

RESEARCH

BOB Economics Research | Weekly Wrap

Slowdown led by China and India

Sadbhav Engineering | Target: Rs 160 | +37% | BUY

Execution challenges continue to cloud growth

Logistics | Monthly Tracker

Slump in port volumes and container rail lead distance

SUMMARY

India Economics: Weekly Wrap

Global yields fell due to delay in finalizing US-China trade deal and weaker than estimated industrial output in China, US and UK. Stocks in China sold-off after weak retail sales and investments data. US equity markets rose as retail sales were buoyant. Indian equity markets were resilient even as industrial output fell to (-) 4.3% and retail inflation rose as government is expected to continue the reform process. Yields steepened as RBI is likely to cut rates in Dec'19 to prop growth and fiscal deficit may widen in the year.

[Click here for the full report.](#)

Sadbhav Engineering

Sadbhav Engineering's (SADE) Q2FY20 revenue missed estimates, dropping 18% YoY as the heavy monsoons hindered execution at key EPC projects and as AD award was delayed for newer contracts. EBITDA margins were healthy, rising 25bps YoY to 12.3% led by a better revenue mix, and PAT beat estimates at Rs 259mn (Rs 210mn est.; -33% YoY) due to a lower tax rate. We adjust FY20/FY21 EPS by +3%/-7% on changes in tax and revenue forecasts. Upon rollover, we have a reduced Mar'21 TP of Rs 160 (vs. Rs 175). Retain BUY.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.83	1bps	6bps	(123bps)
India 10Y yield (%)*	6.69	(2bps)	1bps	(113bps)
USD/INR	71.79	0.3	(0.3)	0.2
Brent Crude (US\$/bbl)	63.30	1.6	7.8	(5.2)
Dow	28,005	0.8	3.6	10.2
Shanghai	2,891	(0.6)	(3.3)	7.9
Sensex	40,357	0.2	4.8	13.8
India FII (US\$ mn)	14 Nov	MTD	CYTD	FYTD
FII-D	(14.3)	525.8	5,212.6	4,668.0
FII-E	(59.8)	1,748.7	11,971.4	5,126.2

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

BOBCAPS Research

research@bobcaps.in



Logistics: Monthly Tracker

High frequency indicators, a harbinger of the logistics industry's performance, worsened further in Oct'19, indicating a deepening slowdown. Major port volumes declined 5% YoY, a multi-year low, due to a broad-based drop across ports and commodities. Container rail volume ticked up (+2% YoY) but NTKM fell 5% due to a sharp 7% drop in lead distance. EXIM trade continued its double-digit slide, plunging 11% YoY. While demand for logistics services is likely to remain weak, a benign base from Nov'19 may provide some cushion.

[Click here](#) for the full report.

WEEKLY WRAP

18 November 2019

Slowdown led by China and India

Global yields fell due to delay in finalizing US-China trade deal and weaker than estimated industrial output in China, US and UK. Stocks in China sold-off after weak retail sales and investments data. US equity markets rose as retail sales were buoyant. Indian equity markets were resilient even as industrial output fell to (-) 4.3% and retail inflation rose as government is expected to continue the reform process. Yields steepened as RBI is likely to cut rates in Dec'19 to prop growth and fiscal deficit may widen in the year.

Sameer Narang | Aditi Gupta

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Global yields closed lower on the back of flip-flop on US-China trade deal and weak industrial production in China, US and UK. Retail sales were below estimates in China but surprised positively in US. US 10Y yield fell by (11bps) followed by Germany (7bps). Crude prices rose by 1.3% (US\$ 63/bbl) as OPEC reported lower shale oil production in CY20. India's yield curve steepened after IIP growth fell to (-) 4.3% even as CPI inflation rose to 16-month high of 4.6%. System liquidity surplus was at Rs 2.5tn as on 15 Nov 2019 vs Rs 2.4tn in the previous week.
- **Currency:** Global currencies were mixed this week as developments in US-China trade deal dominated. DXY fell by (-) 0.4% in the week as US industrial production fell. CNY ended lower by (-) 0.2% on the back of weak macro prints (industrial production, retail sales). INR depreciated by (-) 0.7% this week on domestic growth and fiscal concerns.
- **Equity:** Global indices closed mixed amidst muted global growth outlook. Shanghai Comp fell the most (-2.5%), followed by FTSE (-0.8%). However, Dow rallied by 1.2% on hope of constructive trade talks between US and China in the coming week. Sensex rose by 0.1%, led by banking, auto and consumer goods stocks.
- **Upcoming key events:** In the current week, markets will closely watch US home sales data, flash PMI print of Eurozone, Germany and UK. Apart from this, US-China trade deal will also be in focus. US FOMC minutes would also give some guidance on future course of rates. On the domestic front, markets will look for any fresh cues on growth.



BUY

TP: Rs 160 | ▲ 37%

**SADBHAV
ENGINEERING**

Infrastructure

18 November 2019

Execution challenges continue to cloud growth

Sadbhav Engineering's (SADE) Q2FY20 revenue missed estimates, dropping 18% YoY as the heavy monsoons hindered execution at key EPC projects and as AD award was delayed for newer contracts. EBITDA margins were healthy, rising 25bps YoY to 12.3% led by a better revenue mix, and PAT beat estimates at Rs 259mn (Rs 210mn est.; -33% YoY) due to a lower tax rate. We adjust FY20/FY21 EPS by +3%/-7% on changes in tax and revenue forecasts. Upon rollover, we have a reduced Mar'21 TP of Rs 160 (vs. Rs 175). Retain BUY.

