BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

17 February 2020

RESEARCH

Allcargo Logistics | Target: Rs 117 | +5% | ADD
Soft quarter; downgrade to ADD on limited upside

BOB Economics Research | Wholesale Inflation
WPI edges up to 9-month high

BOB Economics Research | Trade
Trade deficit expands as oil imports increase

ONGC | Target: Rs 170 | + 65 % | BUY
Earnings miss, pricing in the worst

Bharat Petroleum Corp | Target: Rs 460 | –2% | REDUCE
Pricing in stake sale

Sadbhav Engineering | Target: Rs 135 | +35% | BUY
Q3 disappoints as tight liquidity impedes execution

Muthoot Finance | Target: Rs 875 | + 17 % | BUY
Rate increase, better resource mobilisation buoy margins

KNR Constructions | Target: Rs 345 | + 25% | BUY
Healthy quarter; execution to pick up from Q4

Mayur Uniquoters | Target: Rs 355 | +56% | BUY
Slow quarter but demand outlook improving

SUMMARY

Allcargo Logistics

Allcargo Logistics' (AGLL) Q3FY20 consolidated revenue fell 1% YoY marred by a decline across segments. Ind-AS 116 changes aided a 12% YoY rise in EBITDA, but PBT/adj. PAT plunged 33%/36% on higher depreciation and interest costs. MTO growth could remain tepid as soft global container trade and the coronavirus epidemic exact a toll. CFS/P&E segments continue to reel under the domestic slowdown. We cut FY20-FY22 EPS by 3-7% and slightly pare our Mar'21 TP to Rs 117. Downgrade from BUY to ADD on limited upside post the recent rally.

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	205
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 (%)	1.62	(2bps)	(23bps)	(104bps)
India 10Y yield (%)	6.43	(5bps)	(17bps)	(91bps)
USD/INR	71.33	0	(0.7)	(0.2)
Brent Crude (US$/bbl)	56.34	1.0	(12.2)	(12.7)
Dow	29,423	(0.4)	1.8	15.7
Shanghai	2,906	(0.7)	(6.7)	6.9
Sensex	41,460	(0.3)	(1.0)	15.6
India FII (US$ mn)	**12 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(104.3)	1,336.1	(232.7)	2,711.4
FII-E	(93.1)	1,983.5	3,356.2	10,745.4

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

India Economics: Wholesale Inflation

WPI inflation inched up to 3.1% in Jan'20 from 2.6% in Dec'19 led by fuel & power inflation (3.4%) and manufactured inflation (0.3%). Food inflation on the other hand fell to 11.5% in Jan'20. Within food, protein based inflation inched up further. Given moderation in global commodity prices, WPI inflation is likely to moderate in the near-term. However, CPI inflation is likely to remain above RBI's target of 4% up to Q2FY21. We thus expect RBI to remain on hold and lower rates only when the inflation pressure eases.

Click here for the full report.

India Economics: Trade

India's trade deficit expanded to US$ 15.2bn in Jan'20 from US$ 11.3bn as exports fell at a faster pace than imports. Oil imports rose by 15.3% due to higher oil prices in Jan'20 which have fallen in Feb'20. Some improvement in domestic demand is also seen with non-oil-non-gold imports falling at a slower pace than in the last 6-months. Higher rural demand implies some improvement in the near-term. Exports may remain subdued due to impact of COVID-19. However, lower oil prices and foreign inflows should support INR.

Click here for the full report.

ONGC

ONGC's Q3FY20 earnings underperformed at Rs 41bn (–50% YoY). Key highlights: (a) production trends mixed – oil below estimates at 5.8mmt (–3.5% YoY) but gas volumes in line at 6.2bcm (–7.7% YoY); (b) operating cost at US$ 8/bbl vs. US$ 7.5/bbl estimated; and (c) oil price realisation in line at ~US$ 60.3/bbl (–10% YoY). We reduce FY20/FY21/FY22 earnings estimates by 7%/14%/13% to build in lower oil prices (US$ 65-70/bbl). On rollover, we arrive at a revised Mar'21 TP of Rs 170 (from Rs 210).

Click here for the full report.

Bharat Petroleum Corp

BPCL's Q3FY20 EBITDA at Rs 27bn (up 3.6x YoY) outperformed estimates on higher GRMs (US$ 2.2/bbl ex-inventory). Marketing segment EBITDA – inferred after factoring in GRM data – was above our estimate at Rs 23bn (+67% YoY). We revise FY20/FY21/FY22 earnings by –7%/+10%/+11% on lower GRMs and higher marketing profits; rolling valuations over, we arrive at a revised Mar'21 TP of Rs 460 (from Rs 490). Valuations at 8.8x FY22E EBITDA price in the government's potential stake sale. We see better value in other OMCs (IOCL).

