

RESEARCH

Maruti Suzuki | Target: Rs 8,825 | +26% | BUY

Operational miss largely led by transient impact

Manappuram Finance | Target: Rs 225 | +19% | BUY

Steady growth in gold and microfinance businesses

TCI Express | Target: Rs 895 | +8% | ADD

Growth lacklustre but margin beat yields in-line EBITDA

SUMMARY

Maruti Suzuki

Maruti's (MSIL) Q3FY20 operating performance missed estimates, largely due to the exaggerated impact of discounts and higher fixed cost appropriation. Both factors had >200bps QoQ margin impact and are likely to reverse in Q4. Management remains confident of an industry volume shift in favour of petrol models post BS-VI (from ~70% to 80-85%). We expect a cyclical demand recovery from FY21 to revive MSIL's margins from current 7-year lows. We pare FY20-FY22 EPS by 1-2% and revise our Mar'21 TP to Rs 8,825 (vs. Rs 8,900).

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

Manappuram Finance

Manappuram Finance's (MGFL) gold AUM surged 30% YoY to Rs 162bn in Q3FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 61% on the gold book. Higher spreads and range-bound opex fuelled 41% YoY growth in operating profit to Rs 4.7bn. PAT increased 58% YoY to Rs 3.3bn aided by low credit cost of 10bps. Asirvad MFI also continued its momentum. We raise FY20-FY22 earnings estimates by 2-5% and increase our Mar'21 TP to Rs 225 (vs. Rs 195).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,390

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	(8bps)	(27bps)	(114bps)
India 10Y yield (%)	6.56	(3bps)	5bps	(78bps)
USD/INR	71.44	(0.2)	(0.1)	(0.5)
Brent Crude (US\$/bbl)	59.32	(2.3)	(13.0)	(1.0)
Dow	28,536	(1.6)	(0.4)	16.3
Shanghai	2,977	(2.8)	(0.9)	14.6
Sensex	41,155	(1.1)	(1.0)	15.4
India FII (US\$ mn)	24 Jan	MTD	CYTD	FYTD
FII-D	113.3	(1,442.2)	(1,442.2)	1,501.9
FII-E	83.6	2,234.2	2,234.2	9,623.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

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TCI Express

TCI Express (TCIEXP) reported an in-line operating performance in Q3FY20 as solid gross margin expansion (+310bps YoY) compensated for muted topline growth (+2%). PAT grew at a strong 36% YoY boosted by lower tax rates.

While growth remains tepid in a tough demand climate, management's proactive steps towards cost control, branch expansion and SME client addition augur well for long-term prospects. We continue to like TCIEXP but believe the recent rally caps near-term upside. Maintain ADD with a revised Mar'21 TP of Rs 895 (vs. Rs 855).

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

BUY

TP: Rs 8,825 | ▲ 26%

MARUTI SUZUKI

Automobiles

29 January 2020

Operational miss largely led by transient impact

Maruti's (MSIL) Q3FY20 operating performance missed estimates, largely due to the exaggerated impact of discounts and higher fixed cost appropriation. Both factors had >200bps QoQ margin impact and are likely to reverse in Q4. Management remains confident of an industry volume shift in favour of petrol models post BS-VI (from ~70% to 80-85%). We expect a cyclical demand recovery from FY21 to revive MSIL's margins from current 7-year lows. We pare FY20-FY22 EPS by 1-2% and revise our Mar'21 TP to Rs 8,825 (vs. Rs 8,900).

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Operating performance below: MSIL's Q3 topline (+5% YoY) missed estimates due to a ~6% QoQ ASP decline led by higher discounts and a lower diesel mix. With retail sales above wholesale volumes (~87k), and the latter being higher than production (~60k), gross margins were hit by a sharp rise in discount/vehicle (~140bps impact) and higher fixed cost appropriation (~100bps). While these factors do occur every year, Q3FY20 saw a magnified impact due to BS-VI inventory destocking. Modest topline growth and 130bps QoQ gross margin compression drove a 10% miss on EBITDA (Rs 21bn, +6% YoY).

