 earlier).

Click here **for the full report.**

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,430 | ⮝ 23%

RELIANCE INDUSTRIES | Oil & Gas | 12 August 2019

AGM highlights: Deleveraging via stake sale in cash cows

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Chairman Mukesh Ambani's FY19 AGM speech laid out several key milestones: (a) deleveraging by FY21 through stake sales in refining/petchem (U$ 15bn inflow), petroleum retail (US$ 1bn inflow) and fibre InVIT; (b) enhancing shareholder value via higher dividend payouts, more bonus issuances and listing of RJio & Retail over five years; and (c) expanding RJio's value proposition by way of lateral offerings such as FTTH, set-top box and cloud services. We upgrade RIL to BUY (from ADD) and raise our TP 7% to Rs 1,430 on deleveraging initiatives.

Stake sale in cash cows: Reliance Industries (RIL) has defined its integrated refining and petrochemicals unit as Oil2Chemicals, wherein it will offload a 20% stake to Saudi Aramco at an EV of US$ 75bn (US$ 15bn inflow to RIL). This deal values the business at ~8x FY21E EBITDA, close to our valuations, and entails hiving off the segment into a separate company (which may attract a holding company discount in RIL's SOTP). Stake sale is imperative considering that RIL's strategy to enhance the oil-to-chemicals ratio to >70% would entail setting up ~45mmtpa of petchem capacities at a capex of ~US$ 30bn (as mentioned in our recent **annual report analysis**).

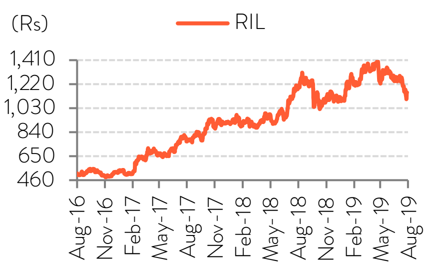
RJio/Retail – lateral offerings to enhance value proposition: RIL's chairman affirmed that the investment cycle for RJio is now complete (after pumping in Rs 3.5tn over the last five years). Incremental capex would be earmarked towards capacity enhancement, though this would be minimal as primary assets such as tower and fibre have been hived off into separate InVITs.

Four new lateral offerings are on the cards at Jio: Internet of Things (IoT) with Rs 200bn revenue potential, home broadband (JioFiber) with commercial tariffs from Rs 700 a month, set-top box for DTH television, and content for JioFiber. Reliance Retail will launch a 'new commerce' initiative to tap India's 30mn small merchants and *kirana* shop owners (US$ 700bn potential).

Ticker/Price	RIL IN/Rs 1,162
Market cap	US$ 97.3bn
Shares o/s	5,927mn
3M ADV	US$ 153.1mn
52wk high/low	Rs 1,418/Rs 1,016
Promoter/FPI/DII	47%/24%/28%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	352,869	398,370	456,245	607,243	806,127
Adj. EPS (Rs)	59.6	67.2	77.0	102.5	136.0
Adj. EPS growth (%)	17.4	12.8	14.5	33.1	32.8
Adj. ROAE (%)	12.7	11.7	11.2	13.3	15.5
Adj. P/E (x)	19.5	17.3	15.1	11.3	8.5
EV/EBITDA (x)	13.9	10.3	10.1	7.5	5.5

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 870 | ⮝ 11%

MAHANAGAR GAS | Oil & Gas | 09 August 2019

Margins surge, volumes drag; raise to ADD on positive risk-reward

Mahanagar Gas's (MAHGL) Q1FY20 PAT was well above estimates at Rs 1.7bn (+20% YoY). While EBITDA margins surged to Rs 10.3/scm (+20% YoY), volumes underperformed at 270mmscm (+3.3% YoY) as the company seemed to fall back on its earnings growth strategy of margin expansion at the cost of volumes. We raise FY20/FY21 earnings by 22%/16% on higher margins. Our DCF-based TP improves to Rs 870 (vs. Rs 800) on rollover to Sep'21 valuations and lower COE. We upgrade the stock to ADD (from SELL).

