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FIRST LIGHT

04 October 2019

RESEARCH

Gold Finance NBFCs

Turning a corner

Infrastructure

NHAI analyst meet update – upbeat on BMP awards

Banking | Credit Tracker

August non-food credit growth plummets to <10%

SUMMARY

Gold Finance NBFCs

Gold loans being self-liquidating and well-collateralised, India's top-2 gold finance NBFCs, MUTH and MGFL, have found favour with debt/liquid funds post the IL&FS crisis. We expect better operating leverage and benign credit costs to underpin steady-state ROA of 5-6% from their gold businesses, alongside low levered (~4x) growth over FY20-FY22. Diversification into allied credit products would augment profits in the near term. MUTH and MGFL look well on track to maintain market leadership; we initiate coverage on both companies with BUY.

Click here for the full report.

Infrastructure

We attended an analyst meet hosted by NHAI on Bharatmala Pariyojana phase-I (BMP). NHAI aims to award all BMP projects by FY22 (18,791km pending of 35,213km) and to complete construction by FY25. As on date, ~50% of the land is in its possession and balance acquisition is targeted by mid-FY21. BMP cost has risen 20% due to higher construction cost. NHAI is evaluating options to bridge the financing gap (incl. requesting more budgetary support). We expect ordering to moderate in FY20 as land acquisition remans in focus, with a pick-up from FY21.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
ONGC	Buy	200
TCS	Add	2,360
HPCL	Buy	400

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 (%)	1.60	(4bps)	10bps	(158bps)
India 10Y yield (%)	6.66	(4bps)	11bps	(145bps)
USD/INR	71.08	(0.3)	0.4	3.1
Brent Crude (US$/bbl)	57.69	(2.0)	(4.5)	(33.1)
Dow	26,079	(1.9)	(1.2)	(2.8)
Shanghai	2,905	(0.9)	0.7	3.0
Sensex	38,305	(0.9)	2.6	6.5
India FII (US$ mn)	**30 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	(46.6)	(273.8)	3,973.4	3,428.7
FII-E	(42.3)	954.7	8,160.7	1,315.5

Source: Bank of Baroda Economics Research

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Banking: Credit Tracker

RBI data on sectoral credit deployment indicates that growth in non-food credit slowed to a 17-month low of 9.8% in Aug'19, hobbled by lower growth across segments. Ex-retail, non-food credit growth reduced to 7.8%. Retail growth decelerated to 15.6% YoY amid slower offtake of home and other personal loans. Lending to the industrial segment weakened further to 4% YoY as large industries posted tepid growth and banks remained cautious on SME lending. Growth in the services sector fell to 13.3% vs. 15.2% in July.

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NBFC

03 October 2019

Gold Finance NBFCs: Turning a corner

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The resurgence of gold finance: Post the regulatory purge in FY12-FY14 (due to LTV restrictions) and consolidation over FY15-FY18 (14% growth), India's organised gold loan industry grew 10% YoY to Rs 2.8tn in FY19, as LTV caps were harmonised between banks and NBFCs, gold prices stayed flattish, and NBFCs clawed back market share ceded to banks. We estimate a 10.2% CAGR in the organised market to Rs 3.6tn over FY19-FY22 (~25% NBFC share). Muthoot Finance (MUTH)/Manappuram Finance (MGFL) are well placed to grow in line with the market and maintain 50%/20% share.

Competitive headwinds easing: South India-based private banks which have >60% of their gold portfolio as loans against pledged ornaments are primary competitors to specialised gold finance NBFCs. We expect these players to see subdued growth in gold loans over FY19-FY22 due to (a) RBI's stricter end-use monitoring and (b) sectoral cap on gold loan exposure.

MUTH to stay firmly in the lead: MUTH's focus on customer retention, tighter collections and cost control has led to ~3x growth in PAT (FY15-FY19) to Rs 20bn in FY19. Diversifying the borrowing mix by replacing gold bonds with NCDs and CPs has fuelled a resurgence in spreads to ~11.5% in FY19. We expect these steps to support a 13% gold loan CAGR and stable ROA of ~6% with low leverage of ~3.5x over FY20-FY22. Initiate with BUY; Sep'20 SOTP-based TP of Rs 825.

MGFL reaping benefits of portfolio rejig: MGFL has transited to 3-9-month short-term loans, linked LTV to tenor, driven regular collections, and expanded beyond South India, thereby tripling PAT growth (FY15-FY19) to ~Rs 8bn in FY19. Borrowings and business mix diversification began from FY15; microfinance now forms 14% of consolidated profit. We expect the gold loan book to deliver ~5% ROA and stay low levered at ~4x during FY20-FY22. Initiate with BUY; Sep'20 SOTP-based TP Rs 165.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
MUTH IN	672	825	BUY
MGFL IN	134	165	BUY

Price & Target in Rupees

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INFRASTRUCTURE

03 October 2019

NHAI analyst meet update – upbeat on BMP awards

We attended an analyst meet hosted by NHAI on Bharatmala Pariyojana phase-I (BMP). NHAI aims to award all BMP projects by FY22 (18,791km pending of 35,213km) and to complete construction by FY25. As on date, ~50% of the land is in its possession and balance acquisition is targeted by mid-FY21. BMP cost has risen 20% due to higher construction cost. NHAI is evaluating options to bridge the financing gap (incl. requesting more budgetary support). We expect ordering to moderate in FY20 as land acquisition remans in focus, with a pick-up from FY21.