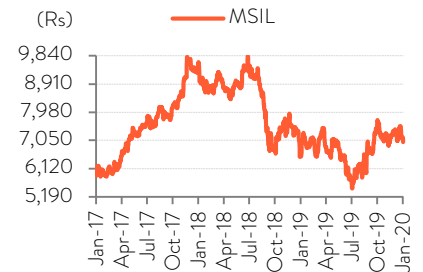
Positive volume outlook on cyclical recovery and falling diesel mix: Higher farm incomes from a healthy winter-crop should aid rural demand growth. In addition, an anticipated pickup in economic growth, low base effect and MSIL's lean inventory pipeline point to an improving volume outlook from FY21. Notwithstanding aggressive pricing by Hyundai, MSIL highlighted that diesel launches by other OEMs do reflect the large BS-VI linked cost rise, which should result in the petrol mix rising from ~70% currently to 80-85%.

Maintain BUY: With anticipated demand recovery and drivers for margin improvement (details in our report: [Mixed signals – prefer PVs, two-wheelers](#)), we expect MSIL to log a strong earnings CAGR of 26% over FY20-FY22.

Ticker/Price	MSIL IN/Rs 6,997
Market cap	US\$ 29.6bn
Shares o/s	302mn
3M ADV	US\$ 83.6mn
52wk high/low	Rs 7,759/Rs 5,446
Promoter/FPI/DII	56%/23%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	797,627	860,203	796,237	885,746	988,195
EBITDA (Rs mn)	120,615	110,473	83,289	105,985	131,140
Adj. net profit (Rs mn)	79,002	75,342	62,511	79,356	98,701
Adj. EPS (Rs)	261.6	249.5	207.0	262.8	326.8
Adj. EPS growth (%)	7.5	(4.6)	(17.0)	26.9	24.4
Adj. ROAE (%)	19.8	16.9	12.8	15.0	17.0
Adj. P/E (x)	26.7	28.0	33.8	26.6	21.4
EV/EBITDA (x)	15.6	16.4	21.2	16.5	13.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 225 | ▲ 19%

**MANAPPURAM
FINANCE**

| NBFC

| 29 January 2020

Steady growth in gold and microfinance businesses

Manappuram Finance's (MGFL) gold AUM surged 30% YoY to Rs 162bn in Q3FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 61% on the gold book. Higher spreads and range-bound opex fuelled 41% YoY growth in operating profit to Rs 4.7bn. PAT increased 58% YoY to Rs 3.3bn aided by low credit cost of 10bps. Asirvad MFI also continued its momentum. We raise FY20-FY22 earnings estimates by 2-5% and increase our Mar'21 TP to Rs 225 (vs. Rs 195).

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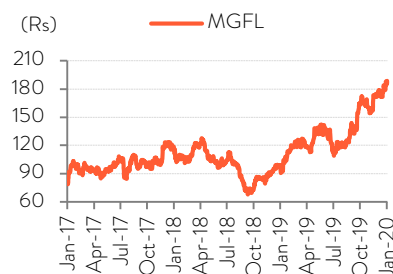
Better productivity fuels AUM growth: At Rs 162bn, MGFL's gold loan AUM increased 30% YoY in Q3FY20, continuing its growth streak for the eighth consecutive quarter. This was largely aided by 11% YoY volume growth to ~74tonnes and 23% YoY growth in AUM per branch to Rs 46mn. MGFL prudently maintained 61% LTV on its gold portfolio.

Ticker/Price	MGFL IN/Rs 189
Market cap	US\$ 2.2bn
Shares o/s	843mn
3M ADV	US\$ 7.9mn
52wk high/low	Rs 191/Rs 108
Promoter/FPI/DII	35%/44%/6%

Source: NSE

Stronger spreads and cost control bolster operating profit: Spreads (calc.) on gold finance increased 80bps YoY to 19.9%, driven by a better cost of funds (-60bps YoY, calc.). Range-bound opex of Rs 2.9bn-3.0bn in the last 6-7 quarters resulted in a lower expense ratio of 7.8% (-160bps YoY). Thus, operating profit grew 41% YoY to Rs 4.7bn.