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Drag from CNG weighs on volume growth: MAHGL's volumes have once again reverted to subpar growth levels, slowing to 3.3% YoY in Q1 (270mmscm). CNG (197mmscm, +2% YoY) was muted due to a high base and slowdown in the addition/conversion rate of vehicles using this fuel. We believe the slowdown in CNG volume growth could sustain over the long term given rising infrastructure constraints and improving alternate travel options in Mumbai (metro).

Robust PNG volumes: PNG volumes grew 7% YoY backed by domestic PNG sales (36mmscm, +9.4% YoY), while offtake from the industrial/commercial segments slowed (37mmscm, +4.7% YoY). Unlike CNG, PNG volumes do not face similar infrastructure constraints.

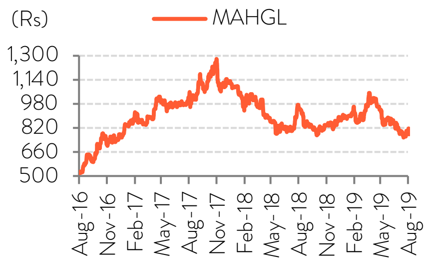
Margins surge: EBITDA margins at Rs 10.3/scm were well above estimates, driven by a surge in margins for the industrial/commercial segments from a crash in spot LNG prices. This level seems sustainable on a low LNG price outlook. We raise long-term average margin estimates to ~Rs 10/scm (vs. Rs 8).

Upgrade to ADD: At ~11x FY21E EPS, MAHGL's valuations price in the volume slowdown, while improving margins proffer hope for sustained earnings growth. We upgrade to ADD as the recent correction makes risk-reward favourable.

Ticker/Price	MAHGL IN/Rs 785
Market cap	US$ 1.1bn
Shares o/s	99mn
3M ADV	US$ 4.5mn
52wk high/low	Rs 1,067/Rs 754
Promoter/FPI/DII	43%/24%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	4,779	5,464	6,937	6,914	7,167
Adj. EPS (Rs)	48.4	55.3	70.2	70.0	72.6
Adj. EPS growth (%)	21.5	14.3	27.0	(0.3)	3.7
Adj. ROAE (%)	24.3	24.2	27.2	24.4	23.0
Adj. P/E (x)	16.2	14.2	11.2	11.2	10.8
EV/EBITDA (x)	9.8	8.7	6.7	6.5	6.2

Source: Company, BOBCAPS Research

Global easing cycle on the way

Consumption and investment demand remained subdued with decline in auto sales, non-oil-non-gold imports, capital goods production and imports. Slowdown also impacted government revenues which are likely to improve as a result of additional taxes proposed in Budget. While monsoon rains have improved lately, sowing is behind last year's levels and will impact rural incomes and demand. Monetary stimulus by RBI will help in reducing interest costs and thus improve demand and sentiment with a lag. Given the global backdrop of easing interest rates, we believe RBI will further cut rates to stimulate demand.

Consumption demand weakened: Consumption demand remained subdued with decline in non-oil-gold imports at (-) 9% in Jun'19, lower passenger vehicle sales at (-) 24% and two-wheeler sales at (-) 12%. RBI's consumer confidence has also fallen to 95.7 in Jul'19, lowest since Dec'18. While monsoon has improved, kharif sowing is still (-) 6.6% below last year's level. This will drive agri prices higher for some select commodities and thus improve rural consumption.

Fiscal consolidation: The current slowdown has resulted in relatively muted increase in tax collections for the centre and states. Gross tax revenue of the centre increased by only 6.5% in Jun'19. Centre has proposed a fiscal deficit of 3.3% and 3% in FY20 and FY21 respectively. Thus revenue and capital spending by centre and states has been relatively muted. Lower capex by centre and states has coincided with decline in private sector capital spending as seen in decline in capital goods production and imports.

