MOTILAL OSWAL

4QFY19 | June 2019

VOICES

VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earnings calls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, and transcripts links of the respective conference calls.

This quarterly report contains

- Key takeaways from the post results management commentary for 160 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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Contents

Note: All stock prices and indices are as on 6th June 2019, unless otherwise stated.

Voices

BSE Sensex: 39,616 **S&P CNX: 11,871**


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In-line quarter; Financials drive performance off low base

Commentary weakens in Autos and Consumption

As India Inc bids a goodbye to the FY19 earnings-report season, we – like always – choose to look at corporate commentaries as a sidelight to questions of how businesses across sectors have been performing in a constantly changing environment. In this report, we present detailed takeaways as we refine the essence of India Inc 'Voices'.

- **The 4QFY19 corporate earnings-report season was in line with our expectations for both the Nifty and the MOFSL Universe. Domestic Cyclicals continued driving earnings growth for the second consecutive quarter, led by Financials, which contributed almost the entire earnings delta but still fell short of expectations. The EBITDA margin for the MOFSL (ex-Financials & OMCs) Universe shrank by 100bp to 19.1%, dragged by Automobiles, Consumer, Metals, O&G and Telecom. On the other hand, Cement and Utilities delivered YoY expansion in the operating margin. Corporate Banks continued reporting an improvement in the slippage/asset quality trends. Domestic Cyclicals drove the quarterly performance, led by Financials. Defensives' growth was dragged by Telecom losses, while Global Cyclicals reported flattish growth with Metals and Oil & Gas delivering better-than-expected numbers.**
- **In BFSI, asset quality worries appear to be diminishing**, with banks reporting a decline in stressed assets, led by benign slippages and higher recoveries/write-offs during the quarter. However, credit costs for most corporate banks remain elevated due to ageing-related provisions toward NCLT accounts (Essar Steel, Alok and Bhushan Power), downgrade of the ILFS exposure, and a few other names getting added to the stressed pool. Coverage ratios across several banks have improved strongly. AXSB/ICICIBC among private corporate banks and SBIN among PSBs guided for normalization in credit cost. Most banks like HDFCB, AXSB, KMB and ICICICBC guided for faster growth in retail term deposits. **Most NBFCs** continue facing a key challenge of liquidity. Nevertheless, they have managed this situation well but curtailed disbursements. All vehicle financiers have guided for a slowdown in growth in FY20 too.
- **Consumer** companies across the board indicated a near-term slowdown, mostly led by rural. During the past quarter, the operating environment was marred by subdued consumer demand, liquidity crunch in the channel and prolonged winter. However, companies have started witnessing some improvement in the liquidity situation post elections in their respective regions and are anticipating rural markets to benefit from government measures over the coming quarters. In Autos, demand was impacted by (a) weak buying sentiment in rural areas, (b) liquidity crunch and (c) a high base. While most OEMs have slashed their growth guidance for FY20, demand is likely to be driven by BS-VI-related pre-buy from 2QFY20. In FY20, the PV industry is likely to grow at 3-5%, 2W at mid-single-digit and the tractor industry at 5-8%.
- **In IT,** revenue growth was healthy, but there was a pause in acceleration with commentary and guidance suggesting moderate conservatism on the growth front in the coming quarters. Pressures continued on the margins side. Low

unemployment levels in the US, high attrition and a tightening visa regime have been the main factors behind the contraction in the gross margins.

- **In Healthcare,** the base business in the US generics segment continues facing pricing pressure, albeit at low intensity. Companies are selectively looking at opportunities stemming from portfolio rationalization by peers and are directing their R&D spend mostly toward high-value complex generics with low competition.
- **In Capital Goods,** overall execution was healthy, given the liquidity crunch in the economy. Order inflows declined due to weakness in domestic ordering in the run up to the general elections. Management commentary suggests that small- and medium-sized orders are flowing in, but large-ticket orders are on hold and should see finalization now that election uncertainty is behind.
- **In Cement,** managements indicated that demand slowed down in Apr-May'19 due to the unavailability of labor on account of elections. However, the long-term demand outlook remains optimistic, given the government's increasing focus on housing, infra and irrigation projects.

Autos

- In 4QFY19, auto demand was impacted (a) weak buying sentiment in rural areas, (b) liquidity crunch and (c) a high base. While most OEMs have slashed their growth guidance for FY20, demand is likely to be driven by BS-VI-related pre-buy from 2QFY20. In FY20, the PV industry is likely to grow at 3-5%, 2W at mid-single-digit and the tractor industry at 5-8%. Furthermore, most OEMs expect the positive impact of softening RM inflation to start reflecting in 1HFY20.

Capital Goods

Domestic execution healthy, continuity of government to improve ordering outlook

- Execution was healthy given the liquidity crunch in the economy. Order inflows declined due to weakness in domestic ordering in the run up to the general elections. Management commentary suggests that small- and medium-sized orders are flowing in, but large-ticket orders are on hold and should see finalization now that the election uncertainty is behind. Room AC companies have seen a strong start to the summer season and inventory levels have normalized. However, the scope to pass on import duty hikes and currency depreciation through price hikes remains limited.

Cement

- Managements indicated that demand slowed down in Apr-May’19 due to the unavailability of labor on account of elections. However, the long-term demand outlook remains promising, led by the government’s increasing focus on housing, infra and irrigation projects. Players also indicated that they have initiated price hikes of INR 30-35/bag in Apr-May’19 across regions (except south).

Consumer

- Companies across the board indicated a near-term slowdown, mostly led by rural. During the past quarter, the operating environment was marred by subdued consumer demand, liquidity crunch in the channel and prolonged winter. However, companies have started witnessing some improvement in the liquidity situation post elections in their respective regions and are anticipating rural markets to benefit from the government measures over the coming quarters.

Financials

Banks

- **Asset quality worries are diminishing**, with banks reporting a decline in stressed assets, led by benign slippages and higher recoveries/write-offs during the quarter. However, credit cost for most corporate banks remains elevated due to ageing-related provisions toward NCLT accounts (Essar Steel, Alok and Bhushan Power), downgrade of the ILFS exposure and a few other names getting added to the stressed pool. Coverage ratios across several banks have improved strongly. AXSB/ICICIBC among private corporate banks and SBIN among PSBs guided for normalization in credit cost. Recoveries from NCLT-related cases and resolution of stressed power assets have been delayed. However, this is expected to get resolved in FY20, driving a further improvement in asset quality for the underlying banks.
- Most banks like HDFCB, AXSB, KMB and ICICICBC have guided for faster growth in retail term deposits. The outlook for corporate banks is improving, given the moderation in slippages, the reduction in total stressed loans and the improving profitability.

NBFC

- 4QFY19 was a key quarter for our coverage universe. The performance and outlook were divergent across companies. Well-rated HFCs like HDFC and LICHF expect a 'business-as-usual' FY20, although corporate growth may be marginally tepid for HDFC. IHFL expects a gradual recovery in disbursements (INR100b in 1QFY20). The company will continue to sell down loans aggressively – hence, management is guiding for 10% balance sheet growth, despite 20% AUM growth in FY20. In the vehicle finance space, all companies are expecting a reasonable slowdown in AUM growth in FY20 – CIFC guided for 15% AUM growth in the vehicle finance book v/s 20% earlier. SHTF expects a gradual recovery in FY20 compared to 2HFY19. Diversified players like BAF, LTFH and ABCL have not witnessed much impact from the liquidity crisis, and thus, managements have not guided for anything different. However, all companies are looking to aggressively tap the ECB market.

Healthcare

- The base business in the US generics segment continues facing pricing pressure, albeit at low intensity. Companies are selectively looking at opportunities stemming from portfolio rationalization by peers and are directing their R&D spend mostly toward high-value complex generics with low competition. The Jan Aushadhi scheme introduced by the Government of India, coupled with trade generics, is hurting the branded business in India. Pharma companies intend to increase their focus on markets other than the US (like branded generics in emerging markets) for better growth in revenue and profitability. Near-term prospects have been bolstered by the completion of inventory rationalization in domestic formulations, strong momentum in ANDA approvals, and the favorable environment for the API business.

Media

- Broadcasters (ZEE and SUNTV) hinted that the TRAI's new tariff order will impact the performance this quarter as well. Managements alluded that they would continue stepping up investments in digital. PVR remained focused on robust screen adds. The print pack was bullish on moderation of newsprint prices and hinted that benefits should start flowing from 2QFY20.

Metals

- According to Tata Steel, higher offtake from (1) industrial products/projects and (2) branded products and retail segments led to a strong sequential increase in volumes. 3Q had witnessed significant deferral in purchases amid volatility in steel prices. SAIL highlighted that steel pricing has remained subdued amid general elections. The company also noted that realizations have been on a downtrend, with average NSR for April and May at INR40,500/t and INR39,600/t, respectively (v/s ~INR40,311 in 4Q). Hindalco expects domestic demand for aluminum to grow at 7-8% in FY20 and its cost of production to decrease led by lower caustic soda, CPC and furnace oil prices. It expects LME aluminum prices to show an uptrend in 2HCY19. Vedanta highlighted a decrease in its aluminum cost of production (CoP) due to higher local bauxite sourcing and continued availability of linkage coal. The company estimates aluminum hot metal CoP at USD1,725-1,775/t in FY20.

Oil & Gas

- Refining margin outlook for FY20 is likely to remain weak owing to higher global capacity additions and lower-than-expected boost in diesel yields. OMCs expect better marketing margins post the overhang on retail prices during elections. RIL's chemical cracks are expected to remain subdued, with strong growth in retail business. MAHGL foresees higher opex challenges, which would normalise its EBITDA margins. IGL expects volume growth of ~10-11% from its high-growth Gas, supported by government regulations. PLNG plans to increase capacity at Dahej to ~19.5mtpa and expects ramp-up at the Kochi terminal.

Retail

- Retail companies witnessed a slowdown during the quarter, but things have started picking up now. Increasing competition and a change in mix toward the value fashion business have exerted pressure on margins though. Managements reiterated their focus on increasing the store count.
- Titan maintained its overall sales growth target of 20% for the next fiscal. Commentary also indicated that growth prospects in Jewelry remain robust with market share gains in cities where its presence was weak. JUBI indicated an evident slowdown in dine-in and also guided for aggressive 100 Dominos store additions in the coming fiscal. Also, it intends to use the price increase lever sometime in FY20 after over two years of no pricing action.

Technology

- Overall, demand and revenue growth outlook remained healthy, backed by a period of sanguine large deals activity and Digital traction in the recent quarters. However, pockets of stress exist, particularly within BFSI (small banks in the US for INFO, the largest customer for TCS and WPRO). Enterprises' Digital Transformation is witnessing continued traction, with increasing deal sizes, which could help offset near-term demand pressures from select segments. Margins remain a challenge (outlook lowered by INFY and HCLT) amid investments in localization, digital capabilities and rising attrition rates with talent crunch.

Telecom

- Managements of Bharti/Vodafone Idea sounded bullish given the over-subscription of rights issue and the turnaround in the India wireless performance in 4Q. However, they remained cautious on subscriber churn in the near term and plan to deleverage balance sheet (through monetization of assets). Bharti Infratel reiterated that the exits are behind and gross additions will gain momentum. TCOM appeared optimistic given promising prospects in Growth/Innovation services.

Utilities

- NTPC expects ~5GW of capacities to achieve commercialization in FY20. According to the company, higher captive mine production, import order for 3mt of coal and possible enhancement of ACQ should help address fuel availability issues. Power Grid (PWGR) has targeted capitalization of INR200-250b of projects in FY20. However, its guidance may be at risk if RoW issues for the Raigarh-Pugalur line continue. PWGR has also undertaken provisions of INR3.9b pertaining to payment delays from a private generator. The company cited it may require further annual provisioning of INR1b for the next two years. In terms of new projects awards, PGCIL highlighted that INR190b of projects are under different stages of bidding. JSW Energy noted that power tariff would be the most important factor while acquiring assets. The company would consider acquiring assets with tariff lower than INR4-4.5/kWh.

Key takeaways from management commentary

AUTOMOBILES

- **In 4QFY19, auto demand was impacted (a) weak buying sentiment in rural areas, (b) liquidity crunch and (c) a high base. While most OEMs have slashed their growth guidance for FY20, demand is likely to be driven by BS-VI-related pre-buy from 2QFY20. In FY20, the PV industry is likely to grow at 3-5%, 2W at mid-single-digit and the tractor industry at 5-8%. Furthermore, most OEMs expect the positive impact of softening RM inflation to start reflecting in 1HFY20.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Stability in RM in 1HFY20
Ashok Leyland	▪ Domestic CV industry growth guided at 10-12% in FY20 due to BS6-related pre-buying from 2QFY20. ▪ Guided ~15% volume growth (v/s 24% fall in FY19).	▪ Average discounts remain high at average INR425-440k/unit. ▪ To launch new products from modular platform in BS6 in the 'greater than 16 ton' segment.
Bajaj Auto	▪ FY20 domestic 2W industry growth now cautious v/s 8-10% growth expected earlier. ▪ 3W: Expect some growth in domestic 3W markets, whereas 3W exports will be muted due to Egypt regulatory streamlining issue.	▪ ABS cost inflation is passed through, though it has passed it with mark-up in only certain models. ▪ Expect some RM pressure in 2HFY20 (v/s 1HFY20). However, 1HFY20 is expected to remain benign.
Eicher Motors	▪ Production target of 950k for FY20 and it is working toward growing in FY20. ▪ It expects to protect margins around current levels. ▪ Expects to take total dealer count to 1,000 in FY20 (from 915 dealers as of Mar-19).	▪ Encouraging response to Twin 650 both in India and in international markets. Twin 650 has waiting period of ~4 months currently. ▪ 100% of the product portfolio has been shifted to ABS. ▪ Phase 2 capacity of Vallam Vadagal plant is underway and expects to commence production in 2HFY20.
Hero MotoCorp	▪ FY20 industry volumes expected to grow in mid-single-digit. HMCL expects to grow ahead of industry. ▪ FY20 EBITDA margins are expected to remain around 4QFY19 levels.	▪ Inventory corrected significantly in Mar-19 to 45-50 days, with further correction in 1QFY20 toward the target of 4-6 weeks. ▪ Price increase of INR100-150/unit in 4QFY19 and INR300-350 in Apr-19.
M&M	▪ Domestic tractors/PV/CV industry to grow ~5%/3-5%/10-12% in FY20. ▪ RM price showing signs of moderation. Expect stable RM in 1HFY20. ▪ Rural market grew ~9% in FY19 with total contribution at 51%.	▪ FES inventory comfortable at 4-5 weeks (v/s industry inventory at 7-8 weeks). ▪ JAWA booking trends continue to be healthy. Expect to launch one more product before BS6. ▪ Expect to improve PBIT margins of key global subsidiaries to 5% in 3-5 years.
Maruti	▪ Expects to grow faster than the SIAM's growth outlook of 3-5% growth in FY20. ▪ Currently ~40% models on INR royalty; expect INR-based royalty for all models by 2022. ▪ Capex guidance of ~INR45b (same as FY19).	▪ Average discounts at ~INR15k (v/s ~INR24k per unit in 3QFY19 and ~INR14k per unit in 4QFY18). ▪ FY19 retail volumes in rural markets grew over 10%, while urban demand declined 2%.
Tata Motors	▪ JLR: FY21 retail sales growth to be higher in premium segment. ▪ JLR: Lowered EBIT margins guidance to 4-6% for FY22/23 (v/s 7-9% earlier).	▪ JLR: Key operational KPIs are stabilizing in China like reduction in stock, improvement in dealer return, etc. ▪ Substantial success in cutting investments/WC (~GBP1.1b achieved in FY19 v/s target of GBP1.5b by FY20).

AMARA RAJA
Gotta be a better way

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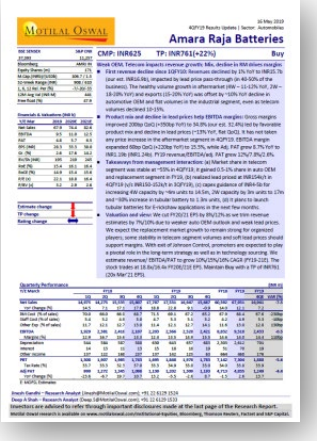
MOTILAL OSWAL
Amara Raja Batteries
CMP: INR625 TP: INR761(+22%) Buy

Amara Raja Batteries — Buy

Current Price INR 634

- Market share in telecom segment was stable at ~55% in 4QFY19; it gained 0.5-1% share in auto OEM and replacement segment in FY19.
- Realized lead priced at INR154k/t in 4QFY19 (v/s INR150-152k/t in 3QFY19).
- Capex guidance of INR4-5b for increasing 4W capacity by ~4m units to 14.5m, 2W capacity by 3m units to 17m and ~30% increase in tubular battery to 1.3m units.
- It plans to launch tubular batteries for E-rickshaw applications in the next few months.
- AMRJ – gearing up to be leader: AMRJ is gearing up to be a leader through i) consolidating in existing areas, ii) entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power and iii) aided by capacity and network expansion. In the telecom segment, AMRJ expects to maintain its market share at current levels for FY19 (~55% as of 4QFY19).

ASHOK LEYLAND

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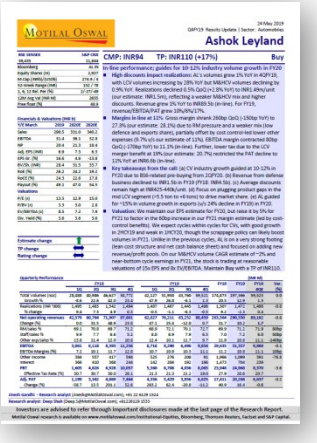
MOTILAL OSWAL
Ashok Leyland
CMP: INR94 TP: INR110 (+17%) Buy

Ashok Leyland — Buy

Current Price INR 91

- **Demand:** Domestic CV industry growth was guided at 10-12% for FY20, driven by pre-buying (ahead of BS6), which should start from end of 2QFY20. However, expect subdued growth in 1QFY20 led by a high base.
- **Exports demand impacted** by weak sales in the Middle East, Sri Lanka and Africa. Expect ~15% increase in exports in FY20 led by (a) launch of new products in LCV/ICV segments,(b) signs of recovery in African markets and (c) entry in to new markets like Russia and expansion in ASEAN region.
- **M&HCV capacity at 180k units. Don't see greenfield/brownfield capacity addition currently.**
- AL has inventory of ~ 8,900 vehicles as of Mar-19 and has a dealer inventory at ~20 days.
- **Running project Phoenix (for new product introductions)**, particularly in mid LCVs segment (>5.5 ton to +6 tons), to play a critical role in export business ramp-up.
- To launch new products from modular platform in BS6 in greater than 16 ton segment.
- **Spares revenues** grew at 20-25% in FY19 and 4QFY19.
- Revenues from the defense segment declined to INR1.5b in FY19 (v/s 4.8b in FY18). Has completed trial orders of 8-9 tenders (v/s 31-32 tenders received).
- **Average discounts of INR425-440k/unit in 4QFY19** (v/s INR400-420k/unit in 3Q, INR400-410k/unit in 2Q and INR375k in 1Q).
- **Captive finance (HLFL)** has book size of INR260b as of FY19.
- **Capex guidance:** Spent INR9.5b in FY19. FY20 capex to be at INR15b for LCVs, BS6, EVs and new initiatives. Additionally, it will invest INR2b in subsidiaries.

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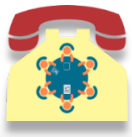

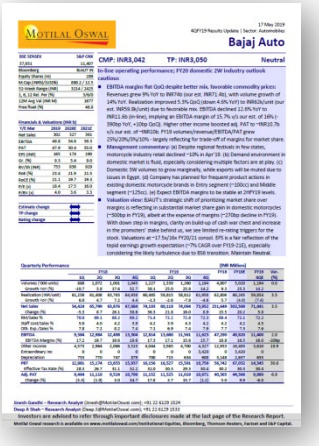

Bajaj Auto — Neutral

Current Price INR 2,991

- **Cautious on FY20 domestic 2W industry growth v/s 8-10% growth expected earlier.** The demand environment remains weak with ~10% decline in retail in Apr'19, which was a negative surprise considering small festivals in few states.
- **Expect to surpass FY19 domestic 3W volumes in FY20.** Focus on increasing market share in large passenger and diesel 3W portfolio.
- **3W export volumes likely to be weak in FY20** led by market specific issues such as Egypt (regulations mandating license plate for 3Ws – currently able to sell only 25% of demand) and Sri Lanka (sales were weak due to geo-political issues). BJAUT is planning to expand its 3W product portfolio in export markets.
- **3W export competition:** No threat from Indian competition in the export markets, except in Nigeria and Tanzania, despite competition's product being priced 5-10% lower.
- **ABS cost inflation is being passed through,** though it has passed it with a markup in only certain models.
- Company is planning frequent product actions (almost every month) in its existing domestic motorcycle brands, particularly in the Entry segment (~100cc) and the Middle segment (~125cc).
- It has launched Pulsar Neon in 180cc (de-spec'd variant). Neon series (both 150cc and 180cc) has got a good response.
- **Expect some RM pressure in 2HFY20 (v/s 1HFY20).** However, 1HFY20 is expected to remain benign.
- **Expect stable EBITDA margins going forward.**
- **Increase in debtor days was due to extended credit to dealers** on higher inventory levels; this is not a 'new normal', but FY20 is an abnormal year and the trend might continue.

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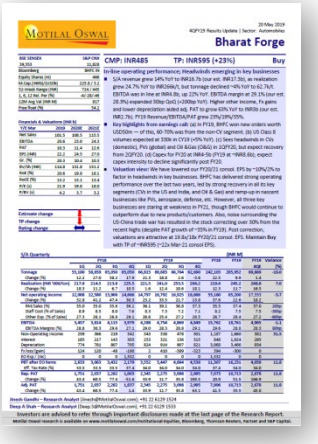

Bharat Forge — Buy

Current Price INR 460

- **New orders:** BHFC secured new orders worth over USD50m from the CV and industrial segment in FY19, of this, ~60-70% is from new segments.
- **Domestic CV:** Muted 1QFY20 outlook led by slowdown in production. However, FY20E outlook remains positive, with strong demand expected due to pre buying on account of BS6 (particularly in 2Q and 3Q).
- **Lost market share in domestic CVs (especially in beams) led by capacity constraints.** Expect to regain lost market share with commencement of new forging and machining lines (engine and chassis) for cars and trucks at Baramati.
- **BS6: Expect slight increase in content for existing products**. However, expect an increase of INR8-10k/vehicle post BS6, especially in driveline/axle components.
- **Management expects 3-5% growth at 335k units in the US class 8 truck orders in CY19** due to strong order backlog.
- Revenue from **O&G segment** was stable in 4QFY19. With new products and customers, management expects O&G revenues to witness good growth over the next two years.
- **Aerospace and Defense** recorded revenues of INR4.4b (domestic + exports) while railway segment revenues stood at INR0.8b.
- It is setting up an aluminum forging plant in Europe (subsidiary) with an investment of ~EUR55m over CY18/19. Also, the company has an investment of

EUR30m in a new line at CDP. Both these investments should double its aluminum capacity.

- **Capex:** Project capex at INR8.5b and maintenance capex at INR4b over FY19/20. Expect capex intensity to decline significantly post on-going capex.

EICHER

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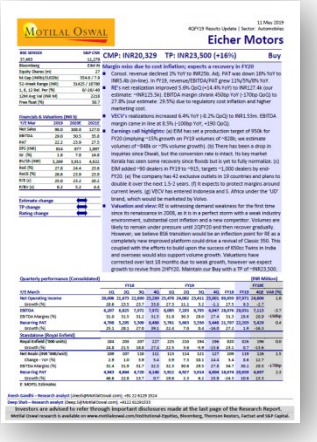

Eicher Motors — Buy

Current Price INR 20,100

Royal Enfield

- Production target of 950k for FY20; it is working toward growing in FY20.
- Demand: Continues to witness a drop in inquiries since Diwali due to price hikes, slowdown in the industry and no buying from CSD segment. Conversion trend remains intact. Sales from Kerala have come back, but not to the level of the past.
- Encouraging response to Twin 650 both in India and international markets. Twin 650 has waiting period of ~four months currently, with production run-rate of 3.5-4k units in Apr-19, which is expected to inch up to 5k by Jul-19. ~50% of production is exported.
- More than 50% of customers are owners of RE less than 2 years. In smaller cities there is aspiration for 350cc, but in larger cities 350cc is not growing.
- Phase 2 capacity of Vallam Vadagal plant is underway; expects to commence production in 2HFY20.
- Added 37 dealers in India (to 915 dealers as of Mar'19). Expects to take total dealer count to 1,000 in FY20 (mostly in new and smaller towns).
- Currently inventory level of 20-22 days of stock, including depots.
- 100% of the product portfolio has been shifted to ABS.
- **International:** Added one store in Korea, taking the total store count to 42. Currently, it has 42 exclusive stores outside India spread across 19 countries, with plan to double the same in the next 1.5-2 years.
- Financing has been stable at 50-55% in 4QFY19 (similar to 3QFY19).
- FY20 capex of up to INR7b for (a) Phase-2 of Vallam Vadagal plant, (b) construction of the technology center, (c) development of new products and to expand RE's portfolio for global markets.

VECV

- Prevailing higher discounting in heavy trucks segment impacted EBITDA margins.
- Have launched CVs in Indonesia and South Africa markets under the UD brand, where distribution of the same will be taken care by Volvo.
- Capacity to increase from 90,000 trucks to 130,000 post greenfield capacity (Bhopal) addition of ~40k by Apr-20 with a capex of ~INR4b.

ENDURANCE
Complete Solutions

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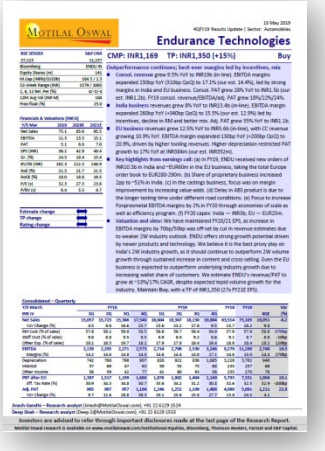
Endurance Technologies — Buy

Current Price INR 1,209

- In FY19, ENDU received new business of around INR10.3b from Kia, Hyundai, HMSI, HMCL, Yamaha, RE, Tata Motors and TVSL in its standalone business. The new business could also replace some of its existing business.
- In FY19, new order wins in the Europe business was at ~EUR60m, taking the total Europe order book to EUR280-290m; ~35% of the orders were for the EV/hybrid technology.


Endurance Technologies

- The first-ever order from TVSL of INR400m for disc brake assemblies (1,000 sets per day) would commence from 3QFY20. Additionally, suspension, transmission and casting product supplies are under discussion.
- ENDU's 2W suspension plant at Halol commenced supplies to HMCL in Sep'18. Current supply is 2.6k units/day, which should reach 4k units/day in 1QFY20.
- Have also got orders for disc brakes from HMCL; supply should commence next month. CVT is also under testing stage.
- ABS tie-up with BWI is progressing well, with an initial capacity of 400k assemblies per annum. The product is facing some delay due to longer time for testing under different road conditions in India.
- Supply of front forks and shock absorbers to HMSI from Karnataka plant will commence from 2QFY20.
- ENDU has purchased land in Vallam to set up a second die-casting and machining plant for supplies to Hyundai, Kia and RE. This would commence production in 3QFY20.
- Revenue from the replacement market grew ~13.6% YoY in FY19 to ~INR2.7b while exports grew 26% YoY to INR2.7b, led by increased supply of castings to Getrag, KTM and aftermarket.
- ENDU has received incentive from the Maharashtra Government, totaling INR315m in 4QFY19.
- Fonpresmetal has EUR7m revenue, EBIT of EUR0.6m and EBITDA margins of ~10%. Focus to increase EBITDA margins by 2% in FY20 through economies of scale as well as efficiency program.
- Europe: Other expenses have increased due to Fonpresmetal acquisition (due to the machining process as Fonpresmetal buys from the market v/s ENDU EU's in-house process). Depreciation has increased due to Fonpresmetal and there has been accelerated depreciation for certain diesel component. FY20 Capex: INR3b in India and EUR25m for Europe.

ESCORTS

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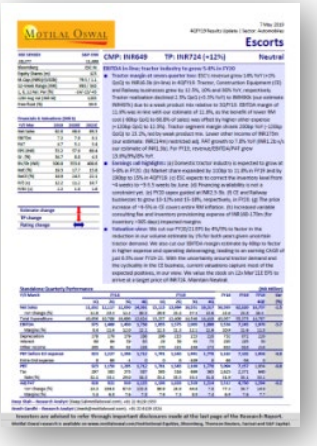
Escorts

Escorts — Neutral

Current Price INR 578

- Domestic tractor industry is expected to grow at 5-8% in FY20.
- Market share expanded by 110bp to 11.8% in FY19 and by 190bp to 15% in 4QFY19. ESC expects to correct the inventory level from ~4 weeks to ~3-3.5 weeks by June. Financing availability is not a constraint yet.
- FY20 capex guided at INR2.5-3b.
- CE and Railway businesses to grow 10-12% and 15-18%, respectively, in FY20.
- The price increase of ~4-5% in CE covers entire RM inflation.
- Increased variable consulting fee and inventory provisioning expense of INR160-170m (for inventory >365 days) impacted margins.

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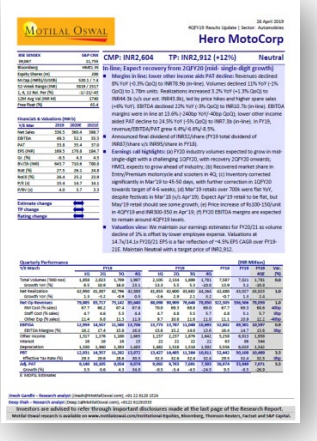


Hero Motocorp — Neutral

Current Price INR 2,781

- Domestic 2W industry to grow in mid-single digit in FY20, led by 10% growth in 2HFY20, whereas 1HFY20 growth should be flat. HMCL expects to grow slightly ahead of industry.
- Scooter volumes for the industry declined ~16% in 4QFY19, led by ~ 23% decline in 110cc scooters. 125cc scooters grew ~21%. For FY19, scooter volumes were flat as 110cc volumes declined ~8% whereas 125cc volumes grew ~56%.
- Entry motorcycle segment's market share recovered, with 4QFY19 market share at ~60% (v/s 53% in 3QFY19 and 66% in 4QFY18), driven by launch of a lower priced variant.
- 125cc Scooters: HMCL's Destini 125 is witnessing good ramp-up with exit market share of ~19.2% in Mar'19 (pan-India launch by Nov'18). It will launch Maestro Edge 125cc next month.
- In the premium motorcycle segment, the recently launched Xtreme 200R has garnered ~10.4% market share. This would be followed by XPulse's launch next month.
- Penetration of scooters in urban market very high. In markets where scooters were not strong (UP, Bihar), scooters have not been able to make fresh inroads.
- Spare-parts' business grew 8.4% YoY (+6% QoQ) at INR7.9b. In FY19, spare parts' sales grew 13% to INR28.4b.
- Inventory corrected significantly in Mar'19 to 45-50 days, with further correction in 1QFY20 towards target of 4-6 weeks. Mar'19 retails over 700k were flat YoY despite festivals in Mar'18 (v/s Apr'19). Expects Apr'19 retails to be flat, but May'19 should see some growth.
- Undertaken price increase of INR300-350/unit in Apr'19, in addition to price increase of ~INR400/unit in Jan-Feb 2019.
- Capex of INR8b in FY19; FY20 capex to be at INR15b due to the Andhra Pradesh plant and BS6-related investments.
- RM Cost: Saw some softening of commodity costs in 3Q, benefit of which should be visible 4Q onwards.
- Financing penetration for HMCL has improved to ~40% in FY19 (v/s 37% in FY18). This is expected increase up to 42-45% in the medium term. Hero FinCorp had 43% share of financing with HMCL in 4QFY19 (40% for FY19). Hero FinCorp has loan book size of ~INR200b as of Mar'19.

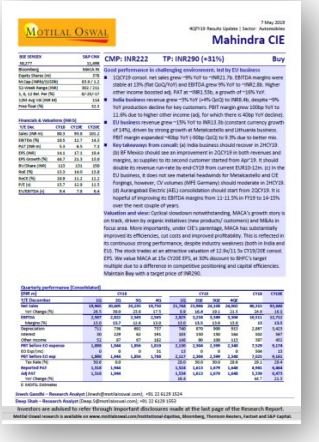
Click below for Results Update

Mahindra CIE — Buy

Current Price INR 245

India operations

- Bill Forge had flat sales in 1QCY19 due to 2W slowdown.
- India business should recover in 2HCY19.
- BF Mexico should see an improvement in 2QCY19 in both revenues and margins as supplies have started to second customer from Apr'19. It should double revenue run-rate by end-CY19 from current EUR10-12m. By end-CY19, margins should be comparable with BF India.
- Stokes UK assets should be transferred to Bill Forge India and JLR, Volvo and Honda should be added to BF's portfolio. This will start reflecting in financials towards later part of CY19.



- AEL: Utilization levels are high at 90-95%. It is investing in expanding capacity through de-bottlenecking (~INR1.1b each in FY19 and FY20). It is targeting to attain 14-15% over the next 12-18 months.
- New stamping capacity would commission by Jun-Jul 2019. It is a state-of-art plant and would have higher margins than existing stamping division.

EU operations

- It does not see material headwinds for Metalcastello and CIE Forgings. CV volumes (impacting MFE Germany) are expected to moderate in 2HCY19. CV business is the lowest margin business and hence should not impact much.
- Metalcastello is adding capacity for continuous growth. It is fully booked and working at 21 shifts per week (including weekends).

Others

- Net debt at ~INR6.8b will go up by INR9-9.5b as AEL acquisition is completed now.
- Focusing on automation and efficiency improvement program to improve profitability of existing business. Also, looking to add more complex/higher value-added products, which will aid margins.

Mahindra & Mahindra — Buy

Current Price INR 635

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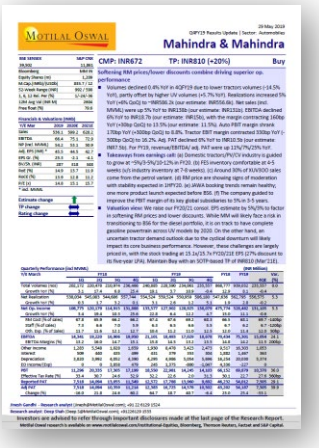

- MM expects domestic tractor industry to grow ~5% in FY20, driven by healthy growth in 2HFY20, as 1HFY20 volumes are likely to remain weak. Medium-term tractor growth outlook maintained at 8-10%.
- Expect domestic PV industry growth to be better than SIAM outlook of 3-5%. CV industry growth is expected to be 10-12% (SIAM).
- Inventory level comfortable at 4-5 weeks in Farm segment (v/s industry inventory at 7-8 weeks).
- Rural market grew ~9% in FY19 with total contribution at 51%.
- Healthy response to recently launched models such as Marazzo, Alturas G4 and XUV300. ~30% of XUV3OO sales come from the petrol variant. Company working on 1.5ltr petrol variant of MPV Marazzo.
- Ford alliance related financials to start kicking in from FY21. MM can consider Fords Aspire model for EV, while a new model based on Ford's B platform is subject to approval.
- Electric vehicles – Sold ~10.3k units in FY19 (v/s 4k units in FY18), of which ~8k units were of E-Alfa (lead acid battery operated E-Rickshaw).
- Treo (lithium ion based E-Auto) sales at 500 units/month. It has production capacity of 1k units/month; can be increased to 2k units/month.
- Commodity price showing signs of moderation. Expect stable RM in 1HFY20.
- Expects to launch third product under JAWA brand before BS-6. Booking trends remain healthy with supply to existing customers to be completed by Sep-19. Already working on increasing production capacities for JAWA.
- Portfolio rationalization due to regulatory changes:
- ABS norms (Apr-19) - Have discontinued Thar Di, Xylo D and Jeeto minivan.
- Crash norms (July-19) – Thar CRDe, Xylo H, Old Bolero (EX and LX) to be discontinued.
- BS-6 norms (Apr-20) – Verito D, Imperio and Old Bolero (long).

- Large SUVs to stay relevant in BS6 and price increase is expected to be small considering higher ticket size.
- Farm machinery business growing at healthy pace with revenues of INR4b in FY19 (v/s INR2.8b in FY18 and INR2.2b in FY17).
- Expect to improve PBIT margins of key global subsidiaries to 5% in 3-5 years.

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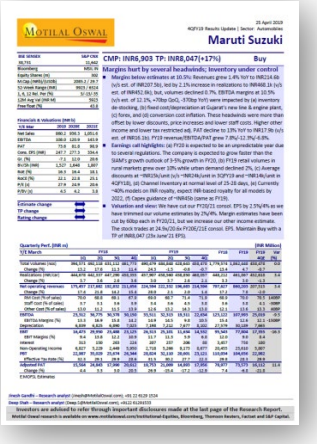

Maruti Suzuki — Buy

Current Price INR 6,984

- **Demand:** MSIL is expected to outperform SIAM's industry forecast of 3-5%. **Retail volume in rural markets grew at +10%** in FY19, while urban demand decreased (-2%). 2HFY19 rural sales growth declined to 8.5% (v/s 13% in 1HFY19).
- **Exports:** Currency devaluation and import restrictions impacted exports in FY19, which declined 7.8% in value and 13.7% in volumes.
- Management expects subdued exports even in FY20, but the Toyota alliance should help tap African markets.
- **Inventory levels** remain at an average ~25-28 days in the domestic market. Would closely look at demand-supply to keep discounts under check.
- **Commodity inflation:** Management indicated that there was no impact of RM in 4QFY19. Expect stable RM in 1QFY20.
- **Forex impact:** Adverse forex movement impacted margins by 60bp. Expect positive impact of forex from 1QFY20. Move to complete INR-based royalty in 2022 years to help reduce forex impact.
- **Average discounts at INR15,125/unit (v/s INR24,300/unit in 3QFY19 and INR13,880/unit in 4QFY18).**
- **Gujarat plant update:** Contributed ~96.3k units to production in 4QFY19 (total production of 287k units in FY19 v/s 157k in FY18). The second line was inaugurated in Jan'19, which impacted fixed cost and depreciation.
- **Royalty** in 4QFY19 was at 5% (5.5% in 3QFY19 and 5.4% in FY18) of net sales. Currently, ~40 of models are based on INR-based royalty. Management expects all models to be linked to INR-based royalty by 2022.
- **LCV Carry dealer network** has been expanded to 310 dealers in 230 cities.
- **Diesel contribution** for MSIL was at 23% in 4Q (25% in FY19).
- **Capex** is estimated at INR45b in FY20 for new models, R&D, maintenance capex and land acquisitions.

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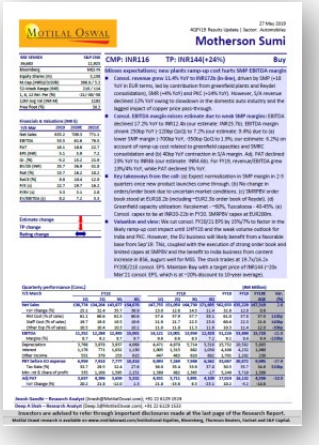
Motherson Sumi — Buy

Current Price INR 114

SMP - Highlights from the earnings call

- WLPT regulations and weak demand had impact on the SMP business, resulting in weak revenue in 4QFY19.
- No impact of cut down in Daimler guidance in existing orders.
- No change/cancellation in orders/order book due to uncertain market conditions.
- Expect normalization in margins in 2-3 quarters once new product launch phase comes through.
- SMRPBV's order book stood at EUR18.2b (including ~EUR2.3b order book of Reydel).


Motherson Sumi

- In the last cycle to execute legacy orders at SMP, which typically has order life cycle of 7-9 years.
- Greenfield capacity utilization: Kecskemet - ~60%,Tuscaloosa - 40-45%

Other highlights

- Expect overall capex to be at INR20-22b in FY20 with SMRPBV capex at EUR200m.
- Expect capex intensity be lower with commencement of new plants at SMP.
- S/A: In addition to PV, also supply to PV and 2W segments in domestic market.
- S/A: Expect to commence new plant from 4QFY19 in India.

TATA MOTORS

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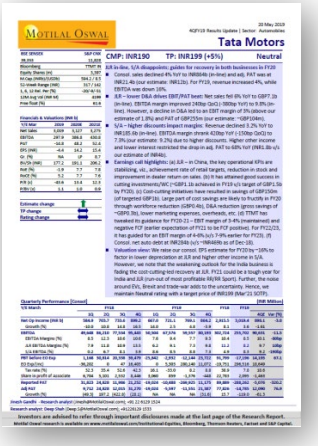
Tata Motors

Tata Motors — Neutral

Current Price INR 170

- **FY21 retail sales growth to be higher in premium segment.**
- A loss with negative cash flow expected in 1QFY20, led by an extra week of plant shutdown for potential hard Brexit. However, profit is expected in subsequent quarters with improving cash flow.
- While volumes in China core premium segment grew 3.3% YoY in 1QCY19, in luxury SUV segment it declined 15-19%. This manifests into higher discounts for JLR (at ~21% v/s ~15% for premium segment).
- **JLR – in China, key operational KPIs are stabilizing**, viz., achievement rate of retail targets, reduction in stock, improvement in dealer return on sales. China stock reduced to lowest level since 2017, resulting in improved dealer returns. Retail target achievement improved to above 90% (v/s 62% in Jul-18 and 70% by end CY18).
- **While US market is expected to decline slightly, increasing share of SUVs bodes well for JLR (SUVs 70% of total volumes in FY19 v/s 65% in FY18 and 55% in FY15).**
- **JLR's US EBITDA margins improved gradually from EBITDA margin loss in FY17,** to slightly lower than corporate average margins in FY19.
- **Guidance:** For FY20-21, it has guided for EBIT margins of 3-4% (maintained) and negative FCF (earlier expected FY21 to be FCF positive). This is primarily due to impact of full model change of RR/RR Sport in FY21. Also, earlier for FY22 and beyond, it had guided for EBIT margins of 7-9%, which now stands revised to 4-6% for FY22/23.
- It has attained substantial success in cutting investments/WC (~GBP1.1b achieved in FY19 v/s target of GBP1.5b by FY20). Cost cutting initiatives resulted in savings of GBP150m (of targeted GBP1b). It expects large part of cost savings to fructify in FY20 through workforce reduction (GBP0.4b), D&A reduction (gross savings of ~GBP0.4b), reducing in marketing expenses, overheads, etc.
- Evoque Launch: UK and Europe (Mar-19), North America (Apr-19) and China (Aug-19).

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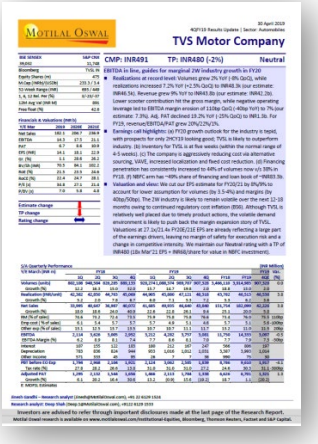

TVS Motors — Neutral

Current Price INR 489

- Demand outlook: Management expects FY20 domestic 2W industry to see marginal growth (healthy single-digit) for 2QFY20 and 3QFY20, and possibly a weak 4QFY20 due to BS6. However, TVSL should outperform the industry.
- Decline in scooter demand is attributed to (a) urban slowdown, and (b) price reduction in commuter motorcycle segment.
- Electric start 2Ws account for ~90% of moped sales.
- Exports: Management has guided for its growth momentum to continue in exports. Stability in key export markets led by rising crude oil prices and stable currency is helping demand. TVSL should continue to outgrow industry.
- Saw good growth in 2Ws in Africa (57% of 2W exports), Asia (33% of 2W exports) and others (10% of 2W exports).
- Price hike: TVS has taken a price increase of 0.4% in 4QFY19 to dilute the impact of RM cost inflation. It has fully passed on regulatory price increase of ~INR6-6.5k per unit for ABS in Apache and INR300 per unit for CBS.
- Inventory level remains comfortable at 4-5 weeks.
- Expect import content to decline to 10% in FY20 post decline of 12% in FY19 (v/s 14% in FY18).
- Expect significant reduction in cost through alternate sourcing, VAVE, and fixed cost reduction.
- TVS Credit Services' ramp-up continues with healthy disbursal growth in FY19, with book size of INR83.4b (FY18 — INR61.5b), PAT of INR1.48b (FY18 — INR1.38b). The NBFC now has ~49% share of volumes financed for TVS (~49% of TVSL's volumes are financed currently).
- The retail finance penetration has gradually increased in FY19 from 39% in 1Q, 43% in 2Q, 47% in 3Q and 51% in 4QFY19.
- Capex of INR6.5b is demarcated for FY20; capex is in non-capacity creation and in areas of technology. Further, it would be investing ~INR2-2.5b in its subsidiary in FY20.
- Plans to launch electric 2W in FY20.
- Indonesia subsidiary loss narrowed to USD3m in FY19 (v/s USD3.7m in FY18). Expect to breakeven in FY20.
- Added 150 new dealers and 150 sub-dealers in FY19.

CAPITAL GOODS

- **Domestic execution healthy, continuity of government to improve ordering outlook: Execution was healthy given the liquidity crunch in the economy. Order inflows declined due to weakness in domestic ordering in the run up to the general elections. Management commentary suggests that small- and medium-sized orders are flowing in, but large-ticket orders are on hold and should see finalization now that the election uncertainty is behind. Room AC companies have seen a strong start to the summer season and inventory levels have normalized. However, the scope to pass on import duty hikes and currency depreciation through price hikes remains limited.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Domestic Capex Cycle
ABB	▪ Robotics and Automation to continue to drive growth over the medium term.	▪ Seeing opex-related enquiries rather than higher capex spending. ▪ Slowdown in Power Grid capex has impacted the project business. State orders have picked up but needs to be careful on working capital cycle.
Cummins	▪ KKC has provided healthy FY20 guidance for its domestic business at 10-15% YoY, while guidance for exports remains weak (flat to negative).	▪ Domestic business to drive growth for the company. ▪ Exports remain uncertain due to currency volatility, trade wars, etc.
Havells	▪ Consumption slowdown, liquidity crunch and election overhang to impact the business in 1QFY20, but expect consumption to pick up in a few months. ▪ Competition is strong in white goods space (AC segment), limiting scope for price hikes.	▪ Government orders saw slowdown owing to elections. With strong mandate to the incumbent government, capex spending should pick up.
Larsen and Toubro	▪ FY20 order inflow guidance at 10-12%, revenue guidance at 12-15% and EBITDA margin for the core E&C business at 10.5%.	▪ Muted activity on execution and ordering during April-May owing to elections; outlook remains robust over medium term. ▪ Not witnessing any pickup in private capex at broader level, except in roads and airports.
Voltas	▪ AC sales have started off well in the summer season for the months of April-May; however, the scope for price hikes remains limited. ▪ Expect UCP segment margins at 11% on a sustainable basis.	

Click below for Results Update

BHEL — Neutral

Current Price INR 68

- Order inflow stood at INR240b for FY19; it is L1 in INR245b worth of orders. Order backlog stands at INR1.1t, providing revenue visibility of 3.7x its FY19 revenue.
- Improvement in receivables with trade receivables down by INR10b (INR320 v/s INR330b earlier).
- MOU for FY20 signed at INR310b on very good basis and INR340b on excellent basis.
- Received FGD orders of INR86b in FY19; is well placed for orders worth INR83b.
- Total order visibility of 20GW, of which 15.5GW is tendered and 4.5GW is yet to be tendered.

- Forex exchange variation loss in 4QFY19 stood at INR850m, and for FY19, forex gain is at INR670.
- Total debtors stood at INR159b (-9%YoY). Of the total debtors, 50% is from states, 32% from central, 12% from private and 6% from exports.

BLUE STAR

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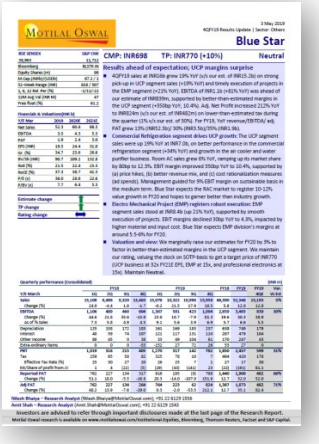

Blue Star — Neutral

Current Price INR 803

Room AC — Margin improvement supported by better revenue mix

- Expect industry to register 10-12% value growth for FY20, while Blue Star is expected to better industry growth.
- RAC segment saw 6% YoY sales growth in 4QFY19 and 3% for full-year FY19, as market declined by 4-5% during the same period. UCP segment margins improved 350bp on account of (a) price hikes taken by the company, (b) better revenue mix, and (c) cost rationalization measures undertaken by the company; market share improved to 12.3% (+80bp).
- With summer season picking up, inventory level in the channel has now declined and is at sustainable levels.
- Blue Star expects UCP margins to stabilize at 9% in the medium term.
- Market share in the Deep Freezer segment stands at 29%, dispenser segment at 25-35% and Modular Cold-Rooms at 30%.
- RAC currently forms 70% of the UCP segment sales; the balance 30% is from the Commercial Refrigeration segment (Deep Freezer, Water Dispenser, Medical Refrigeration, Kitchen Refrigeration, Retail Refrigeration, Air Cooler, Air Purifier and Water Purifier).