Jiten Rushi

research@bobcaps.in

Execution slowdown brings growth to a halt: Q2 revenue declined 18% YoY to Rs 5.7bn (Rs 6.5bn est.) due to (i) slow execution in ongoing EPC projects (Mumbai-Nagpur Expressway, Lucknow Ring Road Pkg 2) owing to the heavy, protracted monsoons, and (ii) delays in receipt of appointed dates (AD) for HAM contracts bagged in Q4FY18. SADE also terminated the Bhimasar-Bhuj road project due to land acquisition issues, which depleted the Sep'19 order backlog. As a result, its FY20 revenue guidance remains muted at Rs 35bn (flat YoY). We now expect a moderate revenue CAGR of 5% over FY19-FY22.

Loans to SIPL swell: Loans & advances to subsidiary SIPL swelled by Rs 1.7bn QoQ to Rs 8bn mainly to support equity investments in HAM projects. Standalone gross debt rose Rs 250mn QoQ to Rs 15.6bn; net D/E as on Sep'19 was at 0.7x (unchanged QoQ).

Receivables remain high: The debtor cycle remained stretched at ~215 days vs. 169 days as on Mar'19 due to outstanding payments of Rs 5.8bn in relation to cost escalation/change of scope/GST issues. We expect debtor days to moderate, supported by improved recoveries and a rising share of HAM revenue from H2FY20 (faster payment schedule than EPC).

Ticker/Price	SADE IN/Rs 117
Market cap	US\$ 278.7mn
Shares o/s	172mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 274/Rs 109
Promoter/FPI/DII	47%/13%/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	34,013	37,709	40,584
EBITDA (Rs mn)	4,151	4,279	4,156	4,594	4,957
Adj. net profit (Rs mn)	2,207	1,862	1,672	2,003	2,270
Adj. EPS (Rs)	12.9	10.9	9.7	11.7	13.2
Adj. EPS growth (%)	17.5	(15.6)	(10.2)	19.8	13.4
Adj. ROAE (%)	12.5	9.5	7.9	8.8	9.2
Adj. P/E (x)	9.1	10.8	12.0	10.0	8.8
EV/EBITDA (x)	9.0	8.1	8.5	7.6	6.8

Source: Company, BOBCAPS Research



Slump in port volumes and container rail lead distance

High frequency indicators, a harbinger of the logistics industry's performance, worsened further in Oct'19, indicating a deepening slowdown. Major port volumes declined 5% YoY, a multi-year low, due to a broad-based drop across ports and commodities. Container rail volume ticked up (+2% YoY) but NTKM fell 5% due to a sharp 7% drop in lead distance. EXIM trade continued its double-digit slide, plunging 11% YoY. While demand for logistics services is likely to remain weak, a benign base from Nov'19 may provide some cushion.

Sayan Das Sharma
 research@bobcaps.in

Container rail volumes tick up but NTKM drops: After two consecutive months of decline, container rail volumes increased 2% YoY in Oct'19 led by EXIM (+6% YoY). Domestic volumes, however, fell 14% as the consumption slowdown deepened. EXIM volume growth outpaced container traffic at major ports (flat YoY in tonnage terms), indicating possible market share gains for rail. However, NTKM fell 5% YoY (EXIM/domestic +0.1%/ -17%) as a sharp fall in lead distance (-7% YoY) negated the impact of higher volumes.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	95	120	BUY
CCRI IN	571	655	ADD
FSCS IN	500	680	BUY
MAHLOG IN	397	460	BUY
TCIEXP IN	758	855	ADD
TRPC IN	280	365	BUY

Price & Target in Rupees

Volumes at major ports sink: Total cargo at major ports dropped 5% YoY to 56.9mt in Oct'19, the worst decline since Apr'13, indicating a deepening slowdown in global trade and domestic demand. All but three major ports posted declines, led by New Mangalore (-33% YoY), Ennore (-22%) and Chennai (-10%). Vizag (+8% YoY), Kandla (+2%) and Cochin (+5%) were resilient.

Container movement at major ports was flat YoY in tonnage terms (-0.1%) in Oct'19, but plunged 12% in TEU terms. Key container ports of JNPT (-23% YoY) and Chennai (-12%) reported steep volume declines.

EXIM trade continues to slide, Sep industrial output slumps: Merchandise EXIM trade declined 11% YoY in Oct'19 (US\$ terms) after a similar decline in Sep'19. Exports/imports dropped 1%/16% YoY owing to sluggish global and domestic demand. Sep'19 industrial output slumped -4.3% YoY (-1.4% in Aug'19), owing to a broad-based slowdown across the manufacturing (-4%) and mining (-9%) sectors.

Benign base to lend support: The near-term outlook for EXIM and domestic trade, and therefore logistics services, remains soft. That said, the base effect for most high frequency indicators turns benign starting November, which may lend some support to growth going ahead.



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)

Rating distribution

As of 31 October 2019, out of 79 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 18 are rated ADD, 7 are rated REDUCE and 6 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.