Yields have softened: India's 10Y yield fell by (-) 51 bps in Jul'19. Post Fed policy, US 10Y yield also fell by (-) 28bps. RBI has cut rates (35bps) in Aug'19. So have other central banks such as Thailand, New Zealand and Phillipines. Central Banks are looking at lower rates and higher liquidity to uplift global growth which has sapped due to current US-China tariff war. RBI has also moved to surplus liquidity which has now increased to Rs 1.3tn in Jul'19. Transmission by banks is under way. CIC accretion has been far lower at Rs 359bn in FYTD20 compared with Rs 922bn last year. This is a sign of lower demand and thus muted pricing power, which would keep inflation well anchored at 3.5% in FY20.

Short-term volatility in INR, outlook for FY20 stable: INR appreciated marginally by 0.3% in Jul'19. Lower oil prices helped. FII outflows were US$ 0.7bn after inflows of US$ 5.4bn in Q1FY20. FPI outflows rose to US$ 1.2bn in Aug'19 (7 Aug'19). INR, along with other EM currencies, came under pressure after China lowered daily fixing of CNY below 7/US $ in Aug'19. While CNY depreciated by (-) 2.4%, INR has fallen by (-) 2.9%. On the positive side, oil prices are now below US$ 60/bbl which is positive for INR. Hence, depreciation pressure on INR is likely to be temporary.

IIP

09 August 2019

IIP growth moderates

Industrial growth edged down to a four month low of 2% in Jun'19 compared with 4.6% in May'19. An unfavourable base coupled with subdued domestic consumption and capex along with muted exports acted as a drag. Electricity and FMCG were the bright spots. Capital goods, durables and infra slowed the most in Jun'19. Even so, industrial growth in Q1FY20 has fared better than Q4FY19. A similar trend will be seen in H2 on the back of base effect. However, underlying drivers of demand remain weak for now.

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KEY HIGHLIGHTS

- IIP slows to 4-month low
- Manufacturing and mining pull IIP growth down
- IIP growth to remain subdued in H1FY20

IIP growth slips: Industrial output slowed to a 4-month low of 2% in Jun'19, from 4.6% in May'19 led by manufacturing and mining sectors. While manufacturing growth slipped to 1.2% in Jun'19 from 4.5% in May'19, mining growth fell to 1.6% in Jun'19 from 2.4% increase seen in May'19. Electricity generation was a bright spot at 8.2% in Jun'19 compared with 7.4% in May'19. A part of the dip in IIP growth is attributable to base effect as IIP growth had increased to 7% in Jun'18 from 3.8% in May'18. Industrial growth for Q1FY20 now stands at 3.6% compared with 1.5% in Q4FY19.

Cap goods and durables remain a drag: Capital goods output continued to fall for 2nd consecutive month at (-) 6.5% in Jun'19 compared with (-) 1.4% in May'19. Sharp decline was also seen for consumer durables at (-) 5.5% in Jun'19 compared with 0.3% in May'19. The current consumption and investment slowdown is visible in decline in capital goods output and postponement of consumer discretionary spending. Infrastructure and construction goods output has also fallen by (-) 1.8% in Jun'19 compared with an increase of 1.8% seen in May'19 as centre and states have reduced capex spending. Amidst, the slowdown consumer non-durables or FMCG sector managed to report much better growth at 7.8% in Jun'19 (8.1% in May'19).