Water Purifier segment

- It continues to do well, helped by concentrated ads and an offer of lifetime warranty.
- Market share was at 2.0% in FY19; distribution network has been beefed up to 2,800 across 1,500 towns and cities.
- Expect market share to reach 10% by 2021. Additionally, with volume growth, we expect cash burn to reduce.

Electro Mechanical Projects segment (+21% YoY, 4.3% margin)

- INR8.4b of sales in 4QFY19, +21% YoY and 4.3% of EBIT margin.
- Margin to be in the range of 5.5-6% in FY20.
- Seeing good orders in MEP and Commercial Refrigeration.

MEP segment (order book at INR24.3b v/s INR20.2b in Mar'18)

- Office, malls, healthcare segment and industrial segment provide robust business opportunity.
- Expect growth to continue with malls and offices driving growth.
- Metro and airport jobs are seeing many new tenders.

Crompton

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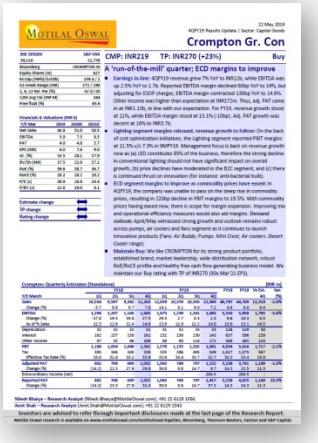

Crompton Greaves Consumer Elec — Buy

Current Price INR 240

Overall business environment

- ECD registered 16% YoY growth for FY19 and margins remained healthy at 19.2%. 4QFY19 growth in the ECD segment stood at 10% YoY impacted by delayed summer. Even margins declined by 220bp YoY given input cost increase. Despite cost pressures, margins were up 50bp YoY.
- ECD can grow a further 15% due to an increase in its product range and geographic expansion.
- Would like to enter into new product categories via the inorganic route. Management elaborated that any acquisition should make business sense, which adds value to the product portfolio.

Lighting – launched an innovative anti-bacterial bulb

- The LED sale (ex EESl) business was up 25% in volumes. Price erosion in bulbs has moderated. Fixtures constitute 70% of sales, with lamps at 30% of sales.
- Launched anti-bacterial bulb in Lighting — available at 25% premium to current products. Based on proprietary technology and recommended by Indian Medical, it is expected to accelerate growth and garner market share in lighting volumes. It claims that the bulb is able to kills 85% of the bacteria at home.
- Company has been able to scale back to double-digit margins; it expects margins to be maintained, going ahead.
- EESL sales for the quarter stood at INR470m and INR1.4b for FY19. Incrementally, Crompton has an order backlog of INR900m yet to be executed.
- Expect double-digit bottom line growth in the lighting segment, going ahead.

Fans

- Market share continues in the fans segment (4QFY19 at 25.1%; FY19 at 23.8%).
- Launched new range of Fans specialty fans — Air buddy for kitchens and V Sense for voltage fluctuation. Focus is on continuously introducing innovative fans.
- Premium fans contribute 25% to sales as against 13% three years back.

Pumps (+20% YoY in volume, +15% in value)

- CREST Mini is doing well and taking share from competition, volume growth has been in double-digit and South India will be driving growth.
- Growth is being driven by (a) residential product range, and (b) East and North India, where Crompton has a firm hold with strong channel partners that play a critical role in guiding customers.

Water heater

- The winter quarter is critical for CROMPTON; it had revamped its whole portfolio and has seen strong results. Witnessed 19% YoY growth in the segment.

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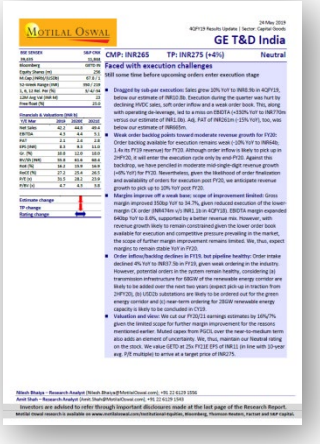
Results Update

GE T&D India — Neutral

Current Price INR 256

Orders: +9.7b, (+17% YoY)

- Good quarter in orders: PGCIL 400/220/66kv GIS in Shapar, AIS substation package as part of TBCB scheme in Jawaharpur, 500 MVAR Thyristor controlled reactors (TCR) package in Kurukshetra.
- TBCB orders for next green corridors are upcoming.



- Green energy corridors to be ordered in CY19; expect PGCIL tendering and orders in 1QFY20.
- Bangladesh HVDC - GE T&D has also participated and faces competition from Indian and Chinese players; payment not an issue and ADB funded and finalized by Mar19; Price by July and award by Sep19.
- Sri Lanka HVDC - SAARC inter connectivity project to happen in FY21/22.
- Very little thermal capacity is coming up – so less transmission needed; more of renewable capacity is getting added and new opportunities coming up for GE &D.

Execution

- 50 MW solar power plant for Marine Electrical in Tirunelveli, Tamil Nadu.
- 400/220 kV Gas Insulated Substation (GIS) for PGCIL at Bongaigaon and Salakati in Assam.
- 11 bays of 400kV GIS substation for Neyveli Lignite Corporation Limited (NLC) in Neyveli, Tamil Nadu.
- 60% of order book are private; balance is from PGCIL and states in equal proportion.
- CK2 in the order book is at INR1.4b and will be complete in Mar19/1QFY20.

Working Capital

- Have seen some delays in payments from customer having financial issue.

Margins

- Pricing pressures remain in the market; execution, along with the cost cutting actions by the company.

KEC International — Buy

Current Price INR 312

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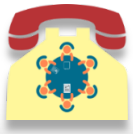

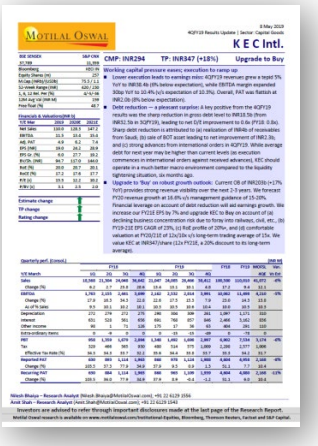

Orders and overall business environment

- KEC is L1 in INR24b of orders.
- INR130-140b worth of projects approved by CEA for upcoming renewable projects.
- INR110-120b worth of TBCB tenders floated and RFQ has been done.
- Bunching up of tenders has happened at state level; expect ordering to improve from states like Tamil Nadu.
- Total visibility of INR250b worth of tenders.
- Growth in non-T&D business strong; expect revenue of INR24b in Rail and INR10b in Civil business for FY20.
- FY20 sales growth expected at 15-20% YoY.
- Railways execution will remain strong in FY20.

Margins

- Margin for FY20 to be maintained at 10-10.5%.

T&D – weak growth on funding issues with TBCB

- Delays in EC clearance in overseas and SAE led to subdued growth in 4QFY19.
- Domestic T&D business impacted by delay in execution of private projects.
- T&D business is expected to be driven by international business, especially SAARC, Brazil and Africa.

Working capital

- Debt has declined to INR18b v/s INR32b in 1HFY19, reduction in debt was supported by sale of BoT asset, Saudi collections and change in vendor terms.
- For FY20, debt is expected at INR25b as against INR18b in FY19. Interest cost is expected at 2.4% of sales as compared to 2.8% in FY18.

- INR4.5b received from Saudi in 4QFY19 and INR7b still pending.
- 60% is domestic debt and 40% is overseas debt.

Railways

- Expect revenue growth of 25% for FY20. Margins in the segment are similar to that of T&D business.

Civil

- Expect revenue of INR10b in FY20.

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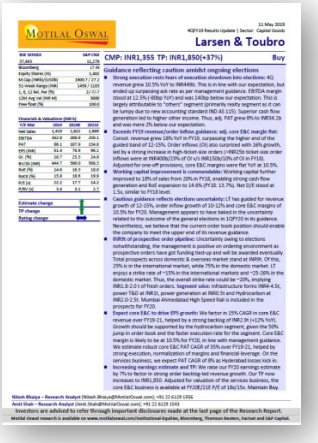

11 May 2019
4QFY19 Results Update | Sector: Capital Goods

MOTILAL OSWAL

Larsen & Toubro

BSE SENSEX	S&P CNX
35,544	10,862

Stock Info	
Bloomberg	LT IN
Equity Shares (m)	1,402
M-Cap (INRb)/(USDb)	1906.7 / 27.6
52-Week Range (INR)	1429 / 1103
1, 6, 12 Mo. Fwd. P/E	2.7/ 2.7
12M Avg Vol (INR M)	3600
Free Float (%)	100.0

Financials & Valuations (INRb)

Y/E Mar	2019	2020E	2021E
Net Sales	1,377.8	1,548.4	1,740.1
EBITDA	144.0	168.0	200.5
PAT	84.1	107.9	134.0
EPS (INR)	61.4	76.6	96.1
Gr. (%)	18.7	25.3	24.9
BV/Sh (INR)	444.7	506.0	566.1
RoE (%)	14.9	16.3	18.0
RoCE (%)	15.8	18.9	19.7
P/E (x)	22.2	17.7	14.2
P/BV (x)	3.0	2.7	2.4

Estimate change
TP change
Rating change

CMP: INR1,355 TP: INR1,850(+37%) Buy

Guidance reflecting caution amidst ongoing elections

- Strong execution roots fears of execution slowdown into elections: 4Q revenue grew 10.5% YoY to INR449b. This is in line with our expectation, but ended up surpassing ask rate as per management guidance. EBITDA margin stood at 12.5% (-80bp YoY) and was 140bp below our expectation. This is largely attributable to "others" segment (primarily realty segment as it can be lumpy due to new accounting standard IND AS 115). Superior cash flow generation led to higher other income. Thus, adj. PAT grew 0% to INR34.2b and was mere 2% below our expectation.
- Exceeds FY19 revenue/order inflow guidance: adj. core E&C margin flat: Consol. revenue grew 18% YoY in FY19, surpassing the higher end of the guided band of 12-15%. Order inflows (5% ex-currency) witnessed 14% growth, led by a strong increase in high-ticket-size orders. Adj. core E&C sub order inflows grew 14% YoY to INR2,150b (10% of O/I in FY18). Adjusted for one-off provisions, core E&C margins were flat YoY at 10.5%.
- Working capital improvement is commendable: Working capital further improved to 18% of sales from 20% in FY18, enabling strong cash flow generation and RoE expansion to 14.6% (FY18: 13.7%). Net D/E stood at 1.5x, similar to FY18 level.
- Cautious guidance reflects elections uncertainty: LT has guided for revenue growth of 12-15%, order inflow growth of 10-12% and core E&C margins of 10.5% for FY20. Management appears to have baked in the uncertainty related to the outcome of the general elections in 1QFY20 in its guidance. Nevertheless, we believe that the current order book position should enable the company to meet the upper end of its revenue guidance.
- INR9t of prospective order pipeline: Uncertainty owing to elections notwithstanding, the management is positive on ordering environment as prospective orders have got funding tied-up and will be awarded eventually. Total prospects across domestic & overseas market stand at INR9t. Of this, 25% is in the international market, while 75% in the domestic market. LT enjoys a strike rate of ~15% in the international markets and ~25-26% in the domestic market. Thus, the overall strike rate could be ~20%, implying INR1.8-2.0 t of fresh orders. Segment wise: Infrastructure forms INR4-4.5t, power T&D at INR1t, power generation at INR0.5t and Hydrocarbon at INR2.0-2.5t. Mumbai-Ahmedabad High Speed Rail is included in the prospects for FY20.
- Expect core E&C to drive EPS growth: We factor in 15% CAGR in core E&C revenue over FY19-21, helped by a strong backing of INR2.9t (+12% YoY) order inflow in the core E&C business. In the infrastructure segment, given the 50% jump in order book and the faster execution rate for the segment, Core E&C margin is likely to be at 10.5% for FY20, in line with management guidance. We estimate robust core E&C PAT CAGR of 35% over FY19-21, helped by strong execution, normalization of margins and financial leverage. On the services business, we expect PAT CAGR of 0% as Hyderabad losses lock in.
- Increasing earnings estimate and TP: We raise our FY20 earnings estimate by 7% to factor in strong order backing led revenue growth. Our TP now increases to INR1,850. Adjusted for valuation of the services business, the core E&C business is available at FY20E/21E P/E of 16x/13x. Maintain Buy.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Larsen & Toubro — Buy

Current Price INR 1,517

- **Strong order inflow was supported by large-ticket-size wins:** LT witnessed INR400b of order inflows with ticket size > INR25b v/s INR150b of similar awards last year. Most of these orders should start execution next year and aid revenue growth.
- **Guidance:** The company guided for FY20 revenue growth of 12-15%, order inflow growth of 10-12% and core E&C margins of 10.5%. Management has baked in the uncertainty of general elections in 1QFY20 in its guidance, as the new government will settle down only in June.
- **Ordering outlook:** Overall, LT expects the traction to be good in ordering as most of the prospects have got funding tied up, and hence, orders will be awarded eventually. Private capex remains selective in certain areas, rather than broad sectors. Buildings segment had record orders in FY19. Water segment has done well. Even in power transmission, order inflows were at record highs.
- **INR9t of prospective order pipeline:** Total prospects (domestic + overseas) stand at INR9t. Of this, 25% is in the international market, while 75% in the domestic market. LT enjoys a strike rate of ~15% in the international markets and ~25-26% in the domestic market. Thus, the overall strike rate could be ~20%, implying INR1.8-2.0 t of fresh orders. Segment wise: Infrastructure forms INR4-4.5t, power T&D at INR1t, power generation at INR0.5t and Hydrocarbon at INR2.0-2.5t. Mumbai Ahmedabad High Speed Rail is included in the prospects for FY20.
- **Public sector continues to dominate order book:** 77% of the order book is composed of public sector clients, whereas the private sector formed the remaining 23%.
- **Working capital as percentage of sales** improved to 18%. Management will look to keep working capital in the range of 16-18%.
- **FY19 margins impacted by commodity price inflation and provisions:** Infrastructure segment faced problems in transportation segment related to projects in Oman and a few ones in India. This was mainly due to right of ways related issues. Overall, there was INR3b of negative impact on PAT on account of provisions in infrastructure sector. However, margins should expand next year for the segment. Margins were also impacted by commodity price increases as it affected fixed price contracts.
- **Real estate opportunity:** Currently, LT is executing four real estate projects, with total 4,000 flats to be delivered. Of these, it has already delivered 1,500 flats, and thus, the remaining 2,500 flats need to be delivered. As and when the delivery happens, there will be lumpy revenue/profits booked in P&L, according to the new accounting rule. The company is also trying to test the lease model in commercial real estate. The idea is to have steady-state base income.

SIEMENS
Ingenuity for life

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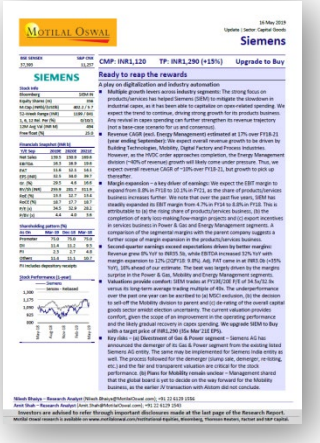

Siemens — Buy

Current Price INR 1,244

Outlook on capex activity

- Muted capex in general industry – focus is on improving efficiencies.
- Renewables continue to lead bulk of power generation capacity addition; however, conventional power is still not picking up.
- Indian Railways achieved highest-ever capex (maximum spent on electrification; signaling and safety yet to pick up) and metro rail execution is on track.
- April and May have seen slowdown across verticals, mainly on account of elections.
- Private capex still 3-4 months away.
- Enquiry levels high and conversion low.

Emphasis on energy efficiency, automation and digitalization across sectors Power

- Growing demand for turbines in CPPs (chemicals, sugar, paper) and waste heat recovery (cement).
- Higher maintenance required for ageing power plants – increased requirement for services.

Infra

- SEBs drive ordering in T&D; investments on grid quality and stability likely over the medium term.
- Metro rail execution on track – 140 km commissioned in 2018-19.
- Strong demand for smart infrastructure in data centers, hospitals, commercial offices and airports.

Industry

- Capital expenditure growing in certain segments (F&B, chemicals, water).
- Interest in digitalization for operational flexibility and enhanced efficiency continues to grow.

Order inflow stands healthy and order book at six-year high

- Base order inflow grew by 16.2% YoY in 2QFY19; overall order inflow increased 24% YoY to INR36.3b.
- Order backlog stood at INR130.2b providing visibility of 1.1x its TTM sales.

Execution remains strong across segments

- **Power & Gas:** Sales (+18% YoY) supported by the small steam turbine business across the cement, chemicals and sugar segments; margin at 21.6% supported by forex gains during the quarter.
- **Energy Management:** Revenue decline 4% YoY impacted by lower PGCIL spend; margin was at 12.7% (+290bp YoY) supported by forex gains during the quarter.
- Building Technologies: Revenue growth of 12.4% supported by growth across end users for energy efficiency and advanced surveillance solutions in data centers, hospitals, commercial offices and airports and margin of 6.8% (-190bp YoY).
- **Mobility:** Sales growth of 23.4% YoY supported by execution of order backlog in the metro segment and margin of 9.1%. Present in electrification and signaling and is not in rolling stock. Spending is done on electrification and signaling is yet to pick up.
- **Digital factory:** Sales growth of 24% YoY supported by digitalization initiatives across automotive, F&B and machine building, driving growth and margin of 10.4% YoY. Provides factory automation, motion control and process automation services in the segment

- **Process industries and drive:** Sales growth of 33% YoY, supported by wind, water and pharma segment.
- **Restructuring of the segmental reporting:** Segmental reporting has been reclassified in four segments compared to five segments earlier. New segments are (a) Gas and Power (38% of sales), (b) Smart infrastructure (28% of sales), (c) Digital infrastructure (18% of sales), (c) Mobility (8% of sales) and (d) Portfolio of companies (7% of sales)
- **Exports:** Not actively driving exports but has access to more than 100 markets as it is part of the global supply chain. Exports will fluctuate given global slowdown. Siemens exports only products and is not present in services.

SOLAR

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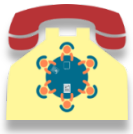

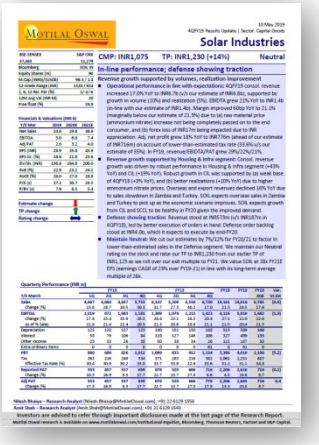

Solar Industries — Neutral

Current Price INR 1,165

- Revenue growth supported by growth in volume (15%) and realization (25%).
- Margins during the quarter were impacted by (a) raw material price (ammonium nitrate) increase not being completely passed on to end consumers, and (b) forex loss of INR55m being impacted due to INR appreciation.
- SOIL has commissioned its South African facility and has begun trial runs for its Australia and Ghana facilities.
- Defense revenue stood at INR1.7b in FY19; management expects it to reach INR3b in FY20. It has scaled down its FY20 defense revenue guidance by INR1b to INR3b, given the delay in RFP finalization.
- Solar expects Akash, pyros and fuse order to materialize in FY20.
- Solar has capex plans of INR2.7b for FY20; in FY19, it incurred capex of INR2.7b.
- Solar plans to expand its overseas reach by increasing its manufacturing facilities (from five to 10 countries). The company has begun trial runs for its Australia and Ghana facilities; it expects contribution from them to start in FY20.
- Expect revenues from CIL and SCCL to pick up in FY20 given its plans to increase overburden removal.

Vision 2020

- SOIL plans to increase sales volume from 3.00lac metric tons to 4.5lac metric tons. To enable this, SOIL will expand its capacity to produce 7lac metric tons.
- Plans to increase overseas revenue three-fold from current INR3.5b; to enable this, it plans to increase its manufacturing reach from five to 10 countries.
- Plans to generate defense revenue of INR5b+.

THERMAX

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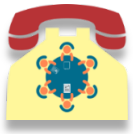
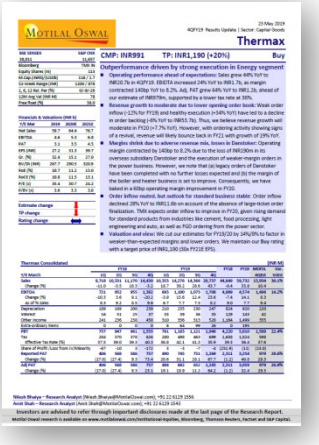


Thermax — Buy

Current Price INR 1,016

Margins

- Lower gross margin on higher RM costs. Some were low-margin orders and raw material price increase hurt margins. However, margin should improve going forward and reach 9%, if raw material prices remain stable.
- Margins in Dangote orders are not inferior to other orders. Project has been progressing well and payment was received on time.
- Margins are negative in Danstoker due to cost over-runs in the project business. Thermax has now shifted focus to standard products and will not take up project orders.



- Margins should also improve as its factory in Poland has started operations and 1,000 man hours have been registered, which is expected to double by the start of the next year and triple by next year-end. This should help improve margins.

Orders

- Orders: Enquiries are present, but conclusion is getting delayed.
- Order booking supported by overseas, while domestic ordering remains muted.
- Orders at INR11.6b (-28% YoY) and backlog at INR53.7b (-6% YoY).
- Ordering from small projects is active and getting finalized, but ordering and enquiries from medium- and large orders stand muted.
- Expect order inflow for FY20 to be better than FY19 supported by base orders.

Sectoral ordering trend

- Food Processing/FMCG: Doing well across the country and ordering healthy.
- Chemical has been doing well.
- Steel: Expansion program not taking off given consolidation from NCLT still happening. Sponge iron orders are picking up.
- Cement: Enquiry level is high and expected to continue.
- Refining: PMC has been appointed in three government projects and expect ordering to start in FY20. Expect at least one order.
- Fertilizers: Nothing worth noting for the next one year.

FGD

- FGD: Payment terms have partially improved and retention money has been scaled down to 13.5% as compared to 35% earlier.
- Thermax is well placed in two orders worth INR10b.

VOLTAS

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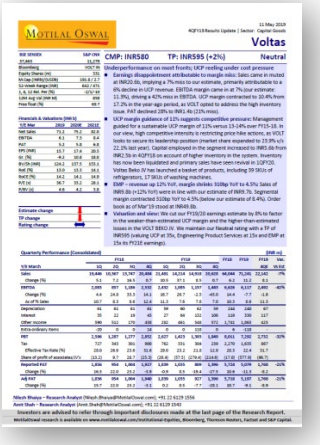

Voltas — Neutral

Current Price INR 588

Unitary cooling products: Challenging business environment given weak demand and cost pressures

- The performance of this segment was muted due to erratic summer conditions, leading to industry de-growth of 3% in FY19.
- Inability to take price hikes given weak demand and intense competitive pressure in the industry, coupled with increasing input costs, depreciating INR and custom duty hike, added to the industry's woes and impacted the margins. 40% of the split AC sales come from inverter AC sales.
- Delayed onset of summer and channel inventory impacted primary sales in 4QFY19.
- Inventory has now been liquidated and primary sales have seen revival in 1QFY20.
- Margin guidance of 11% for the UCP segment as against earlier margins of 15% (FY18) given high competitive intensity and difficulty to take price hikes.
- Voltas continued to be the market leader, increasing its YTD market share (across multi-brand outlets) from 22.1% to 23.9%.
- Voltas continues to focus on expanding its reach across the Tier 1&2 cities, opening brand shops that will also leverage the entire range of consumer durable products from Voltas and Voltas Beko.
- Air coolers business has witnessed a decline for Voltas, given weak demand and even industry has seen de-growth.

- Voltas has invested in a land parcel near Tirupati to set up a manufacturing facility for cooling products. This facility will cater to demand from the fast growing southern and western markets. Once operational by end-2020, the manufacturing facility will enable greater cost and operational efficiency in serving these regions.

MEP segment: Execution on track, margins guidance of 7-7.5%

- Domestic projects: Continued its steady performance this year with majority of orders coming in from the electrification sector and infrastructure space.
- Strategic focus is on procuring Government/Government funded projects with reasonable assurance of cash.
- With the increasing support and an approaching timeline on the electrification program through the Saubhagya Scheme, more tender announcements as well as completion for rural electrification projects are being witnessed.
- Rohini Electricals, which executes electrical projects, now contributes 40% of the domestic order book.
- International project: Voltas has received a number of awards in both the UAE and in Oman, including the District Cooling Company of the Year, the Facilities Management Company of the Year and MEP Contractor of the Year.
- Besides MEP, the company is looking at strengthening its order book in Facility Management and Water Management solutions.

Volts Beko

- JV launched a basket of products, including 39 SKUs of refrigerators, 17 SKUs of washing machines.

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CEMENT

- **Managements indicated that demand slowed down in Apr-May'19 due to the unavailability of labor on account of elections. However, the long-term demand outlook remains promising, led by the government's increasing focus on housing, infra and irrigation projects. Players also indicated that they have initiated price hikes of INR 30-35/bag in Apr-May'19 across regions (except south).**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY20	Volume Growth
JK Cement	▪ The 4.5mt expansion is in advance stage now. The clinker line and the 2mt brownfield grinding units will get commissioned by Sep'19. The greenfield grinding unit in Aligarh will get commissioned by Dec'19, while that in Gujarat will get commissioned by Mar'20. ▪ The company is taking various initiatives to improve profitability. It achieved savings of INR50/t in FY19 via logistics optimization and INR250m via AFR usage. ▪ The company is undertaking a debottlenecking exercise at its kiln in Nimbahera, which is likely to result in some power & fuel savings. It will also be entitled for some GST benefits from 2022. These benefits, along with cost savings, are likely to result in annual savings of INR600-700m. The debottlenecking will be completed by Mar'21 and would need INR3.25b of capex.	▪ White cement volumes increased 9% YoY to 0.35mt in 4QFY19. ▪ Grey cement volume (including clinker sales) grew 6% YoY to 2.53mt.
Ultratech	▪ The company plans to ramp up utilization of UNCL to 80% level. ▪ For Century Cement, admission of petition with National Company Law Tribunal (NCLT) has been filed.	▪ Industry grew by 9-10% YoY in 4QFY19, while all-India utilization stood at 78%. Roads and low-cost housing projects like Pradhan Mantri Awas Yojana (PMAY) are driving growth. ▪ Volumes for UTCEM grew 15.4% YoY to 21.3mt in 4QFY19. ▪ The company stabilized operations at UNCL which operated at 72% utilization in Mar'19.

Ambuja Cement

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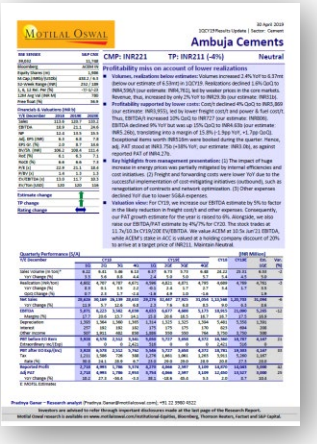

Ambuja Cements — Neutral

Current Price INR 222

- The company increased sale of premium products (Roof Special, Compocem and Cool Walls), which grew 14% YoY in 1QCY19.
- The quarter saw significant increase in power and fuel costs YoY, however, continued focus on the use of alternative fuels helped to partly mitigate this impact. The impact of huge increase in energy prices was also partially mitigated by internal efficiencies and cost initiatives.
- Freight and Forwarding costs were lower YoY due to successful implementation of cost mitigating initiatives (outbound), namely renegotiation of contracts and network optimization.
- Other expenses were lower due to lower Selling General and Administrative (SG&A) expenses on YoY basis.
- During the quarter, receipt of Orders Giving Effect (OGE) to the CIT(A) orders for certain assessment years due to disposal of certain appeals sanctioning income tax refunds, resulted in interest income and reversal of provision for interest on income tax aggregating to INR1.32b. The company has made provision of INR810m against this due to uncertainties related to it getting realized. The net income of INR515.8m is included in other income.
- Dividend from ACC of INR1.32b was included in other income.

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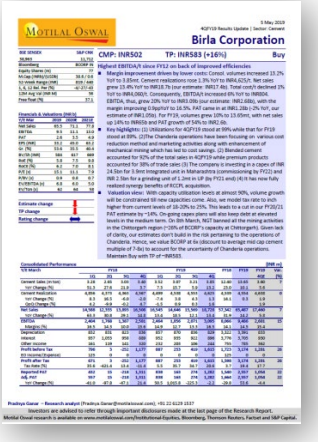

Birla Corp — Buy

Current Price INR 645

- Blended cement accounted for 92% of total sales in 4QFY19.
- The share of trade (channel) sales has now crossed 80% of the company's total sales volumes, of which premium products account for 38%.
- The company achieved a turnaround in the performance of the Chanderia unit – despite low prices in the northern markets throughout the year – driven by a series of cost-reduction measures and marketing initiatives. The Chanderia unit has systematically enhanced its capability of mechanical mining, reducing its dependence on purchased limestone, which has resulted in significant savings in the cost of production.
- As part of 'co-branding' initiatives, the premium brands MP Birla Cement Perfect Plus and MP Birla Cement Ultimate are being manufactured at Chanderia for the north markets, western MP, Gujarat and western Uttar Pradesh. This had a notable positive impact on the unit's profitability.
- During the quarter, the work for laying permanent rail tracks and mechanical wagon loading facilities for dispatches was commissioned at Kundanganj.
- **Mukutban Greenfield Project:** The 3.9mt integrated unit is likely to get commissioned by FY22. Equipped with 40MW of CPP and 10.6MW of WHRS, the total cost of the project is INR24.5b.
- **Kundanganj capacity ramp up:** The company is looking to scale up the operations of RCCPL's Kundanganj unit as well, where 1.2mt of capacity is being added. The project is expected to be completed in 2020-21.
- A 12.25-MW waste heat recovery system (WHRS) is going to be commissioned at Maihar in the current quarter. Three solar power plants – one each at Maihar, Chanderia and Satna – are to be installed in the September quarter.
- The company has been steadily ramping up production at its Sial Ghogri coal mine in Madhya Pradesh. The production is expected to go up to the optimum level in the next financial year.

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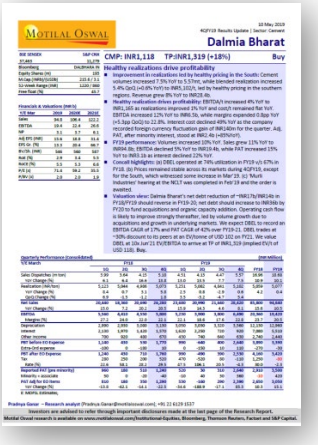


Dalmia Bharat — Buy

Current Price INR 1,128

Costs

- The company witnessed an increase in raw material costs as slag prices and petcoke prices increased during the year.
- Slag and petcoke prices have started softening in the last few months, however, its full benefits was not realized as the company had high-cost inventory of raw materials.
- High diesel prices led to an increase in freight cost/t, however, lead distance for the company remains less than 300kms.

Prices

- Prices remained stable across markets during 4QFY19, except in South India, which witnessed some increase in Mar'19.

Capex

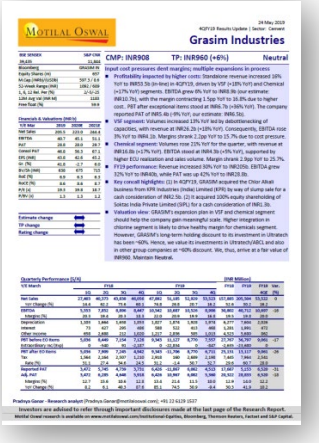
- The 8mt of East project is on track.
- The Murli Industries hearing at the NCLT was completed in Feb'19 and the order is awaited.
- Its step-down subsidiary, namely Dalmia DSP Ltd, was commissioned on 31st Mar'19. Commercial production is expected to start from Apr'19.

Other key takeaways

- For FY19, incentives received were at INR6.35b, of this, INR1.31b was received in 4QFY19.
- The company reduced INR13.68b of gross debt during the year, of which, INR8.24b was repaid in 4QFY19.
- The company has ramped up production of composite cement; its share was 14% in 4QFY19.
- The Government of Assam has granted Mega Project status to Calcom Cement India Limited (CCIL) under the Industrial and Investment policy of Assam 2014. This was for the investment towards establishment of the clinkerisation unit at Umrangshu ("USO") for 15 years in the state of Assam. The said unit will be entitled to 100% reimbursement of net SGST paid for 15 years from the date of commercial production. Accordingly, 100% remission of SGST from 1st Jul'17 to 31st Mar'19 of INR 510m has been recognized as income on reasonable assurance during the current year.

ADITYA BIRLA
GRASIM

Click below for Detailed Concall Transcript & Results Update



Grasim Industries — Neutral

Current Price INR 871

Acquisitions

- During the quarter, the company acquired the Chlor Alkali business from KPR Industries (India) Limited (KPR) by way of slump sale for a cash consideration of INR2.5b. The business consists of an under-construction ChlorAlkali plant of 200 TPD capacity at Balabhadrapuram, Andhra Pradesh. The company has taken over the identified assets and liabilities associated with KPR. On commissioning of this plant, along with other ongoing expansion projects, the company's caustic soda capacity will increase from 1.15 MMTPA to 1.38 MMTPA.
- During the quarter, GRASIM acquired 100% equity shareholding of Soktas India Private Limited (SIPL) (now known as Grasim Premium Fabrics Private Limited) from its current promoters SOKTAS Tekstil Sanayi Ve Ticaret A.S., Turkey for a cash consideration of INR1.3b. Consequent to the acquisition, SIPL has become a wholly owned subsidiary of the company, w.e.f. 29th Mar'19. SIPL is in the business of manufacturing and distribution of premium cotton fabrics with its manufacturing capacity located at Kolhapur, Maharashtra having capacity of about 10m meters per annum of finished fabrics.
- VSF: Global VSF prices weakened during the quarter on account of high inventory in value chain with commissioning of new capacities in Asia.
- Global VSF demand is likely to remain strong with CAGR of ~6%-7% over the next 2-3 years.
- The share of domestic sales volume in overall sales volume improved to 86% (4QFY19) from 83% (4QFY18).
- VSF EBITDA was impacted by a rise in input cost (pulp) and a significant drop in global VSF prices. Pulp prices have started softening and the impact should be visible in coming quarters.
- Value-added specialty fibre line of 16KTPA based on in-house technology commissioned at Kharach in May'19 in a record timing ahead of scheduled timeline.

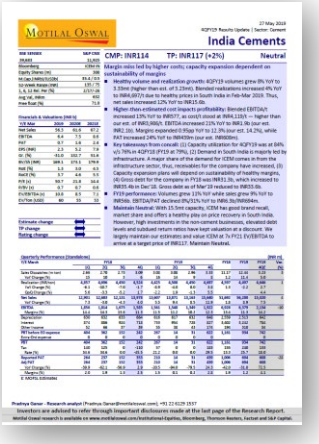
Chemical business:

- The company introduced four new brands of chlorine VAPs for consumer-facing products.

- Margins were impacted by lower realizations in Epoxy business.
- Work on caustic brownfield expansion (91KTPA) and power plant at Vilayat started with long lead items already ordered.
- Cement business: 4QFY19 UltraTech's capacity utilization for current quarter in India stood at 84% against estimated industry utilization of 78%. Average cement prices up by 1-2% QoQ – eastern and northern flat, western up 2%, Southern up 4-5% and central up 1%.
- Aditya Birla Capital: NBFC lending book grew 23% YoY to INR631b. Revenue stood at INR47.3b, while net profit after minority interest stood at INR2.58b.

THE INDIA CEMENTS LTD

Click below for Results Update



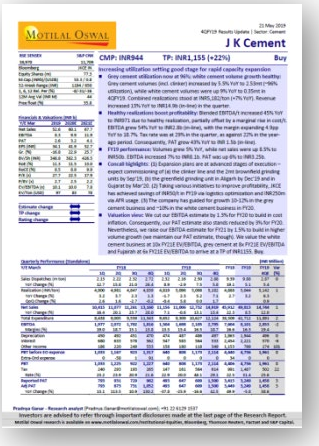
India Cement — Neutral

Current Price INR 97

- The capacity utilization of ICEM during 4QFY19 was 84% v/s 76% in 4QFY18. Capacity utilization stood at 79% for full-year FY19.
- Pricing in South India started improving in Feb-Mar 2019, which resulted in utilization improvement for the company.
- Utilization for South India is 70%.
- The demand in South India is majorly led by infrastructure. A major share of the demand for ICEM comes in from the infrastructure sector, thus, receivables for the company have increased.
- Trade constitutes 60% of the company's sales mix.
- Other expenses for the quarter were higher due to increase in expenses related to repairs and maintenance, packaging and advertisements.
- The cement/clinker ratio for the company is 1.36.
- Capacity expansion plan for the company will depend on sustainability of healthy margins.
- Gross debt for the company in FY18 was INR 31.3b, which increased to INR35.4b in Dec'18. Gross debt as of Mar'19 reduced to INR33.6b.

JK Cement LTD.

Click below for Results Update



JK Cement — Buy

Current Price INR 1,009

- The 4.5mt expansion is in advance stage now. The clinker line and the 2mt brownfield grinding units will get commissioned by Sep'19. The greenfield grinding unit in Aligarh will get commissioned by Dec'19, while that in Gujarat will get commissioned by Mar'20.
- Realization increase was marginal from north due to sales in better realization market.
- JKCE took a price hike of INR 25-35/bag in April and another INR 10-15/bag in May, which is largely sustainable.
- Demand in April and May was lower compared to March due to elections.
- Other expenses were higher sequentially due to an increase in branding efforts and consultancy charges.
- Other income in the quarter was higher by INR100m QoQ due to write-back of certain provisions.
- Grey cement should record growth 10-12% in FY20. The white cement business should also grow by ~10%.
- The company is taking various initiatives to improve profitability. It achieved savings of INR50/t in FY19 via logistics optimization and INR250m via AFR usage.
- Trade sales stood at 69% for FY19.

- The company is undertaking a debottlenecking exercise at its kiln in Nimbahera, which is likely to result in some power & fuel savings. It will also be entitled for some GST benefits from 2022. These benefits, along with cost savings, are likely to result in annual savings of INR600-700m.
- The debottlenecking will be completed by Mar'21 and would need INR3.25b of capex.

JK Lakshmi Cement — Buy

Current Price INR 356

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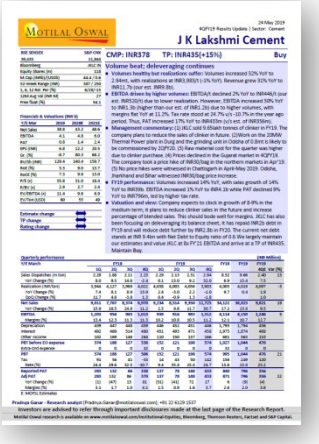


- Work on 20MW Thermal Power plant in Durg and the grinding unit in Odisha of 0.8mt is likely to be commissioned by 2QFY20.
- Raw material cost for the quarter was higher due to clinker purchase.
- The company sold 9.65lakh tonnes of clinker in FY19. The company plans to reduce the sales of clinker in future.
- The company has repaid INR2b debt in FY19 and will reduce debt further by INR2.8b in FY20.
- Trade constitutes 55% for JKLC.
- OPC constituted 34% of the mix while PPC was 65%. The company expects to improve PPC proportion to 70% in FY20.
- The company expects volume growth of 8-9% in FY20.
- Prices had declined in the Gujarat market in 4QFY19. The company took a price hike of INR30/bag in the northern markets in Apr'19.
- No price hikes were witnessed in Chattisgarh in April-May 2019. Odisha, Jharkhand and Bihar witnessed INR30/bag price increase. Chattisgarh constitutes ~55-57% of the total eastern sales of JKLC.
- Capex for FY19 was INR2b while that for FY20 is expected to be INR70b.
- Average fuel cost stood at INR8,300/t in FY19 v/s INR7,100/t in FY18.

The Ramco Cement — Buy

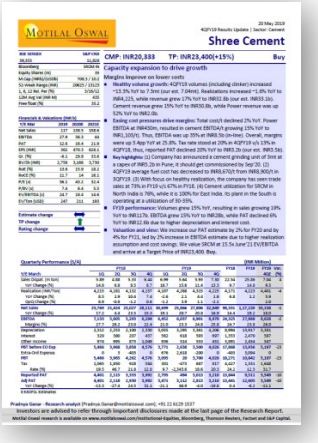
Current Price INR 794

Click below for Results Update

- Sales grew 19% to 11.12mt in FY19, driven by growth in south and east regions.
- Demand was driven by retail, infrastructure and affordable housing.
- Average diesel prices increased 17% YoY, which led to an increase in logistics cost.
- Petcoke price was ~ USD102-106/t during the first half of the year and softened during the second half of the year.
- The wind power capacity stands at 126MW and the division generated 242.6m units during the year (262.4m units: PY). Revenue from wind division stood at INR617.5m in FY19 v/s INR669.6m in FY18.
- The company incurred CSR expense and other contribution amounting to INR421m (FY18: INR109.3m) in FY19. The amount for 4QFY19 was INR286.4m (INR67.5m in 4QFY18).
- Average diesel prices increased 17% YoY in FY19, leading to higher logistics cost.
- Petcoke prices were ~U SD102-106/t during the first half of the year, but softened thereafter.
- TRCL expects commissioning of the 3mt grinding capacities by FY20 and of the 1.5mt clinker at Jayantipuram by July'20.

SHREE CEMENT LIMITED

Click below for Results Update



Shree Cement — Buy

Current Price INR 20,626

- The company has announced cement grinding unit of 3mt in Pune which is expected to commission by Sept 2020at a capex of INR 5.2bn
- Industry growth for North in FY19 was ~6-7%. The company expects industry to grow at 7-8% while the growth for Shree should be ~12% over the next two years
- The company launched premium products "Roofon" in North and East and "Power" in North
- The company has expressed its vision to focus on healthy realization.
- The month of April witnessed price hikes of INR 30-35 /bag in North and East over 4QFY19 prices
- Average fuel cot for 4QFY19 has come down to INR 8670/t from INR 8900/t in 3QFY19
- Sales mix for the company :70% North 30% East
- Trade sales for the company stood at 73% in FY19 vs 67% in FY18
- Capex for SRCM should be INR 15-16b in FY20 and FY21. Maintenance capex for the company is INR200crore
- Clinker conversion factor is 1.5x
- Cement utilization for SRCM in North is 76%while that in East is 100%. The south plant is operating at a utilization of 30-35%
- The company's subsidiary "Union Cement Company" started operations on 11th July, 2018 and recorded sales of 2.7mt (cement +clinker). The turnover and EBITDA for the company stood at INR 8bn and INR 1.3bn respectively for the year.

ADITYA BIRLA
UltraTech

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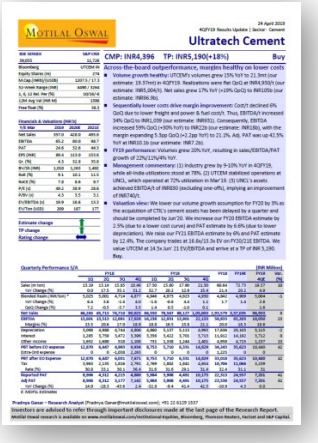


Ultratech Cement — Buy

Current Price INR 4,570

Utilization and price trend

- Industry grew by 9-10% YoY in 4QFY19, while all-India utilization stood at 78%. Roads and low-cost housing projects like Pradhan Mantri Awaas Yojana (PMAY) are driving growth.
- Prices increased by 4-5% QoQ in south and 2% QoQ in west. Prices increased by a marginal 1% QoQ in central India but were flat in east and north. Overall industry pricing improved 1-2% QoQ.

Operations of Ultratech Nathdwara (UNCL)

- The company stabilized operations at UNCL which operated at 72% utilization in March'19.
- UTCEM improved the usage of petcoke from zero to ~40% during the quarter.
- Routine maintenance was undertaken in Feb'19.
- The assets achieved EBITDA/t of INR830 (excluding one offs), an improvement of INR740/t.
- The company plans to ramp up operations to 80% level.
- UTCEM also plans to undertake a cost-reduction program in order to improve efficiency norms and achieve further cost reduction of INR50/t.

Update on Century's cement asset

- NCLT hearing is scheduled on 3rd May 2019
- Final order of NCLT is likely in May/June 2019.

Cost trend

- Power & fuel cost declined 15% QoQ, led by a reduction in blended price of (imported/domestic) petcoke by 7%.
- Logistics costs declined 6% QoQ due to the full benefit of axle load relaxation and the reduction in diesel prices. The dispatches through railways also increased.
- Share of renewable energy in overall power mix increased by 100bp.

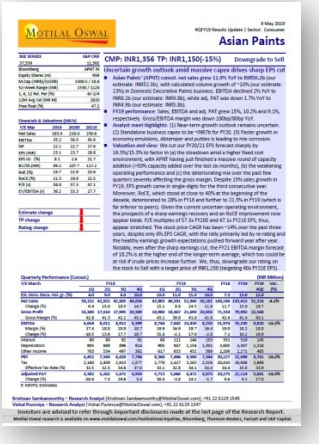
- **Companies across the board indicated a near-term slowdown, mostly led by rural. During the past quarter, the operating environment was marred by subdued consumer demand, liquidity crunch in the channel and prolonged winter. However, companies have started witnessing some improvement in the liquidity situation post elections in their respective regions and are anticipating rural markets to benefit from the government measures over the coming quarters.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Comment on demand scenario	Management comment on Rural	Outlook FY19/20
Asian Paints	■ Growth outlook is uncertain in the near term. Need to watch out for progress on monsoon. ■ Demand is still average; smaller cities are growing faster. New construction demand still remains low. ■ Demand is not too different across the country, slightly stronger in the east.		■ Capex will be INR7b in FY20.
Britannia	■ Double-digit steady state volumes should be possible in the medium-to-longer term. Expect near-term disruptions.	■ Compared to the past, currently there is a rural slowdown. With forecast of normal monsoon, management is hoping for normalcy to set in. ■ Britannia is still, nevertheless, gaining significant market share in rural areas over peers.	■ Innovation share to revenues was 4.5% of sales in FY19 and management is targeting to double this number in the future. ■ Management desires sales of INR5b from Salty snacks category over the next five years. ■ Capex likely to be around INR4.5b in FY20.
Dabur	■ Prolonged winter season and weak agrarian sentiment affected sales in 4QFY19. Management expects some recovery going ahead from 4QFY19 levels. ■ Summer demand has been good; initial monsoon forecast too is good.	■ Rural growth for Dabur has come down from 1.3x urban growth to 1.1x in 4QFY19. Manifestos of all political parties point to higher rural outlay.	■ Targeting high-single-digit volume growth for India FMCG in FY20 and around 2-3% realization growth. ■ Will aim at maintaining operating margins in FY20. ■ Do not expect macro recovery in MENA. However, they aim to gain market share again in FY20 as they did in FY19.
Hindustan Unilever	■ Macroeconomic indicators are pointing toward some pressure on near-term market growth. Nevertheless, HUVR appears confident of performing well even in a relatively difficult environment.	■ Rural growth in 4QFY19 was closer to urban growth (v/s 1.3x in the earlier quarters).	■ Need to watch the impact of government payouts for the rural areas started from April. ■ Cost savings will continue to be a big factor driving margins. Margins growth will be modest going forward.
Marico	■ *Saffola* is likely to report high-single-digit volume growth for the next couple of quarters. Still 'work-in-progress' toward double-digit volume growth in *Saffola*. Recovery in *Saffola* is happening faster than expected. However, management is still waiting for a couple of quarters before calling out a full recovery.	■ Rural continued to grow ahead of urban in the traditional channel (Rural GT grew by 4%, while urban GT was down 2%). ■ Management believes if new products continue to do well (most of them are urban premium products), *Saffola* recovery swing happens and VAHO targets are attained, and the company should be able to withstand some near-term sluggishness in rural demand.	■ MRCO is targeting 8-10% volume growth in India and double-digit CC growth in international biz. ■ New products as proportion of sales are likely to double over next few years. ■ Mgmt. maintained 15-20% decline targets in copra costs for the year. ■ Domestic EBITDA margins are targeted to be over 20% and international margins over 18%. ■ Capex: FY20 is likely to be around INR1.25-1.5b.
Pidilite	■ Company expects slower near-term market growth and is cautiously optimistic of growth hereon. ■ Input cost and forex fluctuation impacted international subsidiary.		■ 2HFY19 performance will be a better indicator of growth in the coming days. ■ EBITDA margin band at 21-24%; expansion should be primarily led by gross margin. ■ Capex: 2.5-3% of sales for FY20.

asianpaints

Click below for Results Update



Asian Paints — Sell

Current Price INR 1,428

Demand scenario and outlook

- Growth outlook is uncertain in the near term.
- Need to watch out for progress on monsoon.
- Demand is still average; smaller cities are growing faster.
- New construction demand still remains low.
- Demand is not too different across the country, slightly stronger in the east.