Click here for the full report.

Sadbhav Engineering

Sadbhav Engineering's (SADE) Q3FY20 standalone revenue plunged 52% YoY as prolonged monsoons and tight liquidity slowed execution. EBITDA margins were healthy, up 50bps YoY to 12.5%, aided by a better revenue mix, but PAT dropped 79% YoY to Rs 117mn (Rs 399mn est.). SADE's Dec'19 order backlog was at Rs 87bn (3x TTM revenues) and gross debt at Rs 15bn (0.7x net D/E). We slash FY20/FY21/FY22 EPS by 44%/27%/19% on lower revenue forecasts and cut our Mar'21 TP to Rs 135 (vs. Rs 160).

Click here for the full report.

Muthoot Finance

Muthoot Finance's (MUTH) gold AUM increased 19% YoY to Rs 377bn in Q3FY20 due to better resource mobilisation. Demand uptick and robust collections largely offset incremental borrowing cost, keeping spreads buoyant at 15.8%. Despite a one-time rise in opex and credit cost, PBT surged 38% YoY to Rs 10.8bn. We increase FY20 earnings estimates by 5% to bake in better NIM, while broadly maintaining FY21-FY22 estimates. Our Mar'21 TP stands revised to Rs 875 (vs. Rs 825 earlier).

Click here for the full report.

KNR Constructions

KNR Constructions' (KNRC) Q3FY20 core revenue ex-arbitral awards grew 23% YoY to Rs 5.5bn and core EBITDA margin beat estimates at 22% (+170bps YoY). Higher interest cost and taxes capped growth in core recurring PAT at 5% YoY to Rs 434mn (in line). Order backlog as on Dec'19 stood at Rs 65bn (incl. L1), 2.9x TTM revenues. With one HAM project receiving appointed date (AD for one out of five pending), KNRC's executable order backlog rises to ~90%. We raise FY20/FY21/ FY22 EPS by 5%/9%/4% and have a revised Mar'21 TP of Rs 345.

Click here for the full report.

Mayur Uniquoters

Mayur Uniquoters' (MUNI) Q3FY20 standalone revenue declined 23% YoY (volume down 21% YoY) due to continued slowdown in user industries (footwear, auto). Standalone operating margins contracted 105bps YoY to 20.1% due to higher employee and other expenses, which offset gross margin gains of 390bps. EBITDA/PBT decreased 26%/28% YoY. Management has observed some demand improvement from December and expects a better FY21. Maintain BUY with a revised Mar'21 TP of Rs 355 (earlier Rs 325) on rollover.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 117 | ⮝ 5%

ALLCARGO LOGISTICS | Logistics | 14 February 2020

Soft quarter; downgrade to ADD on limited upside

Sayan Das Sharma
research@bobcaps.in

Allcargo Logistics' (AGLL) Q3FY20 consolidated revenue fell 1% YoY marred by a decline across segments. Ind-AS 116 changes aided a 12% YoY rise in EBITDA, but PBT/adj. PAT plunged 33%/36% on higher depreciation and interest costs. MTO growth could remain tepid as soft global container trade and the coronavirus epidemic exact a toll. CFS/P&E segments continue to reel under the domestic slowdown. We cut FY20-FY22 EPS by 3-7% and slightly pare our Mar'21 TP to Rs 117. Downgrade from BUY to ADD on limited upside post the recent rally.

Topline growth slips across segments: Despite a 10% YoY rise in volumes, MTO revenue slipped 0.5% as realisations tumbled (–10%) off a high base of Q3FY19. Lower container volumes at the key JNPT and Chennai ports led to an 8%/6% decline in CFS volume/revenue. Volume trajectory was healthy at Mundra (+14% YoY) and Kolkata (+27%) ports. Lower utilisation of higher yielding equipment dragged P&E revenue down 13% YoY. Growth pressures are likely to persist going forward due to domestic and global trade headwinds.

MTO margin flat, CFS/P&E remains drag: EBIT margin of the MTO segment was flat YoY at 3.6%, while CFS saw a 480bps YoY contraction (–15bps QoQ) to 24.9%. P&E remained in the red, posting an EBIT loss of Rs 86mn.