H2 growth to be higher than H1: IIP grew by 5.6% in H1FY19 versus 2.6% in H2FY19. Hence, the low base is likely to pull growth higher in H2FY20. Lower oil prices will also act as a positive catalyst. However, the underlying drivers of aggregate demand—domestic consumption and investment and exports remain weak for now. Recovery will be visible once benefit of lower interest rates and oil prices work through the economy.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 175 | ⮝ 41%

GAIL | Oil & Gas | 12 August 2019

Pricing in the worst case

GAIL's Q1FY20 PAT/EBITDA surpassed estimates at Rs 13bn/Rs 23bn (+2.2%/flat YoY). Operationally, gross margins outperformed across segments, barring petchem. Key Q1 highlights: (a) gas trading EBITDA surged 56% YoY, (b) gas transmission volumes dipped 1.5% YoY, and (c) LPG EBITDA outperformed. We reduce FY20/FY21 earnings by 17%/15% as the cyclical downturn compresses LPG/petchem margins. Our TP changes to Rs 175 (from Rs 245) as we roll over to Sep'21 valuations.

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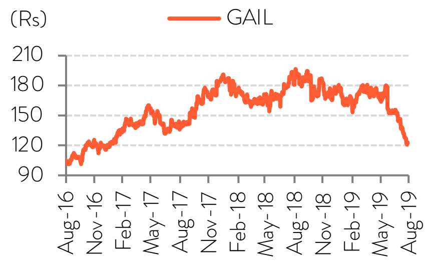
Ticker/Price	GAIL IN/Rs 124
Market cap	US$ 78.9bn
Shares o/s	45,101mn
3M ADV	US$ 12.7mn
52wk high/low	Rs 200/Rs 120
Promoter/FPI/DII	53%/20%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Buoyant gas transmission volume outlook: While Q1 gas transmission volumes were lower than expected at ~105mmscmd (–1.5% YoY), tariffs were higher at Rs 1.54/scm (+15% YoY). New tariffs announced recently for HVJ and other pipeline networks are effective from Jul'19, the impact of which will be visible from Q2FY20. We remain positive on GAIL's volume outlook supported by (a) improving LNG offtake potential from new regasification capacities (PLNG Dahej to add ~6mmscmd from Q2FY20), and (b) incremental domestic gas production (ONGC/RIL: 20-30mmscmd by FY22).

Gas trading and cyclicals could revive: Q1 gas trading EBITDA at Rs 8.6bn (+56% YoY) surged on higher margins from spot LNG besides continuing benefits of hedges/swaps for US LNG volumes. Management indicated that earnings could sustain at this level until FY22 if spot LNG prices remain low. Trading volumes (96mmscmd in Q1) could also improve from Q2 given higher LNG offtake, especially from PLNG's new expanded capacity (~9mmscmd).

Reiterate BUY: At 8.3x FY21E 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 TP of Rs 175 builds in worst-case assumptions across segments.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	46,000	63,525	60,998	67,132	71,102
Adj. EPS (Rs)	10.2	14.1	13.5	14.9	15.8
Adj. EPS growth (%)	43.1	38.1	(4.0)	10.1	5.9
Adj. ROAE (%)	11.7	15.1	13.6	14.0	13.8
Adj. P/E (x)	12.1	8.8	9.2	8.3	7.9
EV/EBITDA (x)	73.4	58.3	53.2	46.4	43.5

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

REDUCE
TP: Rs 1,750 | ▲ 5%

DIVI'S LABS | Pharmaceuticals | 10 August 2019

Lacklustre Q1, normalcy expected from Q3

Q1FY20 saw a lackluster with a revenue/EBITDA miss of 2%/5% led by continued consumption of high-cost RM and a weak product mix (lower CS contribution at 41%, flat QoQ). DIVI expects margin normalcy to be restored from Q3, while sales run-rate should improve from Q2. We believe the asking rate for the rest of the year is steep given FY20 guidance of 10% revenue growth and 37-38% margins. Maintain REDUCE; on rollover, we have a Sep'20 TP of Rs 1,750 (vs. Rs 1,680). Expect the stock to be weak in the medium term.