Other highlights for decorative paints in 4QFY19

- Volume growth was in double-digits for 4QFY19 and comfortably in doubledigits for the full year.
- Economy emulsions, distemper and putties are growing faster, maybe seeing some gains from the unorganized sector, which is leading to mix deterioration.
- Competition, APNT network and operating economics
- JSW has entered into the Karnataka market.
- APNT is focusing on innovation and network expansion in response to competition.
- Nippon has been spending heavily on marketing in a few states. APNT has also increased adspend in those markets in response and has been reporting good growth there. It is not clear when adspend intensity in these states will abate.
- The company currently has 46,000 color world machines and over 400 'Colour ideas' stores.
- There are at least 150,000 outlets selling paints in India and ~10,000 are opening every year. Thus, there is plenty of room to increase distribution reach from one third of the market that APNT reaches currently. However, cost of reach and viability of dealers are the constraints leading to calibrated expansion around 3,000 outlets every year by APNT. Indirect dealers rely on credit, which the company does not provide but which they may get it from other dealers.
- Labor costs are going up every year. The mix between labor and material as a proportion of total painting costs is now at 60:40 and in some markets even 70:30.

Costs and price increase

- There was no price increase in 4QFY19. Earlier in FY19, it had taken price increases in December (~1.7%), October (2.35%) and May (~2).
- May take price increases if there is an adverse change in crude. As of now,management offered no comments.
- There was a shift in terms of marketing spend from 3QFY19 to 4QFY19 as a result of which other expenses were higher in 4QFY19.
- There were some impact of provision for debtors in the international business and some material costs not passed on to customers in the international business in 4QFY19.

Highlights from other businesses

- Sales from 'Sleek' kitchen equipment business (started six years ago) grew 24.4% YoY to INR2.14b in FY19. Loss at the end of the year in this business was INR230m. Management believes that it is likely to be profitable in this business in the near future.
- Ess Ess, the bathroom fittings business, which was started five years ago, reported 27.8% sales growth to INR2.02b in FY19. Loss at the end of the year in

this business was ~INR300m. Management did not comment on the timeline of profitability attainment in this business.

- It has five 'AP Home' stores at the end of FY19. Will set up 4-5 more this year. The business seems to be working wherever they have launched it.
- Adhesives and waterproofing have significant synergies in their own paint dealer network. Waterproofing and adhesives are both profitable businesses for APNT. Innovation and value for money have been their forte on the waterproofing business. They believe training for applicators is also important.
- Waterproofing market in India has a size of INR50b. While there are a lot of players in the institutional market, APNT is focusing only on retail. Growth in the category has normalized to close to paints market growth, partly because there is an increasingly large focus on cheaper products by customers leading to mix deterioration.
- APNT entered the waterproofing market five years ago and is now the second largest player in the retail market.
- PPG Asian Paints (automotive business) was affected in the second half by demand slowdown and inability to pass on material cost increase. Dahej plant is likely to be commissioned in 3QFY20.

Highlights from International operations

- There was sluggish growth in Egypt, Ethiopia, Sri Lanka and Bangladesh in FY19.
- The company is No. 1 in Nepal, Bahrain, Fiji and Sri Lanka and among top 3 in most other markets barring Egypt and Indonesia where they made an entry only recently.
- Indonesia business losses were around INR450m on sales of INR700m. Management expects profitability only in the seventh year of operations and they are only into the second year of operations in that country now.
- Unlike India, free tinting machines are given to dealers in Indonesia with an aim to increase distribution rapidly, which leads to further up-fronting of costs.

Capex and other financials

- Capex was INR10b in FY19 for the standalone business and will be INR7b in FY20.
- As a result of two new plants in Vizag and Mysore, commissioned in 2HFY19, operating costs in this region will be lower marginally due to savings on logistics costs and inventory levels in these markets will reduce. At overall level, there is unlikely to be any huge improvement in productivity as a result of these two new plants.
- Larger part of capex in FY20 will be toward expansion of capacity at the two new plants.
- In the explosion incident in the new Vizag plant recently, there was no major impact and production has resumed.
- It has completely written off IL&FS exposure, but unlike some peers, this has been from the other comprehensive income and not from operating expenses.

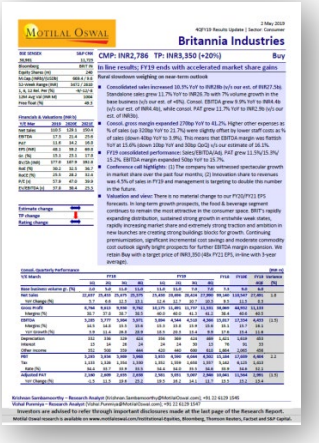
Click below for Results Update

Britannia Inds — Buy

Current Price INR 2,904

Macro view

- Compared to the past, currently, there is a rural slowdown. With the monsoon forecast predicting normal rains, management is hoping for normalcy to set in.



Britannia is still, nevertheless, gaining significant market share in rural areas over peers.

- Double-digit steady state volumes should be possible in the medium-to-longer term. Near-term disruptions should be present.

Market share gain continues

- Volume growth was 7% for the quarter with accelerated market share gains over Parle in FY19. Exit market share in 4QFY19 was even higher than full-year. The company has witnessed spectacular growth in market share over the past four months.
- Distribution, new launches and being the lowest cost producer are enabling continued market share gains for BRIT.

Raw material outlook benign, distribution expansion impressive

- Material cost Inflation was only 3% YoY for the quarter. Wheat cost increase of 9% YoY was offset by deflation in sugar, RPO and milk prices.
- Management expects modest increase in inflation from current levels and will take price hikes in the future.
- Direct reach is now at 2.1m outlets from 1.55m at end-FY17 and 1.84m outlets at end-FY19.

New launches gaining momentum

- Innovation share to revenues was 4.5% of sales in FY19 and management is targeting to double this number in the future.
- Launched democratized version of center-filled biscuits (Treat Burst) in 4QFY19. Launched Swiss Rolls, Layer Cake and Brownies. Just launched Treat Stars, an open-face cream biscuit.
- The company is nearing the all-India launch for cream wafers. Croissants are currently available in modern trade and in East India.
- Salty snacks have been launched in Tamil Nadu with good initial response; it will be rolled out in the rest of the country later. One format has been launched and soon, two more are likely. Salted snacks are INR250-260b category; Britannia's products are present in about a third of the salted snacks market. BRIT has currently launched a baked product in this category, but is deliberately not adopting a 'baked' positioning here as management believes that only taste matters for customers. Price points are INR5, INR10 and INR20 with key focus on the INR5 price point (17gram, in line with price-to-kilo and pieces-per-pack v/s other extruded snack products available). Management desires sales of INR5b from this category over the next five years.
- Milkshakes are an INR22b market in India; including lassi, it is an INR100b market. The company has received good response to its milk shake launch.
- All new categories will be gross margin accretive.
- Adspends were up significantly YoY for 4QFY19, but full-year adspends were up marginally by ~10bp YoY.
- Cookies, creams, health segment products, crackers (bridge products), other adjacencies, and dairy business are likely to be the key innovation areas for FY20.

Other businesses

- Bread growth has been in double-digits along with profitability improvement. Now, it is expanding to the South as well.

- Changed the business model in bread, which means that erstwhile material costs are now bifurcated into materials and other expenses. This was the key factor for other expenses increasing and moderating material cost increase.
- Dairy segment also reported double-digit growth for the year.

Manufacturing, capex and cost savings

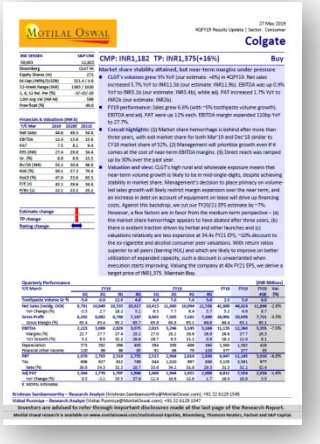
- Ranjangaon plant- two lines have been fully scaled up, with two more scale-ups in the pipeline (trials have started last month). New innovation lines are likely in the next few months.
- Capex likely to be around INR4.5b in FY20, similar to FY19.
- Cost savings are likely to be around INR2.7b in FY20 compared to INR2.3b in FY19.

Group lending

- Around 25% of cash and cash equivalents are invested in group entities.

Colgate

Click below for Results Update



Colgate — Buy

Current Price INR 1,159

Market share in toothpastes stabilizing in recent quarters, consumer demand soft in Mar'19 quarter

- Toothpaste market share was at 52.4% in CY18 v/s 53.6% in CY17. HUL's share was 17.3% in CY18 (-40bp YoY), Dabur's 15.1% (-30bp YoY) and Patanjali's 8.6% (+180bp YoY).
- On the other hand, the exit market share for Colgate in the March quarter was also ~52%. It was similar in December 2018 as well, so there has been some stability in recent quarters.
- Toothbrush market share 45.2% in CY18 v/s 45.1% in CY17. March 2019 toothbrush market share levels were higher at close to 48%.
- Management believes that from June 2018, its go-to-market has been working better; it was aiming first for stability in share (achieving this now) and then aiming for growth in share.
- Management was clear that it will prioritize growth even if it comes at the cost of near-term EBITDA margins.
- Category volume growth likely at 5-6% going forward and Colgate is aiming to grow market share after a period of stability recently.
- Management admitted that there is demand softness in Mar'19 as has been witnessed in other consumer categories which could affect industry and their volume growth.

Segmental market share and other details

- Colgate naturals had a market share of 8.1% in CY18 compared to ~6.5% in CY17. Moreover, market share in Naturals is also up 120bp YoY in CY19.
- Naturals are growing at double-digits for Colgate over the past few quarters, albeit off a small base.
- Swarna VedShakti has met with very good response. The company launched sachets as part of a sampling exercise in the Kumbh Mela. Company will evaluate its usage in general trade as well.
- Naturals category growth for the market is in mid-to-high teens in recent quarters, slower than before.
- Management also believes that at an overall category level, premium segment losses to Naturals could stabilize shortly, leading to a revival of growth in

premium where Colgate is stronger than peers. They have re-launched Colgate Total recently.

Distribution expansion impressive

- Company has increased direct reach by 28% YoY in CY18. This was one way to reduce high wholesale dependence, haven't yet seen full impact of this expansion on sales. It needs to execute well to gain from the direct reach expansion.
- Reached 10m school children as part of Bright Smiles Bright Future (category development program) in CY18.

Entry into new categories

- Have launched Palmolive Facial bars and Palmolive Liquid Hand-wash recently.
- Palmolive Facial Bars- Launched in Kerala and Delhi. Pricing is at a premium to market leader. Now expanding to two more metro cities shortly. Advertising is largely online and outdoor.

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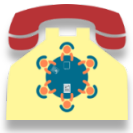

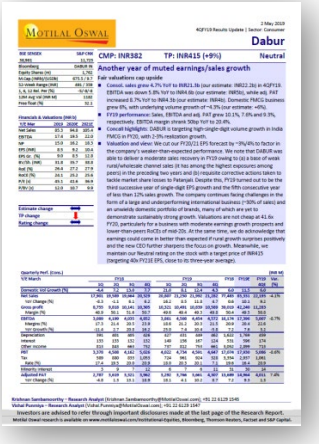

Dabur — Neutral

Current Price INR 404

Macro

- Prolonged winter season and weak agrarian sentiment affected sales in 4QFY19. Management expects some recovery going ahead from 4QFY19 levels.
- Targeting high single digit volume growth in for India FMCG in FY20 and around 2-3% realization growth.
- Summer demand has been good and initial monsoon forecast is good.
- Rural growth for Dabur has come down from 1.3x urban growth to 1.1x in 4QFY19. Manifestos of all political parties point to higher rural outlay.
- International business was affected by problems in Turkey and Pakistan. Currency devaluation and weak economy affected sales in MENA region.
- Do not expect macro recovery in MENA. However they aim to gain market share again in FY20 as they did in FY19. Currency could play spoilsport if there is further deterioration.
- USA- Namaste is likely to post revival in sales in FY20.

Distribution

- 66,000 villages contribute 50% of rural sales in FMCG. Dabur currently reach 44,000 villages, targeting 51,000 villages in FY20.
- South India is only 16% of sales for Dabur's domestic sales whereas it is 25% to 30% of sales for some other peers. Company aims to increase focus going forward in South India.

Key brands and category performance

- Key power brands with disproportionately high investments going forward will be: Dabur Amla, Dabur Red, Real, Chyawanprash, Pudin Hara, Lal Tail and Honitus – the last three small brands have witnessed strong growth in FY19. These power brands contribute 75-80% of sales.
- Personal Care (Hair care, Oral Care), Healthcare and Foods will be the key focus segments. LUPs and INR10 price points will also be in focus.
- The company believes that Hair Care can be an INR50b segment from INR10b. Similarly, it expects juices to be an INR20-INR30b category for them compared to INR10b currently.
- Milk- and yogurt-based products are affecting juices segment growth. No plans to get into dairy-based beverages yet.

- Babool remained weak because of competition. By end-1QFY20, the company will re-launch the brand. Dabur Red, however, is 70-75% of oral care sales and is doing well.
- Hair Oil market share grew 70bp and Oral Care market share grew 45bp YoY.
- Market share in Home care and skin care segment was down YoY.
- 100% growth in E-Commerce albeit off a low base. Now 1.4% of sales. Targeting 2.2% of sales in FY20. Company has also appointed an E-com vertical head to drive ambitious growth.

Additional data on financials

- Media spends for Dabur came down in 4QFY19. Investment in power brands increased YoY.
- Goodwill write off – 20% CAGR topline and 25% CAGR in PAT in local currency at Hobi Kozmetik since acquisition. So write-off of INR750m during the quarter was mainly on account of currency devaluation.
- RM costs have been benign. However, currency devaluations and some ESOP related costs (some write-backs in the corresponding quarter last year and higher rates assumed for FY19) have resulted in gross/EBITDA margin contraction. Will aim at maintaining operating margins in FY20.
- ESOP costs at INR740m in FY19. There was a write-back last year.
- Have taken some credits on tax in 4QFY19, resulting in low tax rate in 4QFY19. Effective tax rate likely to be around 20-22% for the next five years.

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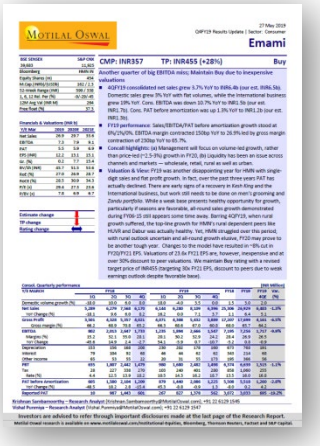

Emami — Buy

Current Price INR 346

Performance

- Sluggish rural and channel liquidity issue faced in 4QFY19.
- Liquidity has been an issue across channels and markets i.e. wholesale, retail, rural as well as urban.
- Domestic growth stood at 3% with flat volumes due to a prolonged winter impacting the sales of summer products, which accounted for more than 40% of the domestic business this quarter.
- For FY19, volume growth stood at 3% and value growth at 6%.
- No payment from CSD in 4QFY19. This along with strong growth in exports led to higher receivables in FY19.

Segmental 4Q19 Performance

- Navratna grew at 1% affected by delayed summer but saw good traction in 1QFY20. Boroplus grew at 17%, Kesh King by 15%, Pancharishta by 2%, Healthcare by 9%, Pain Management range by just 1%, male grooming saw 4% decline, 7-in-1 oils grew 24%, and Balms grew 1%.
- Navratna volume market share at 66.3% grew by 140bp. Balms volume market share at 54.8% grew by 140bp. Kesh King volume market share at 26.4% grew by 220bp and Fair and Handsome Face Wash volume market share at 14.7% grew by 90bp, BoroPlus and Fair and Handsome maintain their leadership in their respective categories with market share of 73.5% and 64.7%, respectively. In FY19, domestic business grew 7% on a like-to-like basis, impacted by unfavorable seasonality in 3Q-4QFY19.
- Kesh King reported volume growth of 12% and value growth of 15% in 4QFY19 and 13.5% volume and 11% value growth in FY19. Kesh King's majority sales still come from wholesales; 65%-70% wholesale contribution.

- International business' net sales grew 19% during the quarter and by 12% in FY19. Excluding Crème21, international business grew 13% in 4QFY19 and by 10% in FY19.
- Male grooming – It is reworking the male grooming product strategy; same is expected to be implemented by Aug-Sep'20; product is not facing any competitive intensity; segment expected to rebound by 3Q-4Q of FY20.
- Navratna talc growth declined by 4.5% in 4QFY19.
- Gained share from Amrutanjan in Balms.

Distribution

- 9.4lac direct reach now; ~90k outlets added in FY19.
- Modern Trade now 8% of sales from 4% earlier.

Outlook

- Focus on volume, rather than price (2.5-3%) led growth in FY20.
- Not seeing any competitive pressure in any categories; there is no reason that Emami cannot grow in double-digits.
- Current margins are sustainable (GM at 66% and 27% EBITDA margin).
- Priorities for FY20: Growth in male grooming, stability in international business, cost reduction, focus on 7 oil-in-one, F&H face wash and HE.
- Expect double-digit growth in international business in FY20.
- 20% tax rate for FY20.

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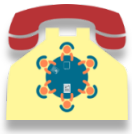

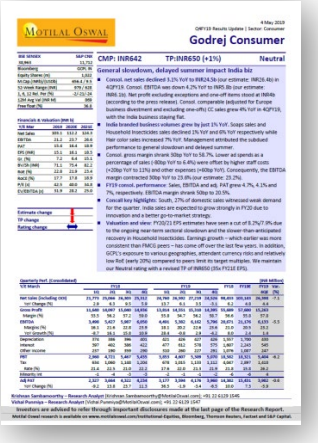

Godrej Consumer — Neutral

Current Price INR 700

Macro

- There was a general slowdown in environment in 4QFY19 in India. Extended summer and channel liquidity also impacted sales. Post-election, the company expects an improvement in liquidity.
- South is 27% of the India business. This market was weak on the demand front for the quarter.
- Nigeria was affected for 2-3 weeks because of elections. LatAm was affected by prevailing hyperinflation.

Outlook

- India: Strong sales growth expected in FY20 due to innovation and a better goto-market strategy. Management believes that the problems are temporary. Have taken steps for a recovery in HI.
- Indonesia: Looking to maintain healthy sales momentum.
- Africa: Looking for profitable sales growth. Investments in infra and talent building (which was a feature in FY19) are over. Thus, expect healthy profitability improvement going forward. Management believes the worst is over on the Africa front.
- LatAm: Cost correction is likely to lead to profitability growth.

India – Brands and categories

- Household Insecticides: Incense sticks growth affected sales. Now their recent foray in this sub-category has been doing well in Andhra Pradesh and Telangana (high-single-digit market share in both states within a few months of launch); from June 2020, the category is expected to report strong growth led by wider incense stick launch in other states. Other segments in the HI category grew faster than peers in FY19. For FY20, management expects to grow ahead of

peers in all categories, including incense sticks. Naturals and longer efficacy (over 3 hours) are the key positioning factors for its incense stick HI product.

- Reached highest-ever market share in soaps in FY20.
- Highest-ever market share in Godrej Expert Rich Crème as well.

Overseas business

- Darling: Re-launch will happen in Nigeria in 1QFY20. Have seen good response in two other countries on re-launch of this brand.
- Indonesia: New launches and costs savings will be key focus areas in FY20.
- Management believes that there is no need to take goodwill impairment in LatAm and Africa either on account of currency depreciation or relative underperformance v/s expectations.

Other queries

- Non-mosquito sales are only 12-13% of HI sales.
- There will be no big-ticket acquisition for some time owing to keenness to improve ROCE. Looking for small opportunities, if available, in India and Indonesia.
- Why do elections have an impact on sales in some countries
  - Markets in some countries are closed for some time because shops are shut as people go to their native places to vote.
  - Fear of election-related violence also leads to shop closures.
- Cost savings program Project Pi: 2% of sales cost savings in India and Indonesia again in FY19. This program will focus on Africa and the US business from FY20.
- FY19 consol. capex at INR2.5b: A similar number likely in FY20.
- Also expanding India R&D facility in FY20.

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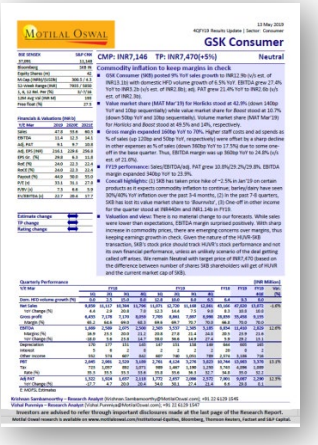

GSK Consumer — Neutral

Current Price INR 7,709

Macro

- In the short term, there are some concerns on the topline growth due to the liquidity crunch, lower consumer confidence and lower farm income.
- Second half of 4QFY19 was tougher than the first half.

Market share decline

- Management believes its volume market share is relatively more stable v/s value market share, which has consistently declined in the past two years.
- SKB has lost its value market share to 'Bournvita' in the past 7-8 quarters.
- The company expects its high science product launches in recent years to arrest the market share decline. Other new launches will also be there.

Additional clarifications and disclosures

- HFD volume growth was 6% YoY for the quarter and 10% YoY for the full year. Horlicks and Boost roughly grew at the same pace.
- Business auxiliary income grew 20% for the quarter and at a similar rate for the full year.
- Sachets are contributing more to sales (around 10% of value sales). However, conversion to larger bottles is not happening and is not expected either, as there is a huge gap between cost of sachets and cost of bottles. Sachets contain 18 grams in an INR5 pack.
- Management expects raw material inflation to continue. Barley/ dairy have seen 30%/40% YoY inflation over the past 3-4 months. Have taken 2.5% price increase from Jan'19 but not across all products in the portfolio. This price

increase and some forward covers should hopefully protect margins, believes management.

- Export growth was 24% for full-year FY19 with 21% volume growth. Addition of GSK Malaysia as a customer in the year also played a big part.
- Food business rationalization (mainly phasing out Marie biscuits in FY19) is now complete and will be in the base from Jul'19. For the full year, food business (~5% of sales) declined by 16%.

One-offs in 4QFY19 and FY19

- In Other expenses, there was some one-time provision in the base of INR200m, and thus, these expenses declined YoY.
- One-offs in other income of INR1.14b in FY19 (and INR440m in 4QFY19) due to some tax reversals and a few other items.

Distribution expansion

- Distribution reach was 1.96m outlets at FY19-end compared to 1.77m outlets at FY18-end. Direct reach was a little less than 1m outlets at FY19-end. Growth in distribution reach should continue.
- SKB is relatively under-indexed on ecommerce in terms of market share for core HFD brands, but has higher-than-average market share in case of high science products.

New campaigns and recent launches

- 'Horlicks Protein Plus'- started a new campaign in the recent quarter. Also introduced a new 'no sugar added' variant in Mar'19.
- New campaign on 'Women's Horlicks' in association with Femina in the digital platform, celebrating women achievers.
- Deliberately not being very aggressive on the Boost RTD launch as it is a nascent market. Company is happy with the traction so far.
- 'Horlicks Protein plus'— 6% market share and INR800m sales likely in FY20.
- 'Horlicks Growth plus' has been more challenging with likely sales of INR350m in FY20. Company admits its strategy needs improvement, as it is faced with a strong entrenched player in 'PediaSure', and therefore, it has to continue traction with experts.

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Hindustan Unilever — Buy

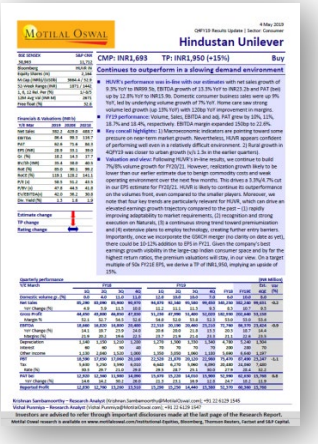
Current Price INR 1,838

Macro

- There was some moderation in the market growth rate in 4QFY19. Rural v/s urban growth is a key indicator of overall volume growth. Rural growth in 4QFY19 was closer to urban growth (v/s 1.3x of urban growth in the earlier quarters).
- Macroeconomic indicators are pointing toward some pressure on near-term market growth. Nevertheless, HUVR appears confident of performing well even in a relatively difficult environment.
- Need to watch the impact of government payouts from April.

Management view on the business

- HUVR believes that the growth rates of the past will come back.
- Management is satisfied with the performance on all fronts for the quarter, given the relatively tough operating environment.
- Building blocks – (a) Investing in the core, (b) driving premiumization and market development and (c) fuel for growth.



Hindustan Unilever

CMP: INR1,693 TP: INR1,950 (+15%) Buy

Continues to outperform in a slowing demand environment

- Now adding data to people and brand strengths.
- Inbuilt agility developed over the past few years will put it in good stead.
- The company has deliberately kept realization growth modest in recent years.

Segment and brand highlights

- Home Care: All categories have done well – 13% growth in 4QFY19, mainly volume-led.
- Beauty and Personal care – very strong performance in premium products.
- Foods and Refreshment- Has done very well in 4QFY19 with 9% growth.
- Sunlight is now an INR5b brand.
- Domex re-launch during the middle of FY19 has met with good response.
- Personal Wash- premium has done very well. Lifebuoy and Lux were below expectations affected by high penetration and slowdown in 4QFY19.
- Extended Brylcreem beyond E-Commerce in 4QFY19.
- Launched 'Simple' skin care product in India in December- January (initially only available on Nykaa).
- Oral Care had a good quarter. Closeup and Lever Ayush oral care did well.
- Good sales in winter portfolio in March quarter due to extended winter.
- No dilution in focus on Naturals, despite the reducing threat from Patanjali. Is an important part of its three-pronged strategy.
- Indulekha sales are 4x the sales from the time of the acquisition.
- Lever Ayush is doing well on growth and mix in South India. Have made a tactical retreat from Central and North India, will come back with a better strategy.

Other points

- Exceptional item - current quarter includes true-up of deferred consideration payable on account of Indulekha acquisition (INR570m out of INR710 exceptional items). This is on account of the better-than-expected performance in Indulekha. Have to review this every year. There are also some other costs relating to GSKCH merger (announcement came in December 2018).
- Operating margins have now improved for 30 of the last 31 quarters.
- Cost savings will continue to be a big factor driving margins. Margins growth will be modest going forward.
- Premiumization and analytics-related margin growth opportunity remains high.
- It has obtained approval on GSKCH merger from Competition Commission and awaiting court convened shareholder's approval. Maintained earlier guidance of possibility of all approvals by December 2019.
- Tax rate in FY20 to be 100bp higher than FY19 numbers setting aside the GSKCH impact, which is uncertain as of now.
- CSD receivables were at unusually elevated levels in March, leading to higher debtor days at the end of the year. Situation has normalized in April.
- Ecommerce is around 3% of sales and continues reporting very healthy growth every quarter.
- Premium segment is 28-30% of overall FMCG market. HUVR will be overindexed on this relative to the market.

Jyothy LABORATORIES LIMITED

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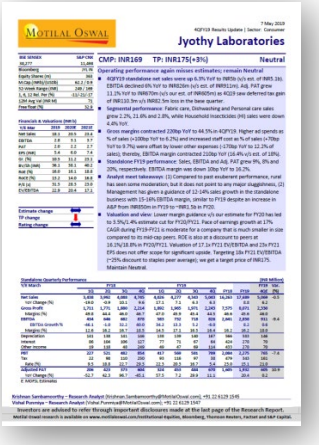

Jyothy Labs — Neutral

Current Price INR 173

Macro and outlook

- Management believes there is no worry from a demand perspective for FY20.
- Rural packs do not point to any major sluggishness, but compared to the exuberance of the past, there has been some moderation in rural.

Segment and brand performance

- Focus segments – Fabric care (Post-wash), Fabric care (Main wash), Dishwashing, Household Insecticides (HI) and Personal Care.
- Fabric Care - Growth in the quarter was muted, but full-year growth was decent at 7.6%. In erstwhile weak markets, share was up (Maharashtra by 320bp, Bihar by 140bp and UP by nearly 100bp).
- Fabric Care- Ujala detergent is the no. 1 detergent brand in Kerala.
- Fabric Care - Henko franchise grew 10.3% for the year, but declined 4.7% in 4QFY19. Premiumization trend remains strong.
- Fabric Care - Matics industry sales are at INR7b currently.
- Dishwash (32% of sales) grew 22% for the year and 17% YoY in 4Q. Pril Liquid grew 14% YoY in 4QFY19, and was up 16% YoY in FY19. Pril Tamarind launch has added 10% to sales. Exo also did very well. Exo Ginger was launched in 4QFY19.
- HI (20% of sales) declined 2.5% in FY19 and 2.5% during 4QFY19. JYL has lost share in both liquid vaporizer (LV) and coil. The company had 7.7% share in LV a year ago, which is at 6.5% in 1QCY19. Coil had 21.2% share a year ago, and is at 19.7% in 1QCY19.
- HI - have launched Maxo 100% natural incense sticks. Have over 1% market share in Gujarat, and 3-5% share in all the five South Indian states, with Karnataka an outlier at around 7% market share.
- Personal wash is witnessing much discounting, thus growth was 6.9% (GST adjusted) in FY19 and 2.8% in 4QFY19. Launched Margo Glycerine in West Bengal and Kerala. There has been some loss of market share in core South India market as they did not participate in discounting in the category.
- T-Shine toilet cleaner has 5% market share in Kerala. Once it reaches 7-8% share, the company will launch in other markets.

New MD focus areas (Ms. MR Jyothy — taking over from 1st Apr'20)

- Invest in brand building.
- Sprucing up R&D.
- Training and upgrading the sales team.

Performance v/s guidance

- Last year, guidance was for 12-14% sales growth in the standalone business and the company achieved 9.3% growth (non-HI 11.3%). It would have surpassed its guidance, if adjusted for Kerala floods. EBITDA margin guidance was 15-16% for standalone business in FY19, company achieved 16.2%.

Guidance for FY20

- 12-14% topline growth.
- 15-16% EBITDA margin, despite increase in A&P from INR850m in FY19 to ~INR1.5b in FY20.
- Gross margins likely to expand 200bp to around 49%. Better volume growth and cost rationalization will help absorb ad spend hike.
- However, if it grows higher than targeted sales, the company may look at compromising on EBITDA margins.

Key focus area for FY20

- Accelerating Ujala category.
- Dishwashing- stepping up investments in the 'star' category.
- Margo- investing to leverage 'naturals' platform.
- Innovation and new geographies.

Other points

- Total reach 2.8m outlets with 0.86m direct reach.
- Online is 15% of the modern trade business. Online — 1% of overall sales, lower than peers because key categories like HI are not salient in online.
- If 15% of modern trade is online then modern trade is around 9% of sales, also lower than peers.
- NWC days have declined from 31 days in FY18 to 23 days in FY19.

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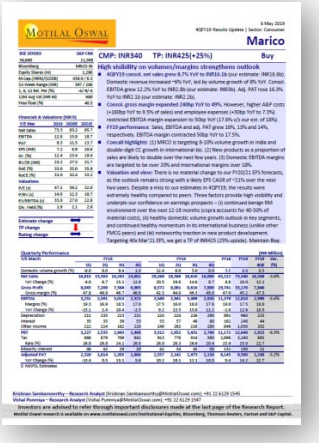

Marico — Buy

Current Price INR 375

Macro comments

- Management is reasonably satisfied with 4QFY19 performance with volume growth and margin expansion attaining targets despite sluggish March (some rural sluggishness).
- Believe if new products continue to do well (most of them are urban premium products), Saffola recovery swing happens and VAHO targets are attained, the company should be able to withstand some near-term sluggishness in rural demand.
- Urban general trade in top 6 cities is weak. Three factors are affecting the same (a) cash and carry leakage, (b) e-Commerce and (c) shrinking urban wholesales. Management outlook and targets
- MRCO is targeting 5-7% volume in Parachute.
- VAHO- high single digit growth targeted in 1QFY20 and double digit volume growth for the full year FY20. Based on input costs and being first destination for upgraded customers, company has taken 5-6% price cuts in April 2019 in a few select VAHO brands.
- Saffola is likely to report high-single-digit volume growth for the next couple of quarters. Still 'work-in-progress' toward double-digit volume growth in Saffola. Recovery in Saffola is happening faster than expected. However, management is still waiting for a couple of quarters before calling out a full recovery.
- Food business should cross INR2b sales in FY20.
- VAHO usually witnesses 4-5% realization growth every year. Likely to be lower in FY20 before increasing in subsequent years.
- Going forward, targeting over 20% margins in India and 18% plus (with an upward bias) in the international business.

Commentary on new launches performance

- FY19 was characterized by an unprecedented level of new products introductions from the company.
- Parachute Aloe Vera continues to do well.
- Nihar Naturals Extra Care Hair Fall Control Oil, launched in West Bengal earlier this year, gained some traction.
- The initial reception for True Roots Botanical Hair Tonic, which tackles the common consumer problem of premature hair greying, has been positive.

- Parachute Advansed Coconut Crème Oil, available in Bangalore, Maharashtra and Modern Trade & E-commerce across India, has gained reasonable traction.
- Set Wet Hair Waxes, also available in an affordable price point pack (INR30), received very healthy feedback from trade and consumers.
- Parachute Advansed Men Hair Creams is seen gaining traction in the Ecommerce channel.
- NPD contribution is expected to double over the next two years.

Commentary on input costs

- During the quarter, average market price of domestic copra was down 19% YoY. With the onset of the flush season, prices have softened on expected lines after the sharp spike due to the aftermath of Cyclone Gaja in Tamil Nadu late last year. Other key input prices for the India business during Q4FY19 - Rice Bran Oil was flat, while Liquid Paraffin (LLP) and HDPE were down 3% and 9% YoY, respectively. Safflower Oil was up 11% YoY.
- Copra prices are trending downwards as anticipated and are expected to stay benign unless monsoons disappoint.
- Management maintained 15-20% decline targets in copra costs for the year. There is unlikely to be any material price cuts in Parachute. In some ways, the gradual and not extremely sharp decline in copra costs is enabling healthy volume growth and less volatility in product prices.
- Can attain 150bp gross margin expansion in FY20 even after some increases in crude prices.

Comments on channels

- Owing to robust growth throughout the year, the contribution of Modern Trade and E-commerce to the India business jumped to 13% and 4% respectively. CSD sales (7% of India business) grew 9%.
- Pursuant to the focus on increasing its rural footprint, the Company has expanded its direct reach to cover almost every town with a population of 5,000 and above.
- Investing in distribution and quality of distribution after a hiatus of 3 years. Also investing significantly in digital capabilities.

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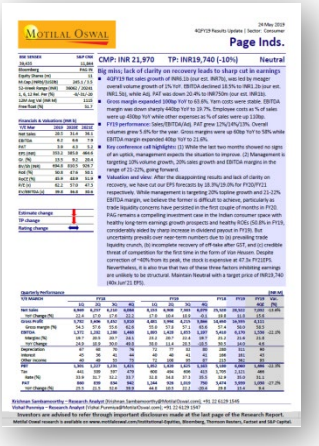

Page Inds — Neutral

Current Price INR 20,002

Macro

- Post GST, inventory held by retailers has been lower than the past. But liquidity issues were more severe in the trade in 4QFY19.
- No sign of an uptick in the last two months, but expect situation to improve.
- 130m customers targeted for Jockey. The company has 19-20% share in their target market for men's innerwear, 5-6% in women's innerwear, and 6-8% in ath-leisure.
- For target market calculations, the company is assuming six pieces for men's innerwear annually, seven pieces for women's innerwear and four pieces for ath-leisure.

Reasons for weak realization in 4QFY19

- In 4QFY19, some schemes were undertaken to boost sales.

Guidance

- 10% volume growth targeted, which should lead to 20% sales growth. Price increase, better mix and greater share of higher priced ath-leisure products are

likely to boost realization. Price increase is usually around 4-6%. This is a big divergence from earlier management guidance.

- Looking to maintain EBITDA margin at 21-22%.

Inventory increase of 32% YoY

- Regards to the sharp increase in inventory, company stated that it is preparing for stronger demand in 1QFY20.

Capacity expansion and new categories

- Capex- INR470m in FY19, similar number expected in FY20 as well.
- Doubling own capacity from current 260m pieces in five years.
- New plant commencement dates—Andhra Pradesh 4QFY21, Karnataka 3QFY20.
- Have set up 100+ people team in kids wear with focused marketing as well.
- Have only 1.9% market share in kid's innerwear, so growth opportunity is huge.
- Have also launched outerwear products for kids recently.

Stores and channel details

- The company had 620 EBO stores at end-FY19. Sales from these contribute around 16% to total turnover.
- Reached ~55,000 stores on the MBO front.
- Online sales now at ~4%.

Other points

- Attrition is in line with industry standards.
- No sharp increase in material costs are being witnessed now.

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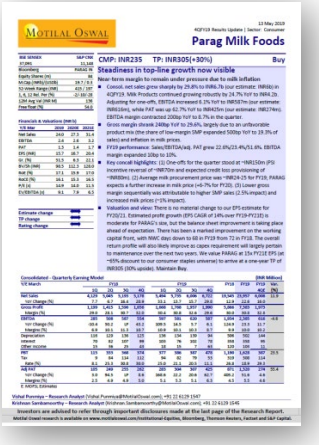

MOTILAL OSWAL

Parag Milk Foods

CMP: INR235 TP: INR305(+30%) Buy

Steadiness in top-line growth now visible

Parag Milk Foods — Buy

Current Price INR 241

Performance

- Volume growth for FY19 stood at 25-26%.
- Lower gross margin during the quarter (3% impact on QoQ basis) was due to higher SMP sales (2.5% impact) and increased milk prices (~1% impact).
- There was INR1-1.5 increase in milk price during the quarter. Due to the lag in passing, the quarter saw a QoQ impact of ~1% on the gross margin. The company expects a further increase in milk price (6-7% rise in average procurement for FY20); to stay at INR26-27 on an annual basis. Average milk procurement price for FY19 was ~INR24-25.
- EBITDA margin contraction in 4QFY19 is temporary and will normalize in the subsequent quarters.
- Reason for higher other expenses: increase in ad spends, volumes linked variable expenses, and one-offs.
- Total one-offs for the quarter stood at ~INR150m. PSI incentive reversal of INR70m and expected credit loss provisioning of INR80m.

Other highlights

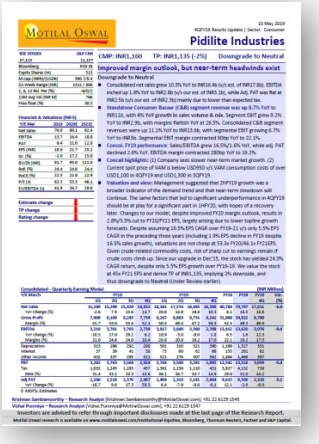
- Danone: Response from Delhi has been good; so expect INR70-80m run-rate on a monthly basis for FY20 (~INR1b for FY20). Sales from Danone unit stood at INR45m for 4QFY19.
- Doubled retail presence in Mumbai.
- Total retail touch points now at 0.35m.
- Procurement: 14-15llpd for FY19.
- Key investments during the year: Investments on brand will lead to savings in other expenses (e.g. investment to generate own power and investments on reducing third party packaging costs), investment on distribution front.

- Inventory days for the year improved from 82 to 71; will see further improvement of 5-10 days in FY20.
- Capex for FY19 stood at INR800m: as per IPO (INR300m), Danone (INR220-230m) and rest was maintenance capex. To cater to South India, it introduced Gowardhan Swarna (different aroma and texture) and is priced at a premium (INR605/kg).
- O/s PSI incentive at start of FY19 was INR620m and as on 31st Mar'19 was INR520m. INR250m annual run-rate going forward.
- Milk subsidy from Maharashtra govt. o/s was INR380-400m (majority of which received in April). Govt. subsidy scheme of INR5 seems to have been taken off.
- 60% of SMP sales come from customized products now (Nestle, HUVR and Mondelez).

Outlook

- The company is on way to achieve the vision it had set last year for 2020.
- Ad spends to be in the range of 3-3.5% of sales.
- Net margins are expected in excess of 5% in FY20.
- Tax rate for FY20/21 to be at 24-25%.

Click below for Detailed Concall Transcript & Results Update



Pidilite Industries — Neutral

Current Price INR 1,270

Performance

- Company expects slower near-term market growth and is cautiously optimistic of growth hereon.
- Price hike in FY18-19 with softer input cost should lead to margin expansion.
- Currently, VAM at USD950 spot rate v/s USD1,100 in 4QFY19 (consumption cost); USD1,300 in 3QFY19 (consumption cost).
- Prices unchanged in 4QFY19. Company believes there is no need for price increase currently as VAM is sequentially improving. Until now, only increased discount on some products.
- Provision for current tax has been made after considering excess provision written back in earlier years of INR528.7m in Mar'19 and INR464.7m in Mar'18.
- Exception item for the quarter was decrease in value of investment of INR110m for 4QFY19; same was INR180.2m for FY19.
- Ind-AS adjustment on option valuation in CIPY led to higher interest cost in FY19 on consol. level.
- Ad spends as % of sales was 4.1% for 4QFY19 and 3.6% for FY19.

Subsidiary

- 24.9% value growth in domestic subsidiaries during the quarter.
- Nina subsidiary saw provision of INR44m during the quarter due to IL&FS investment; it is now fully provided for.
- Input cost and forex fluctuation impacted international subs.
- Middle East — investing to grow construction chemical, but slowdown and competition has impacted the business.
- Exports to Middle East doing well, but sales are getting captured in domestic sales.
- Egypt — will stay committed for few more years.
- Nina & Percept and CIPY are largely B2B businesses while the other construction business of PIDI is largely B2C. The performance of Nina & Percept during the

quarter was lower as company refrained from accepting certain orders due to risk in B2B.

New products

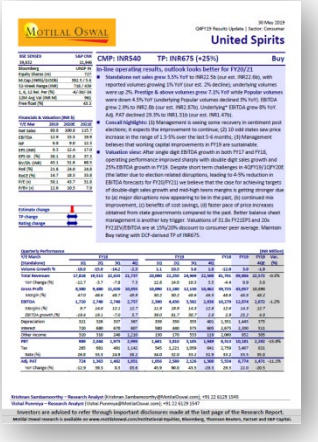
- In domestic C&B business, variants HEATX and Hi-Per have done very well; Ezee spray has also performed well.
- New product introduced in tiling portfolio has fared well.

Guidance

- 2HFY19 performance will be a better indicator of growth, in the coming days.
- EBITDA margin band at 21-24%; expansion should be primarily led by gross margin.
- Capex: 2.5-3% of sales for FY20.
- Tax rate: 32-33% for FY20.

UNITED SPIRITS

Click below for Results Update



United Spirits — Buy

Current Price INR 558

Macro and one-offs affecting sales in 4QFY19

- In addition to overall consumption slowdown in 4QFY19, impact of excise changes in Maharashtra and Karnataka affected sales on a one-off basis. In Maharashtra, surprise excise increase from 1st Jan'19 meant that new stock effectively took three weeks to reach the market. In Karnataka, there was upstocking in 4QFY18 ahead of the sharp excise increase from 1st Apr'18. However, there was no such up-stocking in 4QFY19 as excise increase was only moderate in the FY20 budget for Karnataka.
- Underlying momentum remains strong particularly in Prestige and Above.
- 1QFY20 will witness some slowdown due to election related disruption and weak consumer sentiment. The company had called out the election related impact at the end of 3QFY19 call as well. Management revealed that they are seeing some recovery in sentiment post elections and expect this improvement to continue.

Guidance on sales and margins

- Management reiterated medium-term target of double-digit sales growth as well as mid-to-high teen operating margins.
- Popular segment is likely to grow at low single-digits going forward.
- Consumer opportunity is massive in Prestige and Above and the recent improved sentiment should help. In addition, management is also working on the next phase of investments and activity on key P&A brands to boost growth opportunity.
- In addition to faster growth in P&A compared to popular, each premium level is growing faster than the segment below. Therefore, mix should continue to be a factor driving operating margin improvement.
- P&A share of revenues grew 300bp YoY to 66% of sales in FY19 and will continue to grow faster.
- Despite absorbing some impact of excise increase in Maharashtra in the lower end of the P&A segment, both growth and margins in Maharashtra are higher than the national average.
- A range of 1.5-5% price increase was received from 10 odd states over the last 5-6 months (most of them in the last 2-3 months) and should help margins. The increases received so far are adequate to cover half of the ongoing material cost increases. Further, price increases from these and other states will help margins.

Cost savings and mix effect will also help.

- A&P will remain between 9-10% of sales going forward.

Working capital reduction

- Management believes that improvements in working capital in FY19 are sustainable. Average working capital is a key management review metric.
- In the earlier years, some of the improvement was aided by changes in business model (franchising, etc.) but that was not a factor in FY19 reduction in working capital.

Other points

- Launched branded hip flask for scotch.
- Income from franchise sales was in line with expectations in FY19.
- IPL franchise revenue stood at INR3.1b, EBITDA at INR1.5b and margins ~48%.
- Andhra Pradesh constitutes 3-4% of the topline and bottom line for UNSP.

Awaiting more clarity on prohibition news

- Mid Prestige segment- Royal Challenge is holding on to its share in most states. Launched McDowell's platinum in this segment, which has received a good response.
- Upper Prestige- Signature Premier is reporting higher than peer growth.
- Duty free trade in Indian ports and airports will be higher than domestic sales of Diageo brands.

Asset sales in FY19

- Sold four floors of office space in UB Tower in Bangalore and leased it back. Also sold Four Seasons brand in FY19.

- **Asset quality worries are diminishing, with banks reporting a decline in stressed assets, led by benign slippages and higher recoveries/write-offs during the quarter. However, credit cost for most corporate banks remains elevated due to ageing-related provisions toward NCLT accounts (Essar Steel, Alok and Bhushan Power), downgrade of the ILFS exposure and a few other names getting added to the stressed pool. Coverage ratios across several banks have improved strongly. AXSB/ICICIBC among private corporate banks and SBIN among PSBs guided for normalization in credit cost. Recoveries from NCLT-related cases and resolution of stressed power assets have been delayed. However, this is expected to get resolved in FY20, driving a further improvement in asset quality for the underlying banks.**
- **Most banks like HDFCB, AXSB, KMB and ICICICBC have guided for faster growth in retail term deposits. The outlook for corporate banks is improving, given the moderation in slippages, the reduction in total stressed loans and the improving profitability.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Easing provisioning pressure	Exposure towards troubled sectors/accounts
Axis Bank	■ Yields are expected to improve led by improving asset mix and rising mix of performing loans. However, margins are likely to remain flat as funding cost stays elevated. ■ Expects cost to assets to decline to <2% in next three years. ■ Guided target RoE of 18% over medium term (FY22), driven by improving credit cost, margins expansion, lower opex and higher fee income.	■ Management is focusing to apply a consistent conservative provisioning policy, but expects credit cost to stabilize at its long-term average levels of ~110-115bp. ■ Elevated downgrade cycle of the corporate book is now complete. BB & below book is expected to be stable at ~2-3% of the corporate book (at its long-term average).	■ The bank maintains higher provision on the stressed sectors, identified two more stressed assets and made additional provision of INR1.6b. ■ ~60% of the BB & below portfolio is from the power, Iron & steel and infra construction sector. ■ Non-fund based exposure on NPA book is INR29b, while non-fund exposure outstanding in the BB & below portfolio is INR22b.
Bank of Baroda	■ On the merger, expect system integration to take 18 months to complete. ■ The bank expects merged entity to grow in double digits. ■ It is focused on improving its sales force team, which could support business growth. ■ BoB is providing additional products/services such as working capital solutions, wealth management products, etc., to generate fee income. ■ Believes 10% ROE for the merged entity is achievable.	■ BOB will bring provision coverage of Dena & Vijaya Bank to the level of the bank. ■ Expect NNPA to reach 2.75% by FY20 from 3.65% (merged entity) currently.	■ Exposure towards ILFS is INR45.7b in BOB, INR12.2b in Dena & Vijaya. Total NPL is INR22b, on which it holds provision of 25%. The other assets in the amber and green category are secured. ■ Total DHFL exposure is INR30b in BOB and INR10b in Dena/Vijaya. ■ The bank has INR20b exposure to ADAG group. ■ Nil exposure to Jet Airways.
ICICI Bank	■ The bank expects margins to remain stable at ~3.4% with a positive bias. ■ Expects SME/corporate loan book to pick up going forward. Also, growth in retail momentum to remain strong. ■ Bank is expecting higher growth in the term deposits over CASA growth momentum. ■ Bank maintained its guidance to achieve 15% RoE by Jun '20.	■ ICICIBC guided for credit cost of 1.2%-1.3% in FY20 as PCR has already crossed targeted ~70%. ■ It expects credit cost to sustain at ~20% of PPOP on a long term basis.	■ Exposure to power assets stood at INR374b (~31% of total power assets are either NPLs or rated BB and below). Out of the remaining exposure to power assets (excluding SEBs), ~76% is currently rated A- or higher. ■ Exposure towards NBFC, HFC (incl non-fund) stood at INR432b (~7.4% of total net advances) while exposure towards builder portfolio (incl non-fund) stood at INR196.5b (3.3% of total net advances) ■ Total provision coverage on ILFS exposure of INR8.2b (includes fund based and non-fund) stands at 75%.