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Land acquisition gathering pace…: NHAI has ~50% of the land required for BMP in its possession and expects to acquire the balance by mid-FY21. Total land cost is pegged at Rs 1.25tn, ~20% of BMP's outlay of Rs 6.4tn, and NHAI expects control land cost given a change in focus towards greenfield projects and relaxed right-of-way (ROW) requirements for select four-lane projects. Over FY15-FY18, land cost has averaged at ~40% of actual project cost and hence we find NHAI's assumptions rather optimistic.

…awarding to follow suit: NHAI expects to award 6,000-7,000km in FY20 (~1,500km already awarded in H1) under BMP. We believe this target looks ambitious as (a) NHAI is focusing on land acquisition to mitigate further delays (bids will be put out for HAM/EPC projects only after 80%/90% of the land is in its possession along with 10km of contiguous stretches), and (b) lending norms remain stringent as banks/NBFCs have turned cautious on the infrastructure space. Accordingly, we estimate order awards of ~5,000km in FY20 with a pick-up from FY21, assuming land acquisition progresses well.

Bridging the financing gap: NHAI aims to bridge the financing gap via a revised BOT (toll) policy, project-based financing, asset monetisation through TOT/InvIT/SPV models, land monetisation, securitisation of toll collections and other avenues. Peak borrowings are expected at ~Rs 1tn in FY22 due to a rise in construction activity and large debt repayments. As per NHAI, peak debt by FY23 could reach Rs 5.2tn (D/E at 1.1x). In our view, cost overruns on land/construction, below-expected toll collections, any cuts in budgetary support and delayed asset monetisation could take leverage higher.

Our view: Cost overruns and funding constraints in BMP have subdued sector valuations. While we expect ordering to pick up from FY21 as NHAI emerges from land bank consolidation, any delays in its financing initiatives could accelerate debt and derail award plans – representing a key risk to our estimates. Reiterate top picks of PNC Infra, KNR Constructions, HG Infra, Ashoka Buildcon.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
ASBL IN	97	185	BUY
DBL IN	394	610	BUY
HGINFRA IN	209	395	BUY
KNRC IN	220	360	BUY
PNCL IN	180	250	BUY
SADE IN	130	175	BUY

Price & Target in Rupees I HGINFRA = HGIEL

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BANKING | Credit Tracker | 03 October 2019

August non-food credit growth plummets to <10%

RBI data on sectoral credit deployment indicates that growth in non-food credit slowed to a 17-month low of 9.8% in Aug'19, hobbled by lower growth across segments. Ex-retail, non-food credit growth reduced to 7.8%. Retail growth decelerated to 15.6% YoY amid slower offtake of home and other personal loans. Lending to the industrial segment weakened further to 4% YoY as large industries posted tepid growth and banks remained cautious on SME lending. Growth in the services sector fell to 13.3% vs. 15.2% in July.

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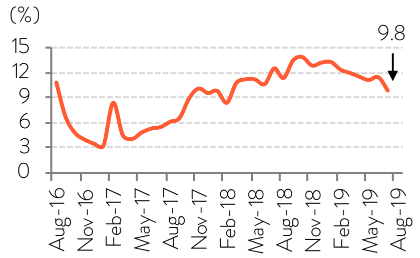
Retail credit slows: Retail credit growth had been hovering at ~17% over the past few months amid a strong uptick in home and other personal loans. But in Aug'19, growth slipped to an 11-month low of 15.6%, led by a slowdown across retail segments (barring consumer durables which had a lower base). Home loans that have been a vital driver of retail credit over the past few months increased 16.6% YoY in Aug'19 vs. 19.2% in Jul'19. Growth in other personal loans that form 7.5% of gross bank credit slowed by >200bps MoM to 21.9%. Credit card/vehicle loan growth decelerated to 24.4%/3.7% YoY from 37.4%/12.7% in Aug'18.

Industrial credit dips to 4%: The infrastructure sector that forms ~36% of industrial credit was hit hard in Aug'19, with growth ebbing to ~9% YoY (vs. 14% in July) as offtake from all infrastructure sectors, namely power, telecom, roads and others, moderated substantially. Credit to large industries grew only 5%, while that to medium/micro & small industries dipped –1%/–2% YoY. Metals sector loans, which form ~13% of industrial credit, declined for the 19th straight month to 9.3%.

Credit growth in services sector decelerates to 13%: Lending to the services sector that witnessed a mild uptick in Jul'19 declined again to 13.3%. Growth decelerated across sub-segments, barring commercial real estate and NBFCs which grew by 15.6% and 38.8% vs. 14.8% and 34.5% respectively in Jul'19.

Bleak outlook for FY20: We do not expect any material improvement in credit growth for FY20. In our view, as PSBs now grapple with the mega consolidation exercise, private banks will be able to step in and augment their market share.

NON-FOOD CREDIT GROWTH



Source: RBI, 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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