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Subdued gross margins drive EBITDA miss: Sequentially, Q1 EBITDA margins were subdued at 33.7% (34.8% est.) led by (1) higher material price from China leading to lower gross margins of 60.2% (flat QoQ), and (2) a weak product mix – CS business grew 9% YoY with Sales mix at 41%, flat QoQ. Work is progressing on the backward integration of several APIs, but the company procured high-cost inventory to ensure consistency of supplies, which should be liquidated by Q2. Hence, normal operational efficiency should be restored from Q3 onwards, while the sales run-rate should improve from Q2. Management retained its guidance of 37-38% margins for FY20.

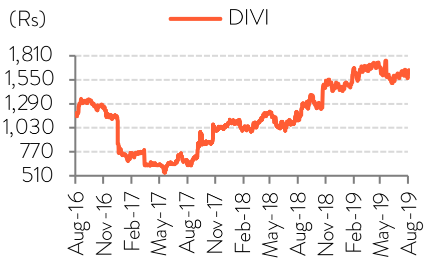
Other Q1 highlights: (1) FDA issued zero 483s for Unit-2 during the May'19 inspection. (2) Q1 forex loss was Rs 70mn. (3) Implementation of total capex of Rs 16.9bn is on track. (4) Q1 capitalisation was Rs 1.12bn – expected total capitalisation is at Rs 12bn in FY20 incl. CWIP. (5) Balance sheet inventory rose Rs 1.5bn QoQ which is high cost and will be liquidated in Q2.

Retain REDUCE on full valuations: We maintain our FY20/FY21 EPS estimates of Rs 54/65 (Q1 EPS was Rs 10.3). Retain REDUCE due to rich valuations – 26x FY21E earnings vs. the 3Y/5Y historical mean of 23-24x, slow growth in FY20, and limited scope for earnings upgrades.

Ticker/Price	DIVI IN/Rs 1,665
Market cap	US$ 6.2bn
Shares o/s	266mn
3M ADV	US$ 13.7mn
52wk high/low	Rs 1,775/Rs 1,080
Promoter/FPI/DII	52%/17%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	8,482	13,219	14,331	17,173	21,093
Adj. EPS (Rs)	31.9	49.8	54.0	64.7	79.4
Adj. EPS growth (%)	(22.9)	55.8	8.4	19.8	22.8
Adj. ROAE (%)	15.0	20.5	19.8	21.4	22.8
Adj. P/E (x)	52.1	33.4	30.8	25.7	21.0
EV/EBITDA (x)	33.7	22.6	20.7	17.0	13.8

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,150 | ⮝ 20%

MPHASIS | IT Services | 12 August 2019

Analyst meet takeaways: Staying agile amid structural demand shift

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Mphasis (MPHL), at its analyst meet, highlighted its constant strategic adaption to stay aligned with the changing technology demands of clients. MPHL continues to successfully identify growth opportunities in BFSI, its largest vertical at ~57% of FY19 revenue, even as peers struggle. Blackstone's connect with large global banks and financial institutions could offer added upsides. We stay optimistic on MPHL's growth prospects backed by differentiated growth avenues, namely HP/DXC and Blackstone portfolio companies.

Aligning to clients' priorities: Average deal sizes have shrunk >50% over 2017-19, per IDC. With clients looking for agile, low-capex service engagements that impact both business and technology, management highlighted that its two strategic pillars, namely F2B (front to back) and service transformation, continue to fuel broad-based revenue growth (3.3% CQGR under Blackstone ownership since Q4FY17 vs. –1.3% CQGR in prior 12 quarters). Also, a proactive solutioning approach aided rapid new-client revenue growth (>100% YoY in Q1).