St. Bank of India	■ Bank guided for domestic margins of ~3.25% for FY20. ■ Expects credit growth of 12%-14% in FY20. ■ C/I ratio to improve on the back of lower wage provisions and improved digitalization. ■ ROA for FY20E in the range of 0.75%-1%, though believes that 1% ROA is achievable if the same trend continues.	■ SBIN made more than the required provisions on all legacy assets. It, thus, expects provision write-backs from legacy accounts in future. ■ It expects fresh slippages in the range of 1.4%-1.5% for FY20 and credit cost to remain below 1%. Thus, credit cost are likely to moderate significantly.	■ The bank expects to recover INR160b from three NCLT accounts resolutions (Essar Steel, Bhushan Power and Alok Industries). ■ Non-fund exposures on gross NPLs stand at INR87b. ■ Total ILFS exposure is INR34.87b, of which INR23.6b is standard. Total PCR maintained on NPA is 40%, while it holds provisions of 22% on its standard exposure under 'Red' category.

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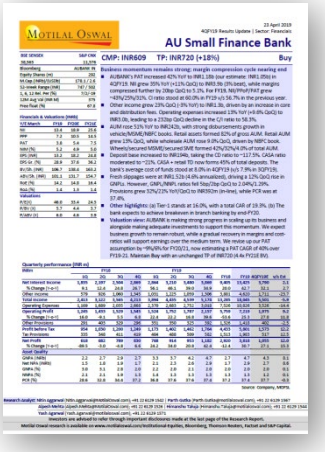
MOTILAL OSWAL

23 April 2019
4QFY19 Results Update | Sector: Financials

AU Small Finance Bank

CMP: INR609 TP: INR720 (+18%) Buy

Business momentum remains strong; margin compression cycle nearing end

- AUBANK's PAT increased 42% YoY to INR1.18b (our estimate: INR1.05b) in 4QFY19. NII grew 35% YoY (+11% QoQ) to INR5.9b (3% beat), while margins compressed further by 20bp QoQ to 5.1%. For FY19, NII/PPoP/PAT grew ~42%/25%/31%. CI ratio stood at 60.0% as FY19 v/s 56.7% in the previous year.
- Other income grew 23% QoQ (-9% YoY) to INR1.3b, driven by an increase in core and distribution fees. Operating expenses increased 13% YoY (+6.4% QoQ) to INR3.0b, leading to a 232bp QoQ decline in the CI ratio to 50.3%.
- AUM rose 51% YoY to INR242b, with strong disbursements growth in vehicle/MSME/NBFC books. Retail assets formed 82% of gross AUM. Retail AUM grew 23% QoQ, while wholesale AUM rose 9.0% QoQ, driven by NBFC book. Wheels/secured MSME/secured SME formed 42%/32%/4.8% of total AUM.
- Deposit base increased to INR194b, taking the CD ratio to ~117.5%. CASA ratio moderated to ~21%. CASA + retail TD now forms 45% of total deposits. The bank's average cost of funds stood at 8.0% in 4QFY19 (v/s 7.9% in 3QFY19).
- Fresh slippages were at INR1.52b (4.0% annualized), driving a 12% QoQ rise in GNPLs. However, GNPL/NNPL ratios fell 50p/23bp QoQ to 2.04%/1.20%. Provisions grew 32%/21% YoY/QoQ to INR592m (in-line), while PCR was at 37.0%.
- Other highlights: (a) Tier-1 stands at 16.0%, with a total CAR of 19.3%. (b) The bank expects to achieve breakeven in branch banking by end-FY20.
- Valuation view: AUBANK is making strong progress in scaling up its business and alongside making adequate investments to support this momentum. We expect business growth to remain robust, while a gradual recovery in margins and cost-ratios will support earnings over the medium term. We revise up our PAT assumption by ~9%/8% for FY20/21, now estimating a PAT CAGR of 40% over FY19-21. Maintain Buy with an unchanged TP of INR720 (4.4x FY21E BV).

Source: Company, MOFSL

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AU Small Finance Bank — Buy

Current Price INR 705

Balance sheet and P&L related

- Average SA cost was at 6.3% for FY19.
- Reduction in SA rate in April is in line with the market rate. There is more traction in retail TD and therefore reducing SA rate made sense.
- Bank is expecting to break even in branch banking this fiscal. It is expecting ROA to come in at (-0.1%) for the branches which are already in existence.
- Out of total disbursement of INR160b, ~INR3.6b is non-fund based (BG), which is the sanctioned amount.
- Out of INR15b of retail TD accretion, ~INR3.8 is retail deposits less than INR10m/INR20m.
- Bank is not expecting cost of funds to come down drastically in coming fiscal.
- Bank has started increasing yields from Nov/Dec and therefore AUM IRR should reflect the disbursements yield in a quarter or two.
- Bank has added more names on co-operative banks and govt. side on the deposit side. Co-operative bank money is non-callable and is for more than 1 year.
- Almost 70% of the NBFC book is rated investment grade, and ~15% is unrated as they are relatively new NBFCs in the market.
- Real estate has around ~320 to 350 accounts…
  - One book consists of affordable housing which typically consists of G+2 floor developers.
  - Another book is INR50m to INR100m which are small developers.
  - More than 70% of the real estate book is from Rajasthan.
- Cross sell income: 1HFY19 had some one-time opportunistic cross-sell income.
- Collection efficiency is focused on low-buckets category.
- The bank has 170 accounts in NBFC book and lends to high-rated entities.

Asset Quality

- Last quarter focused on collection from the small buckets/early buckets. The collection efficiency is focused on low buckets category.
- Major contributors to GNPA are from wheels and SBL.
- Excluding the below 90 days overdue loans, PCR is 55%.

Guidance

- Fee income is expected to grow at 20%.
- Largely SBL, MSME and wheels will continue to grow handsomely (+30% growth in FY20). Focusing more on used wheel and cash on wheel which normally has higher yields.
- Bank is expecting the CI ratio to be around the current levels.
- Bank is planning to open 27 branches in the metros (Mumbai/ Delhi/ Jaipur / Pune). There would be smaller in size and therefore opex is expected to trend downward.

AXIS BANK

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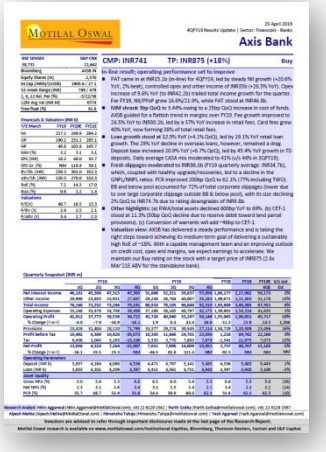

Axis Bank — Buy

Current Price INR 809

Balance sheet & P/L related

- The bank aims for a cost-to-assets ratio under 2% in three years.
- Yields will continue improving because of better pricing power of banks.
- The bank believes that the margin will remain flat in the coming year but expand slightly over FY21.
- The bank is moving toward retail deposits aggressively and is ready to offer higher interest rates. Hence, cost of deposits has increased in this quarter.
- The corporate banking fees have now stabilized and will start picking up slowly in the coming quarters.

Asset quality

- The bank is using a conservative formula-driven provisioning policy on the corporate-lending portfolio.
- Expect credit cost to stabilize below its long-term three-year average.
- Net security receipts (SR) stood at INR29b and hold a provision of INR2.5b.
- Maintains higher provision on the stressed sectors, identified two more stressed sectors and made an additional provision of INR1.6b.
- Exposure of INR21.4b on land parcels: Advised by the RBI to provide 100% provision against land assets over four quarters starting 31st Mar'19. Accordingly, the bank has provided INR5.4b by debiting the P&L account in the current quarter and the balance of INR16.1 b has been provided by debiting the reserves which would be charged to P&L over the next three quarters by recouping from the reserves.
- Non-fund exposure on BB & below pool is INR22b, which remains standard.
- Downgrade of INR9.8b in BB & below pool in the current quarter.
- ~60% of the BB & below portfolio is from the power, iron & steel and infra construction sector.
- Slippages: One account of INR3.1b slipped from Engineering & Electronics sector.
- Net slippages from agri sector were negative due to higher upgrades & recoveries.
- BB & below book is expected to be stable at ~2-3% of the corporate book (at its long term average).
- The bank has accumulated PWO (write-offs) of INR187b and recovered 13% over the last 12 months.

Others

- The wealth management business 'Burgundy' is one of the largest with total AUM of INR1,327b.
- The bank has ~6m credit cards in force and is the fourth largest credit card issuer in the country with a market share of 12%.
- Share of working capital (WC) loans in SME loans is ~79%.
- Around ~52% of total incremental SA accounts opened through tab banking.
- Also, ~46% of the total personal loans disbursements made through digital channels.
- The bank's penetration rate is still low in the unsecured book, and thus, offers a huge room for growth.
- Mr. Ganesh Sankaran joined as head of wholesale banking.
- The bank created a separate sales force team focusing on branch banking.

Bank of Baroda — Buy

Current Price INR 124

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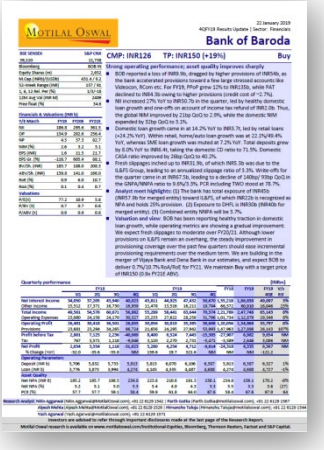


Balance sheet

- International portfolio has stabilized now and expected to improve going forward. Introduced new products in International business which will be margin accretive.
- Focusing on continuous improvement in RWAs.
- Market share in auto loans has improved.
- In certain states like Karnataka, Gujarat and Maharashtra, it has 10%+ market share.
- Plans to sell down some non-core assets.

P&L related

- Cost of domestic deposits increased by 10bp QoQ.
- Domestic margins improved as a result of one-offs due to income tax refund.

Asset quality

- Fresh slippages in Agri portfolio have increased.
- Slippages breakup: Corporate-INR10b; Retail-INR2b and SME/Agri -INR7b each.
- Recoveries delayed in Essar Steel, Bhushan and Alok Industries.
- Provisions breakup: (i) INR10b made on account of accounting entry made in Bhushan, Alok, Essar Steel. (ii) INR18.75b accelerated provision made on Videocon, Rcom, Aircel. Now holds 70%+ provision coverage on these accounts. (iii) Normal provisions of INR12b. (iv) Fraud account provisioning of INR2.5b and the rest are SME/retail provisions.
- ILFS exposure: Dena and Vijaya Bank exposure: INR12.22b. BOB exposure: INR45b. Thus, total ILFS exposure is INR57.90b. Total NPAs exposure in ILFS is INR22b on which it holds provisions of 25%.
- Reliance commercial and Home finance exposure is INR20b.
- DHFL exposure: Exposure of INR30b in BoB and INR10b in Dena & Vijaya. All exposure is secured.
- Religare exposure is minimal.
- Nil exposure to Jet Airways.
- Total AUCA book stood at INR180b.

Consolidated entity

- Same technology to be implemented in the merged entity and thus integration will require six months.
- Combined entity NNPA is 3.7%
- Expect NNPA to be below 2.8% by FY20.
- Absolute NNPA is INR220-230b.
- Deposits – INR7t.
- RWA – INR5.07t.

Guidance:

- Expect merged entity to grow loan book in double digits.
- Expect ROE of 10% and credit cost of 1%. Expect NNPA to reach 2.75% by FY20.

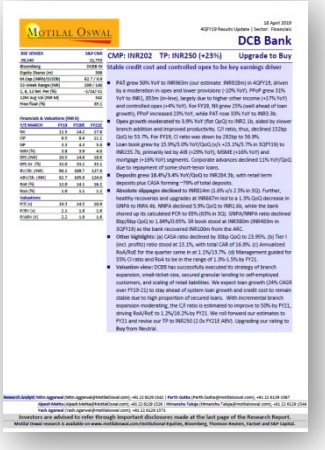
DCB Bank — Buy

Current Price INR 235

Click below for Detailed Concall Transcript & Results Update

Balance sheet and P&L related

- Bank is moving toward short-tenor, lower capital consuming corporate loans, leading to a fall in the corporate book this quarter.



MOTILAL OSWAL

18 April 2019
4QFY19 Results Update | Sector: Financials

DCB Bank

CMP: INR202 TP: INR250 (+23%) Upgrade to Buy

Stable credit cost and controlled opex to be key earnings driver

- PAT grew 50% YoY to INR96bn (our estimate: INR92bn) in 4QFY19, driven by a moderation in opex and lower provisions (-10% YoY). PPoP grew 31% YoY to INR1, 053m (in-line), largely due to higher other income (+17% YoY) and controlled opex (+4% YoY). For FY19, NII grew 25% (well ahead of loan growth), PPoP increased 23% YoY, while PAT rose 33% YoY to INR3.3b.
- Opex growth moderated to 3.9% YoY (flat QoQ). NIM (2.1%, aided by slower branch addition and improved productivity; CI ratio, thus, declined 152bp QoQ to 53.7%. For FY19, CI ratio was down by 192bp to 56.9%.
- Loan book grew by 19.9%(19.9% YoY/QoQ) vs 21.2%(5.7% in 3QFY19) to INR235.7b, primarily led by AB (+29% YoY), MSME (+16% YoY) and mortgage (+16% YoY) segments. Corporate advances declined 12% YoY/QoQ due to repayment of some short-tenor loans.
- Deposits grew 18.4%(4.4% YoY/QoQ to INR204.3b, with retail term deposits plus CASA forming ~79% of total deposits.
- Absolute slippages declined to INR614m (1.0% vs 1.3% in 3Q). Further, healthy recoveries and upgrades at INR667m led to a 1.3% QoQ decrease in GNPA to INR4.4b. NNPA declined 5.9% QoQ to INR1.8b, while the bank shored up its calculated PCR to 65% (65% in 3Q). GNPA/NNPA ratio declined 8bp/4bp QoQ to 1.84%/0.65%. SR book stood at INR300m (INR400m in 3QFY19) as the bank recovered INR100m from the ARC.
- Other highlights: (a) CASA ratio declined by 30bp QoQ to 23.95%. (b) Tier 1 (incl. profits) ratio stood at 13.1%, with total CAR of 16.8%. (c) Annualized RoA/RoE for the quarter came in at 1.1%/13.7%. (d) Management guided for 55% CI ratio and RoA to be in the range of 1.3%-1.5% by FY21.
- Valuation view: DCBB has successfully executed its strategy of branch expansion, small-ticket-size, secured granular lending to self-employed customers, and scaling of retail liabilities. We expect loan growth (24% CAGR over FY19-21) to be ahead of system loan growth and credit cost to remain stable due to high proportion of secured loans. With incremental branch expansion moderating, the CI ratio is estimated to improve to 50% by FY21, driving RoA/RoE to 1.2%/18.2% by FY21. We roll forward our estimates to FY21 and revise our TP to INR250 (2.0x FY21E ABV). Upgrading our rating to Buy from Neutral.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/institutional-equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Making the retail TD more granular will help achieving in LCR easily and will also help the margins.
- Bank is aiming INR100m to INR110m of employee productivity; Bank is currently at ~INR80m.
- Pricing environment has improved (as compared to Jul'18) in favor of banks.
- Employee count: 6,134.
- GST-related issues are now largely behind for MSMEs/SMEs.
- Bank earned INR280m of PSLC income for FY19.
- Bank has no plans of expanding into high-yielding loans which other banks are doing.
- NPA provisions: INR260m (higher than the RBI guidelines), floating and std. assets provisions: INR70m.
- Due to the branch wise ROE matrix introduced, the bank might be losing some customers to other banks.
- Bank has obtained refinance at the rate higher than deposit rate.
- Corporate loan got paid off during the quarter and therefore the decline.

Asset quality

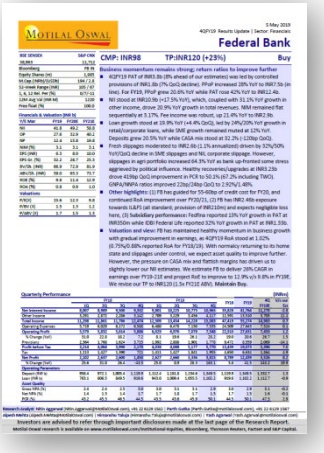
- INR100m recovered from ARC in the last quarter and management expects it to recover further.
- One corporate loan slipped into NPA, hopeful of recovery in the next 2-3 quarters.

Guidance

- Focus on reducing the CI ratio further.
- ROA should be in the rang e of 1.3% to 1.5%. Cost and fee income would be the important levers.
- Bank is not planning to raise capital at least for the next 6 to 9 months.

FEDERAL BANK

Click below for Detailed Concall Transcript & Results Update



MOTILAL OSWAL

5 May 2019
4QFY19 Results Update | Sector: Financials

Federal Bank

CMP: INR98 TP:INR120 (+23%) Buy

Business momentum remains strong; return ratios to improve further

- 4QFY19 PAT of INR1.8b (8% ahead of our estimates) was led by controlled provisions of INR1.8b (7% QoQ decline). PPoP increased 10% YoY to INR7.5b (in-line). For FY19, PPoP grew 20.6% YoY while PAT rose 42% YoY to INR12.4b.
- NII stood at INR10.9b (+17.5% YoY), which, coupled with 31.1% YoY growth in other income, drove 20.9% YoY growth in total revenues. NIM remained flat sequentially at 3.17%. Fee income was robust, up 21.4% YoY to INR2.9b.
- Loan growth stood at 19.9% YoY (+4.4% QoQ), led by (24%/20% YoY growth in retail/corporate loans, while SME growth remained muted at 12% YoY. Deposits grew 20.5% YoY while CASA mix stood at 32.2% (-150bp QoQ).
- Fresh slippages moderated to INR2.6b (1.1% annualized) driven by 32%/50% YoY/QoQ decline in SME slippages and NIL corporate slippage. However, slippages in agri portfolio increased 64.3% YoY as bank up-fronted some stress aggrieved by political influence. Healthy recoveries/upgrades at INR3.23b drove 419bp QoQ improvement in PCR to 50.1% (67.2% including TWO). GNPA/NNPA ratios improved 12bp/26bp QoQ to 2.92%/1.48%.
- Other highlights: (1) FB has guided for 55-60bp of credit cost for FY20, and continued RoA improvement over FY20/21, (2) FB has INR2.46b exposure towards IL&FS (all standard; provision of INR110m) and expects negligible loss here, (3) Subsidiary performance: Fedfina reported 10% YoY growth in PAT at INR350m while IDBI Federal Life reported 32% YoY growth in PAT at INR1.33b.
- Valuation and view: FB has maintained healthy momentum in business growth with gradual improvement in earnings, as 4QFY19 RoA stood at 1.02% (0.75%/0.88% reported RoA for FY18/19). With normalcy returning to its home state and slippages under control, we expect asset quality to improve further. However, the pressure on CASA mix and flattish margins has driven us to slightly lower our NII estimates. We estimate FB to deliver 20% CAGR in earnings over FY19-21E and project RoA to improve to 1.2% v/s 0.8% in FY18E. We revise our TP to INR120 (1.5x FY21E ABV). Maintain Buy.

Quarterly Performance

	2018				2019				FY18	FY19	4Q	YoY (%)
Net Interest Income	9,280	9,280	9,280	9,280	9,280	10,900	10,900	10,900	37,120	43,600	10,900	17.5
Other Income	2,700	2,820	2,750	2,970	2,780	2,970	2,910	3,470	11,240	12,130	3,470	17.0
Total Income	11,980	12,100	12,030	12,250	12,060	13,870	13,810	14,370	48,360	55,730	14,370	17.3
Operating Expenses	5,910	6,020	6,110	6,300	6,180	6,370	6,430	6,500	24,340	25,480	6,500	3.2
Operating Profit	6,070	6,080	5,920	5,950	5,880	7,500	7,380	7,870	24,020	30,250	7,870	32.3
% Change (YoY)	31.9	17.1	14.7	12.5	3.3	23.4	24.7	32.3	19.1	25.9	32.3	
Provisions	1,690	1,780	1,924	2,570	1,280	2,030	1,970	1,370	8,010	6,650	-1,200	-52.3
Profit Before Tax	4,380	4,300	3,996	3,380	4,600	5,470	5,410	6,500	16,010	23,600	9,070	34.0
Tax	1,113	1,107	1,040	1,000	1,150	1,210	1,200	1,300	4,260	4,860	1,300	8.3
Net Profit	3,267	3,193	2,956	2,380	3,452	4,260	4,210	5,200	11,750	18,740	7,770	36.3
% Change (YoY)	25.4	9.5	16.4	-32.5	5.6	33.4	42.4	118.5	9.9	59.5	118.5	
Operating Parameters												
Deposit (INR b)	188.4	192.1	198.4	203.8	210.4	216.5	204.3	198.5	203.8	198.5	198.5	-2.6
Loan (INR b)	192.1	196.5	199.5	200.8	202.0	208.4	205.5	235.2	200.8	235.2	235.2	17.1
Asset Quality												
GNPA (INR m)	3.9	3.9	3.9	3.8	3.8	3.5	3.3	3.8	3.8	3.8	3.8	-0.2
Net NPA (%)	0.8	0.5	1.8	2.7	1.7	1.6	1.7	1.5	1.7	1.5	1.5	-0.1
PCR (%)	43.2	45.5	48.5	49.6	45.5	43.8	45.9	50.1	44.5	50.1	47.0	2.5

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Federal Bank — Buy

Current Price INR 105

Balance sheet and P&L related

- The bank recognized INR180m as interest income on account of income tax refund in the quarter
- Provisions break-up: Loan loss provision- INR1,370m; MTM on investments- INR370m; Provision for standard assets- INR160m
- Bank is staying away from greenfield projects, telecom and requesting repayments in some other stressed sectors
- Bank has 700 relationship managers
- Gold loan -INR72,000m, of which Retail agri gold- INR17,000m
- All loans INR50m and below are classified as business banking loans
- Risk weight to NBFCs have been revised, which has led to reduction in RWA and also due to improvement in the book quality
- Pension provisioning cost will continue till FY22
- Bank is doing 10,000 credit cards a month. It is focusing on the fee income model rather than earning interest on revolving credit
- Home loan: ATS in metros is INR8m, Non-metros is INR4m-5m
- Bank is doing meaningful participation in the real estate sector in Mumbai. It is disbursing INR4b per quarter in Mumbai
- Overall yields have been inching up in all products

Asset Quality

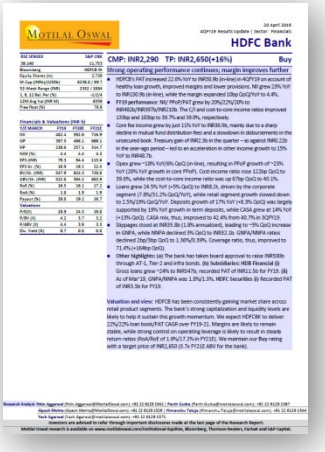
- Bank did a cash sale during the quarter and recovered INR500m in cash (Corporate road asset). Apart from that, recoveries have been granular n Real Estate: Have reviewed the portfolio with majority of exposure being LRDs n FB has two-digit exposure to Reliance Home Finance subsidiary
- Exposure to three subs of IL&FS: INR2.1b is classified in Amber category out of total exposure of INR2.46b. FB continues to receive interest income on the same and is expecting negligible loss on its ILFS exposure
- INR116.8m worth of loans were restructured under the MSME restructuring schem
- Bank's technically w/off pool is INR15b

Guidance and others

- ROA Guidance: Bank has guided for 12-15bp of ROA improvement every year in the exit quarters. Key drivers: Fee income, lower credit cost and operating leverage. Not factoring in margin expansion in FY20E.
- Another 250bp improvement in the CI ratio is expected in the next two years
- 55-60bp of credit cost for FY20
- Retail : Wholesale mix—50:50 in the medium term
- Loan growth at 20-23%
- Proportion of high-yielding loans will rise to 5% in two years from the current 3%
- FB is well capitalized with Tier-1 of 13.4% and thus won't need any capital to support its growth ambition over near to medium term
- Bank will add 80-100 branches outside Kerala over the next two years.

HDFC BANK

Click below for Detailed Concall Transcript & Results Update



HDFC Bank — Buy

Current Price INR 2,425

Balance sheet and profit & loss

- Domestic advances mix breakup: 54% retail, 46% wholesale.
- Wholesale loan growth picked up, largely driven by short-term funding and NCLT resolution cases.
- Retail growth in the unsecured portfolio slowed down, mainly due to the base effect (had grown strongly over the last two years) and the slowdown in disbursements some products (as the bank looked to monitor this portfolio).
- The bank witnessed slowdown in demand for 4-wheelers, as third-party insurance cost has gone up. Thus, it is seeing some slowdown in disbursements in this portfolio.
- In wholesale lending, the bank is focusing on working capital loans, while PSBs are focusing on term lending.
- The bank has better pricing/yields on working capital loans.
- The bank witnessed strong momentum in term deposits. Also, customer acquisition was strong in savings accounts.
- The consumer durables loan portfolio is largely through credit cards/debit cards.
- In wholesale lending, around 5-6% of overall portfolio is linked to external benchmark.
- Fee & commission income constitutes ~75% of total other income.
- Mutual fund distribution fees declined sharply; this trend is likely to continue over the next few quarters because of the change in regulatory guidelines.
- Retail fees declined marginally due to a slowdown in disbursements in unsecured loans.

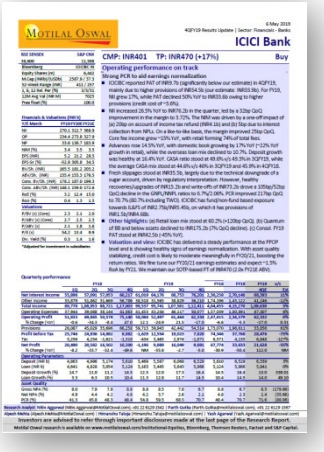
Asset quality

- Slippages in 4QFY19 were at INR35.77b.
- The bank will remain cautious on the agri portfolio and has made contingent provision on this portfolio.
- 4QFY19: Upgrades – INR10b, write-offs – INR11b and recoveries – INR12b. FY19: Upgrades – INR32.5b, write-offs – INR46b and Recoveries – INR39b.
- The bank continues adopting cautious approach toward lending to NBFCs.

HDB Financial Services:

- NIMs came down in 3QFY19 but moved up over 4QFY19.
- It has sufficient capital for growth over the next few quarters; it may look to raise capital over the next 12-18 months.

Click below for Detailed Concall Transcript & Results Update



MOTILAL OSWAL

6 May 2019
4QFY19 Results Update | Sector: Financials - Banks

ICICI Bank

BSE SENSEX 38,934
S&P CNX 11,760

Stock Info
Bloomberg ICICIBC IN
Equity Shares (m) 6,141
M.Cap (INRb)/(USDb) 2507.8 / 37.3
52 Week Range (INR) 411 / 297
1, 6, 12 Mat. Avg Vol (mn) 37/57/
12M Avg Val (INR m) 7925
Free float (%) 100.0

Financials & Valuations (INR b)
As at March FY18 FY19 FY20E FY21E
NII 293.1 352.7 388.9
OP 204.4 273.8 327.8
NP 33.8 136.7 183.8
NIM (%) 3.4 3.5 3.5
EPS (INR) 5.2 21.2 28.5
BV/Sh (%) 62.8 300.8 34.3
ROA (%) 0.5 1.8 2.0
ROE (%) 8.2 8.1 8.3
Cons. BV/Sh. (INR) 276.2 337.0 399.3
Cons. ABV/Sh. (INR) 138.0 170.8 211.6
Ratios
Adj. PE (x) 79.4 19.4 14.5
Adj. PB (x) 2.5 2.3 2.0
Valuations
P/OP (x) (Core) 2.7 2.5 2.3
P/BV (x) 2.5 1.8 1.5
P/E (x) 54.2 19.4 14.5
Div. Yield (%) 0.5 0.6 0.6
*Adjusted for investment in subsidiaries

CMP: INR401 TP: INR470 (+17%) Buy

Operating performance on track

Strong PCR to aid earnings normalisation

- ICICIBC reported PAT of INR5.7b (significantly below our estimate) in 4QFY19, mainly due to higher provisions of INR54.5b (our estimate: INR33.9b). For FY19, NII grew 17%, while PAT declined 50% YoY to INR33.8b owing to higher provisions (credit cost of ~3.0%).
- NII increased 20.5% YoY to INR76.2b in the quarter, led by a 32bp QoQ improvement in the margin to 3.72%. The NIM was driven by a one-off impact of (a) 20bp on account of income tax refund (INR4.1b) and (b) 5bp due to interest collection from NPLs. On a like-to-like basis, the margin improved 25bp QoQ. Core fee income grew ~10% YoY, with retail forming 74% of total fees.
- Advances rose 14.5% YoY, with domestic book growing by 17% YoY (~22% YoY growth in retail), while the overseas loan mix declined to 10.7%. Deposit growth was healthy at 16.4% YoY. CASA ratio stood at 49.0% y/y 69.3% on 3QFY19, while the average CASA mix stood at 44.0% y/y 48% in 3QFY19 and 45.8% in 4QFY18.
- Fresh slippages stood at INR35.5b, largely due to the technical downgrade of a large account, driven by a temporary interruption in its business.
- Slippage ratio stood at 1.9% (annualized) vs. 1.8% in 3QFY19 and 2.0% in 4QFY18. QoQ decline in the GNPL/NNPL ratios to 5.7%/2.08%. PCR improved 217bp QoQ to 76.3%.(80.7% excluding TWO). ICICIBC has fungible-fund toward exposure towards S&P5 of INR2.7%/INR5.4%; on which it has provisions of INR1.5b/INR4.60b.
- Other highlights: (a) Retail loan mix stood at 60.2% (+120bp QoQ). (b) Quantum of BB and below assets declined to INR175.2b (7% QoQ decline). (c) Consol. FY19 PAT stood at INR42.5b (-45% YoY).
- Valuation and view: ICICIBC has delivered a steady performance at the PPOP level and is showing healthy signs of earnings normalization. With asset quality stabilizing, credit cost is likely to moderate meaningfully in FY20/21, boosting the return ratios. We fine tune our FY20/21 earnings estimates and expect ~1.5% RoA by FY21. We maintain our SOTP-based PT of INR470 (2.0x P/ICIC ABV).

Quarterly performance

	FY18				FY19				FY19	FY18	FY19	v/v
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Interest Income	51,800	57,290	61,870	66,157	63,457	66,178	70,170	76,150	2,36,758	2,76,148	69,785	11%
Other Income	53,970	51,951	51,499	59,736	58,510	51,585	38,620	38,110	1,74,294	2,45,122	43,189	-12%
Total Income	1,05,770	1,09,241	1,13,369	1,25,893	1,21,967	1,17,763	1,08,790	1,14,260	4,11,052	5,21,270	1,12,974	-10%
Operating Expenses	61,366	60,000	63,145	63,891	66,455	65,146	68,412	70,977	2,47,395	3,00,401	67,897	6%
Operating Profit	44,403	48,469	50,370	70,140	55,064	52,607	41,464	43,334	1,63,657	2,20,779	45,092	-3%
% Change (YoY)	-9.6	-10.1	-8.4	37.0	24.1	8.5	-17.6	-38.2	-25.8	-34.9	-32.1	-27.0
Provisions	20,987	45,029	35,890	80,206	38,711	35,245	42,440	54,514	1,71,270	2,40,911	35,203	50%
PBT before Tax	23,416	3,440	14,480	-10,066	16,353	17,362	-976	-11,180	-8,613	-20,132	9,889	-40%
Tax	5,094	6,256	-1,815	-2,010	-494	5,488	-2,873	-6,011	8,371	-4,375	-8,888	-327%
Net Profit	20,880	10,182	16,501	-10,080	-1,186	6,088	10,049	8,905	47,774	33,653	21,629	-50%
% Change (YoY)	-8.2	-31.7	-12.6	-89.8	-99	-41.4	-2.7	5.6	-34.6	-29.4	103.9	-384
Operating Parameters												
Deposit (INR b)	4,987	4,990	5,170	5,610	5,469	5,587	6,040	6,528	5,610	6,528	6,559	3%
Loan (INR b)	4,661	4,828	5,054	5,224	5,453	5,645	5,840	5,898	5,224	5,898	5,841	-1%
Deposit Growth (%)	14.7	11.0	11.1	14.5	12.5	12.0	17.1	16.4	14.5	16.4	19.0	598.0
Loan Growth (%)	5.3	8.5	10.5	10.4	11.3	13.8	11.7	12.9	10.4	12.9	14.9	45.0
Asset Quality												
Gross NPA (%)	8.0	7.2	7.2	6.8	6.5	6.5	7.0	6.7	6.8	6.7	6.5	1278.0
Net NPA (%)	4.9	4.4	4.2	4.0	4.2	3.7	2.9	2.1	4.0	2.1	2.4	170.0
PCR (%)	41.1	45.0	48.1	40.8	34.8	50.5	60.1	70.7	40.4	70.7	71.8	1000.0

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ICICI Bank — Buy

Current Price INR 412

Asset quality

- Kisaan credit card portfolio forms 3% of total loans, and the bank has guided for higher slippages in 1QFY20 and 3QFY20.
- Loans to the airline company were included in the BB & below book in 3QFY19 and have been adequately provided for.
- Net NPA of ICICI UK: USD67m.
- Bank is not expecting the 'sugar account' to get upgraded soon. Upgrade is possible only when the account is re-financed.
- Bank is comfortable with current PCR and 1.2% of credit cost for FY20 takes care of the ageing provisions.
- Decrease in the power sector exposure is due to pre-payment and sell downs during the quarter.
- On the sugar account: Bank does not hold much provision as the account is still servicing the interest.
- In the BB and below pool, 3 to 4 accounts are more than INR6b.
- In the builder finance portfolio, some slippages had happened in the June quarter.
- BB and below pool will continue witnessing upgrades and downgrades.
- Bank is comfortable on overall retail portfolio, including unsecured loans.

Balance sheet and profit & loss related

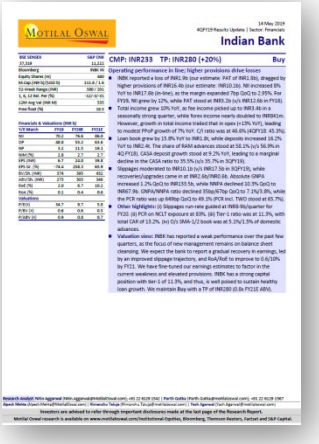
- Employee expenses increased on account of higher retirement provisions due to increased yields on G-sec.
- No. of employees: 86,763
- INR12.69b has been transferred to investment fluctuation reserve and has been considered as Tier 2 capital.
- Overseas margin has contracted due to low recoveries in international book.
- Impact of interest reversals on margins is negligible.
- In the overseas account, the bank will do more of retail loans, NRE deposit accounts.

Guidance

- In continuance with the strategy, bank will focus on low consuming capital loans.
- Provisions on normalized basis for FY20: 20% of operating profits or 1.2%-1.3% of average advances.

- Growth in TDs will be higher than CASA growth for the system as well as for the bank.
- Bank maintained the RoE target: 15% consol. RoE by June'20.

Click below for Results Update



Indian Bank — Buy

Current Price INR 267

Asset quality related

- Slippages include one account of INR3b.
- IL&FS turned sub-standard in January.
- Total exposure of INR18b.
- Except two accounts (INR2.5b), everything has been declared as NPA.
- PCR on the IL&FS stood at 23%.
- SMA-2 stands at INR23.6b.
- 50% of SMA-1 are corporate accounts.
- Exposure to stressed accounts
- DHFL: ~INR13b loan exposure including NCD
- IBHFL: INR12.64b
- ADAG: INR7b (NPA portion is INR5b). Provision has been made according to the IRAC norms.
- Essel: INR1b (Performing)
- No exposure to telecom, airways and media group.
- No upgrades in the power sector in this quarter. Resolution for 'Prayagraj' power project is in the advanced stage.
- INR9.6b of MSME has been restructured since Jan'19, on which a provision of 5% has been made.
- Total standard restructured assets stand at INR20b.
- Slippages: 66% from corporate, 16% from MSME, 10% from agri and retail each.
- INR2.2b of divergence provision was made in this quarter.

Balance sheet and P&L related

- Plans to monetize two subsidiaries.
- Ind Bank Housing: Deposit taking NBFC; planning to bring in a strategic partner.
- Merchant banking services (PAT: INR30m).
- Education loan portfolio is at INR30b.
- 80% of the agriculture portfolio is from south India and ~70% is collateralized.
- Branches: 2,872.

Guidance

- Growth of 13%-15% in advances and deposits.
- NNPA: 3%-3.1%.
- Slippage run rate: INR8b to INR9b per quarter.
- INR8b of recovery from NCLT is expected and upgrades of INR6b.
- Normal recovery: INR13b.
- Planning to raise capital in 2Q/3Q.

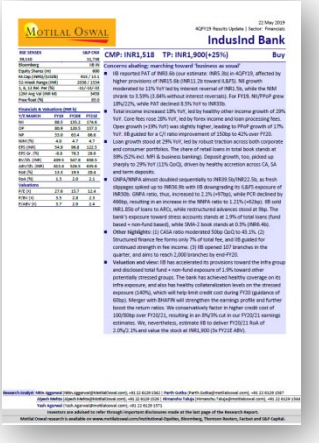
Click below for Results Update

IndusInd Bank — Buy

Current Price INR 1,522

Balance Sheet and P&L related

- 60% of the corporate book includes MFI and SME portfolio. Excluding them, the corporate book is just 45%.
- Only MFI book is above 5% of total loans.



MOTILAL OSWAL

22 May 2019
4QFY19 Results Update | Sector: Financials

IndusInd Bank

BSE SENSEX	S&P CNX
39,718	11,794

Bloomberg	IBHF IN
Equity Shares (m)	600
52-Week Range (INR)	915 / 1,5[illegible]
1, 6, 12 Mo. Avg. Vol. (m)	2[illegible] / 2,5[illegible]
Free float (%)	85.0

FINANCIALS & VALUATIONS (INR B)			
Y/E MARCH	FY18	FY19E	FY20E
NII	1[illegible]	1[illegible]	2[illegible]
OP	8[illegible]	1[illegible]	1[illegible]
NP	3[illegible]	4[illegible]	8[illegible]
NIM (%)	4.[illegible]	4.7	4.7
EPS (INR)	54.[illegible]	8[illegible]	1[illegible]
EPS Gr. (%)	-[illegible]	7[illegible]	2[illegible]
BV/Sh. (INR)	4[illegible]	5[illegible]	6[illegible]
ABV/Sh. (INR)	4[illegible]	5[illegible]	6[illegible]
RoE (%)	1[illegible]	1[illegible]	2[illegible]
RoA (%)	1.[illegible]	2.0	2.1
Valuation			
P/E (x)	2[illegible]	1[illegible]	1[illegible]
P/BV (x)	3.[illegible]	2.0	1.[illegible]
P/ABV (x)	3.7	2.0	1.4

CMP: INR1,518 TP: INR1,900(+25%) Buy

Concerns abating; marching toward 'business as usual'

- IIB reported PAT of INR1.6b (our estimate: INR5.3b) in 4QFY19, affected by higher provisions of INR15.6b (INR11.2b toward E&FS). NII growth moderated to 11% YoY led by interest reversal of INR1.5b, while the NIM shrank to 3.39% (3.84% without interest reversals). For FY19, NII/PPoP grew 18%/21%, while PAT declined 8.5% YoY to INR33b.
- Total income increased 18% YoY, led by healthy other income growth of 20% YoY. Core fees rose 28% YoY, led by forex income and loan processing fees. Opex growth (+19% YoY) was slightly higher, leading to PPoP growth of 17% YoY. IIB guided for a C/I ratio improvement of 150bp to 42% over FY20.
- Loan growth stood at 29% YoY, led by robust traction across both corporate and consumer portfolios. The share of retail loans in total book stands at 59%/52% incl. MFI & business banking). Deposit growth, too, picked up sharply to 29% YoY (11% QoQ), driven by healthy accretion across CA, SA and term deposits.
- GNPA/NNPA almost doubled sequentially to INR39.5b/INR22.5b, as fresh slippages spiked up to INR36.9b with IIB downgrading its E&FS exposure of INR30b. GNPA ratio, thus, increased to 2.3% (+57bp), while PCR declined by 468bp, resulting in an increase in the NNPA ratio to 1.21% (+62bp). IIB sold INR1.85b of loans to ARCs, while restructured advances stood at 8bp. The bank's exposure toward stress accounts stands at 1.9% of total loans (fund based + non-fund based), while SMA-2 book stands at 0.3% (INR6.4b).
- Other highlights: (1) CASA ratio moderated 50bp QoQ to 43.1%. (2) Structured finance fee forms only 7% of total fee, and IIB guided for continued strength in fee income. (3) IIB opened 107 branches in the quarter, and aims to reach 2,000 branches by end-FY20.
- Valuation and view: IIB has accelerated its provisions toward the infra group and disclosed total fund + non-fund exposure of 1.9% toward other potentially stressed groups. The bank has achieved healthy coverage on its infra exposure, and also has healthy collateralization levels on the stressed exposure (140%), which will help limit credit cost during FY20 (guidance of 60bp). Merger with BHAFIN will strengthen the earnings profile and further boost the return ratios. We conservatively factor in higher credit cost of 100/90bp over FY20/21, resulting in an 8%/9% cut in our FY20/21 earnings estimates. We, nevertheless, estimate IIB to deliver FY20/21 RoA of 2.0%/2.1% and value the stock at INR1,900 (3x FY21E ABV).

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- The bank raised INR15b of AT-1 capital during the quarter.
- IIB is focusing on long-tenor deposits. On the SA deposits, ~15-20% of the total saving deposits come from government deposits. Current deposits include some proportion of lumpy deposits.
- Road projects: The bank does not see any challenge in this portfolio.
- Exposure to real estate: ~60% of the book is real estate and the rest 40% is commercial. In residential, large exposures toward lease rental discounting. On commercial, it has exposure to 70 projects (well-spread portfolio).
- The bank bought micro finance portfolio from BHAFIN.
- In term deposits, the bank has consciously reduced the concentration of top 20 deposits and reducing ~2%-3% every year.
- Around 42% of the total fee is corporate, 48% is retail and the rest 10% is from trading and other income. Thus, the bank's fee income is granular in nature.
- Avg. corporate yield is 9.06%, excluding MFI business banking. While excluding infra group (IL&FS), the avg. yield earned on corporate portfolio is 9.87%.
- Bank has made improvement on the digital front and thus expects reduction in C/I ratio by 150bp in FY20. Further, collaborated with 13-14 fin-techs cos.
- Bank believes that another INR1b-1.5b provisioning may be required on holdco exposure of IL&FS. This is in line with the credit cost guidance of 60bp for FY20.

Asset quality

- SMA1 & SMA-2 book is INR6.4b. It includes 45 accounts and thus has no lumpy exposures. SMA-1 is 0.32% of total loans while SMA-2 is 0.34% of total loans.
- The bank's total stressed exposure (NBFC, conglomerate, HFCs, Media, telecom) is 1.9% of total loans. It includes both funded and non-funded exposures. The consolidated security on these exposures is 140%, of which 60% of the security is liquid and realizable.
- ILFS exposures: Total provision made during the quarter is INR11.24b (used contingent provisions made over last two quarters). Further, made interest reversal of INR1.53b.
- LAP portfolio growth has slowed down.
- There are total write-offs of INR10b during the quarter.
- The bank expects strong recoveries on its exposure at SPV level. Expects to recover 90-100% in one single highest exposure at SPV level.
- The bank made debt swap transactions for land parcel in the past (JP deal). RBI has revised the circular on the treatment of these land parcels and thus the bank has made regulatory required provisions during the quarter.

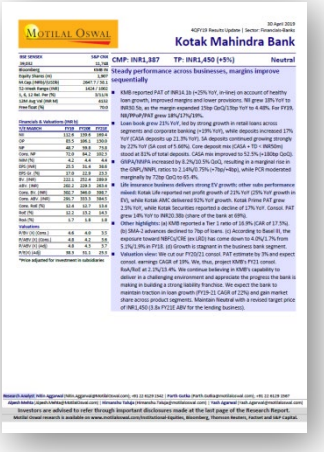
Guidance/Others

- Merger with BHAFIN: All regulatory approvals are in place and awaiting final NCLT order as courts are on vacation currently.
- Acquired 1m new customers during the quarter.
- Opened 107 new bank branches in this quarter.
- The bank launched wealth management business named PIONEER.
- Hiring new employees to look at NRI business as well.
- 92%/80% of the total transactions by volume/value were done digitally.
- Loan growth and fee growth to remain at mid-20% levels.
- C/I at 42%.
- Credit cost below 60bp.
- NIMs to be restored at 3.85%-3.9%.
- The PCR target is to reach 60%.

MOTILAL OSWAL

kotak

Click below for Detailed Concall Transcript & Results Update



30 April 2019

4QFY19 Results Update | Sector: Financials-Banks

MOTILAL OSWAL

Kotak Mahindra Bank

CMP: INR1,187 TP: INR1,450 (+5%) Neutral

Steady performance across businesses, margins improve sequentially

- KMB reported PAT of INR14.1b (+25% YoY, in-line) on account of healthy loan growth, improved margins and lower provisions. NII grew 18% YoY to INR30.5b, as the margin expanded 15bp QoQ/13bp YoY to 4.48%. For FY19, NII/PPoP/PAT grew 18%/17%/19%.
- Loan book grew 23% YoY, led by strong growth in retail loans across segments and corporate banking (+19% YoY), while deposits increased 17% YoY (CASA deposits up 21.3% YoY). SA deposits continued growing strongly by 22% YoY (SA cost of 5.60%). Core deposit mix (CASA + TD < INR50m) stood at 61% of total deposits. CASA mix improved to 52.5% (+180bp QoQ).
- GNPA/NNPA increased by 8.2%/10.5% QoQ, resulting in a marginal rise in the GNPL/NNPL ratios to 2.14%/0.75% (+7bp/+4bp), while PCR moderated marginally by 72bp QoQ to 65.4%.
- Life Insurance business delivers strong EV growth; other subs performance mixed: Kotak Life reported net profit growth of 21% YoY (25% YoY growth in EV), while Kotak AMC delivered 92% YoY growth. Kotak Prime PAT grew 2.3% YoY, while Kotak Securities reported a decline of 17% YoY. Consol. PAT grew 14% YoY to INR20.38b (share of the bank at 69%).
- Other highlights: (a) KMB reported a Tier 1 ratio of 16.8% (CAR of 17.5%), (b) SMA-2 advances declined to 7bp of loans. (c) According to Basel III, the exposure toward NBFCs/CRE (ex LRD) has come down to 4.0%/1.7% from 5.1%/1.9% in FY18. (d) Growth is stagnant in the business bank segment.
- Valuation view: We cut our FY20/21 consol. PAT estimate by 3% and expect consol. earnings CAGR of 18%. We, thus, project RWA's FY21 consol. RoA/RoE at 2.1%/13.4%. We continue believing in KMB's capability to deliver in a challenging environment and appreciate the progress the bank is making in building a strong liability franchise. We expect the bank to maintain traction in loan growth (FY19-21 CAGR of 22%) and gain market share across product segments. Maintain Neutral with a revised target price of INR1,450 (3.0x P/ESE ABV for the lending business).

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Kotak Mahindra Bank — Neutral

Current Price INR 1,515

Macro Update

- Financial sector in India is at the major crossroads undergoing turbulent times; expected to continue for the next six months.
- Post demon, financial savings have increased in banks (FDs), mutual funds, and therefore, underwriting standards were compromised (due to excess liquidity). As the liquidity situation tightened, the asset side of the balance sheet started facing pressure. Therefore, effective navigation is important over the next few quarters.
- Stable and low-cost liability is important for the financial sector
- Dependence on external fiduciary should be reduced and internal risk parameters should be focused.
- Credit cost in the system has either remained the same or come down moderately.
- Outlook on the business banking has been improving and would grow in FY20.

Balance sheet and P&L related

- Focus on retail deposits (below INR10m) has been the core of the liability franchise and will continue to focus going forward.
- TD less than INR10m has grown by 31% YoY.
- SA growth: It is a function of customer acquisition and deepening relationship which has been very successful for the bank over the last few years.
- Branches are concentrated in locality where there are opportunities to deepen the relations.
- CA growth will require more branches, whereas SA growth can be obtained by digital challenges.
- No upper limit for SA ratio.
- SA cost: Bank is working to keep the SA balance above INR0.1m as it is beneficial for the cost of funds.
- CA growth has been helped by merchant acquisition.
- Some of the large players have slowed down in unsecured lending.
- On the CV/CE segment, market share has improved despite slowdown in the segment.
- Not much downside to the deposit rates from hereon. Deposit rates seem to have bottomed out.
- Certain advertisement expenses done during this quarter; partnerships with BCs have led to higher opex.
- Have started doing consumer durable loans within the bank.
- Biggest piece in the KMB Prime is the car finance. Car dealership is under pressure. LTV in new cars is ~ 90% and in used cars is much less.
- LAP is 50% of home loans portfolio.