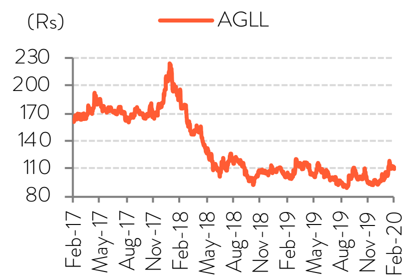
Stake sale in logistics parks: AGLL has entered into an agreement with Blackstone Group for sale of 90% stake in its logistics park subsidiaries for Rs 3.8bn. The deal is expected to be completed within a year. As expected, the segment's revenue leapfrogged in Q3, to Rs 118mn from Rs 21mn in Q2FY20.

Cut to ADD: We trim FY20/FY21/FY22 earnings by 7%/3%/4% and revise our TP from Rs 120 to Rs 117. The stock has rallied ~16% since mid-Dec'19 and offers limited upside at current valuations of 10x FY22E EPS – cut to ADD.

Ticker/Price	AGLL IN/Rs 111
Market cap	US$ 382.0mn
Shares o/s	246mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 124/Rs 87
Promoter/FPI/DII	70%/12%/4%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,492	68,949	72,102	83,477	94,259
EBITDA (Rs mn)	3,771	4,485	4,674	5,633	6,530
Adj. net profit (Rs mn)	1,808	2,478	2,354	2,763	3,093
Adj. EPS (Rs)	7.4	10.1	9.6	11.2	12.6
Adj. EPS growth (%)	(26.9)	42.5	(5.0)	17.4	12.0
Adj. ROAE (%)	9.6	12.5	11.3	12.2	12.6
Adj. P/E (x)	15.1	11.0	11.6	9.9	8.8
EV/EBITDA (x)	7.8	6.6	6.4	5.6	5.0

Source: Company, BOBCAPS Research

WHOLESALE INFLATION

14 February 2020

WPI edges up to 9-month high

Sameer Narang
Jahnavi | Sonal Badhan
chief.economist@bankofbaroda.com

WPI inflation inched up to 3.1% in Jan'20 from 2.6% in Dec'19 led by fuel & power inflation (3.4%) and manufactured inflation (0.3%). Food inflation on the other hand fell to 11.5% in Jan'20. Within food, protein based inflation inched up further. Given moderation in global commodity prices, WPI inflation is likely to moderate in the near-term. However, CPI inflation is likely to remain above RBI's target of 4% up to Q2FY21. We thus expect RBI to remain on hold and lower rates only when the inflation pressure eases.

Food prices ease: Food inflation slipped to 11.5% in Jan'20 compared with 13.2% in Dec'19. The softer print was led by moderation in vegetable prices from 69.7% in Dec'19 to 52.7% in Jan'20 on the back of drop in onion prices. On the other hand, prices of paddy (4.2% in Jan'20 vs 4% in Dec'19) and wheat (8.9% in Jan'20 vs 8.4% in Dec'19) continued to rise at a steady pace in Jan'20. Prices of pulses dropped to 12.8% in Jan'20. Led by uptick in input cost, price of milk rose sharply to 3.7% in Jan'20 compared with 2.6% in Dec'19. Prices of protein based items such as meat, eggs and fish too inched up to 6.7% in Jan'20.

Fuel inflation rise sharply: Fuel and power inflation jumped by 3.1% in Jan'20 from (-) 1.5% in Dec'19. The spike is driven by higher mineral oil index which rose by 5.8% in Jan'20 compared with (-) 3.2% in Dec'19, led by higher crude prices. On the other hand, coal prices eased (2.3% vs 2.5% in Dec'19), while electricity prices remained unchanged at (-) 0.6%. International oil prices had risen again in Jan'20 on YoY basis, albeit less sharply (5.7%) compared with Dec'19 (12.9%). In Feb'20 however, prices have fallen steeply (MTD: -12.2%) on the back of faltering global demand owing to COVID-19 contagion.

Deflation in core continues: Deflation in core moderated to (-) 1% in Jan'20 from (-) 1.5% in Dec'19. Manufactured inflation rose by 0.3% in Jan'20 from (-) 0.3% in Dec'19. Sharpest rise was seen in other manufacturing items (5.8% vs -0.3%), basic metals, printing/record media and chemicals. On the other hand, prices of tobacco, pharma, non-metallic minerals and furniture products declined steeply. The decline in international commodity prices too eased in Jan'20 on a YoY basis to (-) 1.3% from (-) 1.8% in Jan'19. However in Feb'20 commodity prices have contracted at a faster pace at (-) 2.4%.

