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FIRST LIGHT

30 September 2019

RESEARCH

Greenply Industries | Target: Rs 200 | +22% | BUY

India business steady; Gabon to lend growth impetus

IT Services

Positive readthrough from Accenture results

Infrastructure

NHAI call takeaways – Order awards to gather pace from Q3

SUMMARY

Greenply Industries

In our recent meeting, Greenply Industries' (GIL) management outlined the following targets for FY20: (1) India plywood business to grow 8-10% despite a challenging market, (2) India operating margins to expand 100-150bps to 10.5-11%, and (3) Gabon operations to ramp up substantially to ~Rs 2bn in revenues (+60% YoY) with ~18% (+200bps) operating margins. We maintain BUY with an unchanged Jun'20 TP of Rs 200, set at 18x one-year forward P/E.

Click here for the full report.

IT Services

Accenture posted record bookings worth US$ 12.9bn in Q4FY19, including 16 US$ 100mn+ TCV deals, besides guiding for 5-8% YoY CC revenue growth for FY20. We view the steady growth outlook and buoyant bookings as a positive demand readthrough for Indian IT players, but expect their EPS growth to lag in the near term on higher cost of delivery (in the absence of sharp INR depreciation). We continue to prefer TCS & HCLT amongst large-caps and NITEC, MPHL & LTI amongst mid-caps.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
ONGC	Buy	200
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.69	(4bps)	16bps	(136bps)
India 10Y yield (%)	6.72	(4bps)	24bps	(131bps)
USD/INR	70.88	0.2	1.6	2.4
Brent Crude (US$/bbl)	62.74	0.6	6.9	(23.2)
Dow	26,891	(0.3)	3.8	1.7
Shanghai	2,929	(0.9)	2.3	4.9
Sensex	38,990	1.0	4.0	7.3
India FII (US$ mn)	**25 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	10.3	99.1	4,346.3	3,801.6
FII-E	(49.6)	(530.3)	6,675.8	(169.4)

Source: Bank of Baroda Economics Research

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Infrastructure

We spoke with V K Sharma – CGM (Land Acquisition) and Siba Narayan Nayak, CGM (Finance) of NHAI, for an update on land acquisition and order award targets for FY20. Key takeaways: (1) Land acquisition target set at 15,000ha, (2) Order award target cut to 4,500-5,000km and (3) D/E ratio to remain under control at ~1x.

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BUY
TP: Rs 200 | 22%

GREENPLY INDUSTRIES | Construction Materials | 27 September 2019

India business steady; Gabon to lend growth impetus

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Indian operations targeted to grow 8-10% in FY20: GIL's management believes its India plywood business will grow at 8-10% during FY20 driven by decorative veneer, demand from mid-segment plywood brands (Ecotec) and also mass-market brands (Jansathi, Bharosa). The premium segment is expected to grow, but at a slower pace than overall segment growth. Management has guided for operating margins of ~11% vs. ~9.5% in FY19 as the drag from losses in the discontinued wallpaper business will recede in FY20.

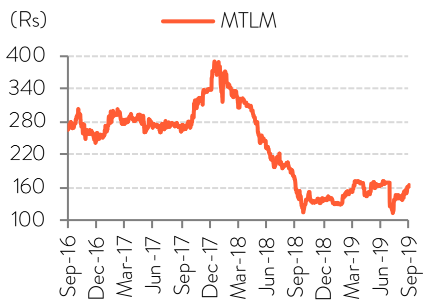
Gabon operations continue to ramp up: GIL's face veneer facility in Gabon which started operations in Jul'17 has seen steady ramp-up, and management expects this facility to clock revenues of Rs 2bn (+60% YoY) alongside operating margins of ~18% (+200bps YoY) in FY20. The company is now focusing on higher margin European markets for exports from Gabon.

Maintain BUY: GIL boasts of a wide distribution network, strong brand name and superior return ratios. We expect the company to witness an earnings CAGR of 21.6% over FY19-FY22 aided by expansion in Gabon operations. Maintain BUY with an unchanged Jun'20 TP of Rs 200.

Ticker/Price	MTLM IN/Rs 164
Market cap	US$ 282.7mn
Shares o/s	123mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 178/Rs 110
Promoter/FPI/DII	51%/11%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	15,765	17,958	19,742
EBITDA (Rs mn)	715	1,507	1,784	2,092	2,337
Adj. net profit (Rs mn)	253	852	1,023	1,329	1,531
Adj. EPS (Rs)	2.1	6.9	8.3	10.8	12.5
Adj. EPS growth (%)	NA	236.1	20.1	30.0	15.1
Adj. ROAE (%)	3.1	14.0	27.4	28.7	26.8
Adj. P/E (x)	79.1	23.5	19.6	15.1	13.1
EV/EBITDA (x)	32.5	17.9	12.6	10.6	9.3

Source: Company, BOBCAPS Research

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IT SERVICES

27 September 2019

Positive readthrough from Accenture results

Accenture posted record bookings worth US$ 12.9bn in Q4FY19, including 16 US$ 100mn+ TCV deals, besides guiding for 5-8% YoY CC revenue growth for FY20. We view the steady growth outlook and buoyant bookings as a positive demand readthrough for Indian IT players, but expect their EPS growth to lag in the near term on higher cost of delivery (in the absence of sharp INR depreciation). We continue to prefer TCS & HCLT amongst large-caps and NITEC, MPHL & LTI amongst mid-caps.

