BOBCAPS
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FIRST LIGHT

19 September 2019

RESEARCH

Cera Sanitaryware | TP: Rs 3,060 | +20% | BUY

Margins resilient despite soft demand

Logistics | Monthly Tracker

Slowdown continues to take a toll

SUMMARY

Cera Sanitaryware

Key takeaways from our recent meeting with the Cera Sanitaryware (CRS) management: (1) Demand remains feeble and CRS expects some pickup only from H2. (2) Management stays committed to working capital discipline despite the tough business environment. (3) Operating margins have shown resilience and are targeted to expand from 14.3% to 14.5-15% in FY20. We continue to like CRS for its strong brand, diverse portfolio and sound balance sheet. Maintain BUY with an unchanged Jun'20 TP of Rs 3,060.

Click here for the full report.

Logistics

High frequency indicators for logistics remained dull in Aug'19. Cargo volume growth at major ports softened to 1.2% YoY as a weak EXIM trajectory (–10.6% YoY) took a toll. Container traffic at major ports, however, posted healthy 10.4% YoY growth (TEU terms). Container rail volumes declined 3% YoY (EXIM/domestic down 0.5%/14%), indicating possible market share loss to road. We are cautious on the near-term prospects of logistics companies in light of the deteriorating demand climate.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
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	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.90	12bps	19bps	(110bps)
India 10Y yield (%)	6.64	(3bps)	11bps	(149bps)
USD/INR	70.93	0.3	0.7	1.3
Brent Crude (US$/bbl)	60.22	(0.3)	(1.8)	(22.9)
Dow	27,220	0.1	3.6	4.1
Shanghai	3,031	0.7	8.4	13.0
Sensex	37,385	0.8	1.2	(1.9)
India FII (US$ mn)	**12 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	13.5	455.6	4,702.8	4,158.1
FII-E	365.9	(357.3)	6,848.8	3.6

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 3,060 | ▲20%

CERA SANITARYWARE | Construction Materials | 18 September 2019

Margins resilient despite soft demand

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Demand lacklustre: After a tepid Q1FY20 marked by sagging demand, CRS saw stronger growth in July before a return to weak numbers in August. The company expects H1FY20 to be flattish, followed by improvement in H2 as faucetware and tiles benefit from a lower base and an enlarged product portfolio, overtaking growth in sanitaryware. Management also highlighted its sustained focus on working capital discipline to ensure a sound balance sheet, despite the toll this takes on growth.

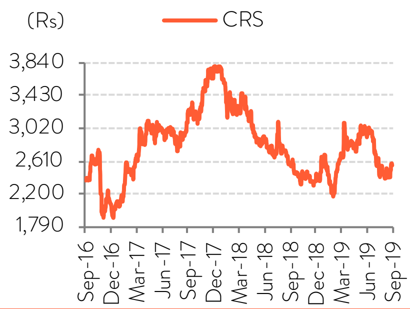
Operating margins resilient: Management stated the company has been able to retain the 3-5% sanitaryware price hikes taken in Q1FY20. With raw material costs at comfortable levels, CRS expects to have blended operating margins of 14.5-15% in FY20 (vs. ~14.3% in FY19). Faucetware margins have risen steadily over the past few years and are now higher than the company's blended margins.

Maintain BUY: We continue to like CRS for its wide distribution network, strong brand, comprehensive product portfolio, sound balance sheet and prudent working capital management. Our Jun'20 TP of Rs 3,060 is set at a one-year forward P/E of 26x, in line with the five-year average.

Ticker/Price	CRS IN/Rs 2,550
Market cap	US$ 460.8mn
Shares o/s	13mn
3M ADV	US$ 0.2mn
52wk high/low	Rs 3,195/Rs 2,144
Promoter/FPI/DII	55%/8%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total Revenue (Rs mn)	11,776	13,444	14,806	16,537	18,772
EBITDA (Rs mn)	1,699	1,917	2,191	2,481	2,816
Adj. net profit (Rs mn)	970	1,010	1,274	1,478	1,678
Adj. EPS (Rs)	74.6	77.7	98.0	113.6	129.0
Adj. EPS growth (%)	0.9	4.1	26.1	16.0	13.6
Adj. ROAE (%)	17.2	15.5	16.9	17.1	16.9
Adj. P/E (x)	34.2	32.8	26.0	22.4	19.8
EV/EBITDA (x)	19.4	17.0	14.8	13.2	11.6

Source: Company, BOBCAPS Research

LOGISTICS | Monthly Tracker | 18 September 2019

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Container rail volumes contract after three years: Container rail volumes slipped 3% YoY in Aug'19, contracting for the first time in 34 months as both EXIM/ domestic volumes fell 0.5%/14% YoY. While a high base effect of Aug'18 (+15% YoY) and the global trade slowdown hampered growth, railways appears to have also lost market share to road in container trade, as indicated by substantially higher container traffic growth at major ports (+7.7% in tonnage terms). FY20 remains a tepid year, with YTD/Q2 growth at just 3.3%/0.6% YoY. Lead distance was relatively resilient (–0.8% YoY); net tonne-km (NTKM) dipped 3.8%.

Container traffic at major ports healthy: Container traffic at major ports grew 10.4% YoY in Aug'19 (TEU terms). Kandla (+236% YoY), Cochin (+42%) and Tuticorin (+27%) were the key drivers. Growth at JNPT also rebounded to 4.3% YoY from 0.2% in Jul'19. Container volumes at Chennai port fell yet again, by 5% YoY. Overall cargo at major ports inched up a paltry 1.2% YoY.

EXIM trade plunges further, July IIP growth accelerates: Merchandise EXIM trade declined 11% YoY in Aug'19 (US$ terms) after a 6% decrease in Jul'19. Exports/imports dropped 6%/13% YoY owing to sluggish global and domestic demand. Non-oil, non-gold exports/imports were down 6%/8% YoY. Jul'19 IIP growth accelerated to 4.3% YoY (1.2% in Jun'19), led by higher manufacturing output (+4.2% YoY vs. +0.2% in Jun'19) and mining (+4.9% vs. 1.5% in Jun'19).

No respite in sight: With no improvement on the horizon for either global trade or domestic consumption, demand for logistics services are likely to remain soft in the near term. From November onwards, the base could turn favourable, which may provide some cushion. Recent government measures to boost exports and domestic demand are likely to yield benefits only over the medium term.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	101	125	BUY
CCRI IN	521	530	ADD
FSCS IN	549	715	BUY
MAHLOG IN	343	515	BUY
TCIEXP IN	627	785	BUY
TRPC IN	267	365	BUY

Price & Target in Rupees

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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