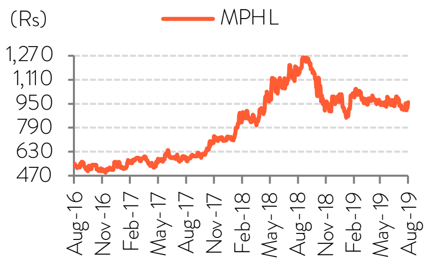
Spotting BFSI opportunities: Tech spending in BFSI is expected to rise 1.3% in CY19, per IT advisory firm Everest Group, as enterprises invest to modernise core systems, payment infrastructure and product innovation. But insourcing and business challenges for European banks pose downside risk. MPHL continues to spot opportunities in this vertical (~57% of FY19 revenue), while peers struggle. Blackstone's connect with global financial powerhouses also augurs well.

Blackstone ecosystem a powerful growth lever: Blackstone (US$ 545bn AUM) has an impressive structured mechanism to promote growth synergies among its 97 portfolio companies (US$ 76bn combined revenues). MPHL derived 5% of FY19 direct channel revenues from this segment (+98% YoY) and continues to build on the support of the powerful Blackstone ecosystem.

Ticker/Price	MPHL IN/Rs 960
Market cap	US$ 2.6bn
Shares o/s	193mn
3M ADV	US$ 3.0mn
52wk high/low	Rs 1,279/Rs 858
Promoter/FPI/DII	60%/23%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	8,507	10,734	11,521	12,754	14,378
Adj. EPS (Rs)	44.1	57.7	61.9	68.5	77.2
Adj. EPS growth (%)	14.9	30.9	7.3	10.7	12.7
Adj. ROAE (%)	14.6	20.0	20.9	21.0	21.5
Adj. P/E (x)	21.8	16.7	15.5	14.0	12.4
EV/EBITDA (x)	17.1	13.9	11.2	9.7	8.5

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 240 | ⮝ 60%

OIL INDIA | Oil & Gas | 12 August 2019

Low costs drive earnings, but volumes remain a drag

Oil India's (OINL) Q1 FY20 earnings at Rs 6.3bn (-11% YoY) was above estimates. Key highlights: (a) EBITDA at Rs13.5 bn (-4% YoY) was above estimates on low operating costs (at ~US7.7$/bbl), (b) Oil (0.80 mmt, -1.6% YoY) and Gas (0.61 bcm, +2.7% YoY) sales volumes were in-line. However, we trim FY20/FY21 earnings by 19%/17.4% on cutting oil price estimates (US$65/bbl and US$70/bbl) and production estimates. Our TP gets revised to Rs 240 (as we also roll over to Sept'21 valuations).

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Low operating costs: OINL's operating costs came in much lower than estimates at US$7.6/bbl (Vs est. US$11/bbl). Costs seem to have normalized, leading us to lower FY20/21 cost estimates to US$9/bbl and US$9.5/bbl respectively (from ~US$11).

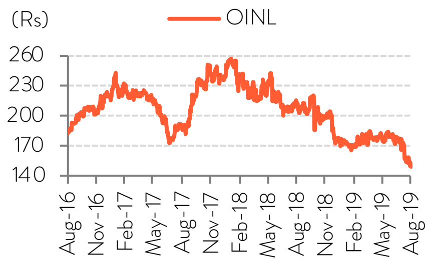
Volumes remain a drag: OINL's oil production continues to decline (0.81 mmt, -3.7% YoY), while gas remains robust (0.71 bcm, 2.3%). It also continues to trend well below management's earlier guidance of oil production at 3.66mmt and gas production at 3.02bcm for FY20. Despite OINL garnering Oil price realisation at US$66/bbl (at nil subsidies), and economics being in favour, continuous decline in production seems strange. Gas production however continues to buck the trend, while realisation too improved to Rs7.9/scm.

Undemanding valuations, maintain BUY: OINL's current valuations, at 4.5x FY21E, imply Brent at US$ 45/bbl levels, offers an unjustifiably steep discount to spot oil prices (US$ 59/bbl), considering it is now clear that the government is unlikely to burden PSU upstream companies with any subsidies. Additionally, dividend yields at ~8.5% for FY20E makes valuations look extremely attractive. OINL seems to be pricing in the worst case.