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Record high bookings incl. 16 US$ 100mn+ deals: New outsourcing engagements worth US$ 6.8bn (+45% YoY) in Q4FY19 (August year end) uplifted total deal wins to US$ 12.9bn, a historic high for Accenture. About 65% of the deals are in new areas and 16 of them carry a TCV of US$ 100mn+. Management indicated that average deal tenor remains unchanged. Buoyant deal activity coupled with big-ticket contracts is encouraging in our view, especially as a challenging global macro continues to unsettle the street.

Status quo in BFSI, regional markets continue to drive growth: Accenture reported 4% YoY CC growth in the BFSI segment, similar to that in the May quarter, led by growth in the US and regional markets while Europe contracted. Management expects continued improvement in the banking and capital markets globally. Amongst geographies, regional markets continued to lead growth, rising 12% YoY and posting a double-digit rise for the tenth quarter in a row.

Steady growth outlook a positive readthrough for India IT: Accenture has guided for 5-8% YoY CC revenue growth in FY20, which appears soft at first glance as it implies loss of business momentum versus FY19 when the company saw 8.5% YoY CC growth. But in three of the last four years, revenue growth has outpaced the 5-8% guidance put out at the beginning of each year. Also, continuation of the start-of-year guidance range despite current unfavourable macro dynamics suggests management's confidence in steady business growth, in our view. The FY20 outlook bakes in ~200bps contribution from inorganic revenues – similar to FY19.

Other result highlights: (1) Accenture invested US$ 1.2bn to acquire 33 entities in FY19. (2) Accenture Interactive is now a US$ 10bn+ revenue service. (3) New revenue share was ~65% in FY19, growing at ~20% CC.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,088	2,360	ADD
INFO IN	783	820	ADD
WPRO IN	237	230	SELL
HCLT IN	1,045	1,230	BUY
TECHM IN	786	660	REDUCE
LTI IN	1,715	2,010	BUY
MPHL IN	987	1,150	BUY
MTCL IN	696	670	SELL
HEXW IN	358	390	ADD
PSYS IN	629	650	REDUCE
NITEC IN	1,334	1,550	BUY
ECLX IN	441	490	SELL

Price & Target in Rupees

INFRASTRUCTURE

27 September 2019

NHAI call takeaways – Order awards to gather pace from Q3

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We spoke with V K Sharma – CGM (Land Acquisition) and Siba Narayan Nayak, CGM (Finance) of NHAI, for an update on land acquisition and order award targets for FY20. Key takeaways are outlined below.

Land acquisition target set at 15,000ha: Over Apr-Jul'19, NHAI has acquired 1,300ha of land for Rs 33bn and aims to buy a total of 15,000ha in FY20 at a cost of ~Rs 400bn (Rs 26.7mn/ha). In comparison, it acquired 13,982ha in FY19 for Rs 345bn (Rs 24.7mn/ha). Acquisition cost has come down steadily from a high of Rs 30.8mn/ha in FY18 with the announcement of greenfield projects.

Order award target cut to 4,500-5,000km: With only 600km awarded so far, NHAI's highway order target for FY20 has been cut from 6,000km to 4,500-5,000km. High land cost and funding constraints are key reasons for order delays. The EPC/BOT/HAM award mix is likely to be 30%/10%/60%.

D/E ratio to remain under control at ~1x: As per the NHAI officials, gross budgetary support of Rs 367bn (–1.7% YoY) earmarked for the road's authority in the FY20 Budget was below expectations. NHAI is in talks with the finance ministry for higher fund allocation from the Central Road and Infrastructure Fund (CRIF), where its current share is Rs 161bn (–10.9% YoY).

NHAI also aims to award two bundles (each with 8-9 operational projects) on toll-operate-transfer basis in FY20 and plans to raise >Rs 100bn for these. Gross outstanding debt now stands at ~Rs 2tn (~Rs 1.8tn as on Mar'19) and is likely to reach ~Rs 2.5tn by Mar'20 (D/E at ~1x vs. 0.8x in Mar'19), well under control.

Our view: NHAI's FY20 order target under the Bharatmala Programme (BMP) implies ~4,000km of contract awards in H2– this concentration of project tenders in the second half is likely to keep competitive intensity high, resulting in aggressive bidding. In our view, cost overruns and funding constraints plaguing the BMP are likely to persist unless funding through asset monetisation and private sector investment is introduced.

We, however, maintain our long-term positive stance on the sector based on the government's sustained focus on infrastructure spending and NHAI's shift towards the award of viable projects versus chasing aggressive expansion targets. Our top picks remain PNC Infra, KNR Constructions, HG Infra and Ashoka Buildcon.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
ASBL IN	106	185	BUY
DBL IN	448	610	BUY
HGINFRA IN	200	395	BUY
KNRC IN	232	360	BUY
PNCL IN	188	250	BUY
SADE IN	137	175	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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