TRADE

14 February 2020

Trade deficit expands as oil imports increase

India's trade deficit expanded to US$ 15.2bn in Jan'20 from US$ 11.3bn as exports fell at a faster pace than imports. Oil imports rose by 15.3% due to higher oil prices in Jan'20 which have fallen in Feb'20. Some improvement in domestic demand is also seen with non-oil-non-gold imports falling at a slower pace than in the last 6-months. Higher rural demand implies some improvement in the near-term. Exports may remain subdued due to impact of COVID-19. However, lower oil prices and foreign inflows should support INR.

Sameer Narang
Aditi Gupta | Sonal Badhan
chief.economist@bankofbaroda.com

Exports growth remains elusive: Export growth in Jan'20 fell to 4-month low of (-) 1.7% versus (-) 1.6% in Dec'19 led by sharp fall in exports of gems & jewellery (-11.6% versus -8.2% in Dec'19), agriculture items (-11.4% versus -3.4%) and engineering goods (-4% versus -1.2%). Owing to higher oil prices (+5.7% YoY in Jan'20), oil exports rose by 2.9% from (-) 4.2% in Dec'19. In FYTD20, exports have contracted by (-) 2% versus +8.9% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to decline. Post COVID-19, we expect global demand to remain subdued at least till H1CY20.

Oil imports rise: Imports contracted at a slower pace in Jan'20 at (-) 0.8% compared with (-) 8.8% in Dec'19 as oil imports rose (15.3% in Jan'20 compared with -0.8% in Dec'19). However, gold imports plunged to (-) 31.5% versus (-) 3.9% in Dec'19. Notably, gold prices rose by 20.6% YoY in Jan'20. Contraction in non-oil-non-gold imports eased to (-) 4.7% versus (-) 12.2% in Dec'19 as imports of capital goods picked up to a 13-month high (6.6% in Jan'20 versus -16.5% in Dec'19). Imports of agricultural products (+12.8%) and vegetable oils (+13%) also showed an improvement. Some improvement in rural demand may support non-oil imports in the near-term.

Trade deficit expands to a 7-month high: Led by a pickup in imports, India's trade deficit rose to US$ 15.2bn from US$ 11.3bn in Dec'19. Oil imports rose by US$ 2.3bn due to higher oil prices (+5.7% YoY). Some traction was also visible in non-oil-non-gold imports and they may inch up further as rural demand picks up. On the other hand, exports may not pick up as global outlook remains uncertain with the onset of the COVID-19 outbreak. However, lower oil prices (currently at US$ 56/bbl) will keep the import bill in check. As a result, trade deficit is unlikely to inch up materially in FY21. FII and FDI inflows are also on the higher side which will support INR.

KEY HIGHLIGHTS

- Exports fall by (-) 1.7% in Jan'20 versus (-) 1.6% in Dec'19.
- Imports decline at a slower pace at (-) 0.8% in Jan'20 versus (-) 8.8% in Dec'19.
- Trade deficit expands to US$ 15.2bn in Jan'20 from US$ 11.3bn in Dec'19. .

BUY
TP: Rs 170 | ⮝ 65%

ONGC | Oil & Gas | 14 February 2020

Earnings miss, pricing in the worst

ONGC's Q3FY20 earnings underperformed at Rs 41bn (–50% YoY). Key highlights: (a) production trends mixed – oil below estimates at 5.8mmt (–3.5% YoY) but gas volumes in line at 6.2bcm (–7.7% YoY); (b) operating cost at US$ 8/bbl vs. US$ 7.5/bbl estimated; and (c) oil price realisation in line at ~US$ 60.3/bbl (–10% YoY). We reduce FY20/FY21/FY22 earnings estimates by 7%/14%/13% to build in lower oil prices (US$ 65-70/bbl). On rollover, we arrive at a revised Mar'21 TP of Rs 170 (from Rs 210).

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

Oil production a drag, gas outlook remains upbeat: Oil and gas production continued to decline, by 3.5% and 7.7% YoY respectively in Q3, as ONGC struggles to maintain output. Gas production could recover from H2FY21 as new fields come into production.

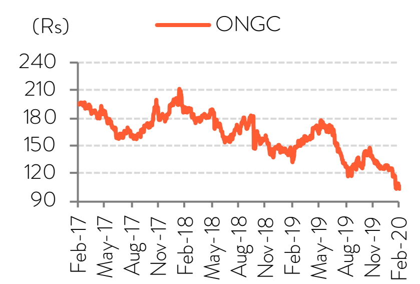
Low spot prices put Mozambique project at risk: The government's recent notification of free pricing (US$ 5-7/mmbtu as per current trends) for most of the incremental gas production augurs well for financial viability of the company's planned ~US$ 10bn capex. But the decline in spot LNG prices puts viability of the Mozambique project (FID recently finalised) at risk. Funding would be at the Mozambique SPV level. As per management, breakeven gas price is ~US$ 6-7/mmbtu given reduction in capex and operating cost estimates.