Ticker/Price	OINL IN/Rs 150
Market cap	US$ 2.3bn
Shares o/s	1,084mn
3M ADV	US$ 3.8mn
52wk high/low	Rs 227/Rs 149
Promoter/FPI/DII	62%/5%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	26,679	32,693	32,406	35,829	38,179
Adj. EPS (Rs)	23.5	28.8	29.9	33.0	35.2
Adj. EPS growth (%)	12.1	22.5	3.7	10.6	6.6
Adj. ROAE (%)	9.4	11.4	10.7	11.2	11.3
Adj. P/E (x)	6.4	5.2	5.0	4.5	4.3
EV/EBITDA (x)	4.6	3.7	3.7	3.5	3.3

Source: Company, BOBCAPS Research

BUY
TP: Rs 125 | ⮝ 30%

ALLCARGO LOGISTICS | Logistics | 09 August 2019

In-line quarter

Allcargo Logistics (AGLL) reported an in-line topline of Rs 18bn, up 12% YoY. MTO/CFS/P&E revenue grew 10%/8%/62% YoY. EBITDA rose 18% YoY (adj. for Ind-AS 116) aided by P&E/CFS, while adj. PAT increased 19% to Rs 645mn. Though Q1 was a decent quarter, we expect growth to moderate in the remainder of FY20 as industry headwinds are intensifying. We broadly maintain earnings estimates, but reduce our target P/E multiple to 10x from 11x earlier. Rolling valuations forward, we lower our Jun'20 TP to Rs 125 (Rs 135 earlier).

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P&E recovery holds: The P&E segment revival that began in Q3FY19 continued in Q1FY20. Revenue grew 62% YoY and EBIT surged to Rs 84mn (incl. Rs 25mn provision writeback) vs. a loss of Rs 59mn in Q1FY19. The order book was healthy at Rs 1.3bn, but management highlighted a slowdown in order closure for Q1. Sluggish demand climate coupled with the base effect catching up suggests that segmental performance may normalise from Q3 onwards.

MTO, CFS volumes soft: MTO volumes continued to grow in single digits (+6% YoY) amidst softening global trade, aided by continued market share gains. CFS volume growth also slowed to 3% YoY, in line with container traffic growth in addressable ports. Given the trade slowdown both globally and in India, we expect the volume trajectory to remain muted in the near term.

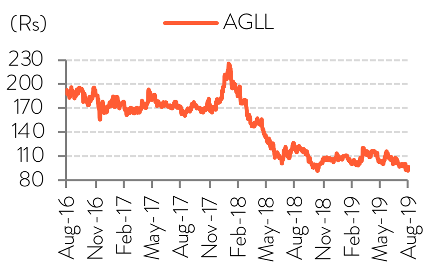
EBITDA margin expands: EBITDA margin (adj. for Ind-AS 116) expanded 36bps YoY to 6.7% as employee/other expenses dipped 49bps/71bps YoY. P&E profitability improved due to higher utilisation; cost control and process optimisation measures drove 277bps YoY improvement in CFS EBIT margin.

Maintain BUY: We lower our target P/E to 10x (vs. 11x) in a tough demand climate and cut our Jun'20 TP to Rs 125. Retain BUY on attractive valuations.

Ticker/Price	AGLL IN/Rs 96
Market cap	US$ 333.6mn
Shares o/s	246mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 124/Rs 89
Promoter/FPI/DII	70%/11%/4%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,808	2,478	2,559	2,893	3,254
Adj. EPS (Rs)	7.4	10.1	10.4	11.8	13.2
Adj. EPS growth (%)	(26.9)	42.5	3.2	13.0	12.5
Adj. ROAE (%)	9.6	12.5	12.3	12.7	13.1
Adj. P/E (x)	13.0	9.5	9.2	8.1	7.2
EV/EBITDA (x)	7.1	5.5	5.3	4.8	4.2

Source: Company, BOBCAPS Research

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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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