Asset quality

- Slippages are spread across the sectors, some slippages from unsecured loans.
- Slippages of INR19.95b for FY19.
- RWA on the corporate book has been declining over the last 2-3 years.
- RWA stands at INR2.34t as of FY19.

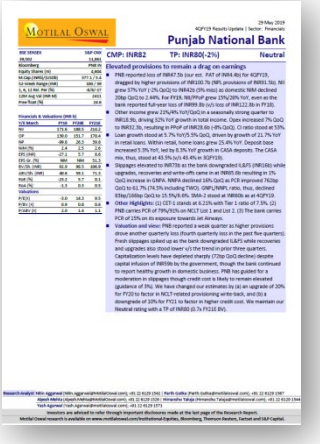
Others

- ‘Mobile first’ focus continues for the bank rather than internet banking.

Punjab National Bank — Neutral

Current Price INR 79

Click below for Results Update



Balance Sheet and P&L related

- Exposure towards Mudra Loans stands at INR70-80b with NPAs of ~10%
- NBFC buyouts were in the range of INR30-40b for FY19.
- Fee income for the quarter stood at INR12.6b.

Asset Quality

- Ageing provisioning on the NCLT accounts (as the resolutions were delayed) led to increase in credit cost.
- Slippages: INR16b pertains to IL&FS, while remaining were granular in nature consisting small and medium accounts.
- Bank is carrying PCR of 15% on exposure towards Jet Airways.
- Slippages should be ~120b (+/- 5%) in FY20 v/s INR166b in FY19.
- Targeting recoveries of INR200b plus another INR50b from NCLT a/c in FY20.
- Expect write-backs to increase as resolution of NCLT account progresses.
- SMA 1 & 2 book stands at INR60b each, while restructured book is at INR25b.

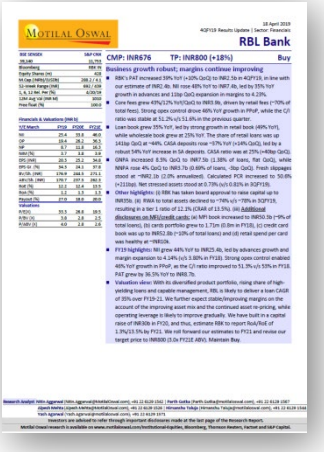
Guidance/Others

- Plan to sell non-core assets of INR10b in FY20 in addition to stake sale in PNB Housing. This coupled with NCLT recoveries from two large accounts should bring ~INR100b of capital.
- Credit cost guidance of less than 3% for FY20.

RBL Bank — Buy

Current Price INR 668

Click below for Detailed Concall Transcript & Results Update



Balance sheet and P/L related

- Both wholesale and non-wholesale continues to see strong traction.
- Cards advances split: Bajaj Finance 48% and RBL is 52%.
- ~25% of the card portfolio doesn't earn interest.
- The co-branded cards crossed 1m through partnership with Bajaj Finance. It expects to double the cards counts over the next 18 months.
- Retail agri book remains flat – in line with the bank's strategy. It will continue to remain cautious till the operating environment improves.
- MCLR re-pricing resulted in an increase in wholesale yields.
- NIMs continue to improve due to MCLR re-pricing and increasing proportion of high-yielding assets. It expects a strong trajectory of NIMs going forward.
- Retail fees constituted ~70% of total fees.
- Cost of funds improves on the back of optimization of retail deposits across CA, SA & term deposits.
- Card fees: Penal fees are 20% of the total fees, Interchange fees are ~33%.

Asset Quality

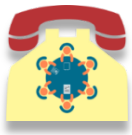
- MFI book – Entire pre-demon book has been provided for. Not observing any stress in the post-demon MFI book.
- Agri portfolio did suffer some losses; however, overall asset quality remains stable.
- GNPA: LAP 72bp, Cards 100bp while MFI 64bp.
- Restructured assets is 0.04% of total loans, SR is 0.01% while there is no ARC sale in this quarter.

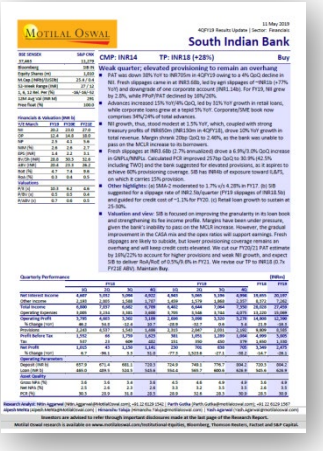
Guidance

- Policy rate cut: Transmission to happen with a lag.

- RBI liquidity Forex Swap has helped overall liquidity; however, lower deposit growth would keep cost of deposits elevated.
- On track to achieve vision 2020.
- Expects to double the card count over the next 18 months.
- A total of 36 branches added in the current quarter, mainly in Urban & Metro cities.
- C/I ratio to remain in the range of 52%-53% over the next few quarters on the back of continue branch expansion plans.
- Plan to reach a branch count of ~380-400 by FY20.
- Board approval taken for capital raise of INR35b. The timing of the same will be decided post the shareholder's approval in the AGM.
- Retail book to be in high 40s (~50%) of the total advance going forward.
- RoA to be driven by margins expansion (improvement in yields and change in loan mix), cost efficiency across all business verticals and lower provisioning going forward.
- Might exit FY20E with a RoA of ~1.5%.
- Daily avg. LCR stands at 125%.

Click below for Detailed Concall Transcript & Results Update





South Indian Bank — Buy

Current Price INR 14

Balance sheet and P&L related

- Bank raised INR2.5b of Tier 2 capital during the quarter.
- Yield on advances: (a) MCLR does not get fully re priced immediately. (b) Yields are relatively low, where the accounts have good security. (c) Growth is coming more on the SME side, which is impacting yields.
- Expect improvement in NIMs from (a) lower interest reversals, (b) higher CASA ratio and focus on retail liabilities, (c) working on purchased liabilities (CDs) and (d) extending credit at lower collateral levels.
- ~200 branches are dedicated toward MSME loans, where average ticket size is between INR4m and INR5m – the bank is the sole lender here.
- ~16% to 17% of agri and MSME loans are collateralized by gold.
- Average cost of Tier 2 bonds: 11.75% (semi-annual).
- Bank purchased the gold loan portfolio in the last quarter. Total purchased portfolio (Gold loan + LAP+ housing) is INR10b over FY19.
- Sale of PSLC income for FY19: INR370m due to lack of requirement of the PSLC certificates in the market.

Asset quality

- 'Nil' exposure to stressed sectors like aviation, telecom, EPC contractor in the standard asset book and limited exposure to iron and steel (belongs to group which has no default history).
- During the quarter, corporate NPA (medical college) of INR1.14 b slipped. The bank is the sole lender in this account. The loan is collateralized with almost 2x of the loan amount.
- With this, clean-up in the large corporate book is complete.
- BB& below (above INR1b) INR7.8b (4 accounts). All accounts are standard and none of the accounts in SMA-0 category.
  - Largest of them is a multidivisional company (based out of Kolkata).
  - Second account is a road project which is currently taken over by another management recently.

  - Third account is an airport based in Kerala.
  - Last account is a hotel project.
- SMA-2: Exposure of INR10.9b which is 1.71% of total advances (FY15:5.95%; FY16:7.38%; FY17: 4.28%; and FY18: 2.02%).
- SMA-2 breakup:
  - Less than INR50m: 3,264 A/Cs with exposure of INR6.5b.
  - INR50m-INR250m: 44 A/Cs with exposure of INR4.4b.
  - INR250m-500m : 2 A/Cs with exposure of ~INR1b.
  - Nil exposure in INR1b and above.
  - Nil exposure in INR0.5b to INR1b.
- Agri slippages: Mostly due to expectations of debt waiver.
- Agri business is based primarily in Kerala and Tamil Nadu.
- No exposure to ADAG group and Essel group
- Bank is expecting INR5b of recoveries and upgrades for the next year.
- Bank is keen on growing in Andhra Pradesh and industrial centers.
- Bank has 15% provision on IL&FS. (Total exposure: INR4b) and will increase provisions in the coming quarter.
- Employee cost has gone up due to increased gratuity and pension cost. On a normalized basis, CI ratio should be less than 50%.

Guidance and others

- Strategy to grow retail, SME and Agriculture portfolio and grow other income going forward.
- Targeting 18% to 20% growth in advances for FY20 with retail growing more than 30%, SME / Agri / mid- corporate: 15% to 20% growth.
- For FY20, slippages are expected to be in the range of INR2.5b per quarter and recoveries and upgrades will be INR5b per annum.
- Bank is expecting CI ratio to come down going forward.
- Credit cost expected to be in the range of 100bp to 110bp for FY20 (INR2b per quarter). Bank is planning to improve PCR to 60% at the earliest.
- NIM improvement: Expect 15bp to 20bp improvement in the coming year.
- Bank is planning to raise additional funds during FY20. Bank is open for AT-1/ Tier-2 bonds/QIP.

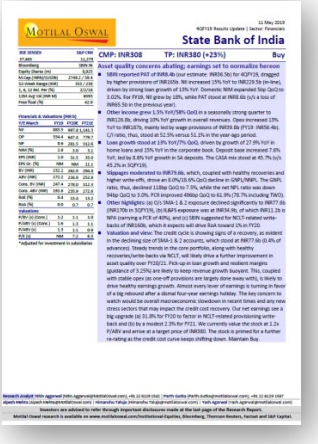
Click below for Detailed Concall Transcript & Results Update

State Bank of India — Buy

Current Price INR 337

Balance sheet & P/L related

- C/I ratio to improve on the back of lower wage provisions and improved digitalization.
- It believes YONO is a very fast-scaling platform and will help both on the asset and liability side. Further focus on data analytics will help in servicing clients, cost improvement and bettering credit underwriting standards.
- On the opex side, the bank provided INR21b toward gratuity and INR38b in wage revision provisions over FY19. It expects wage revision provisions to be not more than INR19b over FY20.
- RWA is coming down due to the high focus on quality corporates.
- It will remain selective on project financing. Current pipeline of project financing stands at INR250b.
- Agri growth is mainly due to portfolio buyouts.
- Outstanding RIDF bonds stands at INR1.3t.


MOTILAL OSWAL

11 May 2019
4QFY19 Results Update | Sector: Financials

State Bank of India

BSE SENSEX	S&P CNX
37,606	11,174

Stock Info	
Bloomberg	SBI IN
Equity Shares (m)	8,925
M.Cap.(INRb)/(USDb)	2748.2 / 39.4
52 Week Range (INR)	315 / 216
1, 6, 12 Mth Pfm (%)	(5)/(4)/(1)
12m Avg Vol (INR M)	4999
Free Float (%)	42.0

Financials & Valuations (INR b)

Y/E March	FY19	FY20E	FY21E
NII	889.5	987.8	1,145.3
OP	704.4	847.6	779.7
NP	9.4	285.5	312.0
NIM (%)	2.9	3.0	3.1
EPS (INR)	1.0	31.5	35.0
EPS Gr. (%)	NM	NM	11.1
BV (INR)	231.2	260.8	293.8
ABV (INR)	172.2	218.8	255.0
Cons. BV (INR)	247.4	278.0	312.7
Cons. ABV (INR)	185.6	235.9	272.6
RoE (%)	0.4	10.6	10.7
RoA (%)	0.0	0.7	0.7
Valuations			
P/BV (x) (Cons.)	1.2	1.1	1.0
P/ABV (x) (Cons.)	1.4	1.3	1.1
P/Adv (x)	1.9	1.5	0.9
P/E (x)	NM	7.2	6.5

*Adjusted for investment in subsidiaries

CMP: INR308 TP: INR380 (+23%) Buy

Asset quality concerns abating; earnings set to normalize hereon

- SBIN reported PAT of INR9.4b (our estimate: INR56.5b) for 4QFY19, dragged by higher provisions of INR105b. NII increased 15% YoY to INR225.5b (in-line), driven by strong loan growth of 13% YoY. Domestic NIM expanded 5bp QoQ to 3.02%. For FY19, NII grew by 18%, while PAT stood at INR8.6b (v/s a loss of INR61.5b in the previous year).
- Other Income grew 1.5% YoY/58% QoQ in a seasonally strong quarter to INR128.3b, driving 10% YoY growth in overall revenues. Opex increased 13% YoY to INR197b, mainly led by wage provisions of INR59.8b (FY19: INR56.4b). C/I ratio, thus, stood at 51.9% versus 51.2% in the year-ago period.
- Loan growth stood at 13% YoY/7% QoQ, driven by growth of 27.9% YoY in home loans and 15% YoY in the corporate book. Deposit base increased 7.6% YoY, led by 8.4% YoY growth in SA deposits. The CASA mix stood at 45.7% (v/s 45.2% in 3QFY19).
- Slippages moderated to INR79.6b, which, coupled with healthy recoveries and higher write-offs, drove an 8.0%/18.6% QoQ decline in GNPL/NNPL. The GNPL ratio, thus, declined 118bp QoQ to 7.5%, while the net NPL ratio was down 94bp QoQ to 3.0%. PCR improved 496bp QoQ to 61.9% (78.7% including TWO).
- Other highlights: (a) Q1 SMA-1 & 2 exposure declined significantly to INR77.6b (INR170b in 3QFY19), (b) E&RS exposure was at INR34.9b, of which INR11.2b is NFA (carrying a PCR of 40%), and (c) SBIN suggested for NCLT-related write-backs of INR140b, which it expects will drive RoA toward 1% in FY20.
- Valuation and view: The credit cycle is showing signs of a recovery, as evident in the declining size of SMA-1 & 2 accounts, which stood at INR77.6b (0.4% of advances). Steady trends in the core portfolio, along with healthy recoveries/write-backs via NCLT, will likely drive a further improvement in asset quality over FY20/21. Pick-up in loan growth and resilient margins (guidance of 5.25%) are likely to keep revenue growth buoyant. This, coupled with stable opex (ex one-off provisions are largely done away with), is likely to drive healthy earnings growth. Almost every lever of earnings is turning in favor of a big rebound after a dismal four-year earnings holiday. The key concern to watch would be overall macroeconomic slowdown in recent times and any new stress sectors that may impact the credit cost recovery. Our net earnings see a big upgrade (e.g. 31.8% for FY20 to factor in NCLT-related provisioning write-back and (b) by a modest 2.3% for FY21. We currently value the stock at 1.2x FY4BV and arrive at a target price of INR380. The stock is primed for a further re-rating as the credit cost curve keeps shifting down. Maintain Buy.

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- The bank is not witnessing any stress in the retail segment.
- Auto loans are slowing down due to the slowdown in the sector. Bank is not pushing this segment very aggressively.
- The bank is focusing on improvement in overseas book through expanding to other international geographies where it can manage higher yields.

Asset quality

- SBIN made more than the required provisions on all legacy assets.
- Credit cost includes 0.52% on account of fresh slippages, while the rest was on account of legacy NPAs.
- It expects credit cost to moderate significantly going forward.
- SBIN managed total recoveries of INR370b over FY19, of which INR130b were made from IBC accounts. It expects further recoveries of INR350b-INR380b in FY20.
- There are three accounts (Essar Steel, Bhushan Power and Alok Industries), which are in advanced stage of resolutions; expects to recover ~INR160b.
- The bank made provisions of INR110b toward Essar Steel, Bhushan Power and Alok Industries as they fell in D3 category.
- Jet Airways exposure slipped during the quarter and made provisions which are more than the regulatory requirement.
- Decline in SMA-1 & SMA-2 was due to one power account that got upgraded during the quarter.
- Sector exposure limits: Looking to cap sector exposure at tier-1 levels.
- Bank does not have meaningful non-fund based exposure in the aviation sector.
- Total w/offs during FY19 were INR450b, with majority being corporate w/offs.
- There are a few accounts in NCLT, which have been partially written off. Total write-off pool in NCLT-1 stands at INR88b while for NCLT-2 it stood at INR110b.
- Of the total cash recoveries of INR370b, the bank made recoveries of INR83b from the AUCA outstanding pool.
- PCR on corporate accounts (without AUCA) is ~70% and thus expects provision write-backs in future.
- Non-fund exposure on gross NPLs stands at INR87b.
- Power assets: Two power accounts of INR18b are expected to be resolved by May-end, while three other accounts are expected to be resolved through OTS schemes.
- Real estate portfolio: Large exposure towards residential projects rather than commercial real estate.
- Pool of outstanding AUCA is INR1.37t.
- Slippages breakup: Corporate – INR22.8b, Agri – INR25.9b, SME – INR20.9b and personal loans – INR5.4b.

Guidance/Business update

- Credit growth of 12%-14% in FY20.
- PPoP of INR700b in FY20.
- ROA in the range of 0.75%-1%, though it believes that 1% ROA is achievable if the same trend continues.
- NIM to reach to 3.25% over FY20.
- The bank is looking to raise capital to meet the regulatory requirement. However, even without raising capital, it can support loan growth of 12% YoY.

FINANCIALS/NBFC

- **4QFY19 was a key quarter for our coverage universe. The performance and outlook were divergent across companies. Well-rated HFCs like HDFC and LICHF expect a 'business-as-usual' FY20, although corporate growth may be marginally tepid for HDFC. IHFL expects a gradual recovery in disbursements (INR100b in 1QFY20). The company will continue to sell down loans aggressively – hence, management is guiding for 10% balance sheet growth, despite 20% AUM growth in FY20. In the vehicle finance space, all companies are expecting a reasonable slowdown in AUM growth in FY20 – CIFC guided for 15% AUM growth in the vehicle finance book v/s 20% earlier. SHTF expects a gradual recovery in FY20 compared to 2HFY19. Diversified players like BAF, LTFH and ABCL have not witnessed much impact from the liquidity crisis, and thus, managements have not guided for anything different. However, all companies are looking to aggressively tap the ECB market.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Asset quality	ILSF Exposure
Bajaj Fin	▪ AUM growth of 25%+ over the medium term. ▪ Expect 35-36% C/I ratio going forward	▪ Asset quality to be largely stable.	▪ INR2.25b, of which 20% has been provided for.
Chola Inv & Fin	▪ AUM growth guidance reduced from 20% YoY to 15% YoY. ▪ Yields to improve as mix moves towards higher-yielding portfolio.	▪ Further resolutions in LAP to aid asset quality going forward.	▪ None
Mahindra Finance	▪ AUM growth dependent on monsoons and OEM growth.	▪ GNPL ratio to be largely stable. ▪ Credit costs to settle at ~1.5%.	▪ None
L&T Fin.	▪ Share of rural + housing to increase from 50% currently. ▪ NIM + Fees to be 6.5-7% of assets.	▪ Credit costs should moderate as wholesale book is well covered. ▪ No provisions expected for IL&FS exposure.	▪ INR18b exposure to SPVs of subsidiaries of IL&FS, of which 2 are green and 4 amber.
LIC Housing	▪ Expect overall loan book to grow at 14-15%. ▪ Spreads have bottomed out.	▪ Asset quality to remain stable.	▪ None

Click below for Detailed Concall Transcript & Results Update

Aditya Birla Capital — Buy

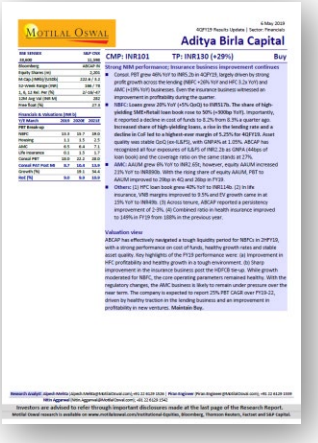
Current Price INR 99

NBFC segment

- Expect share of retail and SME lending to increase by 300-500bp in FY20.
- Total IL&FS exposure is INR3.88b, of which INR1.68b is classified as 'green'. No provision against these 'green' assets. They have 1 red and 3 amber assets.
- Nil NPL in construction finance in both NBFC and HFC segments.
- Looking at 2% ROA/14.5% ROE in FY20.
- Construction finance – Top 5-6 cities; NCR exposure is very small (primarily Noida).
- Expect 20-25% loan growth going forward.
- INR7.5-8b of sell-downs in 4Q v/s INR20b in 3Q.
- Cost of funds may rise by 10-15bp as the company moves towards more long-term funding.

Other segments

- Affordable housing ticket size of INR1-1.2m.



Aditya Birla Capital

CMP: INR101 TP: INR130 (+29%) Buy

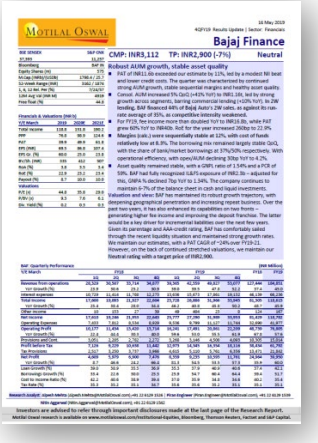
- New TER regulations impact – 90% of the reduction in TER will be passed on to distributors. Rest will be the hit taken by ABCL. Overall TER reduction is 18bp.
- Life Insurance – Source business from all non-rural branches of HDFC Bank. Expect to witness one more year, at least, of strong growth (30%+ YoY).
- FOIR: 60-65% in HFC segment.

Others

- Launched a new protection product in life insurance in 4QFY19.
- Paid income tax in the LI subsidiary for the first time in FY19.
- INR290m and INR250m 'other income' in the AMC segment in 3QFY19 and 4QFY19. For FY19, the total amount is INR800m.
- Barring small ticket retail loans, all loans in the NBFC segment are at floating rate.
- Expect health insurance business to break even in 3 years.

BAJAJ FINANCE

Click below for Detailed Concall Transcript & Results Update



Bajaj Finance

CMP: INR3,112 TP: INR2,900 (-7%) Neutral

Bajaj Finance — Neutral

Current Price INR 3,453

Business Updates

- Infused INR10b of capital in Bajaj Housing Finance in 4Q.
- Consumption outlook appears slightly slower currently v/s 6 months back.
- C/I ratio for BHFL should decline with increasing scale over time. Targeting 14-15% ROE at 8-9x gearing.
- Witnessing reduced competitive activity in 2W financing.
- Raised INR30b at parent level in 3/5-year money at 8.5-8.6% in March.
- Over the past nine months, the company stopped doing self-employed home loans.
- INR9.5b of premiums of Bajaj LI (INR5.1B) and Bajaj GI (INR4b+) originated in FY19 (+40-45% YoY).

Guidance

- Indirectly targeting 8-10% market share in the housing finance business over the next few years.
- Mortgages will account for 36-38% of total AUM in 3-4 years and commercial lending would be 12-15%.
- C/I ratio to be largely stable at ~35%.
- Fee income/PBT should remain largely stable (+/- 50bp).
- Steady state ROA to be 3.2-3.5%.

Others

- In the long term, BAF could tie up with another credit card player.
- Mortgage assets worth INR170b sitting in the parent balance sheet to wind down by March 2021.
- RBI allows up to 70% hedging on ECB borrowings.
- Average ticket size in professional loans (for doctors) has declined modestly in the past two years (-4% to ~INR1.1m).
- Average ticket size in business loans declined from INR2.4m four years back to INR1.6m two years back to INR0.7m now.
- IL&FS is classified as LAP.
- Top 8-10 cities have much higher risk than the rest of India.
- Total CF book stands at INR12b (INR7b on the parent BS).

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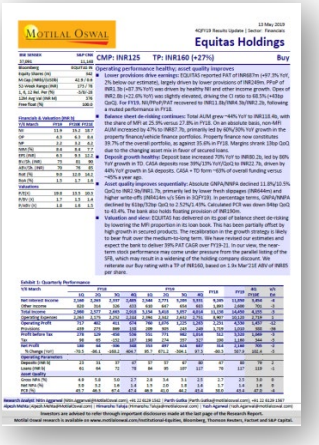


Equitas Holdings — Buy

Current Price INR 138

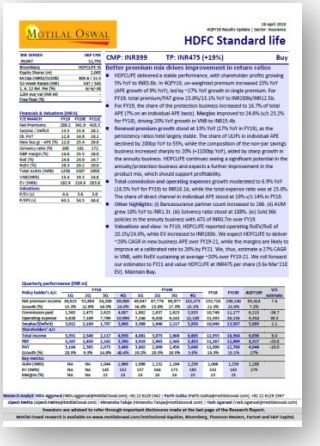
Balance sheet and P&L related

- CASA ratio will remain muted as the bank will focus on TD going forward.
- Disbursements have been slow in 4Q due to:
- Less disbursements in MFI portfolio
- Election code of conduct
- Higher number of holidays in 4Q
- Bank had to provide for higher staff expenses due to the Supreme Court order.
- Bulk of diversification has been completed, and the bank is not looking at new products currently.
- Investment book has come down in 2HFY19 as spreads in the markets have come down.
- Bank has increased deposit rates since Nov'18.
- EQUITAS's retail TD rate is ~8.2%.
- The bank is running down the unsecured loan book (lower ticket size) as part of its conscious strategy.
  - Bank would scale up unsecured loans once customer base grows and it has internal data on the same.
  - Number of credit lines to single borrower has gone up significantly for unsecured loans.
  - Secured loan book i.e. working capital (higher ticket size) will grow faster.
- LTV in small business loans is ~60%.
- Bank is disbursing ~INR180m of housing loans per month.
- Average disbursement ticket size is INR29,000 in MFI.
- Unsecured book is ~INR33-34b of overall book.
- Deposit rates are not expected to go up from here as the bank is already offering attractive rates.
- NIM contraction of 15bp has happened mostly because of the change in the asset mix.
- Small Business loans: 80% is below INR0.5m
  - Loan up to 0.5m: ATS INR0.16m
  - Loan 0.5m to 1m: INR 0.6m
  - Loan 1m to 1.5m: INR1m to INR1.3m
- NPA of small business loans up to INR2.5m is below 1.5%.
- Bank had repaid some high-ticket borrowings at the end of the second quarter, the benefit of which had flown in the third quarter. 40-50bp of NIM benefit has come from this.
- Planning to add only 20 asset and liability branches each in FY20.
- 15% to 20% growth in operating expenses for FY20, majorly for expanding collection teams.
- Normalized growth in the MFI loans would be 20% to 25%.
- MSE book should become 15 to 16% going forward.
- Bank is expecting the NIM to be under pressure as newer products have lower yields.
  - Newer products have lower opex and lower credit cost.
- Bank is not planning to invest in eastern geographies, as it would involve higher investment cost.

- 40% asset growth is expected in FY20 and 55% deposit growth will be required to fund asset growth.
- Bank is well capitalized to fund next 3-4 years' growth.

HDFC Life
Sar utha ke jiyo!

Click below for Results Update


MOTILAL OSWAL

HDFC Standard life

CMP: INR399 TP: INR475 (+19%) Buy

Better premium mix drives improvement in return ratios

HDFC Life — Buy

Current Price INR 442

- Management has been focusing on developing the proprietary channels.
- New business sum assured increased due to growth in the protection business.
- Total 250+partnerships; 39 new partnerships during the quarter.
- Management is scaling up the online channels beyond the protection business.
- INR2.5b is garnered through the launch of new products in just three weeks.
- Credit protect business grew 36% YoY during the quarter.
- Group entities form 28% of the credit life business, with no single partnership contributing more than 10% in credit protect. - LAP: 37%, MFI: 29% and other lines of business is balance.
- Choosing of private players for pension schemes has opened a huge opportunity for HDFC Life.
- Operating variance includes assumption changes also. Persistency and mortality variance have been positive (and close to the assumptions).
- Composition of new business strain: Majorly due to annuity and protection business.
- Bancassurance channel excluding HDFC bank grew 30% YoY.
- VNB mix in the following order: Protection, Non-PAR, ULIP.
- Online agency and other channels have grown between 25% and 30%.
- No. of employees: 19,500.
- Major drivers of the underwriting profits: Reason for robust growth in the back book (unwinding) is due to the credit protect business and growth there has been 80-90% YoY; conservative reserve requirement and also due to robust persistency ratios.
- Drop in the solvency ratio has been due to investment in the subsidiary.
- Annuity business: Sold 36,000 policies, ATS: INR7lacs on single premium basis.
- Bancassurance: HDFC Bank still forms 82% of the overall banca channel.
- Sensitivity to mortality and morbidity has not gone up due to re insurance done by the company.
- Partnership with Dena and Vijaya Bank has ended due to the merger with Bank of Baroda. New partnership with Bank of Baroda will depend on whether that bank will work on open architecture.
- Capital requirements in ULIP is the higher than protection, PAR, Non-PAR products.
- Pension business: Through HDFC Bank, walk-ins and through subsidiary.
- New business strain: Focus on credit protect and non-PAR business has led to new business strain.

ICICI PRUDENTIAL LIFE INSURANCE

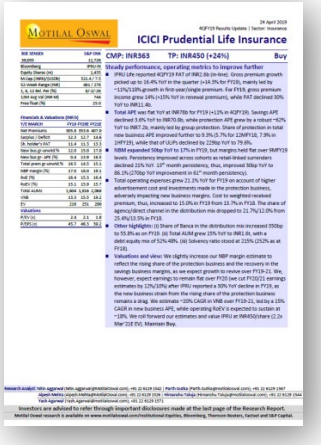
Click below for Results Update

ICICI Prudential Life — Buy

Current Price INR 379

Business Updates

- 3.71% of shareholding divested by Prudential Corp. to meet the minimum shareholding requirement of 25%.



MOTILAL OSWAL

24 April 2019

4QFY19 Results Update | Sector: Insurance

ICICI Prudential Life Insurance

CMP: INR365 TP: INR450 (+24%) Buy

Steady performance, operating metrics to improve further

- IPRU Life reported 4QFY19 PAT of INR1.6b (in-line). Gross premium growth picked up to 16.4% YoY in the quarter (+14.3% for FY19), mainly led by ~11%/13.8% growth in first-year/single premium. For FY19, gross premium income grew 14% (+15% YoY in renewal premium), while PAT declined 30% YoY to INR11.4b.
- Total APE was flat YoY at INR70b for FY19 (+12% in 4QFY19). Savings APE declined 3.8% YoY to INR70.8b, while protection APE grew by a robust ~62% YoY to INR7.2b, mainly led by group protection. Share of protection in total new business APE improved further to 9.3% (5.7% for 12MFY18, 7.8% in 1HFY19), while that of ULIPs declined by 229bp YoY to 79.8%.
- NBM expanded 50bp YoY to 17% in FY19, but margins held flat over 9MFY19 levels. Persistency improved across cohorts as retail-linked surrenders declined 22% YoY. 13th month persistency, thus, improved 30bp YoY to 86.2% (270bp YoY improvement in 61st month persistency).
- Total operating expenses grew 21.1% YoY for FY19 on account of higher advertisement cost and investments made in the protection business, adversely impacting new business margins. Cost to weighted received premium, thus, increased to 15.0% in FY19 from 13.7% in FY18. The share of agency/direct channel in the distribution mix dropped to 21.7%/12.0% from 25.4%/13.5% in FY18.
- Other highlights: (i) Share of Banca in the distribution mix increased 350bp to 55.8% as on FY19. (ii) Total AUM grew 25% YoY to INR1.8t, with a debt: equity mix of 52%:48%. (iii) Solvency ratio stood at 215% (252% as at FY18).
- Valuations and view: We slightly increase our NBP margin estimate to reflect the rising share of the protection business and the recovery in the savings business margins, as we expect growth to revive over FY19-21. We, however, expect earnings to remain flat over FY20 (we cut FY20/21 earnings estimates by 12%/10%) after IPRU reported a 30% YoY decline in FY19, as the new business strain from the rising share of the protection business remains a drag. We estimate ~20% CAGR in VNB over FY19-21, led by a 15% CAGR in new business APE, while operating RoEV is expected to sustain at ~18%. We roll forward our estimates and value IPRU at INR450/share (2.2x Mar'21E EV). Maintain Buy.

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- The top-most priority for management was to bring back growth momentum through persistency improvement and premium growth.
- Key consideration for the annuity business is to manage the balance sheet risk and the interest rate risk.
- Drop in profits is explained by higher strain due to the higher share protection business.
- Operating assumption change: (a) operating at a higher tax rate, (b) improving persistency has reduced the cost per unit, (c) ULIP business beyond 5 yrs. Surrenders have come down (to some extent) and counted in operating assumption change.
- Large part of the mortality variance is coming due to the sum assured increasing.
- Any directly attributable expenses are allocated to the particular segment.
- Out of the operating assumption variance, maintenance variance is the biggest component.
- Surrenders have declined 20% YoY.
- Costs have gone up during the year due to investment in protection business.
- Advertising expenses to be continued for the next year to create awareness among the customers.
- Non-PAR savings business has grown on the back of immediate annuity business doubling in FY19.
  - - Annuity business is value-accretive from the VNB and margin basis.
- Contributors to margin improvement: Favorable business mix: 2%, assumption variance change: 0.9%.
- Management will think of capital once the solvency ratio has reached 200%.
- Effective tax rate has gone down due to dividend income.

Protection business

- Protection APE will continue to grow ahead of savings business growth.
- Margins: As group protection business grew faster, margins have come down.
- Within the protection; retail APE forms 60%.
- Within the protection credit life is driven by partnerships (with ICICI bank being the largest partner) and credit life has doubled since last year.
- Protection VNB is more than half of total VNB.
- Protection APE ticket size has gone down due to the limited pay option introduced last year.

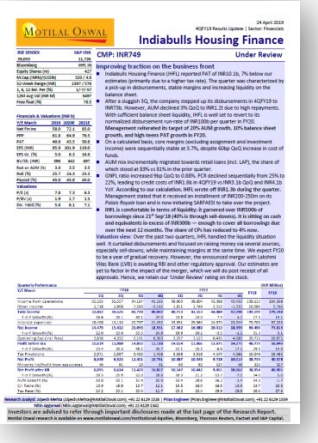
Click below for Detailed Concall Transcript & Results Update

IndiaBulls Housing Finance — Under Review

Current Price INR 736

Business Updates

- Disbursements in 4QFY19 were INR73b – HL: 50%, LAP: 30%; Wholesale: 20%. Target to disburse INR100b in 1QFY20.
- Management reiterated target of 20% AUM growth, 10% balance sheet growth and high-teens PAT growth in FY20.
- Will increase the share of ECBs in FY20. Plans to borrow up to the limit of USD750m in FY20.
- INR7.28b of ECL provisions against Stage 1 and 2 assets and INR2.28b against Stage 3 assets.
- Over the next 90days, around INR40b of CPs will mature.



Indiabulls Housing Finance

CMP: INR749 Under Review

- Sold down INR60b during the quarter and recorded upfront income of INR2.44b for it. Total sell-down income for FY19: ~INR9.14b. Note that sell down income is included in the "interest income" line item.
- Will use excess upfront income from assignments to make provisions.
- On-book yield is 12.15%. Breakup: HL – 9.85%, LAP – 13.1%, LRD – 10.9% (total wholesale at 15%). Incremental lending is ~50bp higher.
- 40 developers in the CF portfolio of which 25 comprise 75% of the loan portfolio.
- Guided to 12% C/I ratio in FY20.

Merger updates

- Will focus more on retail lending while the company transitions into a bank.

Others

- Received INR200-250m payment from Palais Royale in 4Q. Will invoke SARFAESI to take over the project now.
- Wholesale book is equally split between LRD and construction finance.
- Average ticket size in wholesale lending is INR2b (slightly lower in construction finance).
- INR240b of borrowings will mature in FY20, of which INR90-100b are from bonds.

IndoStar Capital Finance — Buy

Current Price INR 381

Business Updates

- Raised INR15b of debt capital in 4Q v/s INR12b in 3Q.
- Targeting INR4b monthly disbursements in vehicle finance.
- Will grow disbursements by 25-30% in FY20.
- C/I ratio to reduce to 25-30% in FY21.
- For the IIFL portfolio acquisition, INDOSTAR paid INR4b in 4Q and will pay INR5.1b each quarter for the next four quarters.
- The company does only senior secured lending, no subordinate lending.

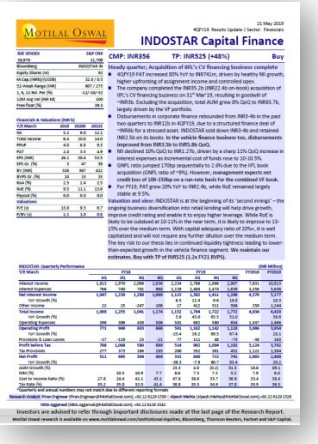
Asset Quality

- Expect 100-150bp run-rate credit costs in the vehicle finance business.

Others

- INDOSTAR does plenty of repeat business with existing developers. Over the past five years, would have funded 10-12 projects per developer.
- CRISIL did an assessment of the valuation and ultimate credit loss of the IIFL portfolio.
- Real estate loan book would be steady at INR25-30b.
- Used vehicle prices to rise when new vehicle era shifts to BS6.
- INR3b goodwill – under Ind-AS, goodwill is tested for impairment, but does not get written off.
- BMM Ispat was the first stressed asset deal for INDOSTAR. There is a strategic partner in this deal. INDOSTAR looks forward to more such deals. Disbursed INR6b but sold down INR3.5b to Edelweiss. Will exit in 18 months.
- In the OFS last year, INDOSTAR was asked to deduct TDS before paying out ICM (IndoStar Capital Mauritius, parent). Everstone went to court against the TDS and won the case, but there are still some regulatory requirements pending.

Click below for Detailed Concall Transcript & Results Update



INDOSTAR Capital Finance

CMP: INR356 TP: INR525 (+48%) Buy

- For the parent, 20% of post issue capital (~19m shares) is locked in for three years since the IPO.
- INR2b loan to Essel promoters against shares of Zee Entertainment.

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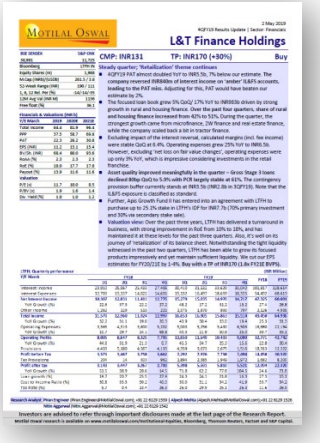
MOTILAL OSWAL
L&T Finance Holdings
CMP: INR131 TP: INR170 (+30%) Buy

L&T Finance Holdings — Buy

Current Price INR 127

- Focused on core income, reduction in opex and containing/improving the asset quality.
- Will look to enter SME business finance as a new segment in FY20.
- IDF – 50% guaranteed by government agencies; all operating assets; 25% stake sale done.
- In tractor finance, 0dpd+ loans have reduced from 50% to 20%.
- IL&FS - No provision on principal; All SPVs were rated A+. The total debt of the four accounts classified as 'amber' is ~2.5x of LTFH's exposure.
- TAT in case of 99% of home loans are done within 30 minutes.
- In 93% of RE projects, L&TFH is the sole financier and for the rest, HDFC is the co-lender.
- Board approval to create 1.25% of risk weighted assets as macro prudential provisions – the timeline not defined.
- May consider securitization of the retail portfolio in the future.
- 75% PCR in de-focused business GNPLs.
- Over the next few years, share of all three lending segments to be largely equal.
- Fee income in the rural lending business has increased meaningfully due to (a) higher 3rd party cross-sell fees, and (b) higher fee % charged to customers.
- Have increased products per customer from 1.7x earlier to 2.7x now.
- In some cases, LTFH receives a subvention from 2W and tractors OEMs.
- Road projects- 100% guaranteed either by NHAI or the state government.
- Average operational tenure of their IDF assets is four years.

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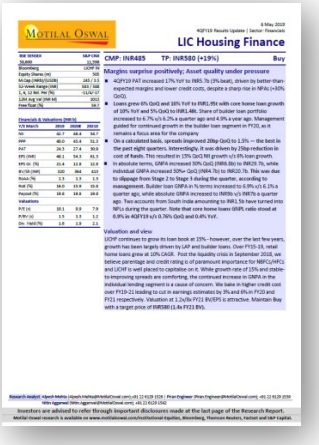

MOTILAL OSWAL
LIC Housing Finance
CMP: INR405 TP: INR580 (+19%) Buy

LIC Housing Fin. — Buy

Current Price INR 557

Business

- As part of succession planning, Mr. Siddharth Mohanty has joined as COO
- Disbursements of INR124.48b (+18% YoY) in the home loan segment
- 10bp PLR hike in 4Q and 70bp hike in FY19 (April – 20bp, August – 20bp, October – 20bp, January – 10bp).
- Developer loans – Target disbursements of INR80-90b in FY20E v/s INR70b in FY19 (105 disbursals).
- In builder loans, 50-60% disbursements were takeovers and the rest were fresh sanctions. 45-50 accounts were disbursed to in 2HFY19 with average ticket size of INR450-500m.
- Some of the wholesale lending takeovers are in LRDs.

Asset quality

- GS3 loans were up 33bp QoQ, largely due to flow of accounts from Stage 2 to Stage 3 (basically ageing of Stage 2 accounts).
- No accounts under NCLT.
- Two corporate accounts from South India (worth INR1.5b) have slipped into NPLs.
- GNPL ratio: HL – 0.9%, LAP – 1.5%; 3QFY19: HL – 0.76%; LAP – 1.4%; 4QFY18: HL – 0.4%; LAP – 0.56%.

Margins

- Raised INR150b NCDs in 4QFY19. Incremental cost of funds has declined by up to 50bp for NCDs.
- Incremental COF for 4QFY19 was 8.53%, yield was 10.37%.
- Received NHB approval for INR20b refinance in 1QFY20.
- Developer loans: FY18 – 13% yield; FY19 – 12.7% yield.

Others

- Started 'Direct Marketing Executive' program in FY19 (off-roll employees who receive a fixed stipend and an incentive on disbursements).

Mahindra Finance

Click below for Detailed Concall Transcript & Results Update

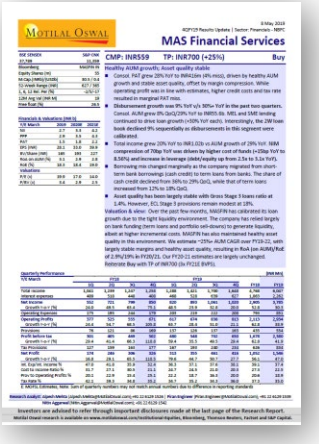
M&M Financials — Buy

Current Price INR 417

- Sharp reduction in GNPA due to better cash flow in rural areas.
- Growth ahead will be a function of (a) election results, (b) monsoon progress and (c) liquidity situation at the ground level.
- Asset quality may see further improvement. It is already at the historical best; Even if one were to assume things to deteriorate sharply, GNPA % won't go above 8%.
- If OEMs will grow 6-7%, then company will grow 11-12%.
- Write off in the quarter was INR1.97b and INR11.82b in FY19.
- For the quarter, collection efficiency was at 107%.
- ROA has scope to improve 40bp to 3% by (a) better recovery, (b) operating leverage and (c) margin improvement.
- Vehicle business disbursement flat; overall disbursement impacted by SME business.
- LGD has increased from 27.45% to 27.95%.
- Yields in on-lending to NBFCs are 13-15%; 20-25 NBFCs; No new disbursement in the near term; trend was muted in 2HFY19.
- Pre-owned vehicle share may go up to 12-15% from 9% currently.
- CV strong growth is driven by market share gain; currently at 6-7% and has scope to improve by 2% at least.
- In CVs, MMFS is largely in the individual segment.

MAS Financial Services — The Power of Distribution

Click below for Results Update



MAS Financial Services — Buy

Current Price INR 598

Business Updates

- Assignment transactions happening at 25-30bp above MCLR
- INR20b of CC facility available, of which 60-65% is utilized
- Disbursements in FY19: 2W - INR4.92b, MEL – INR32b, SME – INR9.61, SRTO – INR1.16b
- Yields: MEL – 15.5%, SME – 14.5%, 2W – 17%, CV – 17%
- Have started passing on the increase in cost of funds to borrowers

Margins

- Incremental COF: 9.5-10%

Guidance

- Will continue to grow at 20-25% on a sustained basis
- Will endeavor to maintain 2.5-3% ROA

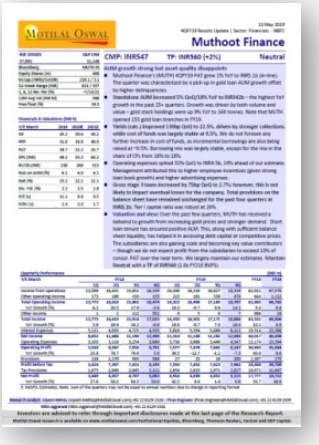
Others

- Total employee count – 1,450 in 4Q v/s 1,500 in 3Q

- The NBFCs that MAS works with, grew at 15-30% in FY19, and have managed their liquidity well (have been able to raise money from banks)
- Want to maintain 12.5-15% Tier I capital on AUM
- Loans to related parties – Nil to Paras (not a related party anymore)

Muthoot Finance

Click below for Results Update



Muthoot Finance — Neutral

Current Price INR 633

Business Updates

- Raised INR7.09b via retail NCDs in Muthoot Finance and INR3b in Muthoot Home finance.
- Operating expenses were elevated in the quarter due to higher employee incentives in line with strong business growth.
- Incremental cost of funds – 9.5%. CP rates incrementally @ 8.0-8.1%. Will restrict CPs to INR50b.
- HFC subsidiary – Headwinds are behind and disbursements will be back on track in FY20. Will focus more on self-construction segment hereon. Incremental CoF: 9.5%. Expect spreads of 300-350bp.
- ECL Stage 1,2 - 1.52%; ECL Sage 3 – 13.89% (v/s 1.5%/14.77% YoY).
- Average ticket size in gold loans has increased YoY from INR38K to INR41K.

Guidance

- 15% YoY growth in gold loan AUM regardless of gold prices.
- Target INR8.5b AUM in Muthoot Money (vehicle finance business) by end-FY20.
- Will maintain spreads at 11-12%.
- FY20 guidance: Belstar – AUM growth of INR6b; HFC – Will do disbursal of INR16b (AUM growth of INR13b).

Asset Quality

- No underlying asset quality issues.

Others

- No. of gold loan accounts – 8.1m v/s 7.6m YoY.
- HFC loan mix: ~100% home loans. LAP is just minimal (INR35m). No builder finance.
- Yields improved QoQ due to stronger collections in the quarter and lower customer discounts/rebates.
- The company does not recognize interest on entire NPLs under Ind-AS.
- INR1m+ ticket size book is still very small.
- All disbursements above INR200,000 happen in non-cash modes.
- Insurance broking – 200 employees; Most business comes through the gold loan branches.

pnb Housing Finance Limited
Ghar Ki Baat

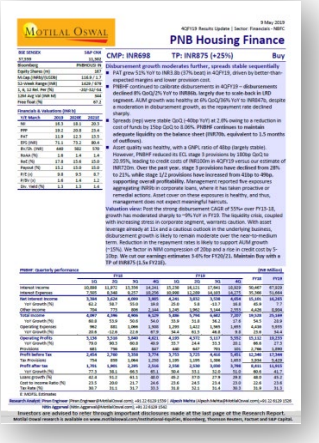
Click below for Results Update

PNB Housing Finance — Buy

Current Price INR 817

Business Updates

- Five corporate accounts (5 projects) are not performing as per management's estimates – currently classified as standard. The company has built a specialized team to look into it. These accounts are in NCR, MMR and South India. The total exposure in these accounts is INR9.08b, of which INR6b is more concerning.
- Recovered INR1.13b from three accounts in FY19, with a minimal write-off of INR20m.
- Loans under subvention schemes amount to only INR6b.



PNB Housing Finance

CMP: INR698 TP: INR875 (+25%) Buy

- Sold down low-yielding corporate loans worth INR16b to banks (not a direct assignment).
- The assigned portfolio is 100% retail.
- West – 40%; South (primarily Bangalore) – 37%; North – 23%.
- Exposure to Supertech – INR2.2b (pari-passu) and Lodha – INR12b (old relationship since 2011; 0dpd)
- Net PAT impact of INR1.5-1.6b due to up fronting of assignment income.

Liquidity/margins

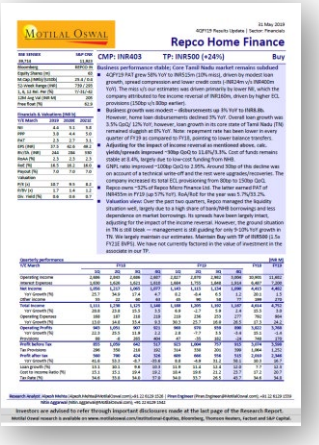
- NHB sanction of INR35b in 3Q was drawn down fully in 4Q.
- INR70b of liquidity on the balance sheet. Another INR20b of undrawn lines.
- ECB cost (fully hedged) is 8.6%.