Valuations continue to build in massive discount: At 3.7x FY22E EPS (or 4.7x FY20E EPS), ONGC's valuations continue to build in the worst case, viz. <US$ 40/bbl oil prices and cash allocation concerns. Rising dividend yields have crossed the logical threshold of 10% as the stock price continues to dive, implying this is one of the best opportunities to own the stock. With the dividend distribution tax exemption, we expect ONGC to increase its dividend payout.

Ticker/Price	ONGC IN/Rs 103
Market cap	US$ 18.2bn
Shares o/s	12,580mn
3M ADV	US$ 20.9mn
52wk high/low	Rs 179/Rs 102
Promoter/FPI/DII	63%/9%/29%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	3,622,462	4,534,606	4,122,519	4,874,163	5,454,801
EBITDA (Rs mn)	658,350	838,648	618,371	657,821	750,160
Adj. net profit (Rs mn)	234,323	348,309	275,788	303,386	355,066
Adj. EPS (Rs)	18.3	27.7	21.9	24.1	28.2
Adj. EPS growth (%)	(3.5)	51.6	(20.8)	10.0	17.0
Adj. ROAE (%)	11.8	16.4	12.1	12.4	13.5
Adj. P/E (x)	5.7	3.7	4.7	4.3	3.7
EV/EBITDA (x)	2.6	2.5	3.7	3.5	3.1

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

REDUCE
TP: Rs 460 | ⋎ 2%

BHARAT PETROLEUM CORP | Oil & Gas | 14 February 2020

Pricing in stake sale

BPCL's Q3FY20 EBITDA at Rs 27bn (up 3.6x YoY) outperformed estimates on higher GRMs (US$ 2.2/bbl ex-inventory). Marketing segment EBITDA – inferred after factoring in GRM data – was above our estimate at Rs 23bn (+67% YoY). We revise FY20/FY21/FY22 earnings by –7%/+10%/+11% on lower GRMs and higher marketing profits; rolling valuations over, we arrive at a revised Mar'21 TP of Rs 460 (from Rs 490). Valuations at 8.8x FY22E EBITDA price in the government's potential stake sale. We see better value in other OMCs (IOCL).

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

GRMs beat estimates: BPCL's GRMs came in ahead of expectations at US$ 2.2/bbl (ex-inventory gains of US$ 1/bbl), beating the Singapore benchmark. But with anticipated IMO-led upsides still some time away and recent concerns over oil demand amid the coronavirus epidemic, we cut GRM estimates for FY20-FY22 by US$ 0.5-1/bbl. Valuations for BPCL's refining business consequently decline to Rs 290/sh (from Rs 389) as we also lower our target multiple to 6x FY22E EBITDA (from 7x).

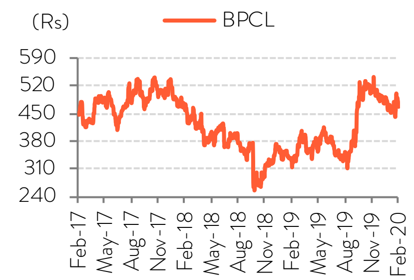
Marketing business earnings outperform: Q3 marketing business earnings (implied from GRM data) beat estimates at Rs 23bn (~Rs 1,862/mt, ex-Rs 820mn inventory gains). The recent decline in oil price offers comfort but uncertainty remains given the recurring political compulsions (such as state elections). Marketing volumes were in line at 11mmt (+3.3% YoY, outpacing industry growth of 1.8%), with market share gains in ATF and other industrial products. We raise marketing EBITDA estimates to ~Rs 1,900/mt (from Rs 1,700), which increases our valuation for the business to Rs 251 (from Rs 186).

Maintain REDUCE: At 8.8x FY22E EBITDA, BPCL's valuations are at a significant premium to its OMC peers. Cash from the Numaligarh refinery sale could be used for debt reduction (instead of dividend payouts).