STOCK PERFORMANCE



Source: NSE

Credit costs benign; MFI performance healthy: Credit costs were contained at 10bps of AUM, resulting in 58% YoY growth in PAT to Rs 3.3bn. Asirvad MFI AUM grew 57% YoY to Rs 50bn largely driven by new customers. Though management has guided for 2% credit cost in FY21, the MFI business remains well capitalised at 25% to absorb any increased provisioning from event risks.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	20,943	23,525	27,315	31,543	33,866
NII growth (%)	5.0	12.3	16.1	15.5	7.4
Adj. net profit (Rs mn)	6,889	7,884	11,147	12,974	13,721
EPS (Rs)	8.2	9.4	13.2	15.4	16.3
P/E (x)	23.0	20.1	14.3	12.2	11.6
P/BV (x)	4.2	3.6	3.1	2.6	2.3
ROA (%)	5.0	4.9	5.6	5.6	5.4
ROE (%)	19.4	19.3	23.3	23.1	20.9

Source: Company, BOBCAPS Research



ADD

TP: Rs 895 | ▲ 8%

TCI EXPRESS

| Logistics

| 28 January 2020

Growth lacklustre but margin beat yields in-line EBITDA

TCI Express (TCIEXP) reported an in-line operating performance in Q3FY20 as solid gross margin expansion (+310bps YoY) compensated for muted topline growth (+2%). PAT grew at a strong 36% YoY boosted by lower tax rates. While growth remains tepid in a tough demand climate, management's proactive steps towards cost control, branch expansion and SME client addition augur well for long-term prospects. We continue to like TCIEXP but believe the recent rally caps near-term upside. Maintain ADD with a revised Mar'21 TP of Rs 895 (vs. Rs 855).

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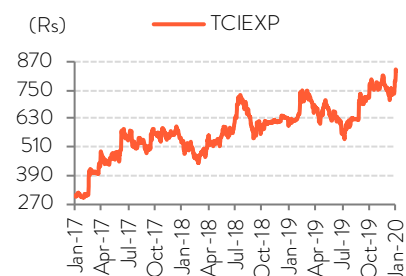
Volume growth decelerates: Marred by weak industrial activity and disruptions in eastern/northeastern states (~15% share), TCIEXP's tonnage growth decelerated to +1% YoY (vs. 7% in Q2). Realisations grew a meagre 1% YoY. SME client addition helped contain the slowdown in volumes and realisations, while large corporate accounts remained tepid. The company is focusing on branch expansion and pursuing prospective clients to combat the slowdown.

Ticker/Price	TCIEXP IN/Rs 831
Market cap	US\$ 446.3mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 867/Rs 531
Promoter/FPI/DII	67%/4%/6%

Source: NSE

Margin juggernaut continues: TCIEXP's gross margin continued to expand (+310bps YoY), as it managed to carry higher volumes using fewer trucks – this was made possible by (1) increasing axle load in some hired vehicles (~40% of total fleet), and (2) use of higher tonnage trucks on some routes (truck hire cost is a direct expense). Consequently, EBITDA margin expanded 100bps YoY to 12.8%, yielding in-line EBITDA of Rs 343mn (+10.8% YoY).

STOCK PERFORMANCE



Source: NSE

FY20 guidance lowered: Management has lowered FY20 topline guidance to 8-8.5% from 13-14% earlier (implied growth of ~17% in Q4), given the tepid 9MFY20. We bake in lower 10%/6% YoY growth for Q4FY20/FY20.

Maintain ADD: We raise FY20-FY22 EPS estimates slightly (0.2-1.5%) and move to a revised Mar'21 TP of Rs 895 from Rs 855, set at 24x P/E (from 23x).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	10,860	12,690	14,901
EBITDA (Rs mn)	907	1,190	1,321	1,621	1,994
Adj. net profit (Rs mn)	584	728	956	1,162	1,426
Adj. EPS (Rs)	15.3	19.0	25.0	30.3	37.2
Adj. EPS growth (%)	55.8	24.7	31.3	21.6	22.6
Adj. ROAE (%)	31.8	30.7	31.3	29.8	28.9
Adj. P/E (x)	54.5	43.7	33.3	27.4	22.3
EV/EBITDA (x)	35.4	27.0	24.2	19.5	15.8

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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