Others

- Over 1.5lac depositor accounts. 50% of deposits get renewed upon maturity.
- Corporate loan sanctions in FY19 were down 37% YoY.
- C/I ratio is slightly elevated due to ESOP cost accounting under Ind-AS (ESOP expense in 4Q = INR110m).
- Takes 100 days for an increase in PLR to flow through the entire balance sheet.
- Took a small rate hike in March, which would show up in the numbers in June.
- 4-5 corporate cases amounting to INR5b would be pari-passu.

Repco Home Finance
- We value your Dream

Click below for Detailed Concall Transcript & Results Update



Repco Home Finance

CMP: INR403 TP: INR500 (+24%) Buy

Repco Home Finance — Buy

Current Price INR 384

Business

- One-off fee income reversal of INR150m during the quarter.
- INR10b of unutilized lines of credit currently.
- Around 20% of FY19 disbursements were sourced by DSAs.
- Increased lending rates by 60bp in FY19.

Asset Quality

- In 1HFY19, excess provisions were written back and added to reserves. However, in 4QFY19, management decided to keep excess provisions rather than add them to the net worth. Hence, net worth has reduced over 2HFY19.
- Credit cost guidance of sub-0.4% in FY20.
- Have tightened credit underwriting standards.

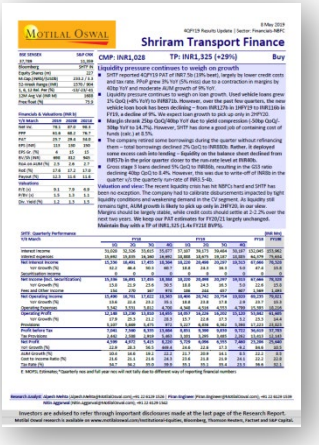
Guidance

- Expect only 9-10% YoY loan growth in Tamil Nadu and overall growth of 14- 15% YoY in FY20.
- Weighted average CoF to be around 8.4-8.5%.
- Spread to remain at 3%.

Others

- Under Ind-AS, loans on the balance sheet are reporting net of provisions. Under IGAAP, it was a gross number.
- NHB borrowings' weighted average cost is 7%.

Click below for Results Update


MOTILAL OSWAL

8 May 2019
4QFY19 Results Update | Sector: Financials-NBFC

Shriram Transport Finance

CMP: INR1,028 TP: INR1,325 (+29%) Buy

Liquidity pressure continues to weigh on growth

- SHTF reported 4QFY19 PAT of INR7.5b (13% beat), largely by lower credit costs and tax rate. PPoP grew 3% YoY (5% miss) due to a contraction in margins by 40bp YoY and moderate AUM growth of 9% YoY.
- Liquidity pressure continues to weigh on loan growth. Used vehicle loans grew 1% QoQ (+8% YoY) to INR872b. However, over the past few quarters, the new vehicle loan book has been declining – from INR127b in 1HFY18 to INR118b in FY19; a decline of 9%. We expect loan growth to pick up only in 2HFY20.
- NIM declined 10bp QoQ (-40bp YoY due to yield compression (-50bp QoQ/-40bp YoY to 14.7%). However, SHTF has done a good job of containing cost of funds (cost.) at 0.5%.
- The company retrieved some borrowings during the quarter without refinancing them – total borrowings declined 2% QoQ to INR800b. Rather, it deployed some excess cash into lending – liquidity on the balance sheet declined from INR57b in the prior quarter closer to the run-rate level at INR40b.
- Gross stage 3 loans declined 5% QoQ to INR88b, resulting in the Q19 ratio declining 40bp QoQ to 8.4%. However, this was due to write-off of INR8b in the quarter v/s the quarterly run-rate of INR1.5-4b.

Valuation and view: The recent liquidity crisis has hit NBFCs hard and SHTF has been no exception. The company had to calibrate disbursements impacted by tight liquidity conditions and weakening demand in the CV segment. As liquidity still remains tight, AUM growth is likely to pick up only in 2HFY20. In our view: Margins should be largely stable, while credit costs should settle at 2-2.2% over the next two years. We keep our PAT estimates for FY20/21 largely unchanged.

Maintain Buy with a TP of INR1,325 (1.4x FY21E BVPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/institutional-equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shriram Transport Finance — Buy

Current Price INR 1,065

Business Updates

- SHTF had reduced LTVs in 2HFY19. May once again increase it in the second half of FY20.
- Expect 15-20% increase in price of new vehicles due to BS6. This should have a second-order impact on used vehicle prices.
- Disbursements in 4QFY19: New – INR8.12b, Used – INR110.24b, Others – INR1.22. Total – INR119.58b.
- Opened 332 branches in FY19 (including satellite branches).
- Write-off of INR8.06b during the quarter. For FY19, it was INR23.47b.

Guidance

- Expect 12-15% AUM growth in 1HFY20 and 18-20% growth in FY20 (factoring in pre-buying due to BS6).
- For FY20, margins should be ~7.2%.
- **Will open 250 branches and hire 3,000 people next year.**
- Credit cost should remain stable at 2% in FY20.

Liquidity/margins

- The liquidity situation has improved. Exhausted USD750m ECB limit in FY19. Also raised INR50b via retail NCDs. Will continue to hold excess cash throughout FY20.
- **PSL securitization came in at 8.5-8.75%. Dollar bond of USD400m came in at a hedged cost of 10%. Overall incremental cost of funds is 9.5%.**
- Incremental yield on disbursements is 50bp higher than on-book yield.
- In 4Q, raised INR8b via assignment and INR28b via securitization.

Others

- 4QFY19 had a tax adjustment for the prior years, leading to 23% tax rate in the quarter.
- LGD and PD in Mar'18 were lower compared to Dec-17 + lower write-offs during the quarter. Revisit LGD and PD levels on a yearly basis in 4Q (LGD – 33.81% in FY18, 32.46% in FY19).

HEALTHCARE

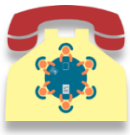
- **The base business in the US generics segment continues facing pricing pressure, albeit at low intensity. Companies are selectively looking at opportunities stemming from portfolio rationalization by peers and are directing their R&D spend mostly toward high-value complex generics with low competition. The Jan Aushadhi scheme introduced by the Government of India, coupled with trade generics, is hurting the branded business in India. Pharma companies intend to increase their focus on markets other than the US (like branded generics in emerging markets) for better growth in revenue and profitability. Near-term prospects have been bolstered by the completion of inventory rationalization in domestic formulations, strong momentum in ANDA approvals, and the favorable environment for the API business.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook	US business
Aurobindo Pharma	▪ With strong pace of ANDA filing and approvals, ARBP expects to maintain US sales momentum going forward. Acquisition of Sandoz business will further drive growth. This portfolio is expected to add ~USD900m in sales in first 12 months after the completion of transaction and add 3 facilities in the US.	▪ ARBP currently has a portfolio of 541 ANDA filings in US (377 final approval/138 pending for approval). In FY19 alone ARBP filed for 63 ANDAs. Post Sandoz acquisition, ARBOP will become the second largest generic player in US. The company has further guided to file 18-20 ANDAs in the oncology space in FY20.
Cipla	▪ The company has guided for ramp up of chronic therapies and acute therapy across the in-licensed and specialized brands. Cipla expects industry beating growth from this segment. For the US market, CIPLA is looking to ramp up existing launches and maintained its guidance of strong filing trajectory. This year will also see the launch of CIPLA's first inhaler in US.	▪ Cipla has a portfolio of 253 ANDAs filings in US (164 approved, 24 tentative, 65 pending). The company has guided for double digit growth in US on the back of ramp up in launches done in FY19 and launches coming up in FY20. Cipla has also guided for 12+ ANDA filings in FY20 toward complex and differentiated assets.
Cadila	▪ Domestic business was up largely on the back of addition of Heinz consumer business (added in 4Q). In FY20, full impact of the acquired business will be visible. The company has deployed INR1.5b in vaccines business till date. With prequalification in place from WHO for rabies vaccine, CDH is in process to ramp up production to cater to demand. The company has guided for capex of INR8b each for FY20 and FY21.	▪ Despite high US base in FY19, CDH has guided for similar level of business in FY20 amid pricing erosion. This will be achieved on the back of 3I5-40 launches during the year. The company has also said that there will be minimum supply disruption from the Moraiya facility based on inventory availability and ramp up in production post implementation of CAPA. The company currently has 106 ANDAs pending for approval.
Lupin	▪ The near-term priorities for the company include scale up of Solosec in US, enhancing scale in women healthcare space in US through licensing and M&As. The company is looking at Etanercept approval in EU and is anticipating product launch in Japan and EU in 2HFY20. LPC will further build Namuscla in EMU and execute Bipresso in Japan.	▪ The company has guided for 20+ launches in FY20. g-ProAir is expected to be launched in 2HFY20. LPC is expecting increased traction in its existing molecules and file additional inhalation and injectable drugs. Levothyroxine (launched in 4QFY20) will also see full year impact in FY20. Resolution of sites (Goa and Pithampur) will be the key priority for the company.

Alembic Pharma

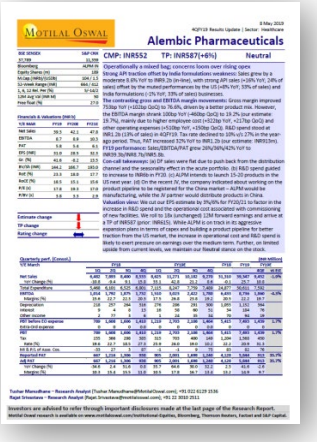
Click below for Detailed Concall Transcript & Results Update



Alembic Pharma — Neutral

Current Price INR 505

- Specialty drives domestic formulation growth for FY19: India formulation business sales grew 9% YoY to INR13.8b for FY19. Within the domestic segment, Specialty segment grew by 11% YoY to INR7.8b, Acute therapy grew 8.6% YoY to INR4.5b, while Vet segment declined 1% YoY to INR1.3b.
- In terms of primary sales at the therapy level, Cardiology and Anti-diabetic saw 16% and 12% YoY growth, respectively. Derma saw high growth of 18% YoY


Alembic Pharmaceuticals
CMP: INR552 TP: INR587(+6%) Neutral

during the year. However, growth was dragged by Gynaecology and Gastrology, both up 6% YoY.

- High growth seen in international business in FY19: US sales stood at INR12.8b (+40% YoY) in FY19. ROW sales increased 73% YoY to INR4.9b.

Other key highlights

- At end-FY19, cumulative ANDA filings stood at 161, of which 89 have received approvals (incl. 12 tentative). In FY19, ALPM filed 29 ANDAs and received 16 approvals.
- ALPM has now commercialized 46 products in the US, of which 8 were launched in FY19. Out of the 46 products, 7 are through partners. The company has planned to launch 10+ products in this geography in 1QFY20.
- Top 10 products form ~80% of US revenue for ALPM.
- Total R&D spend for FY19 stood at INR4.9b or 13% of sales.
- The company has EIR in place for all USFDA plants

Alkem Labs — Buy

Current Price INR 1,765

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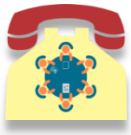
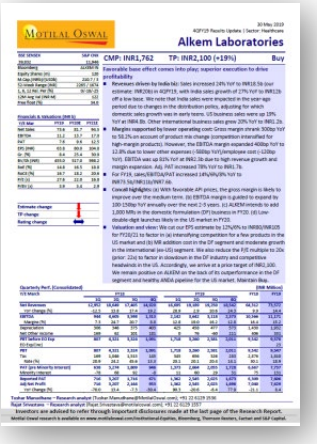



Alkem Laboratories
CMP: INR1,762 TP: INR2,100 (+19%) Buy

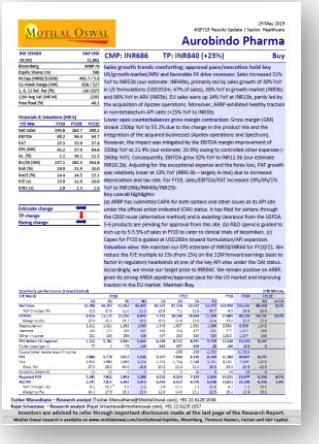
- With favorable API prices, the gross margin is likely to improve over the medium term.
- EBITDA margin is guided to expand by 100-150bp YoY annually over the next 2-3 years.
- ALKEM intends to add 1,000 MRs in the domestic formulation (DF) business in FY20. Lowdouble- digit launches likely in the US market in FY20.
- Trade generics forms 20% of India sales.
- Chronic portfolio in DF grew 22% YoY.
- 57 ANDAs pending for approval in the US generics segment.
- R&D spend to be 5-6% of sales for FY20.
- Capex to be INR4b in FY20.

Aurobindo Pharma — Buy

Current Price INR 624

Click below for Detailed Concall Transcript & Results Update

- ARBP has submitted CAPA for both sartans and other issues at its API site under the official action indicated (OAI) status. It has filed for sartans through the CB30 route (alternative method) and is awaiting clearance from the USFDA. 5-6 products are pending for approval from this site.
- R&D spend is guided to inch up to 5-5.5% of sales in FY20 to cater to clinical trials of biosimilars.
- Capex for FY20 is guided at USD200m toward formulation/API expansion.
- Gross margin shrank in 4QFY19 due to product recalls, serialization in EU and the acquisition of Apotex business in EU.
- During the quarter, sales from Apotex stood at INR1.4b, while Spectrum sales came in at USD8m.


Motilal Oswal
Aurobindo Pharma
CMP: INR686 TP: INR840 (+23%) Buy

- The new bag line is expected to commercialize in the next 2-3 months, while the Lyo line will take another 4-5 months to commercialize.
- The Sandoz acquisition is in last stages of the process. ARBP expects this to get done in next 8-10 weeks.
- Net debt for the company increased to USD724m due to the acquisition of Apotex and Spectrum.
- R&D spend stood at INR2.3b (4.4% of revenues) for 4QFY19 and INR8.7b (4.5% of sales) for FY19.
- ARBP received final approval for 8 ANDAs/48 ANDAs in 4QFY19/FY19. Approvals for FY19 included 8 injectables as well. ARBP launched 50 products in FY19.
- The company filed for 63 ANDAs (21 injectables), taking cumulative ANDAs pending for approval to 138. ARBP has guided to file 18-20 oncology ANDAs in FY20.

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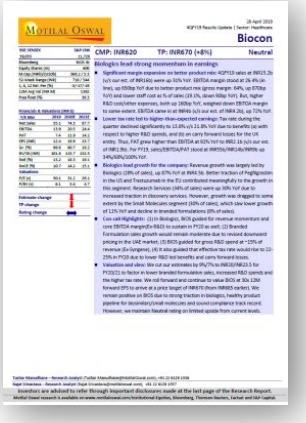
Detailed Concall Transcript &
Results Update


Motilal Oswal
Biocon
CMP: INR620 TP: INR670 (+8%) Neutral

Biocon — Neutral

Current Price INR 545

- In Biologics, BIOS guided for revenue momentum and core EBITDA margin(Ex-R&D) to sustain in FY20 as well
- Branded Formulation sales growth would remain moderate due to revised downward pricing in the UAE market
- BIOS guided for gross R&D spend at ~15% of revenue (Ex-Syngene)
- It also guided that effective tax rate would rise to 22- 25% in FY20 due to lower R&D led benefits and carry forward losses.
- Post receipt of approval for biosimilar pegfilgrastim in the EU, BIOS guided for off-take to ramp up in FY20, based on state specific pricing approvals and awarding of tender in select markets for its partner.
- Though QoQ revenue run-rate in biologics segment has been stable, there has been reduction in inventory level of Mylan. This implies that revenue will pick up in the coming quarters.
- BIOS/Mylan's pegfilgrastim revenue share is about 15-16% in the US market.
- Small molecule business growth is largely led by higher volume off-take.
- BIOS had forex loss of ~INR70m during the quarter.

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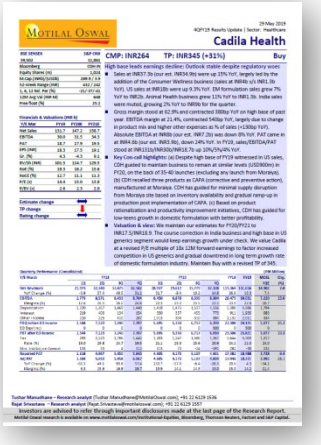
Results Update

Cadila Healthcare — Buy

Current Price INR 246

- Despite high base of FY19 witnessed in US sales, CDH guided to maintain business to remain at similar levels (USD900m) in FY20, on the back of 35-40 launches (excluding any launch from Moraiya).
- CDH recalled three products as CAPA (corrective and preventive action), manufactured at Moraiya. CDH has guided for minimal supply disruption from Moraiya site based on inventory availability and gradual ramp-up in production post implementation of CAPA.
- Based on product rationalization and productivity improvement initiatives, CDH has guided for low-teens growth in domestic formulation with better profitability.
- CDH received 74 approvals (including 12 tentatives) in FY19. At the end of FY19, CDH has 106 ANDA pending for approval with USFDA.



- CDH launched 43 ANDAs in FY19.
- Increased competition has led to 25% fall in sales of Sentynl portfolio over past two quarters.
- G-Lialda/g-Tamiflu now forms only 6-7% of US sales.
- Price erosion in base portfolio has been to the tune of 2-2.5% for CDH generic portfolio.
- 4QFY19 has 2 months of financials performance from acquired Heinz business.
- CDH launched 53 products in India which included 8 new to market products.
- Consumer wellness business was INR8b in sales and INR1.7b in PAT for FY19.
- Average cost of debt is about 3.7% for CDH.
- CDH has deployed capital to the tune of INR1.5b in vaccines business till date. With prequalification in place from WHO for Rabies, CDH is in process to ramp up the production to cater the demand for this product. It also has other limited competition products like Typhoid conjugate vaccines, influenza vaccine from private market perspective.
- CDH guided for capex of INR8b each for FY20 and FY21.

Cipla

Caring for life

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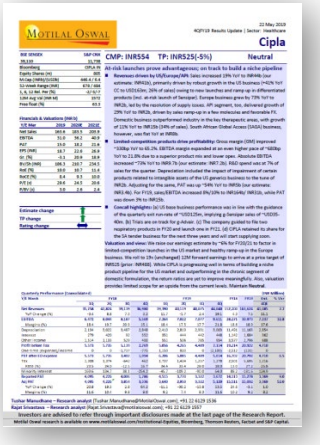

Cipla — Neutral

Current Price INR 561

- US base business performance was in line with the guidance of the quarterly exit run-rate of ~USD125m, implying g-Sensipar sales of ~USD35- 40m.
- Trials are on track for g-Advair.
- The company guided to file two respiratory products in FY20 and launch one in FY21.
- CIPLA retained its share for the SA tender business for the next three years and will start supplying soon.
- CIPLA entered into an agreement with Pulmatrix for worldwide co-development and commercialization of P ulmazole (Inhaled Itraconazole). It has made an upfront payment of USD22m for the same and will equally share cost of development and other costs related to commercialization.
- Development cost of Pulmazole and other specialty drugs is largely factored in the R&D guidance given by the company.
- During the quarter, in addition to the launch of Sensipar, CIPLA also launched/ramped up other differentiated products like – g-Pulmicort, g-Voltarten and g-Isuprel in the US market.
- The company currently has cumulative ANDA filings of 253 (164 approved, 24 tentative and 65 pending for approval). It has planned to file 12+ ANDAs in the complex and differentiated space.
- Domestic branded pharma business for CIPLA grew by 11.2% v/s industry growth of 10.5% for MAT Mar-19. Outperformance was seen in Respiratory, Cardiology and Urology.
- Trade generics form one third of the prescription-led business.
- CIPLA grew at a slightly better rate in trade generics compared to the prescription-led business.
- Inventory rationalization is largely done in the prescription segment. Some amount of rationalization pending in the trade generic segment.

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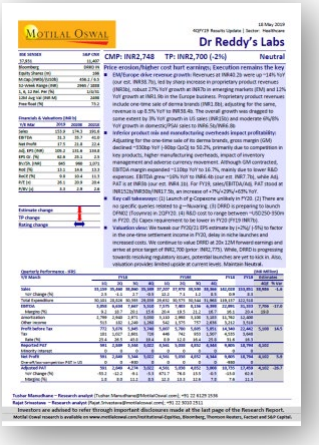

Dr. Reddy's Labs — Neutral

Current Price INR 2,657

- Launch of g-Copaxone unlikely in FY20.
- There are no specific queries related to g—Nuvaring.
- DRRD is preparing to launch DF N02 (Tosymra) in 2QFY20.
- R&D cost to range between ~USD250-350m in FY20.
- Capex requirement to be lower in FY20 (FY19 INR7b).

Business highlights

- DRRD's Global Generic business grew by ~9% YoY to INR30.3b, driven by strong 27% YoY growth in Emerging market (17% of sales) to INR7b and 12% YoY growth in Europe to INR2b for the quarter. This was off-set to some extent by muted 3% YoY growth in US sales to INR15b and 6% YoY growth in Domestic business to INR6.5b.
- Company's PSAI business at INR6.8b grew 8% YoY (15% of total sales) grew by 9% YoY to INR6.8b. The Innovative business (7.5% of total sales) at INR3b increased considerably by 139% YoY due to one-time sale of derma brands for the quarter.

Price erosion led to US sales contracting in the quarter

- US sales declined 4% YoY to USD213m for the quarter. Growth from new launches and marker share gains in few products was offset by price erosion in key molecules.
- During the quarter, DRRD launched 5 products, with major ones being g- ropofol injection and Tadalafil (Adcirca/Cialis). DRRD has 107 ANDAs pending for approval at the end of FY19, with 60 being Para IVs (35 being FTFs).

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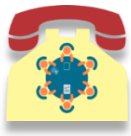

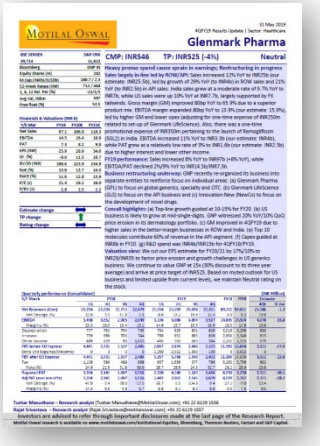

Glenmark Pharma — Neutral

Current Price INR 537

- Top-line growth guided at 10-15% for FY20.
- US business is likely to grow at mid-single-digits. GNP witnessed 20% YoY/10% QoQ price erosion in its dermatology portfolio.
- GM improved in 4QFY19 due to higher sales in the better-margin businesses in ROW and India.
- Top 10 molecules contribute 60% of revenue in the API segment.
- Capex guided at INR8b in FY20.
- R&D spend was INR4b/INR13b for 4QFY19/FY19.
- Sales from the acquired dermatology brands were insignificant during the quarter, as GNP was integrating the acquisition. The company expects to garner higher sales from this portfolio starting 1QFY20.
- Forex gain for the quarter was INR380m.
- Absolute R&D spend is likely to be lower in FY20 than in FY19. FY19 included high R&D expense on Phase 3 trials for Ryaltris.
- GNP intends to commercialize Ryaltris and in-licensed product, Otiprio. For Ryaltris, GNP is evaluating the option of marketing through a partner in the US. Ryaltris is under review by the USFDA and is indicated for the treatment of seasonal allergic rhinitis. The extended PDUFA date for Ryaltris is 21st June'19.
- GNP has co-promotion agreement with Otonomy in the US to promote Otiprio to enhance the commercial infrastructure invested for the launch of Ryaltris.

- GNP invested ~USD113m in the innovation NewCo business in FY19 and intends to invest similar amount in FY20. The funding is expected to be from raising capital in the US in the next 12-18 months. GNP's current innovation pipeline consists of six assets, including NCEs and new biological entities (NBEs).

On specialty business:

- GBR 310: Post positive phase I study result, GNP is in active discussion with potential partners to conclude a deal before initiating phase III studies.
- GBR 39815, NCE, is being evaluated as an inhaled compound for COPD. GNP plans to initiate phase I in FY20.

GRANULES

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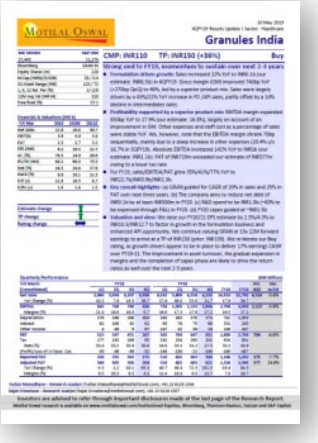

Granules India — Buy

Current Price INR 109

- Management guided for promoter pledge reduction to zero by end of FY21.
- Core molecules contributed ~86% of revenue in FY19. The share is likely to remain stable on the back of an increase in utilization of the recently added capacity.
- Raw material prices are stable now with gradual downtrend.
- Higher formulation sales led by new launches in 2HFY20 to drive gross margin over the medium term.
- R&D spend for FY19 was INR1.3b, with INR570m capitalized.
- Capex in FY19 was INR2.7b.
- GRAN has 32 ANDAs filed till date (9 in FY19) with 15 from India and 17 from Granules Pharma INC.
- GRAN guided for 3-5 approvals in FY20.
- New capacity of Metformin is at 15% utilization. There is USFDA inspection scheduled in July 2019. Successful inspection and subsequent approval are likely to enhance capacity utilization.
- GRAN had income of INR490m from JV and guided for a similar amount in FY20.
- Losartan API is an interesting opportunity for GRAN, and it intends to double capacity to cater to rising demand on account of regulatory issues with peers.
- Granules Pharma INC (GPI) recorded sales/EBITDA/PAT of INR2b/INR760m/IN R400m for FY19.

ipca
A dose of life

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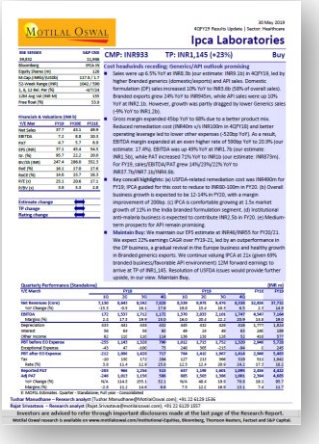
IPCA Labs — Buy

Current Price INR 925

- USFDA-related remediation cost was INR490m for FY19; IPCA guided for this cost to reduce to INR80-100m in FY20.
- Overall business growth is expected to be 12-14% in FY20, with a margin improvement of 200bp.
- IPCA is comfortable growing at 1.5x market growth of 11% in the India branded formulation segment.
- Institutional anti-malaria business is expected to contribute INR2.5b in FY20.
- Medium term prospects for API remain promising.
- Annual operational loss at its formulation plant due to import alert by USFDA is about INR700-800m.
- With respect to the Europe business, issues related to UK distributors are resolved and the business is likely to resume over the near term.
- IPCA guided for Generic business to grow by 10-11% YoY for FY20.


MOTILAL OSWAL
Ipca Laboratories
CMP: INR933 TP: INR1,145 (+23%) Buy

- Within DF, anti-malaria segment (-37% YoY for 4QFY19, -6% for FY19) dragged overall growth.
- NSAID drugs and rheumatoid remained key therapies for growth (+20% YoY) and formed 66% of DF sales in FY19. Other key therapies are Cardio/anti-diabetic, which formed 20% of DF.
- IPCA MR strength at 4,300.
- IPCA guided for 12-14% YoY growth in DF segment in FY20.
- Around INR180-190m shipment of anti-malaria has been shifted to FY20. Order size of USD2-2.5m has started from Global Fund.
- IPCA guided for 13% Y oY growth in Branded exports segment.
- R&D spend at 2.5% of sales in FY19.

Laurus Labs — Buy

Current Price INR 356

LAURUS Labs
Knowledge . Innovation . Excellence

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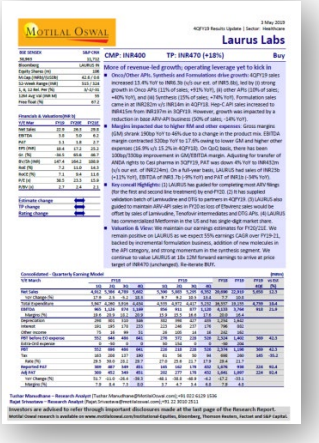
MOTILAL OSWAL
Laurus Labs
CMP: INR400 TP: INR470 (+18%) Buy

- The company has entered into strategic partnership with Global Fund and supplied TLD for low middle income countries (LMIC). Through this partnership, the company can participate in various in-country tenders.
- The company filed for TLE600 and TLE400 with the USFDA and the WHO in Oct'18 and Jan'19, respectively. Post approval, LAURUS would have all major fixed dosage combinations used in the first line therapy with an addressable market size of ~USD1b. LAURUS expects to participate in tenders by end-FY20.
- LAURUS has received an approval for TLD from the USFDA and awaits approval from the WHO.
- The company is expecting approvals for DTG singles and Emtricitabine-Tenofovir combination in the next six months.
- LAURUS would also file TEE (Tenofovir-Efavirenz-Emtricitabine) combination in the next few months.
- Most ARV filings, including the second line therapy, will be completed by end-FY20.
- LAURUS has received three final and two tentative ANDA approvals till date. It expects three ANDA approvals and their subsequent launch in FY20. Total number of ANDA filings stand at 19, while it intends to file 8-10 ANDAs in FY20.
- Volumes in the ARV-API business were lower in 4QFY19 due to Efavirenz inventory being held due to anticipation of the industry shifting to DTG. LAURUS expects to gain traction in ARV-APIs in the coming quarters.
- The company has successfully started to manufacture two ARV intermediates in-house. Prices for most other KSMs have not yet stabilized.
- Oncology API sales growth was superior due to enhanced capacity and better off-take. LAURUS expects to launch two more molecules during FY20.
- It expects to maintain momentum in other APIs due to (a) increased business from partners, and (b) favorable scenario on supply disruption from China.
- Growth in Synthesis business was led by CDMO business rather than Aspen, although commercial supplies to Aspen have now started.
- With capex of INR2.5b in FY19, LAURUS guided for capex spend of INR1.5-2b.
- Adjusting for transfer of ANDA rights to Casi Pharma in 3QFY19, gross margin improved 100bp QoQ. The GM in 4QFY19 was impacted to some extent due to higher third-party Hep-C sales, which is relatively a lower GM business.
- Tax rate for the next 2-3 years is expected to increase to 25-27% on account of reduction in R&D and SEZ related benefits.

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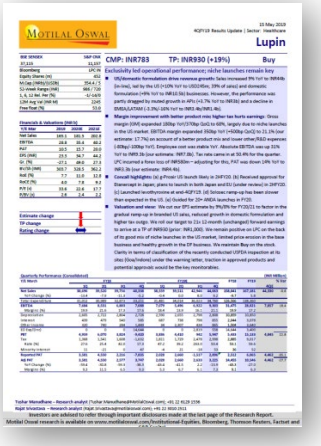

Lupin — Buy

Current Price INR 735

- g-Proair US launch likely in 2HFY20.
- Received approval for Etanercept in Japan; plans to launch in both Japan and EU (under review) in 2HFY20.
- Launched levothyroxine at end-4QFY19.
- Solosec ramp-up has been slower than expected in the US.
- Guided for 20+ ANDA launches in FY20.
- Priorities for FY20 include – warning letter resolution for both Pithampur and Goa facilities, gaining market share in India, launch of Etanercept in Japan and EU, complex drug filings, scale-up of women health drug – Solosec, and protection of the base business.
- During the quarter, LPC received approvals for seven ANDAs and eight launches. For FY19, LPC filed 28 ANDAs and received approvals for 30.
- R&D spend for FY19 stood at INR15.7b (9.6% of sales).
- LPC has partnered with Nichi-Iko in Japan to market Etanercept. The company has also partnered with Mylan to market this drug in EU, Australia, NZ, LATAM, Africa and most of Asia (global market size – USD11b).
- LPC is yet to get classification from the USFDA post the recent inspection at sites (Goa/Pithampur) currently under the warning letter.
- Cumulative ANDAs filed at the end of FY19 stood at 422, with 157 pending for approvals. Cumulative FTFs stood at 40 (15 excl.).
- Solosec pick-up has not been as per expectation due to pricing issue. LPC has started offering discount coupons to increase off-take and optimizing the output from the MRs.
- There are no queries pending for g-ProAir and TAD is in place. Since the USFDA has not approved any MDI till date, final approval might face time lag.
- LPC has ANDA approvals for four injectable and is planning to launch in 2HFY20.
- Clinical studies for biosimilar pegfilgrastim in the US are ongoing.
- For India business, LPC now has in-licensed portfolio of 34 brands. The company partnered with BI and Eli Lilly to launch three new anti-diabetic drugs in India. LPC has a field force of ~6,900 people.
- The company launched Namuscla in the UK, Germany and France. The drug has orphan drug designation.
- It is all geared up to properly execute the levothyroxine launch in addition to 20+ drugs planned to be launched next year.
- Jan Ausadhi is yet to make any meaningful impact to the branded generics industry which continues to hold 95% market share in India.

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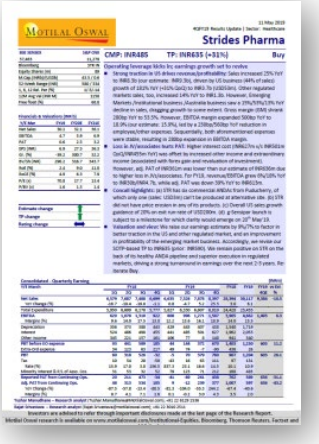
Strides Pharma — Buy

Current Price INR 412

- STR has six commercial ANDAs from Puducherry, of which only one (sales: USD3m) can't be produced at alternative site.
- STR did not have price erosion in any of its products.
- Overall US sales growth guidance of 20% on exit run-rate of USD200m.
- g-Sensipar launch is subject to a milestone for which clarity would emerge on 20th May'19.
- With respect to ANDA under the CGT (Comprehensive Generic Therapy) category, there is additional requirement of repeating complex study associated


Strides Pharma

with the product. Accordingly, R&D spend on this would be USD1-2m, delaying approval by 12 months.

- It had sales of USD2.5m from g-Tamiflu and USD1.5m from Benzonatate, implying considerable growth in US sales from the organic route.
- With 21 ANDA filings in FY19, STR guided for maintaining filing momentum in FY20 as well.
- Further, out of 68 approved ANDAs, STR is yet to commercialize 31 ANDAs, which provides visibility of growth in US generics.
- There has been an impact of INR300m in revenue from other regulated market on account of recently introduced serialization standards. STR guided for normalization of this business in coming quarters and it also continues to increase reach as well as product offering which would boost growth in this segment going forward.
- There has been Zero failure to supply in FY19.

Sun Pharma — Buy

Current Price INR 404

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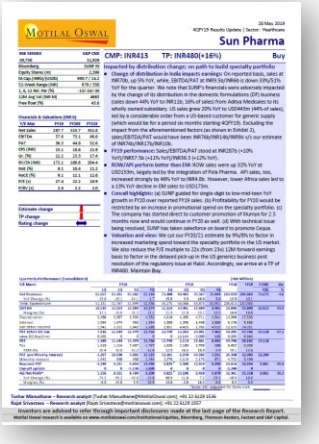
Sun Pharma

- SUNP guided for single-digit to low-mid-teen YoY growth in FY20 over reported FY19 sales.
- Profitability for FY20 would be restricted by an increase in promotional spend on the specialty portfolio.
- The company has started direct to customer promotion of Illumya for 2.5 months now and would continue in FY20 as well.
- With technical issue being resolved, SUNP has taken salesforce on board to promote Cequa.
- No further update on the whistle blower-related aspect.
- There has been no significant impact of Atlas-related unwinding of transaction on P&L.
- Sudhir Valia would step down from position of Whole-time Director to Non-Executive director of the company with effect from today.
- There is no insider trading case pending on any employee of SUNP.
- In 4QFY19, the company filed 9 ANDAs and received approvals for 12.
- As of end-FY19, total 118 ANDAs are pending for approval. 13 have tentative approval status.
- R&D spend for the quarter was INR5.3b (7.6% of sales). SUNP guided for R&D spend at 8-9% of total sales for FY20.
- RoW sales were up 32% YoY, largely on the back of integration of the recently acquired Pola Pharma (Japan).
- Emerging market sales declined YoY due to lower business in Africa.
- Distribution-related impact has been completely absorbed in 4QFY19 and normalized domestic formulation sales would happen going forward.
- SUNP has slightly above 10.5% market share in Odomzo.
- Effective tax rate would move upward, going forward.
- Expansion capex would be USD200m for FY20.

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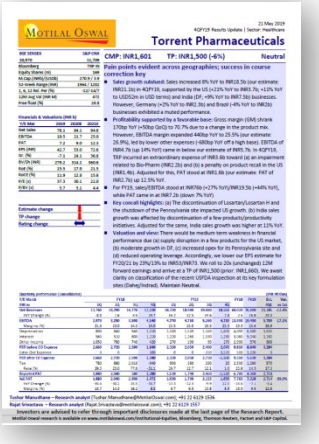

Torrent Pharma — Neutral

Current Price INR 1,520

Key concall highlights

- The discontinuation of Losartan/Losartan H and the shutdown of the Pennsylvania site impacted US growth.
- India sales growth was affected by discontinuation of a few products/productivity initiatives. Adjusted for the same, India sales growth was higher at 11% YoY.

Other key highlights

- TRP has temporarily stopped commercialization of the Levittown facility, which contributed USD11.7m in FY19. This is due to upgradation of the facility to shift the current focus from OTC drugs to prescription-based drugs, which requires more stringent regulatory norms.
- TRP filed for five ANDAs during the quarter. For FY19, it filed 20 ANDAs and launched 14 ANDAs. 32 ANDAs are pending for approval as of end-FY19.
- While TRP has API source for impurity free Losartan/LosartanH in place, it guided for a gradual build-up in sales from those products.
- On overall basis, TRP has guided to launch at least 10 products every year in the US market.
- With expansion capex already undertaken, TRP has guided for only maintenance capex going forward. Capex will be to the tune of INR3-3.5b on an annual basis.
- The company has discontinued sale of Losartan in Germany and Brazil as well.
- For India business, the chronic segment grew 13% YoY v/s 12% IPM growth during the quarter. The sub chronic segment for the company grew at ~21% YoY.
- India business for the company is largely on account of specialist portfolio prescription.
- R&D expense during the quarter was INR1.3b and formed 9% of sales. For FY19 R&D expenditure stood at INR5.3b (7% of sales).
- Amortization for FY19 was higher by INR2b YoY on account of acquired Unichem business.

MEDIA

- **Broadcasters (ZEE and SUNTV) hinted that the TRAI's new tariff order will impact the performance this quarter as well. Managements alluded that they would continue stepping up investments in digital. PVR remained focused on robust screen adds. The print pack was bullish on moderation of newsprint prices and hinted that benefits should start flowing from 2QFY20.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Margins
DB Corp	▪ Expect the full benefit of the drop in newsprint prices to reflect from 2Q/3Q. ▪ Management does not intend to take a cover price increase in the near term. ▪ No significant increase in circulation copies is expected in FY20.	▪ No Margin outlook provided.
Jagran Prakashan	▪ Expect 8% print ad growth and 10% radio growth in FY20. ▪ Management mentioned that 8% print ad growth and correction in newsprint prices should drive 20% EBITDA growth. ▪ 1QFY20 to witness 40-50% of the total benefits due to drop in newsprint prices; full benefits should flow in from 2QFY20. ▪ Expect 10-15% savings in RM cost in FY20.	▪ No Margin outlook provided.
PVR	▪ Expect 80-100 new screens in FY20. ▪ Expect double-digit ad growth in FY20. ▪ FY20 SPH growth should be similar to that in FY19. ▪ FY20 capex guidance stands at INR5-6b.	▪ No Margin outlook provided.
SUN TV	▪ FY20 subscription revenue to grow at 14-15%. ▪ Expect 1HFY20 ad growth to remain under pressure due to spillover effect of TRAI's tariff order. ▪ Currently, ~38% homes in Tamil Nadu are still on analog signals. Expect additional 6-9 months for Tamil Nadu to get fully digitized. ▪ FY20 overall capex guidance stands at INR5b.	▪ No Margin outlook provided.
Zee Entp.	▪ Expect low-teens subscription growth for FY20, but will revisit the same post 1QFY20. ▪ Expect ad growth above industry level, which is estimated at low double-digit for FY20. ▪ 1QFY20 ad revenue will continue to be impacted from TRAI's NTO and from rejig in the FTA portfolio. ▪ Expect to sign binding agreement for promoter stake sale by Jul'19.	▪ Expect 30%+ EBITDA margins for FY20.

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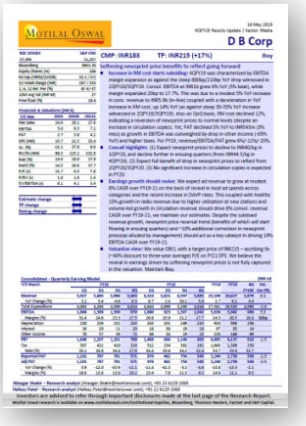


D B Corp — Buy

Current Price INR 196

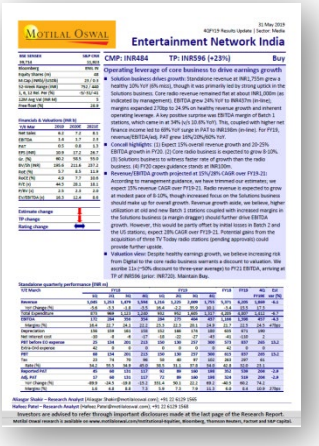
Key takeaways

- Expect newsprint prices to decline to INR40/kg in 1QFY20 and to further lower in ensuing quarters (from INR44.5/kg in 4QFY19).
- Expect the full benefit of the drop in newsprint prices to reflect from 2Q/3Q.
- Management does not intend to take a cover price increase in the near term.
- In 1QFY20, political ads should offset the deficit from the government category.
- No significant increase in circulation copies is expected in FY20.

4Q performance

Ad revenue

- 8% ad revenue growth has come mainly on the back of higher ad spends in the government category (+26% YoY, led by increase in DAVP rates), real estate category (+10%), education, etc.
- Management alluded that there were no political ads during 4Q.



Entertainment Network India

CMP: INR484 TP: INR596 (+23%) Buy

- Ad revenue/market share is increasing in Rajasthan.
- Drop in EBITDA of mature editions is mainly due to high newsprint costs.

Circulation revenue

- Circulation revenue remained muted since company did not undertake yield increase YoY.
- Circulation as of Mar'19 stood at 56.20lac copies.
- Blended cover price is INR4.16; realized price is INR2.69.

Radio biz

- Radio revenue grew 8% YoY, EBITDA grew 14% YoY.
- Growth in radio segment is largely volume-led. The government category contributes 25% to the total radio revenue.
- Average realization/10sec would be about INR3.5k across 30 radio stations.

Newsprint

- Blended newsprint price stood at INR44.50/kg in 4QFY19 (from INR45.40/kg in 3QFY19).
- Removal of low paying advertisers from digital has led to de-growth in digital revenue.
- INR710m increase in debtors is largely due to increase in government's outstanding dues.

Business outlook

Ad revenue

- In 1QFY20, political ads should offset the deficit of the government category.
- Apr'19 saw flat ad revenue growth.

Circulation revenue

- Expect FY20 circulation revenue growth to be largely volume driven.
- Management does not intend to take a cover price increase in the near term.
- No significant increase in circulation copies is expected in FY20.

Newsprint

- Expect newsprint prices to decline to INR40/kg in 1QFY20, and to further decline in the ensuing quarters.
- Blended spot price should settle at ~INR37-38k/t in the near-term.
- Expect full benefits of drop in newsprint prices to reflect from 2QFY19/3QFY19.

IRS survey updates

- Dainik Bhaskar newspaper has added 63.5 lac new readers.
- Group readership reached an all-time high of 65.5m.
- DBCL's readership grew 37.1% in legacy markets.
- DBCL's circulation in Rajasthan reached 16.25lac copies according to the Audit Bureau of Circulation (ABC) results for the six-month period (Jul –Dec 2018).

Entertainment Network — Buy

Current Price INR 461

Key takeaways

- Maintenance capex of INR100m in FY20.
- Management has guided for 15% revenue and 20-25% EBITDA growth in FY20.
- Non-FCT EBITDA margins likely to grow from 13% to 30%.
- In radio business, volume declined by 5%, whereas ad rates were up by 4%.

4Q Performance

Click below for Detailed Concall Transcript & Results Update

- Radio business contributed INR1b and Non-FCT business INR0.75m in 4QFY19 (growth upwards of 75% YoY).
- For FY19, Radio business accounted for INR4b and Non-FCT business contributed INR2.15b, accounting for almost a third of revenues.
- Employee expenses in 4QFY19 were down on account of change in variables and incentive structure, which will normalise in the next quarter.

Radio Business

- Radio segment revenue were muted QoQ, due to uncertainty in economic conditions, which led to fall in advertisement revenues by 13% and slowdown in print media ads across industry.
- In radio business, volume fell by 5% whereas ad rates were up by 4%.
- Decline in ads was evident across sectors, such as BFSI, Autos (-10%), Organised Retail (9%), FMCG (8%) and NBFCs (worst-hit in ad spends). Government was the biggest spender in ads (up 5% YoY despite base of 68% growth last year), while the E-commerce sector has seen increased ad spending.
- Ads in the government segment were majorly focused on schemes and project promotion. Pre-election ad spending will reflect in April-May revenues and in the year-end on account of state elections.
- ENIL had an opportunity to grow volumes this quarter on the back of price cuts, which it did not opt for, thereby maintaining profitability.
- Legacy stations of Phase II had healthy 41% EBITDA margin, whereas Phase III Batch I EBITDA margins recovered to 25%and is expected to grow to 35% by FY20. Batch II margins are still negative due to high investments in Phase II and are expected around +40% by FY20.

Non-FCT Business

- Gross margins in Non-FCT business were 28% in 4QFY19 (up 500bp YoY). For FY19, adjusting for loss-making international events, gross margin stood at 32%.
- Digital Business now contributes INR110-120m and has potential to reach over INR1b in five years.
- Company's Youtube channel has (a) 150m subscribers with 720m views, (b) RJs with over 7m base on social media, (c) over 12 hours of short video content, and (d) over 50 podcasts. All this should aid in monetisation plans going ahead.
- Sponsorship and in-film branding by clients contributes highly to the digital business.

Business Outlook

- Batch I is currently below 40% capacity utilisation, but improved pricing and volume growth from the government will enhance next quarter's performance.
- Company looks forward to grow in Non-FCT business by doubling its IP portfolio (currently 8-10 IPs), which act as value addition in the Non-FCT business.
- Launch of stations in 10 different cities of the USA (states of New Jersey, New York and Connecticut) targeting the Indian diaspora (in Hindi/Tamil/Telugu languages) and management of brand activity for US broadcasters.
- Maintenance capex of INR100m in FY20.
- Management has guided for 15% revenue and 20-25% EBITDA growth in FY20, core radio business expected to grow at 8-10%.
- Non-FCT EBITDA margins likely to grow from 13% to 30%.

Industry & Business Commentary

- Total FM listenership is up by 40-50m; digital medium saw 60-70m additional viewers, taking the total count to 110-120m.
- According to IRS report, monthly radio listenership grew 6.6% to 216m and was up 8.3% on weekly basis. Car stereos have seen major uptick this year (up 28%), due to increased traffic and clogged roads, mobile listenership was up 10% and time spent on radios was up 7% for daily listeners.
- In Gurgaon & Delhi, car listenership is higher than mobile listenership, whereas in Mumbai-Pune, car stereos contribute 40-50% to radio listenership.
- Consolidation in broadcasting industry will help in stemming negative practices by some players (like taking price cuts to boost volumes); however, the acquisition of RBNL by MBL will have no effect on ENIL.
- Advertisement rates did not rise as peers were trying to grab each other's pie of the revenue, rather than growing the market. However, fair practices in the industry should see ad rates rising.

Jagran Prakashan — Buy

Current Price INR 112

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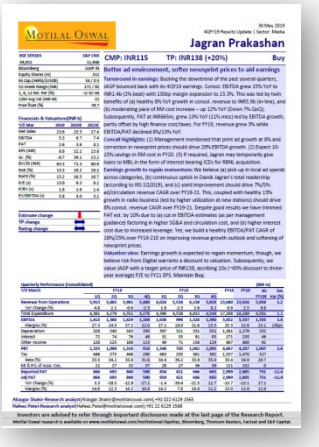

Key takeaways

- Expect 8% print ad growth and 10% radio growth in FY20.
- Management mentioned that 8% print ad growth and correction in newsprint prices should drive 20% EBITDA growth.
- 1QFY20 to witness 40-50% of the total benefits due to drop in newsprint prices; full benefits should flow in from 2QFY20.
- Expect 10-15% savings in RM cost in FY20.
- If required, Jagran may temporarily give loans to MBL in the form of interest bearing ICDs for RBNL acquisition.