Ticker/Price	BPCL IN/Rs 469
Market cap	US$ 12.9bn
Shares o/s	1,967mn
3M ADV	US$ 47.8mn
52wk high/low	Rs 549/Rs 308
Promoter/FPI/DII	53%/14%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	2,357,698	2,982,256	3,109,670	3,735,442	3,974,068
EBITDA (Rs mn)	151,727	151,122	115,825	140,702	154,854
Adj. net profit (Rs mn)	97,919	85,278	90,089	105,390	112,757
Adj. EPS (Rs)	49.8	43.4	45.8	53.6	57.3
Adj. EPS growth (%)	3.0	(12.9)	5.6	17.0	7.0
Adj. ROAE (%)	29.0	21.8	20.4	21.3	20.3
Adj. P/E (x)	9.4	10.8	10.2	8.8	8.2
EV/EBITDA (x)	7.8	8.4	11.4	9.4	8.8

Source: Company, BOBCAPS Research

BUY
TP: Rs 135 | ⮝ 35%

SADHBAV ENGINEERING

| Infrastructure | 15 February 2020

Q3 disappoints as tight liquidity impedes execution

Sadbhav Engineering's (SADE) Q3FY20 standalone revenue plunged 52% YoY as prolonged monsoons and tight liquidity slowed execution. EBITDA margins were healthy, up 50bps YoY to 12.5%, aided by a better revenue mix, but PAT dropped 79% YoY to Rs 117mn (Rs 399mn est.). SADE's Dec'19 order backlog was at Rs 87bn (3x TTM revenues) and gross debt at Rs 15bn (0.7x net D/E). We slash FY20/FY21/FY22 EPS by 44%/27%/19% on lower revenue forecasts and cut our Mar'21 TP to Rs 135 (vs. Rs 160).

Jiten Rushi
research@bobcaps.in

Execution slowdown brings growth to a halt: Q3 revenue declined 52% YoY to Rs 4.4bn (Rs 8bn est.) due to (i) the extended monsoons, (ii) pending forest clearances at the Mumbai-Nagpur Expressway project (now in place), (iii) low revenue from mining and irrigation segments (iv) tight liquidity situation – disbursements from lenders being delayed, and (v) Rs 18bn depletion in order backlog due to termination of three NHAI HAM projects that were facing land issues. As a result, management has cut FY20 revenue guidance from ~Rs 35bn to ~Rs 24bn (~Rs 32bn for FY21).

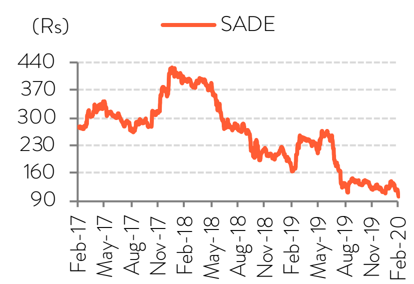
Loans to SIPL swell, receivables remain high: Loans & advances to subsidiary SIPL swelled by Rs 340mn QoQ to Rs 8.3bn mainly to support investments in HAM projects. Standalone gross debt declined Rs 410mn QoQ to Rs 15.1bn; net D/E as on Dec'19 was at 0.7x, unchanged QoQ. The debtor cycle remained stretched at ~245 days as on Dec'19 vs. ~215 days in Sep'19 due to outstanding payments of ~Rs 6bn in relation to cost escalation, change of scope and GST issues, besides pending net receivables of ~Rs 4bn from SPVs.

SIPL stake sale to improve liquidity: Management highlighted that the deal to sell a stake in SIPL's operational assets will fully conclude by end-Mar'20. Proceeds from monetisation (Rs 19.1bn) will be utilised to pare debt and fund growth (currently not factored into estimates pending conclusion).

Ticker/Price	SADE IN/Rs 100
Market cap	US$ 239.8mn
Shares o/s	172mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 274/Rs 99
Promoter/FPI/DII	47%/12%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	35,051	35,492	23,931	31,582	35,533
EBITDA (Rs mn)	4,151	4,279	2,967	3,872	4,356
Adj. net profit (Rs mn)	2,207	1,862	930	1,462	1,836
Adj. EPS (Rs)	12.9	10.9	5.4	8.5	10.7
Adj. EPS growth (%)	17.5	(15.6)	(50.0)	57.2	25.6
Adj. ROAE (%)	12.5	9.5	4.5	6.7	7.9
Adj. P/E (x)	7.8	9.2	18.4	11.7	9.3
EV/EBITDA (x)	7.6	7.8	10.8	8.3	7.2

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 875 | ⮝ 17%

MUTHOOT FINANCE | NBFC | 14 February 2020

Rate increase, better resource mobilisation buoy margins

Muthoot Finance's (MUTH) gold AUM increased 19% YoY to Rs 377bn in Q3FY20 due to better resource mobilisation. Demand uptick and robust collections largely offset incremental borrowing cost, keeping spreads buoyant at 15.8%. Despite a one-time rise in opex and credit cost, PBT surged 38% YoY to Rs 10.8bn. We increase FY20 earnings estimates by 5% to bake in better NIM, while broadly maintaining FY21-FY22 estimates. Our Mar'21 TP stands revised to Rs 875 (vs. Rs 825 earlier).

Shubhranshu Mishra
research@bobcaps.in

Gold AUM up 19%: Gold loan AUM increased 19% YoY to Rs 377bn as the company had better resource mobilization through foreign debt markets. Gold tonnage was flat QoQ at 173t as customers pledged lower amounts of collateral due to higher gold prices. Aided by higher collections and rate increase, yields (calc.) spiked ~370bps YoY to 24.9%.

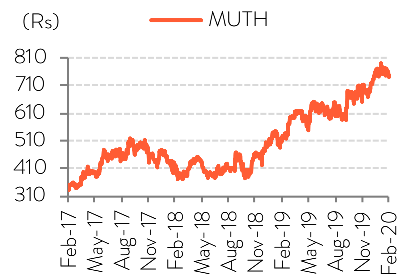
Diversified borrowings mix aids healthy spreads: MUTH reduced liability raising from banks and instead accessed foreign debt markets and retail NCDs. Calculated spreads increased ~410bps YoY to 15.8%. We believe better treasury management and repricing of CPs will lower the cost of funds, thus keeping spreads stable.

PBT surges despite uptick in opex and credit cost: MUTH's expense ratio increased ~90bps YoY to 5.1% due to the hedging cost of foreign borrowings and provisioning expense on expected credit loss (ECL). Though credit cost was at a seven-quarter high of ~70bps owing to Rs 329mn in write-offs, PBT increased 38% YoY to Rs 10.8bn. A lower tax rate of 25.6% supported PAT growth of 66% YoY to Rs 8bn.

Ticker/Price	MUTH IN/Rs 747
Market cap	US$ 4.2bn
Shares o/s	401mn
3M ADV	US$ 10.5mn
52wk high/low	Rs 796/Rs 543
Promoter/FPI/DII	73%/15%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	42,707	45,202	52,642	58,289	66,344
NII growth (%)	27.7	5.8	16.5	10.7	13.8
Adj. net profit (Rs mn)	17,776	19,721	26,792	29,392	33,858
EPS (Rs)	44.4	49.2	66.9	73.4	84.5
P/E (x)	16.8	15.2	11.2	10.2	8.8
P/BV (x)	3.8	3.1	2.6	2.2	1.9
ROA (%)	5.8	5.7	6.7	6.5	6.5
ROE (%)	24.8	22.4	25.0	23.1	22.7

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 345 | ↑ 25%

KNR CONSTRUCTIONS | Infrastructure | 15 February 2020

Healthy quarter; execution to pick up from Q4

Jiten Rushi
research@bobcaps.in

KNR Constructions' (KNRC) Q3FY20 core revenue ex-arbitral awards grew 23% YoY to Rs 5.5bn and core EBITDA margin beat estimates at 22% (+170bps YoY). Higher interest cost and taxes capped growth in core recurring PAT at 5% YoY to Rs 434mn (in line). Order backlog as on Dec'19 stood at Rs 65bn (incl. L1), 2.9x TTM revenues. With one HAM project receiving appointed date (AD for one out of five pending), KNRC's executable order backlog rises to ~90%. We raise FY20/FY21/ FY22 EPS by 5%/9%/4% and have a revised Mar'21 TP of Rs 345.

Strong margins: KNRC's Q3 core EPC revenue grew 23.5% YoY to Rs 5.5bn (Rs 5.3bn est.). Led by a favourable revenue mix (high margin irrigation projects), core EBITDA margin expanded 170bps YoY to 21.8% (est. of 19%). Interest cost spiked 95% YoY to Rs 142mn due to interest on mobilisation advances (~Rs 60mn), while higher execution of non-80IA projects kept the effective tax rate high at 28.9% (13% est.). Recurring PAT grew 5.5% YoY, but reported PAT fell 23% to Rs 402mn due to a Rs 67.2mn impaired investment in the Walayar BOT (Toll) project (partly offset by arbitration claim awards of ~Rs 46mn).

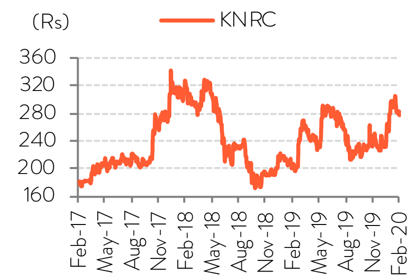
Receivables stretched; leverage under control: Debtor days remained high at 62 days vs. 40 as on Mar'19. As per management, the debtor cycle is likely to remain stretched due to outstanding receivables of Rs 3.2bn from its own SPVs and also due to execution of fast-paced irrigation projects where the collection period is 60-90 days. Gross standalone debt increased by Rs 133mn QoQ to Rs 3.3bn and net D/E remained in check at 0.2x as on Dec'19 (unchanged QoQ).