4QFY19/FY19 performance

- Govt. category contributed 50% to the total 10% print ad revenue growth.
- Categories incl. Auto and Education performed well during the quarter.
- Revenue contribution from select categories such as Auto, FMCG and Education is in double digits; other categories contribute 4-5% to the revenue.
- Hardly any benefits were realized from drop in newsprint prices in 4QFY19.
- Spot prices range between INR35-40k for indigenous newsprint.
- Improvement in circulation revenue is primarily due to increase in cover price. This was, however, offset by drop in circulation copies.
- Print business garners 25% margin and Radio ~35%; Digital business is currently loss-making, while other business too is a margin dragger.
- Digital revenue grew 20% for FY19.
- Registered 40% YoY growth in unique users to 45.2m.
- Increase in RM cost in 4QFY19 was due to consumption of high priced inventory bought earlier.
- Capex has increased due to purchase of office properties for the MBL and Mid-Day business, which were earlier operating out of rented space.
- Dainik Jagran I-Next has a turnover of INR500m.
- Outdoor business generated INR1,000m revenue in FY19 and operates at 5-6% margins.
- Event business has top line of INR500m in FY19.

- Royalty payment is ~5% of terrestrial FM revenue; for online FM it would be INR500m.
- Non FCT business contributes ~12% to MBL revenue; it grew 40% YoY in FY19.

Business Outlook

- Expect 8% print ad growth and 10% radio growth in FY20.
- 8% print ad revenue growth and correction in newsprint prices should drive 20% EBITDA growth.
- Political ads contribution would be ~5% for 1QFY20.
- Expect to witness 40-50% of the total benefits from drop in newsprint prices in 1QFY20; full benefits should come in from 2QFY20.
- Expect 10-15% savings in RM cost in FY20.
- Management hinted that it will continue to take cover price increase.
- If required, Jagran may temporarily give loans to MBL in the form of interest bearing ICDs for the RBNL acquisition.
- Regardless of the RBNL acquisition, management mentioned that Jagran as a Group will continue to distribute dividend.
- Expect Dainik Jagran business to report 30% EBITDA margins on the back of 8-9% ad growth and drop in RM cost.
- Going forward, consol. EBITDA margin should be a derivative of revenue mix.
- Expect outdoor business to reach 10% margins by FY20-21.
- Expect event business to generate 5-6% margins in FY20.
- Mid-Day Gujarati, Inquilab are breaking-even on circulation.
- Circulation growth to come from increase in volume as well as yield improvement.

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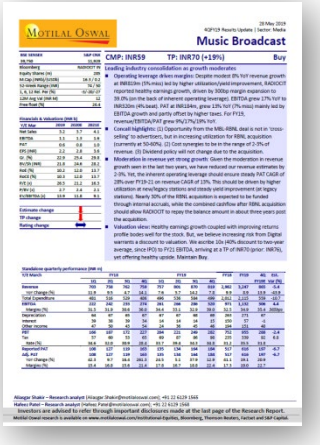

Music Broadcast — Buy

Current Price INR 58

Key takeaways

- Opportunity from MBL-RBNL deal is not 'cross-selling' to advertisers but in increasing utilization for RBNL acquisition (currently at 50-60%). Cost synergies would be in the range of 2-3% of revenue.
- Group will not change its dividend policy because of this acquisition.
- Acquisition of Friends FM (cancelled) was structured in the form of business purchase; not a pure-play company buy-out, thus, delaying MIB approval.

4QFY19 performance

- Total revenue grew 8% YoY; revenue contribution from new stations stood at 9%.
- EBITDA grew 17%; EBITDA margins expanded ~300bp to 39.0%.
- EBITDA margins for Phase III stations stood at 19%.

FY19 performance

- Total revenue grew 9% YoY; legacy stations revenue grew 6% YoY while new stations revenue grew 58% YoY.
- Top 3 categories: Government grew 17%, ecommerce grew 42%, Real Estate grew 10%.
- Company took 8% rate hike in 12 core markets at the start of the year.
- Legacy stations utilization stood at ~65-70%; ~45-50% for Phase III stations.
- EBITDA grew 17% YoY; EBITDA margins expanded ~230bp to 34.9%.
- EBITDA margins for Phase III stations stood at 15%.

- Cash and cash equivalents as on Mar'19 stood at INR2.5b.
- Increase in fixed assets is due to acquisition of new premises in Mumbai.

Reliance Broadcast Network Ltd (RBNL) acquisition

- Post-acquisition, RBNL will not be merged into MBL, but will be operated as a wholly-owned subsidiary.
- Acquisition of 40 (of 58) RBNL stations will lead to entry into new key markets of Indore, Bhopal, etc. Fate of balance 18 stations lies with RBNL promoters.
- Combined entity should have India's largest FM network with 79 stations; two frequencies in 10 markets and one frequency in balance 69 markets.
- Both brands will continue to operate independently.
- Cap on stations per city has restricted acquisition of balance 18 RBNL stations.
- Till the receipt of MIB approval, RBNL stations will continue to be managed by existing management.

BigFM KPI's

- Average utilisation for 58 markets is ~50%; difference would be ~15-20% compared to Radio City stations.
- BigFM operates as a volume player and thus, price differential would be ~15-20% compared to Radio City stations.
- Have higher share of national advertisers.

Transaction details

- RBNL's net debt as on Mar'19 stood at INR12-13b. Of this, INR6b debt is owed to promoters, which will be converted into equity while balance INR6-7b is external borrowing.
- INR2b consideration will be utilised by RBNL to repay external debt.
- INR3.5b consideration (for buyout of RBNL promoter stake sale) will be paid post MIB approval.
- Acquisition to be financed from internal accruals and long-term borrowings.
- Post conversion of (promoter) debt into equity, RBNL's FY20 PAT will be INR250-300m.

What went wrong with ZEE-RBNL deal/Friends FM deal

- Structuring ZEE-RBNL deal into two parts — (a) acquisition of 45 stations, and (b) acquisition of 14 stations that led to MIB reservations.
- Acquisition of Friends FM was structured in the form of business purchase. Since it was not a pure-play company buy-out, MIB did not give approval for the transaction.

Business outlook

- Group will not change its dividend policy because of this acquisition.
- Opportunity is not in cross-selling to advertisers but in increasing utilisation for RBNL acquisition (currently at 50-60%).
- Cost synergies would be in the range of 2-3% of revenue.
- Expect RBNL to become debt-free on its own strength by FY25.

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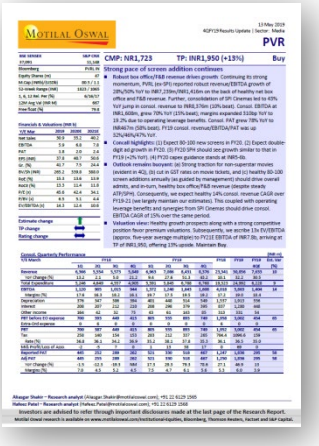
PVR — Buy

Current Price INR 1,731

Key takeaways

- Expect 80-100 new screens in FY20.
- Expect double-digit ad growth in FY20.
- FY20 SPH growth should be similar to that in FY19.
- FY20 capex guidance stands at INR5-6b.



MOTILAL OSWAL

11 May 2019

4QFY19 Results Update | Sector : Media

PVR

CMP: NR1,723 TP: INR1,950 (+13%) Buy

Strong pace of screen addition continues

- Robust box office/F&B revenue drives growth: Continuing its strong momentum, PVR, pre-IPL reported robust revenue/EBITDA growth of 20%/50% YoY to INR7,259m/INR1,416m on the back of healthy net box office and F&B revenue. Further, consolidation of SPI Cinemas led to 43% YoY jump in consol. revenue to INR6,376m (10% beat). Consol. EBITDA at INR1,808m, grew 70% YoY (17% beat); margin expanded 310bp YoY to 18.2% due to operating leverage benefits. Consol. PAT grew 78% YoY to INR467m (28% beat). FY19 consol. revenue/EBITDA/PAT was up 32%/46%/47% YoY.
- Consol highlights: (1) Expect 80-100 new screens in FY20. (2) Expect double-digit ad growth in FY20. (3) FY20 SPH should see growth similar to that in FY19 (+2% YoY). (4) FY20 capex guidance stands at INR5-6b.
- Outlook remains buoyant: (a) Strong traction for non-superstar movies (evident in 4Q), (b) cut in GST rates on movie tickets, and (c) healthy 80-100 screen additions annually (as guided by management) should drive overall admits, and in-turn, healthy box office/F&B revenue (despite steady ATP/SPH). Consequently, we expect healthy 14% consol. revenue CAGR over FY19-21 (we largely maintain our estimates). This coupled with operating leverage benefits and synergies from SPI Cinemas should drive consol. EBITDA CAGR of 15% over the same period.
- Valuation view: Healthy growth prospects along with a strong competitive position favor premium valuations. Subsequently, we ascribe 13x EV/EBITDA (approx. five-year average multiple) to FY21E EBITDA of INR7.8b, arriving at TP of INR1,950, offering 13% upside. Maintain Buy.

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	50.9	75.1	90.5
EBITDA	5.9	6.8	7.9
PAT	1.8	2.0	2.5
EPS (INR)	32.9	40.7	51.0
Gr. (%)	40.1	23.7	25.4
BV/Sh (INR)	281.2	319.4	360.0
RoE (%)	12.3	13.4	15.0
RoCE (%)	12.3	11.4	12.0
P/E (x)	45.6	42.4	34.1
P/BV (x)	6.5	5.3	4.5
EV/EBITDA (x)	14.3	11.4	10.0

Estimate change

TP change

Rating change

Consol. Quarterly Performance

INR mn

Y/E March	FY18				FY19				FY19	FY18	FY19	Est. Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue	4,949	5,754	5,575	5,840	6,963	7,998	8,451	8,579	31,941	20,854	7,255	10
Growth (Yoy) (%)	14.1	14.1	14.1	14.1	40.7	39.0	51.6	46.9	53.2	14.1	16.2	
Total Expenditure	3,248	4,039	4,157	4,600	5,551	6,619	6,768	6,765	25,511	16,044	6,519	3
EBITDA	1,529	995	1,419	948	1,372	1,240	1,643	1,808	6,014	5,003	1,404	18
Margin (%)	17.8	30.3	25.2	18.1	19.7	17.3	19.5	18.2	17.1	19.0	18.4	
Depreciation	376	387	388	394	401	440	514	540	1,717	1,313	558	
Interest	208	207	212	210	206	206	374	341	127	1,130	448	
Other Income	366	62	50	73	63	65	165	65	164	551	54	
Share of JV income	1,151	1,000	1,000	1,000	1,000	1,000	1,000	1,000	4,000	4,000	1,000	0
Extra-ordinary expense	0	0	0	0	0	0	0	0	0	0	0	0
PBT	700	387	469	415	809	555	893	740	1,952	3,002	854	45
Tax	216	140	134	155	283	212	317	243	744.4	1,045.5	1.59	
Tax (%)	31.0	36.1	34.2	34.9	35.2	38.1	37.8	32.3	38.1	34.8	32.0	
Reported PAT	484	247	335	260	526	343	576	497	1,207	1,956	853	58
Adj PAT	484	247	335	260	526	343	576	497	1,207	1,956	853	58
YoY Change (%)	1.9	12.3	18.3	18.6	17.3	38.3	71.3	91.8	27.1	46.9	1.5	
Margins (%)	7.0	4.3	5.2	4.5	7.2	4.7	6.1	5.8	5.3	9.0	3.9	

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4QFY19/FY19 performance

- 4Q consol. revenue was up 43% YoY; consol. EBITDA was up 66% YoY and margins expanded 280bp to 20%; PAT was up 78% YoY.
- FY19 consol. revenue was up 32% YoY; consol. EBITDA was up 43% YoY and PAT up 47% YoY.
- Added 138 screens during FY19; 70 screens were added organically while balance was from the inorganic route. 13 more screens were added in Apr'19.
- Ad growth is relatively low due lack of blockbuster releases in 4QFY19.
- Difference in margins for PVR standalone and SPI circuit was due to content.
- FY19 capex stood at INR4.8b.
- FY19 debt stood at INR12.80b with debt to EBITDA of 2.1x.
- Drop in share of movie exhibition cost was mainly due to movies like 'Uri' and 'Badhaai Ho' running in the third week (with lower revenue sharing).
- Other expenses was higher in 4Q/FY19 due to higher spends on R&D projects for digitization, litigation expenses, expenses for acquisition of SPI Cinemas, etc.
- Bulk of the receivables pertained to advertising revenue.
- Advertising minutes currently stands at 18min in iconic cinemas/22min in noniconic cinemas.
- More than 60% of SPI Cinemas' box office revenue is from local content.

Business Outlook

- Expect 80-100 new screens in FY20, including 8-12 new screens for SPI circuit.
- Currently, premium screens' count stands at 76 i.e. 10% mix of the total count; expect to increase it to 15% over the next three years.
- Expect double-digit ad growth in FY20. Advertisement revenue from the chain of SPI Cinemas should move up from its existing levels.
- FY20 SPH growth should be similar to that in FY19 as PVR will continue to focus on driving volumes.
- IPL has not had much impact on the revenue.
- FY20 capex guidance stood at INR5-6b, dependent on the number of screens as well as the mix of premium screens increasing. 2/3rd of the total capex will be for new screens while balance will be for upgradation of existing screens.
- Average/screen capex is ~INR30m.
- Tax outgo will be based on MAT since company has MAT credit available.
- Evaluating the impact of IND-AS 116; expect to come up with a separate resentation explaining its impact.
- The renewed contract between PVR and Bookmyshow does not include SPI Cinemas as it already has a 3-year agreement with Bookmyshow.

Industry

- F&B PIL has not come up for hearing in Supreme Court yet.
- Industry's same store admits/ATP are growing by 4-5%. China too is seeing similar growth.
- Despite aggressive investment by various OTT players in FY19, movie revenue has grown vindicating the absence of cannibalization.
- Expect OTT and theatrical segments to co-exist.

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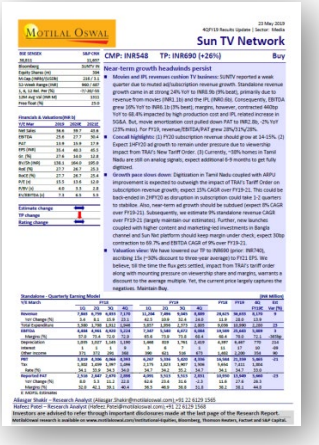


Sun TV Networks — Buy

Current Price INR 540

Key takeaways

- FY20 subscription revenue to grow at 14-15%.
- Expect 1HFY20 ad growth to remain under pressure due to spillover effect of TRAI's tariff order.
- Currently, ~38% homes in Tamil Nadu are still on analog signals. Expect additional 6-9 months for Tamil Nadu to get fully digitized.
- FY20 overall capex guidance stands at INR5b.

4QFY19 performance:

- Revenue break-up: Advertising revenue stood at INR3,400m, Broadcasting revenue at INR130m, International subscription revenue at INR420m, Cable revenue at INR1,260m, DTH revenue at INR1940m, Movie revenue at INR1,150m, and IPL revenue at INR580m.
- Depreciation for 4QFY19 stood at INR164m. Amortization stood at INR2,260m, of this, Film amortization was INR1,180m.
- Implementation of TRAI's tariff order led to 12-15% impact on viewership, initially. However, this is stabilizing with current impact of around 8-10%.
- On-ground pricing of ARASU cable now stands at INR253.

Business Outlook:

Ad

- Expect 1HFY20 ad growth to remain under pressure due to spillover effect of TRAI's tariff order.
- Launch of new shows by July/Aug 2019 should help regain lost viewership share.
- Expect Gemini and Udaya channels to have good traction in the next couple of months on the back of new launches.
- Management hinted that competition is losing market share.

Subscription

- FY20 subscription revenue should grow at 14-15%. Disruptive phase is now behind and expect subscription revenue growth to revive.
- Expect TRAI's tariff order impact to stabilize by end-2QFY20.
- Expect content deal with Jio to get finalized in the next 2-3 weeks.
- Seeded 2m DTH boxes in FY19; expect to seed 5-6m boxes FY20.
- Expect FY20 DTH ARPU to be in the range of INR35-36.
- Yields improvement in DTH segment should be lower than that of the Cable segment in Tamil Nadu.

Movies

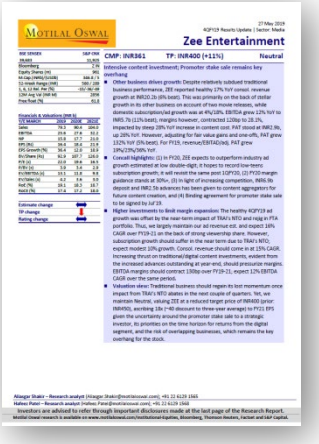
- Brake-even on 'Petta' movie production cost; retained all digital and satellite rights — for this, revenue should accrue in the future.
- Expect INR1b investment in movie production in FY20. Launched 'Kanchana 3' movie in 1QFY20; expect another movie to be launched in 2QFY20.
- FY20 IPL revenue is lower than that of FY19; FY20 PBT should be ~INR1.7b.
- FY20 overall capex guidance stands at INR5b.

Others

- Expect INR350-360m investment in the Bengal genre in FY20.
- Director compensation should remain steady at FY19 levels (INR1.75b).
- Satellite amortization should be in the range of INR3-3.5b.

- Currently, ~38% homes in Tamil Nadu are still on analog. Expect additional 6-9 months for Tamil Nadu to get fully digitized.
- No guidance given on investments for original content.
- Increasingly, consumers are preferring bouquet channels over a-la-carte channels.

Click below for Detailed Concall Transcript & Results Update



Zee Entertainment — Neutral

Current Price INR 341

- Expect low-teens subscription growth for FY20, however, will revisit the same post 1QFY20. Expect ad growth above industry level, which is estimated at low double-digit for FY20.
- 1QFY20 ad revenue will continue to be impacted from TRAI's NTO and from rejig in the FTA portfolio.
- FY20 margin guidance stands at 30%+.
- In light of increasing competition, INR6.9b deposit and INR2.5b advances given to content aggregators for future content creation. Alluded that investments will continue to remain high.
- Expect to sign binding agreement for promoter stake sale by Jul'19.

4QFY19 performance

- Domestic ad revenue grew 17.7% YoY due to advertisers pulling back and decision of pulling out two channels from the FTA portfolio.
- Domestic subscription revenue grew at a muted 4% YoY due to shift in Tariff order timeline.
- Continue to remain leader in the Marathi genre.
- Have emerged as leader in Kannada genre for the first time.
- Other business includes revenue from the release of two movies – 1) Manikarnika and 2) one in Marathi genre.
- INR218m exceptional item is on account of impairment in online media business.
- Increase in other current liabilities is mainly due to advances received from advertisers/subscription customers.
- Rejig in FTA portfolio led a higher than 4-6% drop in reach (for Hindi genre).
- In light of increasing competition, INR6.9b deposit has been given to content aggregators for future content creation. This is not just for ZEE5, but also for broadcast and international business.
- INR6.9b deposit has been classified under current other financial assets.
- Cash and treasuries stands at INR23.1b.
- FCF generated during FY19 is INR2.3b.
- Increase in inventory has happened in the last six months.

ZEE5 update:

- Have 61.5m monthly active users.
- Released 60+ original content since launch.
- Stepped up the pace of new launches; content pipeline for next one year is firmed up.
- Expanded telecom partnerships and now available on all major telecom player's platform.
- More details on ZEE5 will be available from 1QFY20.

Promoter stake sale:

- Discussion with identified buyers is progressing well.

- Expect to sign binding agreement by Jul'19.
- Post signing of the binding agreement, if the buyer is a strategic investor, it will require CCI approval and hence additional 30-35 days for the promoter debt to be repaid.

Business Outlook:

- 1QFY20 ad revenue will continue to have an impact from TRAI's NTO and rejig in FTA portfolio.
- Expect to outperform industry ad growth (low double-digit guidance) for FY20. Expect advertisers to resume spending as impact of Tariff order settles down.
- Expect low-teens subscription growth for FY20, however, will revisit the same post 1QFY20. Expect subscription revenue to revive on the back of strong uptick in viewership share.
- FY20 margin guidance stands at 30%+.
- Management intends to launch three new movie channels.
- Management will continue to focus on small and medium budget films.
- Alluded that investments will continue to remain high.
- INR2.45b advances (classified under other current asset) for acquisition of movies will be recovered in the form of inventory or cashback (if the aggregator/agencies fail to deliver inventory).
- Targets to repatriate entire overseas revenue by FY20.

METALS

- **According to Tata Steel, higher offtake from (1) industrial products/projects and (2) branded products and retail segments led to a strong sequential increase in volumes. 3Q had witnessed significant deferral in purchases amid volatility in steel prices. SAIL highlighted that steel pricing has remained subdued amid general elections. The company also noted that realizations have been on a downtrend, with average NSR for April and May at INR40,500/t and INR39,600/t, respectively (v/s ~INR40,311 in 4Q). Hindalco expects domestic demand for aluminum to grow at 7-8% in FY20 and its cost of production to decrease led by lower caustic soda, CPC and furnace oil prices. It expects LME aluminum prices to show an uptrend in 2HCY19. Vedanta highlighted a decrease in its aluminum cost of production (CoP) due to higher local bauxite sourcing and continued availability of linkage coal. The company estimates aluminum hot metal CoP at USD1,725-1,775/t in FY20.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Global Commodity Prices
Hindalco	▪ Demand for aluminum is likely to grow 7-8% in FY20 driven by transportation segment. However, inflow of low cost imports has increased and gained share (58% share). ▪ Expect cost of production for Aluminum to decrease 3% QoQ in 1QFY20 led by lower caustic soda, CPC and furnace oil. ▪ Market for refined copper to remain in balance in FY20. Copper concentrate market to be in ~100kt deficit, thereby impacting TcRc. ▪ Novelis' EBITDA per ton is likely to sustain above USD400/t in FY20.	▪ Expect LME aluminum prices to show upward trend in 2HCY19.
JSW Steel	▪ Company expects domestic demand to grow 6.5-7% in FY20. ▪ FY20 production guidance stands at 16.95mt in FY19 and sales guidance at 16mt - representing 1.5% YoY growth for both. ▪ FY20 iron ore production from captive mines at 5mt (vs. 1.8mt in FY19).	-
SAIL	▪ Company targets production of 17.5mt and sales of ~17mt in FY20. ▪ Share of semi sales in product mix will continue to decline as downstream units ramp-up.	▪ Steel prices have been on a downward trend with lower NSRs in May.

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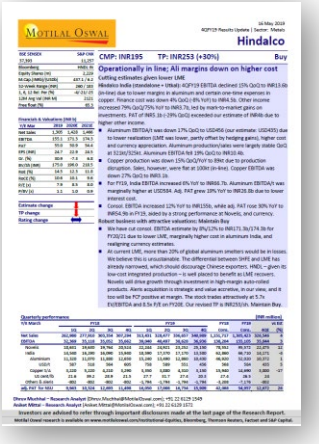


Hindalco Inds — Buy

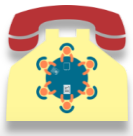
Current Price INR 195

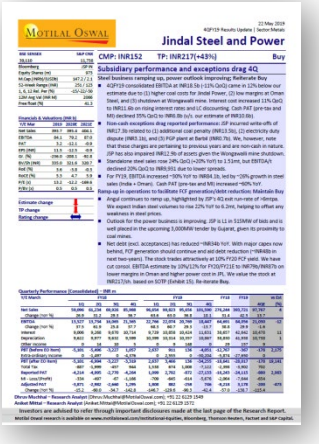
- Demand and pricing: Uncertain trade and global economic environment has adversely impacted aluminum prices. Expect LME aluminum prices to show upward trend in 2HCY19. Domestic demand in FY19 grew more than 9% YoY. However, inflow of low-cost imports has increased and gained share (58% share). Domestic demand is likely to grow 7-8% in FY20.
- Domestic demand for copper increased 10% in FY19, led by growth in electrical, electronics and consumer durables. Market for refined copper to remain in balance in FY20. Copper concentrate market to be in ~100kt deficit, thereby impacting TcRc. Copper TcRc at USc20.7/lb in 2019 v/s USc21.1/lb in 2018.
- Share of value-added products (VAP) in aluminum sales rose to 24% in FY19 v/s 23%% in FY18.
- CC rods sales volumes were higher by 48% in FY19 on account of ramp-up of CCR-3.
- Cost of production: Expect cost of production for aluminum to decrease 3% QoQ in 1QFY20 led by lower caustic soda, CPC and furnace oil.
- Coal consumption: Total coal consumed stood at 4.5mt in 4Q. Of this, 55% from linkage, 29% from E-auction, 3% imports and the remaining from own captive mines.
- Net debt: Net debt stood at INR 384b (~INR 9b lower YoY). This comprises gross debt of INR524b and cash equivalents of INR140b. For the Indian business, gross debt stands at INR169b with net debt of INR147b.

- Aleris acquisition: Company needs to obtain three approvals to close the transaction for Aleris. There are break fees of USD150m (in US, Europe) and USD25m in China, if approval not received. However, the company remains confident of closing the deal in 3QCY19.
- Hedging: Hedging gain stood at INR1.5b in 4Q. FY20 hedges: 11% of the volumes for commodity at INR152.4k/t and 4% is hedged for commodity at USD2,421/t.
- Copper: Cathode volumes impacted by shutdown in FY19. Expect shutdown in operations in 1QFY20; however, production will ramp up in subsequent quarters. Expect copper cathode production of >400k in FY20 v/s 347k in FY19.
- Muri plant: Company expects to restart Muri plant in 2Q. It expects 50-60kt shortage of alumina, leading to INR500m impact over two quarters.

JINDAL STEEL & POWER

Click below for Detailed Concall Transcript & Results Update





Jindal Steel & Power — Buy

Current Price INR 158

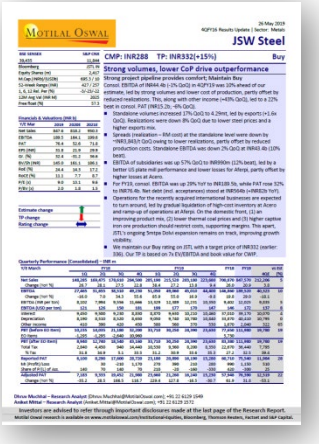
Indian steel operations:

- Value added portfolio currently accounts for ~62% of its product portfolio.
- The company expects INR1,500-2,000 cost savings led by ramp-up at Angul and other operational initiatives.
- Product mix is improving with higher share of rail and structural business. This would lead to ~INR1,000 improvement in NSR.
- **Steel demand:** Company expects Indian steel demand to grow at 6.5-7% in FY20. Growth in global steel demand is expected at 1.3%.
- **Steel prices:** JSPL expects domestic prices to improve as global iron ore prices rise due to supply issues at Vale and improvement in domestic liquidity conditions, post elections.
- **Exceptional items:** The company incurred exceptional charges of INR17.3b pertaining to
  - INR12.7b write-off on account of penalty paid for the captive coal mine cancelled in 2014 by the Supreme Court order.
  - NR3.1b of disputed electricity duty and other exemption provided by Chhattisgarh state.
  - INR0.7b of write-off related to Producer Gas plant at Barbil.
  - INR0.8b related to write-off of coal levy linked to the Power business.
- **Australia mines:** Wongawilli coal mine has been put under care & maintenance in 4QFY19. JSP has carried out an impairment of AUD250m (INR12.6b) for the same. The remaining value of its Australian mine assets is ~AUD500m. The company noted that no covenant breach has taken place for its loans at Australian mines; current debt in Australia mines is USD400m. The company is confident of getting approval to restart operations at its Russel Vale mines.
- **Deleverage:** JSP has deleveraged ~INR40b through its operating cash flows in FY19 and hopes to deleverage another ~INR50b in FY20.
- **Divestment:** JSP aims to generate cash proceeds through divestment in (1) Botswana of ~USD150-200m, (2) Iron ore mine in Africa of USD100m, and (3) part sale of its business in Oman at USD200-300m. The company hopes to reduce its debt by INR30b through asset divestments.
- **Capital expenditure:** Capex for FY19 was ~INR10.9b. Cash capex though was lower at ~INR4.6b.
- **Power:** Outlook for Power has been improving on the back of government initiatives and higher coal availability. Generation for JPL has ramped up to 1,700MW v/s 1,400MW. Besides, JSP is L1 for 515MW in the recent 2,500MW pilot scheme tender. The company expects the government to float another tender for procurement of 2,500MW of power. JSP stated that it is keen to

participate in Gujarat government's 3,000MW tender; it seeks to provide 1,700MW for the same.

- **Angul:** It is currently operating at 10ktpd run-rate and cost of production of steel at Angul is now lower than its Raigarh unit. The company's Angul unit realized INR800/t of efficiency gains in 4QFY19. Ramp-up at Angul and operational initiatives are expected to result in INR2,500-3,000/t savings at the plant. The company has currently halted its operations for the CGP-DRI plant as it prefers production through the BF route.

Click below for Detailed Concall Transcript & Results Update



JSW Steel — Buy

Current Price INR 268

- Exports: Exports accounted for 22% of total sales volume in 4Q (v/s 10% in 3Q). For FY19, total exports volumes stood at 2.4mt v/s 3.6mt in FY18.
- Coking coal: Coking coal costs for the company in 4Q were USD5/mt higher QoQ.
- Monnet Ispat: Pellet plant currently at 1.8mtpa capacity. The company plans to increase its pellet capacity to 2.4mtpa by 2HFY20.
- Vijaynagar BF-3 shutdown: The company has decided to defer the shutdown of Vijayanagar's BF-3. JSTL will await the commissioning of BF at Dolvi before undertaking the shutdown to ensure no loss of volumes in FY20.
- Aferpi: The company expects Aferpi to ramp up to 60% capacity utilization by end-FY20.
- Acero: Turnaround in Acero will take time as the company has high cost inventory of scrap/slab. JSTL expects Acero to turn EBITDA positive by 4QFY20.
- Auction of iron ore mines: JSTL expects the process of auctioning of merchant iron ore mines (which are due to expire in Mar'20) to begin in Jul'19. The company highlighted that Karnataka is well prepared and is likely to be the first one to begin with the auction process. It expects Orissa to be ready for the same by Jul-Aug '19.

Guidance:

- FY20 production of 16.95mt and sales of 16mt - representing 1.5% YoY growth for both.
- Domestic demand growth of 6.5-7% in FY20.
- Coking coal costs to remain stable at 4Q levels in 1QFY20.
- Capex of INR157b in FY20.
- FY20 iron ore production from captive mines at 5mt (v/s 1.8mt in FY19).

Click below for Results Update

NMDC — Buy

Current Price INR 103

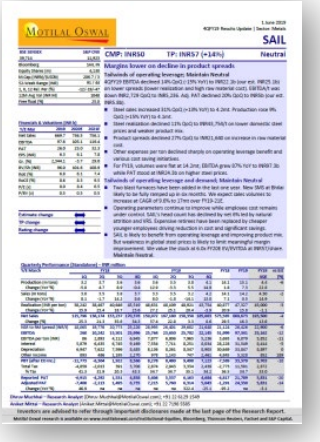
- Target production of 32mt in FY20. Of this, ~24-25mt will come from Chhattisgarh and remaining from Karnataka. Targeting ~3mt exports in FY20.
- Pellet plant is operating at 10-15% capacity utilization due to issue with the equipment. Investing in modification, which could take a few quarters.
- Donimalai: The high court has heard the case and the order is reserved. Company expects a favorable outcome.
- Steel plant: The sinter, coke oven, SMS, BF and BOF is complete. Delay is due to material handling and by-product plant. The steel plant is likely to commission in 2HFY20.
- Investing in railway infrastructure to enhance evacuation capacity from Chhattisgarh from 28mt to 40mt. The project will take another two years.

Steel Authority of India — Neutral

Current Price INR 49

- Targets production of 17.5mt and sales of ~17mt in FY20.
- Capex guidance of INR40b for FY20.
- Share of semi sales in product mix will continue to decline as downstream units ramp-up.
- Safeguard duty on imports expired in Mar'19; companies have represented to the ministry to re-instate duty.
- Net debt was down ~INR1.8b YoY to INR448.8b in FY19.

Click below for Results Update



Vedanta — Sell

Current Price INR 163

Aluminum

- Cost of production for aluminum decreased due to higher local bauxite sourcing and continued availability of linkage coal. Local bauxite sourcing increased from 40% in 3Q to 53% in 4QFY19. Imported alumina prices were also lower.
- Vedanta expects aluminum hot metal CoP at USD1,725-1,775/t in FY20. It plans to ramp up alumina refinery capacity to ~3mtpa in the next 18-24months, in line with availability of local bauxite.

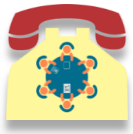
Oil and Gas

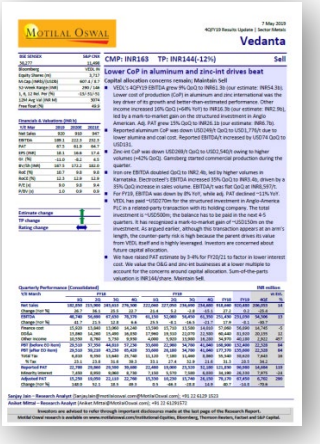
- FY19 oil production at 189kboepd was lower than its earlier guidance as the company had to go much deeper for reassurances in successful extraction of oil.
- The company expects volumes to ramp up with an exit run-rate of 270kboepd for FY20. On an average, Vedanta expects volumes to be at 200-220kboepd for FY20. It targets to reach a run-rate of 210-220kboepd in 2QFY20 and 250-260kboepd in 3QFY20.

Zinc International

- Gamsberg began commercial production in 4Q.
- VEDL expects Gamsberg production to increase to 180-200kt in FY20. Production from Black mountain mine and Skorpion to be at ~170kt in FY20.
- The company is targeting CoP for Gamsberg at ~USD1,000/t in FY20.

Click below for Detailed Concall Transcript & Results Update





- **Refining margin outlook for FY20 is likely to remain weak owing to higher global capacity additions and lower-than-expected boost in diesel yields. OMCs expect better marketing margins post the overhang on retail prices during elections. RIL's chemical cracks are expected to remain subdued, with strong growth in retail business. MAHGL foresees higher opex challenges, which would normalise its EBITDA margins. IGL expects volume growth of ~10-11% from its high-growth Gas, supported by government regulations. PLNG plans to increase capacity at Dahej to ~19.5mtpa and expects ramp-up at the Kochi terminal.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook of FY20	GRMS
GAIL	▪ Much awaited HVJ and HVJ upgradation tariff hike likely to improve transmission earnings. ▪ Jagdishpur-Haldia pipeline capacity is 80% booked for FY21. ▪ Kochi-Mangalore pipeline expected to be completed by Aug-Sept'19. ▪ Sanctioned PP plant at PATA and PDPH plant in Maharashtra, though weaker global petchem cracks to impact segmental revenue.	-
OMCs (IOC/BPCL/HPCL)	▪ We expect stable crude prices to smooth volatility for OMCs. ▪ Pricing concerns are behind elections and expect marketing margins to continue strong with no pricing concerns. ▪ We expect benchmark GRM to hover around ~USD5/bbl in near to medium term led by global pressure on product spreads.	▪ OMCs reported highest ever marketing margins in 4QFY19. ▪ Refining margins during the quarter mainly driven by higher inventory gain. ▪ We expect core refining margins to be in-line with global benchmark margin in coming few quarters.
ONGC	▪ Gas production for the company increased ~5% YoY, while oil production declined ~5% YoY in FY19. ▪ Gas production from KG-DWN-98/2 is expected to come on-stream from Dec, 19, along with production boost from Daman project. ▪ Expect incremental production of oil to largely offset oil depletion from major older fields.	▪ No subsidy sharing for ONGC and OINL in 4QFY19. ▪ Companies neither expect any subsidy burden nor any subsidy discussion with the government for the remainder of FY20.
Petronet LNG	▪ Expect strong volume growth of 7-9% to continue for FY20/21, with higher adoption from Industries aiding volume growth. ▪ Expect no major competition from other existing or upcoming LNG terminals. ▪ Capex plan for the year stands at INR6b, expect dividend payout to continue.	-
Petronet LNG	▪ RIL GRM likely to face pressure from decrease in Lt-Hv crude spread and increase in global capacity additions. ▪ We expect ~USD10.3/bbl GRM for FY20 (against USD11.3/bbl in FY19). ▪ RJio growth momentum to slow relative to the previous years. ▪ Retail would remain among key performers for the stock.	▪ RIL reported GRM of USD8.2/bbl in 4QFY19. Premium over SG GRM stood at USD5.0/bbl. ▪ Petchem sales volumes for the quarter were flat YoY, though EBITDA/mt improved 10% YoY.

Click below for Results Update

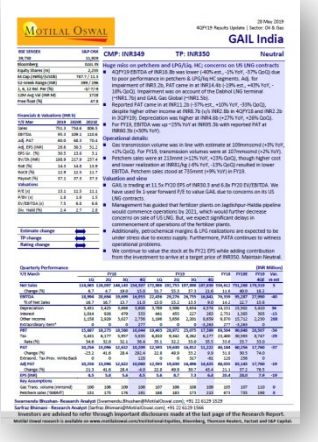
GAIL India — Neutral

Current Price INR 316

- CAPEX guidance for FY20/FY21 is ~INR68.5/INR96.0b (v/s ~INR83b in FY19). Over the next five years, company expects capex of ~INR120b for CGDs, ~INR100b for petrochem and ~INR320b for transmission (50% from internal accruals and 50% from borrowings). GAIL is looking forward to diversifying into renewable energy (currently total renewable portfolio stands at ~125MW).

Gas transmission EBIT stood at INR7.7b (-14% est., +8% YoY, -13% QoQ).

- Jagdishpur-Haldia pipeline transmission capacity is 80% booked (~16mmscmd of total capacity), consumption of ~8mmscmd gas by fertilizer plants and ~4.5mmscmd gas by refiners by 2021.



- Kochi-Mangalore pipeline is expected to be completed by Aug-Sep 2019. Other East India pipelines are expected to be completed by FY22.
- We acknowledge that in the near term, transmission segment may get a boost when PNGRB revises tariff upwards for HVJ and upgradation pipelines.
- We estimate that ~40% increase in tariff of HVJ and HVJ upgradation would increase GAIL's EPS by 15% only.

Gas trading EBIT stood at INR5.9b (+21% est., +271% YoY, -13% QoQ).

- Company sells ~12.5mmtpa of LNG; likely to ramp up to 14mmtpa by FY21.
- All US cargoes sold off for 2019, only ~8-9 cargoes left for 2020.
- It remains to be seen how these US contracts work in an environment of increasing LNG supply glut.

Petchem

- Petchem performed the worst since 4QFY15 with EBIT loss of INR200m (v/s gain of INR366m in 4QFY18 and gain of INR297m in 3QFY19) despite higher sales volume.
- GAIL sanctioned ~60ktpa PP plant at PATA with expected work to initiate in six months. Another PDPH petrochemical plant with capex of ~INR100b is expected to come up in Maharashtra.
- Petrochem would suffer from poorer margins as incremental supply in 2019 far outweighs incremental demand amidst poor global economic growth.

LPG & Liquid HC Business

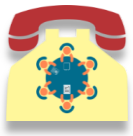
- LPG and Liquid HC business also performed badly with EBIT of INR4.2b (- 54% est., - 37% YoY, -50% QoQ), impacted by lower realization at INR33.5/mmt (-10% YoY, - 24% QoQ) and higher depreciation.

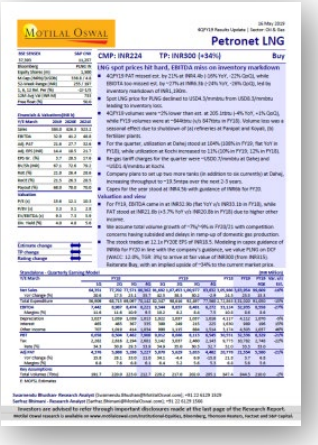
Petronet LNG — Buy

Current Price INR 237

PETRONET LNG LIMITED

Click below for Detailed Concall Transcript & Results Update

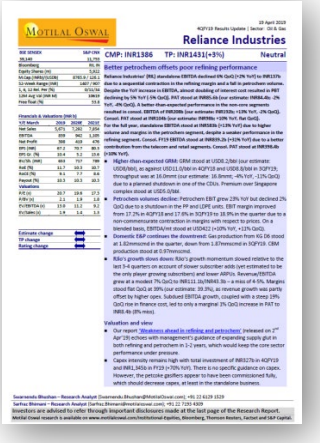




- Throughput volumes for the quarter at Dahej were ~198tbtu (820tbtu for FY19) and Kochi was ~7.1tbtu (24tbtu for FY19).
- Long-term contract at Dahej declined to ~100tbtu (v/s 115tbtu in 4QFY18 and 109tbtu in 3QFY19), while spot/short-term volumes increased ~3tbtu QoQ to ~7tbtu (flat YoY).
- Long-term contract at Kochi increased to ~7tbtu (v/s 5.8tbtu in 4QFY18 and 5tbtu in 3QFY19), while spot/short-term volumes increased ~0.1tbtu QoQ (flat YoY).
- Utilization at Dahej stood at 104% (v/s 109% in 4QFY18 and 104% in 3QFY19), and at 108% in FY19 (flat YoY).
- Utilization at Kochi increased to 11% (v/s 9% in 4QFY18 and 8% in 3QFY19), and at ~10% in FY19 (down from 12% in FY18).
- Company proposed a dividend of INR4.5/share for the quarter, totaling to INR9/share for FY19 (~70% payout).

Reliance Industries Limited

Click below for Results Update



Reliance Industries — Neutral

Current Price INR 1,327

Refining & marketing: GRM of USD8.2/bbl

- The company guides that against incremental demand of 1.4mnbopd in 2019, global incremental refining capacity is expected at 1.8mnbopd. Next year, incremental refining capacity addition is expected at 0.8mnbopd.
- Production cut from OPEC+ and a decline in production from Venezuela and Iran have resulted in lower supply of heavy crude. On the other hand, production of light crude oil has increased in the US, resulting in tightening of light-heavy differentials.
- Retail diesel sales +16% YoY, petrol +21% YoY.
- Total 1,372 ROs are operational.

Petrochem: Production volumes affected by shutdown in PP and LDPE

- Indian polymer demand has grown by 6% in 4QFY19, while polyester demand has grown by 10%.
- Total production stood at 9.4mmt, down from 9.7mmt in 3QFY19.
- PP, HDPE and PVC deltas declined sequentially. Integrated polyester margins also declined QoQ.

E&P: R-series by 2HFY21

- R-cluster progress as planned – drilling completed for four out of six wells, drilling of fifth well ongoing. Expect first gas by 2HFY21.
- Satellite cluster development – all major orders have been placed.
- Bid evaluation for MJ under progress.

Miscellaneous

- Consol. gross debt of INR2,875b: RIL standalone – INR1,620b, Jio – INR670b, RIL USA – INR350b and Retail – INR130b, rest for others; creditors for capex stands at INR580b.
- Consol. cash stands at INR1,330b.
- Capex of INR327b in 4QFY19; INR215b on Jio, INR40b on RIL standalone, INR20b in retail, rest in others.

RJio analyst meet takeaways

Operational metrics

- Recorded 33.2m gross subscriber adds in 4QFY19 and 138.1m for FY19. Net subscriber adds for 4Q stood at 26.6m.
- Decline in ARPU to INR126 was partly due to (a) lower number of days during the quarter and (b) higher adoption of INR99 plan (INR85 net of taxes) by Jio phone subs, who gradually upgrade to higher plans.
- Total data traffic for 4Q stood at 9.6b Gb; usage per sub per month stood at 10.9Gb; total voice traffic for 4Q stood at 8.05b min/day.
- RJio's network carried ~71% of 4G data traffic in India during CY18.
- RJio caters 4-5x of the VoLTE traffic of all other players put together.
- As on Dec-18, RJio's MBB market share stands at 56%; 65% of the 4G subs market share.
- RJio's AGR market share is expected to be ~40% by Mar-19.
- As on Dec-18, RJio stood first in 13 circles and second in rest of the circles in terms of AGR share, with close number three position in Kolkata.
- RJio added 1 BTS/min (+small cells and Wifi points).
- Company continues to do trials on FTTH (Launched for Enterprise, not yet for Home).

RETAIL

- **Retail companies witnessed a slowdown during the quarter, but things have started picking up now. Increasing competition and a change in mix toward the value fashion business have exerted pressure on margins though. Managements reiterated their focus on increasing the store count.**
- **Titan maintained its overall sales growth target of 20% for the next fiscal. Commentary also indicated that growth prospects in Jewelry remain robust with market share gains in cities where its presence was weak. JUBI indicated an evident slowdown in dine-in and also guided for aggressive 100 Dominos store additions in the coming fiscal. Also, it intends to use the price increase lever sometime in FY20 after over two years of no pricing action.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

Retail	Current business scenario and outlook	Store expansion/Margins*
Aditya Birla Fashions*	▪ FY20 capex guidance stands at INR3.5b. **Madura segment** ▪ Management hinted that it will continue to expand aggressively; expect 400 EBO adds in FY20. ▪ FY20 innerwear segment losses to be similar to that in FY19. Targets to breakeven in FY21. ▪ To have 20-25k innerwear store outlets by FY20; 30-40k by FY21. **Pantaloons** ▪ 60-70 new store adds in FY20 under Pantaloons format; 20% of new store adds will be franchisee stores. ▪ Private label mix to inch up to 65% by FY20.	▪ No margin guidance provided.
Jubilant Foodworks	▪ Market growth for non-homemade food will sustain for many years. ▪ There is some inflation on material costs but the company does not expect any material impact on the margins due to cost savings and other factors. ▪ FY20 capex will be INR2.2-INR2.5b. Capex for new type design stores is 7-10% higher than the conventional store design. ▪ No intention to expand the Dunkin network as of now. Will wait for full year breakeven before taking a call on expansion.	▪ FY20 store addition – 100 stores of Domino's, similar to FY19.
Shoppers Stop*	▪ FY20 like-to-like growth to be in the range of mid- to high-single-digits. ▪ Expect low-double-digit revenue growth for FY20. ▪ Expect 40-50bp gross margin expansion and 80-100bp EBITDA margin expansion in FY20. ▪ Plans to open 6-7 Shoppers Stop departmental stores and 15-20 Beauty stores.	▪ No margin guidance provided.
Titan	▪ Maintained 20% overall sales growth guidance for FY20. ▪ Consolidation in the Jewelry segment continues to be strong and its own execution on strategy remains very successful. ▪ June 2019 appears to be a very good month based on a lot more auspicious wedding dates compared to the last year. ▪ Capex will be INR2b-INR2.5b in FY20. Tax rate likely at ~28-29% for FY20.	▪ 21 new dedicated Mia stores will be opened for this brand in FY20. ▪ Taneira - 14 stores to be added in FY20. ▪ Targets to add 35 new caratlane stores in FY20, taking the net store count to 90. ▪ In FY20, company targets to open 71 stores v/s 34 in FY19 and 24 in FY18. Its target of 450-500 stores by FY23 remains unchanged.
V-Mart*	▪ Targets to increase its store count by 25% with over 50 store additions. ▪ Focus remains on adding only profitable stores. ▪ Target is to keep SSSG at 7-8%.	▪ Targets EBITDA margin of 9-9.5%.

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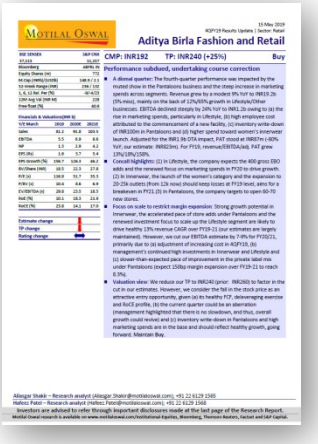

15 May 2019
4QFY19 Results Update | Sector: Retail

MOTILAL OSWAL

Aditya Birla Fashion and Retail

BSE SENSEX	S&P CNX
	36,841
Bloomberg	ABFRL IN
Equity Shares (m)	712
52-week Range (INR)	148/ 2 / 1
1, 6, 12 Rel. Per (%)	-4/ -4/ 0
12M Avg Val (INR M)	228
Free float (%)	40.0

Financials & Valuations (INR B)

Y/E March	2019	2020E	2021E
Sales	82.2	95.8	109.9
EBITDA	5.5	6.9	8.6
Adj PAT	2.3	2.8	4.2
EPS (Rs)	1.8	3.7	5.4
EPS Growth (%)	156.7	104.3	46.1
BV/Share (INR)	18.5	22.3	27.8
P/E (x)	126.9	61.7	39.5
P/BV (x)	10.4	8.6	6.4
EV/EBITDA (x)	20.0	15.5	12.1
RoE (%)	10.1	18.3	21.8
RoCE (%)	23.8	14.1	17.0

Estimate change	
TP change	
Rating change	

CMP: INR192 TP: INR240 (+25%) Buy

Performance subdued, undertaking course correction

- A dismal quarter: The fourth-quarter performance was impacted by the muted show in the Pantaloons business and the steep increase in marketing spends across segments. Revenue grew by a modest 9% YoY to INR19.2b (5% miss), mainly on the back of 12%/65% growth in Lifestyle/Other businesses. EBITDA declined steeply by 24% YoY to INR1.2b owing to (a) the rise in marketing spends, particularly in Lifestyle, (b) high employee cost attributed to the commencement of a new facility, (c) inventory write-down of INR320m in Pantaloons and (d) higher spend toward women's innerwear launch. Adjusted for the INR1.9b DTA impact, PAT stood at INR87m (-80% YoY, our estimate: INR823m). For FY19, revenue/EBITDA/adj. PAT grew 13%/18%/158%.
- Concall highlights: (1) In Lifestyle, the company expects the 400 gross EBO adds and the renewed focus on marketing spends in FY20 to drive growth. (2) In Innerwear, the launch of the women's category and the expansion to 20-25k outlets (from 12k now) should keep losses at FY19 level, aims for a breakeven in FY21. (3) In Pantaloons, the company targets to open 60-70 new stores.
- Focus on scale to restrict margin expansion: Strong growth potential in Innerwear, the accelerated pace of store adds under Pantaloons and the renewed investment focus to scale up the Lifestyle segment are likely to drive healthy 13% revenue CAGR over FY19-21 (our estimates are largely maintained). However, we cut our EBITDA estimate by 7-8% for FY20/21, primarily due to (a) adjustment of increasing cost in 4QFY19, (b) management's continued high investments in Innerwear and Lifestyle and (c) slower-than-expected pace of improvement in the private label mix under Pantaloons (expect 150bp margin expansion over FY19-21 to reach 8.3%).
- Valuation view: We reduce our TP to INR240 (prior: INR260) to factor in the cut in our estimates. However, we consider the fall in the stock price as an attractive entry opportunity, given (a) its healthy FCF, deleveraging exercise and RoCE profile, (b) the current quarter could be an aberration (management highlighted that there is no slowdown, and thus, overall growth could revive) and (c) inventory write-down in Pantaloons and high marketing spends are in the base and should reflect healthy growth, going forward. Maintain Buy.