Maintain BUY: We raise FY20/FY21/FY22 EPS estimates by 5%/9%/4% to bake in higher revenue and margins, partially offset by higher interest cost and effective tax rate. We revise our Mar'21 TP to Rs 345 (vs. Rs 340).

Ticker/Price	KNRC IN/Rs 277
Market cap	US$ 545.0mn
Shares o/s	141mn
3M ADV	US$ 0.8mn
52wk high/low	Rs 312/Rs 195
Promoter/FPI/DII	55%/3%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	19,317	21,373	23,738	30,741	34,039
EBITDA (Rs mn)	3,861	4,270	4,649	5,847	6,297
Adj. net profit (Rs mn)	2,721	2,468	1,910	2,409	2,678
Adj. EPS (Rs)	19.3	17.6	13.6	17.1	19.0
Adj. EPS growth (%)	61.8	(9.3)	(22.6)	26.1	11.1
Adj. ROAE (%)	26.5	19.2	12.6	13.8	13.5
Adj. P/E (x)	14.3	15.8	20.4	16.1	14.5
EV/EBITDA (x)	10.4	9.5	8.8	7.1	6.7

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 355 | ⮝ 56%

MAYUR UNIQUOTERS | Textiles | 14 February 2020

Slow quarter but demand outlook improving

Mayur Uniquoters' (MUNI) Q3FY20 standalone revenue declined 23% YoY (volume down 21% YoY) due to continued slowdown in user industries (footwear, auto). Standalone operating margins contracted 105bps YoY to 20.1% due to higher employee and other expenses, which offset gross margin gains of 390bps. EBITDA/PBT decreased 26%/28% YoY. Management has observed some demand improvement from December and expects a better FY21. Maintain BUY with a revised Mar'21 TP of Rs 355 (earlier Rs 325) on rollover.

Arun Baid
research@bobcaps.in

Revenues decline due to slowdown in user industries: MUNI reported a 23% YoY decline in standalone revenue to Rs 1.25bn, with volumes contracting 21%. Revenues declined across segments, barring auto OEMs which grew 22% YoY off a low base and as supplies to a few new models commenced during the quarter. Footwear, auto replacement and export sales dropped 37%/26%/18% YoY due to the weak market conditions. Management has seen some pickup from December and expects a better FY21. The new PU plant has begun commercial production from Jan'20 and is likely to stabilise by end-FY20.

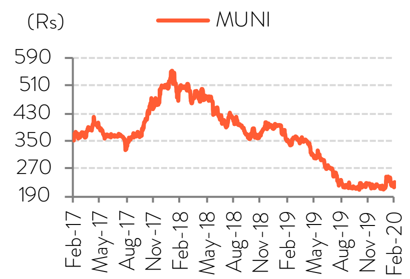
Operating margins decline: Despite gross margin expansion (+390bps), MUNI reported a 105bps drop in standalone operating margins to 20.1% due to higher employee cost (+113bps) and other expenditure (+383bps). Gross margins expanded due to higher sales of value-added items whereas employee/other expenses increased as a percentage of sales due to negative operating leverage which dragged EBITDA/PBT down 26%/28% YoY. Management intends to focus on sales of value-added items to maintain margins.

Maintain BUY: MUNI's operating performance has been better than expected; we reiterate BUY and roll forward to a Mar'21 TP of Rs 355 (from Rs 325), set at an unchanged 15x one-year forward P/E.

Ticker/Price	MUNI IN/Rs 228
Market cap	US$ 144.7mn
Shares o/s	45mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 369/Rs 200
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)	5,700	5,913	5,399	6,723	7,816
EBITDA (Rs mn)	1,500	1,292	942	1,338	1,579
Adj. net profit (Rs mn)	905	727	688	892	1,079
Adj. EPS (Rs)	20.0	16.0	15.2	19.7	23.8
Adj. EPS growth (%)	21.9	(19.7)	(5.3)	29.6	21.0
Adj. ROAE (%)	21.7	15.0	12.7	14.9	16.2
Adj. P/E (x)	11.4	14.2	15.0	11.6	9.6
EV/EBITDA (x)	6.2	6.8	9.0	6.3	5.2

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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