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Hardeep Patel – Research analyst (Hardeep.Patel@motilaloswal.com); +91 22 6129 1568
Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, FactSet and S&P Capital.

Aditya Birla Fashions — Buy

Current Price INR 218

FY20 capex guidance stands at INR3.5b.

Madura

- Management hinted that it will continue to expand aggressively; expect 400 EBO adds in FY20.
- FY20 innerwear segment losses to be similar to that in FY19. Targets to breakeven in FY21.
- To have 20-25k innerwear store outlets by FY20; 30-40k by FY21.

Pantaloons

- 60-70 new store adds in FY20 under Pantaloons format; 20% of new store adds will be franchisee stores.
- Private label mix to inch up to 65% by FY20

4QFY19/FY19 performance

- 4Q overall revenue grew 9% YoY, but EBITDA fell 14% YoY.
- FY19 overall revenue grew 13% YoY; EBITDA margin expanded 60bp YoY to 7.6%.
- Marketing spends increased by INR540m/INR1,120m for 4QFY19/FY19.
- Increase in staff cost is due to (1) increased wages led by commencement of new factory in Orissa and (2) INR90m provision for minimum wages for factory workers.
- Debt as on Mar-19 stands at INR1703cr; expect debt to remain in the same range.
- E-commerce has a high-single-digit share of the revenue mix.
- Credit period varies between 90-100 days; shorter credit period for MSME vendors.

Lifestyle segment

- 4Q revenue grew 12% YoY; LTL growth stood at 6%. However, EBITDA grew by only 2%, impacted by INR400m toward marketing spends. Margins stood at 15%.
- FY19 revenue grew 11%; EBITDA grew 15% YoY despite 60% higher marketing spends. Margins expanded 30bp to 12%.
- Total stores reached to 1,980.
- Growth momentum to accelerate further.

Pantaloons business

- Preponement of EOSS to 3Q and some disruption in supply chain impacted revenue growth.
- 4Q revenue stood flat YoY due to INR350m IND-AS impact. Adjusted for the INDAS impact, revenue growth was at 4% YoY.
- EBITDA fell 51% YoY impacted by INR50m higher marketing spends and INR100m one-time inventory mark-down.
- Adjusted for IND-AS and GST impact, FY19 revenue grew 15%; EBITDA margin expanded 120bp to 7.2%.
- Store count reached a total of 308, including 61 franchise stores.
- In FY19, it added 40 new stores and closed down 7 stores, leading to net 33 store additions under Pantaloons format.

Other business

- FY19 revenue grew 80% YoY; EBITDA losses increased primarily due to innerwear business.
- FY19 innerwear revenue has doubled to INR2b.
- Reached a total of 14k innerwear outlets as on Mar'19.
- Innerwear category's space share in MBOs had increased to ~25% (from 10-12%).

Fast Fashion segment

- Continue to focus on improving the profitability by rationalization of stores. FY19 EBITDA loses reduced 40% YoY.

Business Outlook

Lifestyle segment:

- Management hinted that it will continue to expand aggressively; expect 400 EBO adds in FY20.
- Operating leverage should start kicking in at 13-15% YoY growth.
- Ad spends are ~4% of revenue and will same as a proportion of revenue.

Pantaloons:

- Expect 60-70 new store adds in FY20; 20% of new store adds will be franchisee stores. Expect new stores to come up in Tier 2/3/4 towns.
- Ad spends are ~3% of revenue and will continue to remain same as a proportion of revenue.
- No guidance on EBITDA margin provided.
- Expect private label mix to inch up to 65% by FY20.

Other business:

- Expect revenue to grow 60-70% in FY20. Launch of women's innerwear and new standalone stores will provide impetus to growth in Other biz revenue.
- Expect FY20 innerwear segment losses to be similar to that in FY19. Targets to breakeven in FY21.
- Expect to have 20-25k innerwear store outlets by FY20; 30-40k by FY21.
- Men's innerwear category continues to see increased traction.

Style-up stores

- Has 15 Style-up stores with an average store size of 6-8k sq.ft.
- Management's idea is to test the product position between INR500-800 price points.
- To open 10 stores and get the store economics right.

Fast Fashion segment:

- Management reiterated that it will not go aggressive on Forever 21 until it is convinced with the model. Expect 3-4 new stores in FY20.
- People has 100 stores; As part of rationalization strategy, management has decided to withdraw 'People' standalone stores by convert the existing stores into lifestyle branded stores. People brand will now form part of Pantaloons stores.

Overall business:

- FY20 capex guidance stands at INR3.5b.

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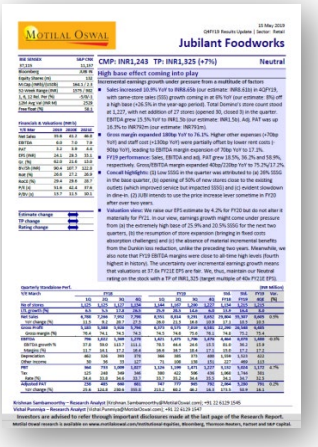

Jubilant Foodworks — Neutral

Current Price INR 1,330

Broad outlook

- Market growth for non-homemade food will sustain for many years.
- Brand strength, trust, easy accessibility, innovation, technology, customer experience and insights will play a key part in driving sales in non-homemade food.

SSSG slowdown relative to past

- Low SSSG in the quarter was attributed to (a) 26% SSSG in the base quarter, (b) opening of 50% of new stores close to the existing outlets (which improved service but impacted SSSG) and (c) evident slowdown in dine-in with a rising shift toward delivery.
- The reduction in dine-in is true for other restaurant players as well. Nevertheless, the slowdown in dine-in is concerning and management is focused on developing strategies to mitigate the impact of the same.

New initiatives and updates on old ones

- New store design has self-ordering kiosks.
- Launched fountains with recently changed partner Pepsi.
- Launched first store of Chinese play 'Hong's Kitchen' in Gurugram. Management believes its backend and delivery experience from Domino's will help it grow this business successfully. It has received a very good customer response. Market for Chinese cuisine is 3x that of Pizzas in India. Company will have at least 10 'Hong's Kitchen' stores by the end of FY20. Not giving guidance for store openings beyond that. Business was initially dine-in and now is picking up on delivery as well.
- JUBI is open to venturing into other cuisines as well if opportunity arises.
- Online is now 75% of Domino's delivery sales.
- 'World Pizza League' launched two months ago has been very well received and is also higher margin compared to the base product.
- Bangladesh – the first store that was opened recently established a world record on number of orders for the first week and first month. Management spent a year with four iterations on products before launch. Products were specifically designed for Bangladesh which is a different market from India and even different to West Bengal. Growth in the first month was largely on the back of dine-in with delivery just launched. Pricing is also aggressive compared to the competitor, with products starting at 149taka compared to starting product of 249taka for the competitor. Will open five stores in Bangladesh by end of the year.
- The company is starting to do a lot of analytics on data to customize offerings for consumers.

Dunkin Donuts

- Closed 1 more store in 4QFY19; now 31 stores are operational.
- SSSG is healthy in this business now.
- EBITDA positive now for the second consecutive quarter.
- No intention to expand the Dunkin network as of now. Will wait for full year breakeven before taking a call on expansion.

IND AS 116

- Fixed rent goes off and comes as part of depreciations.

- In the initial year of operation of stores because of front loading of interest costs, the negative impact at a net margin level will be higher.

Other points

- There is some inflation on material costs but the company does not expect any material impact on the gross margin due to cost savings and other factors.
- It intends to use the price increase lever sometime in FY20 after over two years of no increase.
- Not reducing orders from aggregators. Nevertheless, it intends to retain fulfillment with itself.
- Provision was taken on diminution in value of investment in the Sri Lankan subsidiary on the stores that were closed. Management expects Sri Lanka business to do well going forward. Have a new management team now in place to turn around the business. Closed 3 stores out of 25 in that country as it reckoned that they would continue to be loss making despite best efforts.
- FY20 store addition – 100 stores of Domino's, similar to FY19.
- Capex for FY19 was INR1.6b – mostly on new stores and some reimaging.
- FY20 capex will be INR2.2-INR2.5b.
- Capex for new type design stores is 7-10% higher than the conventional store design.

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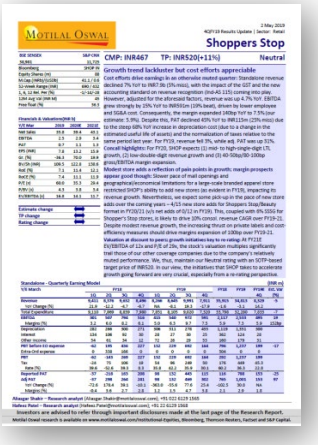
MOTILAL OSWAL

Shoppers Stop

CMP: INR467 TP: INR520(+11%) Neutral

Growth trend lackluster but cost efforts appreciable

Standalone - Quarterly Earning Model

Shoppers Stop — Neutral

Current Price INR 485

Key takeaways

- FY20 like-to-like growth to be in the range of mid- to high-single-digits.
- Expects low-double-digit revenue growth for FY20.
- Expects 40-50bp gross margin expansion and 80-100bp EBITDA margin expansion in FY20.
- Plans to open 6-7 Shoppers Stop departmental stores and 15-20 Beauty stores.

4QFY19/FY19 performance

- For FY19, revenue was up by 6% and EBITDA by 20%.
- Company has 83 Shoppers Stop and 115 Beauty stores.
- First citizen customer base crossed 6m.
- Pvt. brands revenue grew 9.7% YoY in 4Q – 10.9% of the sales mix. For FY19, revenue grew 4.9% YoY (v/s -18% in FY18).
- Beauty segment revenue grew 9.8% YoY in 4Q – 16.5% of the sales mix. For FY19, revenue grew 8.6% YoY with a sales mix of 15.3%.
- Personal shoppers revenue grew 57% YoY in 4Q – 15.6% of the sales mix. For FY19, revenue grew 42% YoY with a sales mix of 13.2%
- E-commerce (ex-Amazon) revenue grew 10% YoY in 4Q. For FY19, it grew 44% YoY with a sales mix of 1.7%.
- Delisting of Amazon impacted e-commerce growth in 4Q.
- Beauty biz sales stood at INR6,790m in FY19. Mgmt. plans to upgrade presence in 15 of its top locations as well as bring newer brands from abroad.
- EOSS in 4Q has impacted the private label mix - 10.9% (12.2% in 3QFY19).
- Margins for private brands have gone up by 150bp in 4Q and 400bp in FY19 led by better sourcing and full price.
- Of the total INR7.2b increase in inventory, INR6.5-6.6b is due to IND-AS 115, while the balance is due to private label inventory.

- Company took a one-time hit of INR80-100m in Crossword business mainly due to inventory rationalization.

Business Outlook

- Remain focused on four strategic pillars: (1) First citizen customers, (2) Personal shoppers, (3) Private brands and (4) Beauty segment.
- Expect double-digit growth in private brands over the next 12-18 months.
- FY20 like-to-like growth to be in the range of mid-to-high single digit.
- Expect low double digit revenue growth for FY20.
- Plans to open 6-7 Shoppers Stop departmental stores and 15-20 Beauty stores (average size of 500-700sqft).
- Expect 40-50bp gross margin expansion in FY20 and 80-100bp EBITDA margin expansion.
- Currently, no plans to get into the value fashion segment.
- Management would remain focused on current biz and will not be entering any new biz.
- FY20 capex guidance stands at INR1.4-1.5b. Of this, ~1/3rd will be towards new stores, 1/3rd for upgrading customer experience, INR250 on IT systems.
- Management plans to relist Amazon in a week or two through Shoppers Stop.com subsidiary. This should drive e-commerce growth.
- FY20 tax rate to be in the range of 36-38%.
- Expect FY20 depreciation to be ~INR1.3b.
- Still evaluating the impact of IND AS116.
- Click and collect is now rolled out to 50 stores.
- Expect customer entry count to flatten out or turn positive in FY20 (from -5% in FY19).
- Launched new store concept (size of ~60ksqft) designed by an international designer to have best in class shopping experience.
- Management believes that the Crossword business is not a drain on the overall business and that it has a potential to grow.

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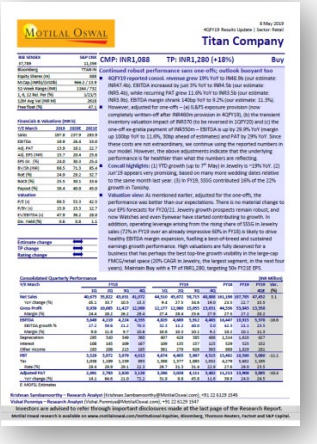


Titan — Buy

Current Price INR 1,267

Exceptional items for the quarter

- In addition to the IL&FS write-off of INR460m in 4QFY19 (now entire INR1.45b investment is written-off), there was a temporary inventory valuation impact of INR370m and a one-off ex-gratia payment of INR350m distributed across employees across divisions. Adjusted for these one-offs, EBITDA margin was up 100bp YoY to 11.6% (EBITDA up ~30% YoY), as against reported margin and EBITDA growth of 9.2% and 3%, respectively.
- The company also took some deferred tax impact in the IL&FS provision.
- TTAN had to make a provision due to a fall in gold prices toward the end of quarter. However, this will likely be reversed when it sells the gold, most likely in 1QFY20). Note that accounting standards do not allow taking into account the hedging impact on jewelry.
- There was also provision for its investment in its Swiss subsidiary Favre Leuba (INR700m in FY19 after INR750m last year). This impacted the standalone numbers but not the consolidated ones (as consol. numbers already reflect Favre Leuba losses).

Comments on FY19 and upcoming growth

- Maintained 20% overall sales growth guidance for FY20.
- Consolidation in the Jewelry segment continues to be strong and its own execution on strategy remains very successful.
- YTD growth up to 7th May is ~19% YoY in Jewelry. They had a good Akshaya Tritiya. There was some impact during the election period in some states, but it is recovering well post-elections.
- June 2019 appears to be a very good month based on a lot more auspicious wedding dates compared to the last year.
- FY20 seems to have begun well for industry as well, particularly over the last 10days.
- 16% of the 22% growth in Tanishq in FY19 was from SSSG.

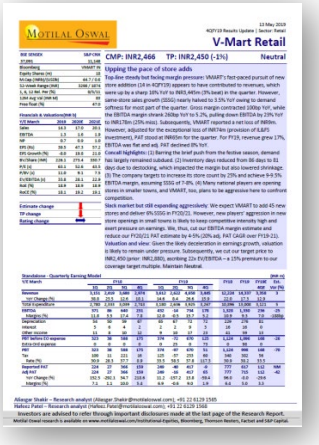
Other points- Jewelry

- Wedding jewelry share of sales is at early 20%, studded jewelry has around 29% share of sales.
- Wedding jewelry grew slightly ahead of overall jewelry sales in FY19 and is expected to grow higher in the coming years as well.
- Golden Harvest was ~20% of sales and exchange gold was 40% for FY19.
- Caratlane stake increased to 66.39% to 69.74%. Expect to breakeven in FY20. Sales grew 40% in FY19.

Update on other businesses

- Wearable's share to total watches sales is now a little less than 10%.
- Eyewear – In addition to getting into lower price products, there was also disproportionately high ads pend in FY19, which led to lower margins for the category. Sales growth was 20% for the year with 11% like-to-like growth.
- Taneira – Have had enough learning in the past two years with four stores at end-FY19. 14 stores to be added in FY20. Taneira will be in the top 20 cities in the next five years.
- Capex will be INR2b-INR2.5b in FY20.
- Tax rate likely at ~28-29% for FY20.

Click below for Results Update



V-Mart Retail — Neutral

Current Price INR 2,341

Key takeaways

- Apart from the festive period, there has been some slackness in demand. However, the shift from the unorganized to organized segment is fuelling growth.
- Inventory days reduced from 86 days to 81 days due to inventory destocking through aggressive discounting. This has impacted margin but also reduced shrinkage and improved freshness of the products.
- The company targets to increase its store count by 25% with over 50 store additions. Management has invested in team and processes to be able to grow at an aggressive pace.
- VMART targets EBITDA margin of 9-9.5%. If SSSG is at 7-8%, the EBITDA margin target of 9-9.5% will be achievable, or else it could come under pressure.
- Many national players (Reliance Retail, ABFRL - Pantaloons and Styleup, Trent – Zudio) are opening new stores in the lower-tier locations. On the contrary, smaller players are witnessing pressure. VMART plans to be a little aggressive and make competitors feel the pinch.

Business performance

- Due to no inflation, there was no price increase taken. In fact, we took a price cut.
- In FY19, VMART started operations in Northeast – Assam and Meghalaya. Stores were opened in three new states.
- Increase in rent as a % of revenue is due to new stores which are not yet operating at optimum level.
- Advertisement expenses increased from 2.14% to 2.38% as a % of revenue due to new brand ambassador tie-ups – Ayushman Khurrana and Bhumi Padnekar.
- Other expenses also increased from 3.4% to 3.6% as a % of revenue due to lease financing cost.
- Inventory days reduced from 86 days to 81 days. This is due to inventory destocking through aggressive marketing campaign and discounted sales. This has impacted margin but also reduced shrinkage. This should improve inventory flexibility and freshness of products in the stores.
- Winter sales were very good and the company has brought new products to improve pricing. With higher analytical abilities, the company is able to better understand customer requirements and demand, and accordingly, tweak store inventory.
- The company continues preferring new stores with average size of 7.5k, but new store adds have been higher due to the availability factor.
- From Aug'18 to early'19, vendors saw liquidity squeeze from NBFCs. But V-mart has automated vendors payments.
- 60-65% of the products are private labels, but pricing and margin remain the same for both private and market labels.
- Closed 1 store during the year.
- 1.1cr customers are registered on the loyalty platform and 58% of the sales are coming from repeat customers.

Growth plans

- Out of the total 44 stores added during the year, 15 stores were opened only in 4Q, which gives management confidence about its project management capability and potential to add stores at high scale.
- It has put much stricter product quality control and has been investing on digital and omni channel presence.
- 25% growth in stores is the new norm and would like to grow at this pace.
- The company targets EBITDA margin of 9-9.5%. It will be a tough ask given the competitive situation in the market. If SSSG is at 7-8%, the EBITDA margin target of 9-9.5% will be achievable, or else it could see pressure.
- Management does not believe in reckless expansion and it started adding new stores aggressively only after building a team that can manage growth. The focus remains on adding only profitable stores.
- The target is to keep SSSG at 7-8%. VMART's competitive position will not just come from price competitiveness.
- Over the last two years, VMART is spending toward strategic investment, which is restraining operating leverage benefits. However, if SSSG growth is above 5-6%, there will be some operating leverage. FY20 will be the third year of the investment phase, and the company will continue doing the strategic investment for long-term growth.

- Added more layer of management pool in the recent pass to improve the company's scalability horizons.
- Should see over 50 store adds in FY20 and beyond to maintain 25% store add growth target.
- The company is not looking for inorganic growth but given that there is pressure on smaller players that may be looking to sell out, VMART would evaluate those opportunities at opportune time.
- The company would target to maintain the gross margin at current level. It will see pressure from competition but would like to maintain it.
- Mature stores with over two years age would be performing at par with or higher than company average. About 30-35% of revenue would be contributed by the stores that are added in the last two years.
- The company's focus is five-year growth, so all near term aggressive actions are in the interest of long-term growth. VMART needs to periodically take aggressive actions to win against competition and create a dominant position in the market.

Market environment/opportunity

- Environment in the market has remained a bit dull.
- It is witnessing healthy growth in the organized retail market and seeing healthy demand in locations where new stores have come up.
- Very good festive period, but apart from festive period, there has been some slackness of demand.
- Management believes there is huge growth potential in the market and therefore it remains in the mode of aggressive new store adds.
- Despite the national players' presence, the overall market remains highly untapped with a large proportion of unorganized market. National players have increased consumer awareness/perception toward good quality and expanded the market size in small tier regions.

Competition

- Many of the national players have opened up new stores in the lower tier locations – Reliance Retail, ABFRL (Pantaloons and Styleup) Trent new format – Zudio. VMART plans to be a little aggressive and make competition feel the pinch.
- There are smaller peers that are seeing pressure due to the lack of management flexibility and newness of the products.
- Regional players have seen slackness in liquidity to open new stores and compete aggressively.

Balance sheet

- In FY19, there was refurbishment of 20 stores and minor refurbishments of another 20 stores.
- Cash capex was INR470m, plus lease financing amount would make total capex of INR570m.
- There is a plan to add a new warehouse in FY20 and management is still evaluating whether to buy it out or lease it.

TECHNOLOGY

- **Overall, demand and revenue growth outlook remained healthy, backed by a period of sanguine large deals activity and Digital traction in the recent quarters. However, pockets of stress exist, particularly within BFSI (small banks in the US for INFO, the largest customer for TCS and WPRO). Enterprises' Digital Transformation is witnessing continued traction, with increasing deal sizes, which could help offset near-term demand pressures from select segments. Margins remain a challenge (outlook lowered by INFY and HCLT) amid investments in localization, digital capabilities and rising attrition rates with talent crunch.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook	Digital / New services	Margins
HCL Technologies	▪ FY20 revenue guidance of 14-16% YoY CC includes organic growth of 7-9%. The balance 7% is inorganic. It includes 7 products from IBM (assuming the deal closure by end of May) in addition to the residual impact from last year's deals and recent transaction of Strong Bridge Envision. ▪ EBIT guidance is 18.5-19.5%. 1QFY20 margin will be below that range, as costs built up for IBM IP purchases will come in for the full year, while revenues will be only for a month. Other headwinds for softer Q1 margin include impact of large deals beginning in Q1 and investment heavy Mode 2 services.	▪ Mode-2's 28.7% YoY CC growth in FY19 was entirely organic. Revenues in IoT almost doubled. ▪ Mode 2 investments will continue given that it will help accelerate organic growth. Mode-2 margins are in low teens, while Mode-1 and Mode-3 margins are above 20%. ▪ Through Strong Bridge envision acquisition HCL will gain Digital transformation consulting capability across the US and on-board ~200 employees.	▪ Margin shrank 63bp QoQ in 4Q. 2/3rd of that was due to forex movements during the quarter (43bp). The balance 20bp came from seasonality in the non-linear operationally leveraged products business (11% of revenues, down 7.6% QoQ CC) - IP partnerships and Actian. ▪ Mode-3 margins for the full year are 22.8%. 4Q margins were weak due to revenue seasonality. With inclusion of IGM IP revenues (~6% contribution), Mode-3 margins will be better in FY20.
Infosys	▪ INFO's revenue growth guidance for FY20 at 7.5%-9.5% CC is almost similar to that of FY19, if adjusted for the acquisition of Stater NV. ▪ FY19 deals wins were healthy and stand at USD6.28b, more than double that of FY18.	▪ Digital grew by 34% YoY in FY19 and 41% in 4Q. It now contributes 34% of overall revenues. Major verticals that contributed to digital revenue were Communications, Energy & utilities, Retail, Insurance and Manufacturing. Talent remains a huge constraint in digital. Reskilling and refactoring current talent is the key objective.	▪ EBIT Margin saw a dip of 140bp QoQ to 21.5% led by lower utilization (-70bp), higher localization (-30bp), INR appreciation (-30bp) and deal ramp up (-30bp). Investment cycle is mostly over and going ahead we can see some margin improvement led by operational efficiency.
TCS	▪ TCS' pipeline expanded across segments and geographies. Total TCV of deals in 4QFY19 amounted to USD6.2b, highest in FY19. This lends visibility going into FY20, at least for the earlier part of the year, when TCS should continue reporting growth in double digits, with the macro holding up. ▪ Customers have shown a good adoption of their business 4.0 proposition.	▪ With 31% of revenues now coming from digital, it has becomes the *de facto* focus of new deals and cuts across verticals. ▪ Entire new technology stack is classified as Digital. Customers no more think of whether to pursue digital but rather think of when to go digital.	▪ EBIT margin came at 25.1%, prima-facie driven primarily by a 26% YoY increase in subcontractor costs. Sub-con costs were 7.6% of revenues, compared to 7.1% in 4QFY18. Also, this quarter had a one-off due to payment toward electoral trust (60bp).

	Revenue outlook	Digital / New services	Margins
Tech Mahindra	▪ Earlier outlook was of mid-single-digits growth in Telecom and 8-10% in Enterprise. However, while the overall growth rate may remain in high-single-digits, the profile of growth will be more balanced. ▪ There have been three quarters of growth in Communications along with healthy deal wins. That will continue to grow in a meaningful way. ▪ There is a strong funnel in Enterprise, and that could change the outlook upwards if and when TECHM lands those deals.	▪ 5G roll out is already a catalyst for demand. Early days yet, but should pick up some speed towards the end of this year. ▪ Some deal wins in the last quarter may not directly qualify as 5G, but the long-term orientation of those spends was to be 5G ready. ▪ Industrial IoT will always be an opportunity. That will be a couple of cycles behind the service providers. Network roll-outs will have to precede that trend.	▪ 4QFY19 had an element of a charge that is not expected to repeat. Normalized margins are 18.7-18.8% - the sequential decline is owing to currency movements. ▪ For margins, TECHM expects to maintain current levels at the least, despite 1QFY20 facing headwinds from wage hikes, visa costs and Comviva seasonality. Subsidiary companies' margins and utilization remain levers over the near term, while offshore revenue percentage is a medium-to long-term lever.
Wipro	▪ For 1QFY20, WPRO guided for revenue growth between -1% and +1% QoQ CC (5.5%-7.6% YoY CC), excluding revenue from Workday and Cornerstone Solutions. ▪ While BFS may not keep up with the pace of FY19 growth, WPRO cited that the order book, coupled with the improvement in Communications and Technology segments, will help drive better overall growth in FY20 compared to FY19.	▪ Digital Services grew 6.4% QoQ (+32.3% YoY), 34.8% of revenues. Received a "No shore delivery model" order in engineering from an O&G major. ▪ Automation: HOLMES is now in 350+ clients. Bots contributed 11.3% of FPP compared to 6.7% in 3QFY19	▪ IT Services EBIT margin expanded 180bp YoY to 17.9%, exiting the year at 19.0% ▪ Optimization has been driven in G&A spending. That has either been taken on the margins or been reinvested in S&M. ▪ 1QFY20 will have salary increases for the whole company. ▪ Automation, FPP management, bulge management, pricing will continue to be the levers.

CYIENT

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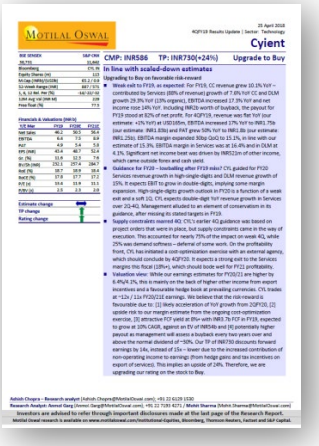


Cyient — Buy

Current Price INR 562

Recap of FY19:

- Moderated services growth outlook. 4Q had a greater miss than anticipated.
- Also, deferment in DLM happened on March 29th which led to the miss in that guidance too.
- Operating profit performance was much better. DLM margin tracked in line with guidance. That should continue to improve.
- ETR was also brought down in line with the guidance. Initiatives there in terms of SEZ etc. are yielding results.

FY20 outlook:

- Some changes in the accounting standards driving focus on EBIT rather than EBITDA.
- Some of the deferments in A&D will continue to weigh in 1Q as well. Confident that 2Q will be very strong.
- High single digits growth outlook in FY20 is a function of a weak exit and a soft 1Q. Growth will be in double-digits over 2Q-4Q on a YoY basis.

Segmental Outlook:

- **A&D:** Looking good. Strong demand for commercial aircraft. Strong production pipeline and Defense spending is also growing. Boeing is pushing out a fair amount of spend due to 737 issues, impacting Cyient too. Seeing some upside, but won't happen in 1Q. The real upside in the orders will come in from 2Q. Aerospace should grow in high single digits. A&D would have grown 15-20% outside of the largest client, which de-grew 3-4%. Largest customer should be driving growth going forward.

- **Communications:** Data revolution is creating opportunity, in combination with 5G. CYL is starting to win some deals in technology, and not yet on network. SDN, Network virtualization deals will come through. One large customer went through renegotiation but they won most of the work, impact to be seen from Q2. Communications should grow above company average Services guidance. Communications grew ~25% excluding the largest customer, where the POs got pushed out.
- **Energy & Utilities:** Oil price recovery is seeing capital expenditure projects coming back.
- **Transportation:** Not a great growth industry but CYL is well placed. They have had two strong years now. The opportunity said is limited. Growth will be lower than high-single-digits.
- **Industrial and Geospatial:** Off-highway, mining etc. – business is tepid. Geospatial market is growing. The focus on geographic data and tags is higher. This vertical should see good growth next year.
- **Semiconductors:** Looking a little weak at this point. CYL's value proposition is resonating very well.
- **Any changes to the guidance procedure:** The key has been to understand the longer term impact of some of the POs that are already in place. The supply side did not add up – in Aerospace and DLM. Currently, looking at the supply equation with the same rigor. In the budget, they have done a fair amount of risk projections. Therefore, guidance is a realistic / pessimistic scenario rather than optimistic scenario. 75% was that while 25% was demand being pushed out.
- **Margins management in FY20:** [1] Cost optimization exercise with an external agency. This should conclude by 4QFY19. At the end of the exercise, there will be a healthy run rate in the coming year. Exit margin in services will be impacted by 200bp from wage hikes. Flattish margin expectation is reasonable, with strong 4Q exit – 18%+
- **Lease accounting:** Any agreements beyond 12 months have to be capitalized, and have to be provided for below the operating margin. That will aid OPM by 150bp. Depreciation will reflect that, and it will be EBIT Neutral.
- **Order intake down YoY:** Last year, 3Q order intake moved into 4Q, and hence, Q4FY18 was a bit inflated; order backlog remains quite strong. It is 13% higher on services and 14% higher in DLM.
- **Large deals:** Nasscom numbers have a lot of software product development for the likes of MS, ORCL etc. 60% of the growth is due to that segment. When it comes to hardware products, growth falls down to 7-8%.

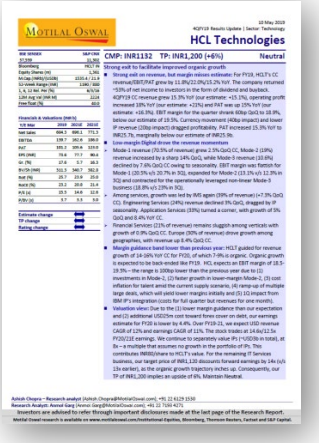
Click below for Detailed Concall Transcript & Results Update

HCL Technologies — Neutral

Current Price INR 1,079

4Q and FY19 performance

- For FY17 and FY18, HCLT ended up missing the guidance. FY19 has been much better in comparison, with growth at the higher end of the guidance. And organic revenue growth of 6.5% YoY CC bettered guidance of 4.25-6.25%.
- Margin shrank 63bp QoQ in 4Q. 2/3rd of that was due to forex movements during the quarter (43bp). The balance 20bp came from seasonality in the nonlinear operationally leveraged products business (11% of revenues, down 7.6% QoQ CC) - IP partnerships and Actian.


MOTILAL OSWAL

10 May 2019
4QFY19 Results Update | Sector: Technology

HCL Technologies

CMP: INR1192 TP: INR1,200 (+6%) Neutral

Strong exit to far-Bilate improved organic growth

- Strong exit on revenue, but margin misses estimate: For FY19, HCLT's CC revenue/EBIT/PAT grew by 11.8%/22.0%/15.2% YoY. The company returned ~53% of net income to investors in the form of dividend and buyback.
  4QFY19 CC revenue grew 15.3% YoY (our estimate: +15.1%), operating profit increased 18% YoY (our estimate: +21%) and PAT was up 15% YoY (our estimate: +16.9%). EBIT margin for the quarter shrank 60bp QoQ to 18.8%, below our estimate of 19.3%. Currency movement (40bp impact) and lower IP revenue (20bp impact) dragged profitability. PAT increased 15.3% YoY to INR23.7b, marginally below our estimate of INR25.9b.
- Low-margin Digital drive the revenue momentum
  - Mode-1 revenue (70.5% of revenue) grew 2.5% QoQ CC. Mode-2 (19%) revenue increased by a sharp 14% QoQ, while Mode-3 revenue (10.6%) declined by 7.0% QoQ CC owing to seasonality. EBIT margin was flattish for Mode-1 (20.5% v/s 20.7% in 3Q), expanded for Mode-2 (13.1% v/s 12.3% in 3Q) and contracted for the operationally leveraged non-linear Mode-3 business (18.8% v/s 23% in 3Q).
  - Among services, growth was led by AMS again (50% of revenue) (+7.3% QoQ CC). Engineering Services (24%) revenue declined 3% QoQ, dragged by IP seasonality. Application Services (33%) turned a corner, with growth of 5% QoQ and 8.4% YoY CC.
  - Financial Services (21% of revenue) remains sluggish among verticals with growth of 0.9% QoQ CC. Europe (60% of revenue) drove growth among geographies, with revenue up 8.4% QoQ CC.
- Margin guidance band lower than previous year: HCLT guided for revenue growth of 14-16% YoY CC for FY20, of which 7-9% is organic. Organic growth is expected to be back-ended like FY19. HCL expects an EBIT margin of 18.5-19.5% – the range is 100bp lower than the previous year due to (1) investments in Mode-2, (2) faster growth in lower-margin Mode-2, (3) cost inflation for talent amid the current supply scenario, (4) ramp-up of multiple large deals, which will yield lower margins initially and (5) 1Q impact from IBM IP's integration (costs for full quarter but revenues for one month).
- Valuation view: Due to the (1) lower margin guidance than our expectation and (2) additional USD25m cost toward firms cover on debt, our earnings estimate for FY20 is lower by 4.4%. Over FY19-21, we expect USD revenue CAGR of 12% and earnings CAGR of 11%. The stock trades at 14.6x/12.5x FY20/21E earnings. We continue to separately value IPs (~USD3b in total), at 8x – a multiple that assumes no growth in the portfolio of IPs. This contributes INR80/share to HCLT's value. For the remaining IT Services business, our target price of INR1,120 discounts forward earnings by 14x (v/s 15x earlier), as the organic growth trajectory inches up. Consequently, our TP of INR1,200 implies an upside of 6%. Maintain Neutral.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Mode 1-2-3: Mode-2's 28.7% YoY CC growth in FY19 was entirely organic. Revenues in IoT almost doubled. Mode-1 grew 4.5% YoY CC.

Guidance

- Break-up: FY20 revenue guidance of 14-16% YoY CC includes organic growth of 7-9%. The balance 7% is inorganic. It includes 7 products from IBM (assuming the deal closure by end of May) in addition to the residual impact from last year's deals and recent transaction of Strong Bridge Envision.
- The organic growth would be led by from Mode-2 Services. The business momentum will continue there (grew double digits QoQ in the last two quarters). Mode-1 should see low-single-digit growth – a repeat of FY19.
- Back-ended organic growth: Growth pattern of organic revenues will be somewhat back-ended. 1Q will be a bit soft on the back of very strong growth in 2HFY19.
- EBIT guidance is 18.5-19.5%. 1QFY20 margin will be below that range, as costs built up for IBM IP purchases will come in for the full year, while revenues will be only for a month. Other headwinds for softer Q1 margin include impact of large deals beginning in Q1 and investment heavy Mode 2 services.

Margins – factors driving lower guidance than FY19

- Creating strong mindshare on Mode-2 in the Customer and Analyst community. The investments will continue given that it will help accelerate organic growth. Mode-2 margins are in low teens, while Mode-1 and Mode-3 margins are above 20%. However, growth is being driven by Mode-2, which will have a mix-based margin impact.
- Guidance also bakes in the some of the on-going inflation of talent.
- Since the booking momentum is good, a lot of deals will be in the initial part of the journey and that will weigh on the margins.
- Mode-3 margins for the full year are 22.8%. 4Q margins were weak due to revenue seasonality. With inclusion of IGM IP revenues (~6% contribution), Mode-3 margins will be better in FY20.
- 1Q margins will be lower than the guided band due to initial impact from acquisition of IBM IPs – which is only for the first quarter. That would imply three months of investment and one month of revenue.
- Amortization costs on IBM IP: The numbers change very frequently. When the deal closes is when purchase pricing allocation can be determined. Have a good idea of what that range looks like. That is baked into the comments of 22.8%+ Mode-3 margins.

State of macro

- Some pain in execution cycles due to geo-political issues due to the visa situation.
- Some client businesses are getting impacted by the trade tariff situation in the near term.
- Attrition is up by ~2pp for the industry. It is fairly stable for HCLT. Yet, there will be some dynamics around cost structures due to the same.

Deal wins and pipeline:

- Set an all-time bookings record for the third time this fiscal.
- The pipeline as on March 2019 is at least 10% higher YoY.
- Won 17 transformational deals led by Retail/CPG, Manufacturing and Public Services. This takes total large transformational deals in FY19 to 78.

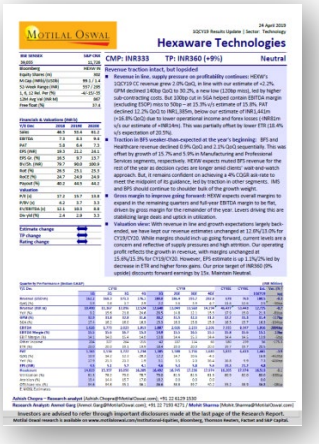
Segments:

- Application Services (33% of revenues) was the highlight with 5.2% QoQ CC growth during the quarter.
- IMS (39% of revenues) grew 7.3% QoQ on the back of 10.4% last quarter. Started the year tentatively, but overall FY19 growth has been satisfying.
- Financial Services (21% of revenues) grew close to company average barring two client specific issues in the capital markets segment. 25% of digital transformation spend is going into Financial services. Large number of wins in FY19 came in Financial Services. Apart from Digital, even integrated deals are being won.
- Worst in Manufacturing (17.5% of revenues) is over, and growth should return after a flat FY19.
- Geographies: US (63% of revenues) grew 1.1% QoQ but YoY growth was very robust. Seasonality impact of IP was sitting largely in the US. Germany seeing a lot of traction after the H&D acquisition. The decline in India business will continue this year as well.

Strong Bridge Envision acquisition

- Digital transformation consulting capability across the US – HCLT will on-board ~200 employees.
- It clocked USD45.6m revenues in CY18.
- HCLT has paid USD42m upfront and the balance USD3m will be paid on achievement of certain performance targets.

Click below for Detailed Concall Transcript & Results Update


MOTILAL OSWAL

24 April 2019

1Q3CY19 Results Update | Sector: Technology

Hexaware Technologies

CMP: INR333 TP: INR360 (+8%) Neutral

Revenue traction intact, but liquidated

- Revenue in line, supply pressure on profitability continues: HEXW's 1QCY19 CC revenue grew 2.0% QoQ, in line with our estimate of +2.2%. OPM declined 140bp QoQ to 30.2%, a new low (120bp miss), led by higher sub-contracting costs. But 100bp cut in SGA helped contain EBITDA margin (excluding ESOP) miss to 50bp – at 15.3% v/s estimate of 15.8%. PAT declined 12.2% QoQ to INR1,385m, below our estimate of INR1,441m (+16.8% QoQ) due to lower operational income and forex losses (-INR32m v/s our estimate of +INR14m). This was partially offset by lower ETR (18.4% v/s expectation of 20.5%).
- Traction in BFS weaker than expected at the year's beginning: BFS and Healthcare revenue declined 0.9% QoQ and 2.1% QoQ sequentially. This was offset by growth of 15.7% and 5.9% in Manufacturing and Professional Services segments, respectively. HEXW expects muted BFS revenue for the rest of the year as decision cycles are longer amid clients' wait-and-watch approach. But, it remains confident on achieving 4 4% CQGR ask-rate to meet the midpoint of its guidance, led by traction in other segments. IMS and BFS should continue to shoulder bulk of the growth weight.
- Gross margin to improve going forward: HEXW expects overall margins to expand in the remaining quarters and full-year EBITDA margin to be flat, driven by gross margin for the remainder of the year. Levers driving this are stabilizing large deals and uptick in utilization.
- Valuation view: With revenue in line and growth expectations largely back-ended, we have kept our revenue estimates unchanged at 12.8%/13.0% for CY18/CY20. While margins should inch up going forward, current levels are a concern and reflective of supply pressures and high attrition. Our operating profit reflects the growth in revenue, with margins unchanged at 15.8%/15.3% for CY18/CY20. However, EPS estimate is up 1.1%/2% led by decrease in ETR and higher forex gains. Our price target of INR360 (9% upside) discounts forward earnings by 15x. Maintain Neutral.

Quarter-to-Per Performance (Broken EBIT)

CY Qtr	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	CY18E	CY19E	3Q	4Q	1Q	Qtr Mkt
Revenue (US$ Mn)	190.2	196.7	197.2	196.7	199.8	196.4	195.7	201.4	193	198.9	199.1		197.4	0.1
Growth (%)	1.0	3.4	0.3	(0.3)	1.6	(1.7)	(0.4)	2.9	1.3	1.2	1.2		0.4	(0.8)
Revenue (INR Mn)	12,800	13,167	13,496	13,524	13,688	13,469	13,568	14,154	52,987	54,879	13,858	14,290	13,725	(4)
YoY (%)	3.3	10.3	11.9	11.4	6.9	2.3	0.6	4.6	10.3	3.6	2.7	1.3	0.3	(0.4)
QoQ (%)	(2.5)	2.9	2.5	0.2	1.2	(1.6)	0.7	4.3	3.3	3.6	(2.1)	3.1	(3.9)	(0.4)
EBITDA (%)	17.5	17.2	17.7	17.4	15.8	15.5	15.6	15.3	17.4	15.5	15.7	15.3	15.8	(0.5)
EBITDA	2,238	2,273	2,392	2,351	2,167	2,078	2,121	2,170	9,153	8,537	2,176	2,186	2,170	(0.7)
Adj. PAT Margin (%)	12.1	12.2	12.2	12.2	11.8	11.5	11.5	11.5	12.2	11.6	11.5	11.5	11.6	0.1
Adj. PAT (INR Mn)	1,551	1,607	1,647	1,651	1,614	1,549	1,561	1,627	6,456	6,351	1,594	1,642	1,594	(0.3)
Growth (%)	(0.4)	0.2	0.6	2.1	4.0	(3.6)	(5.2)	(1.5)	(0.4)	(1.6)	(3.4)	(0.1)	(1.2)	(0.8)
QoQ	(2.0)	3.6	2.5	0.2	(2.3)	(4.0)	0.8	4.2	3.3	3.6	(2.1)	3.1	(3.9)	(0.4)
Adj. EPS	4.65	4.82	4.93	4.94	4.83	4.64	4.67	4.87	19.34	19.01	4.77	4.91	4.77	(0.3)
YoY (%)	(0.0)	(0.1)	(1.1)	(2.8)	3.9	(3.7)	(5.2)	(1.5)	(0.4)	(1.6)	(3.4)	(0.1)	(1.2)	(0.8)
QoQ (%)	(2.0)	3.6	2.5	0.2	(2.3)	(4.0)	0.8	4.2	3.3	3.6	(2.1)	3.1	(3.9)	(0.4)
EBITDA	17.5	17.2	17.7	17.4	15.8	15.5	15.6	15.3	17.4	15.5	15.7	15.3	15.8	(0.5)
EBIT (INR Mn)	2,238	2,273	2,392	2,351	2,167	2,078	2,121	2,170	9,153	8,537	2,176	2,186	2,170	(0.7)
Margins (%)	17.5	17.2	17.7	17.4	15.8	15.5	15.6	15.3	17.4	15.5	15.7	15.3	15.8	(0.5)
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Growth (%)	3.3	10.3	11.9	11.4	6.9	2.3	0.6	4.6	10.3	3.6	2.7	1.3	0.3	(0.4)
QoQ (%)	(2.5)	2.9	2.5	0.2	1.2	(1.6)	0.7	4.3	3.3	3.6	(2.1)	3.1	(3.9)	(0.4)

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Hexaware Technologies — Neutral

Current Price INR 342

- **On track with guidance:** Revenue growth came in at 2% QoQ CC implying an optimistic 4% CQGR for the remaining three quarters to meet midpoint of the guidance (12-14%). As guided growth will come majorly from 2H of the year, management feels confident on achieving the guidance for both revenue and EBITDA level. EPS growth will exceed operating profit due to lower ETR (20% v/s 20.5%) and higher forex gains (v/s forex loss in the past two quarters).
- **Higher offshore attrition:** This quarter saw rise in attrition by 120bp, this was majorly driven by an increase in hiring at the start of the financial year. Pressure will continue at onsite regions as labor market continues to remain in a tight spot. HEXW will continue its investments in skill development and training of employees, but, on a sequential basis investments may cool off a bit.
- **Gross margins likely to improve:** Expect reversal in gross margins driven by transition of projects getting stability and higher utilization. Currently, pricing should remain intact, gradual improvement may be expected in the longer run. Increase in gross margins will be partially offset by reversal of lower SGA this quarter, which dropped off due to bonus readjustment. Overall EBITDA growth should reflect the growth in revenue.
- **PS to offset weaker BFS:** BFS saw a dip during the quarter; the vertical is seeing a little more weakness than anticipated at the beginning of the year. BFS is expected to remain weak led by delays in client projects and higher gestation in decision making. Both 'buy side' capital markets and insurance has been witnessing a slowdown. Softer BFSI will be offset by higher growth in PS business; within PS business, strong traction is observed in the education vertical, while retail and telecom is also growing steadily. For the rest of the

year, H&I and manufacturing will grow at a steady rate (though, manufacturing may cool off from the high 20%+ growth rate). Healthcare should also show growth rate picking up some slack from the BFS slowdown.

- **Active on M&A:** Given the size of HEXW's balance sheet, it has dedicated a healthy amount for the M&A pipeline (USD 250-300m) for the next 2-3 years. It is building up a pipeline for companies, which are of reasonable size (+USD25m) and are reasonably profitable, even if not matching HEXW's own margins. First priority for HEXW is companies with expertise in customer experience, and second is companies within cloud space. Furthermore, it is looking for companies, which have larger revenue per client so that it can leverage potential target SG&A.
- **No merger with NITEC for at least two years:** HEXW stated that merger of NITEC is not possible for at least two years as both companies are from different funds. Technically, it is very difficult to merge the two companies. HEXW also does not envision any long term value in such a transaction.

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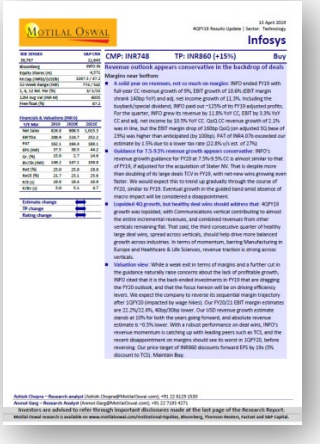

Infosys — Buy

Current Price INR 738

- **Digital:** Digital grew by 34% YoY in FY19 and 41% in 4Q. It now contributes 34% of overall revenues. Major verticals that contributed to digital revenue were Communications, Energy & utilities, Retail, Insurance and Manufacturing. Talent remains a huge constraint in digital. Reskilling and refactoring current talent is the key objective.
- **Strong deal win momentum:** INFO won 13 large deals during the quarter, three each in financial services, manufacturing and life sciences. Seven of these wins were in the US and five were in Europe. 69% of the total deal wins (USD1.5b) were net new. The large Communications deal impacted margins, which had re-badging of employees. But this is not a cause for concern on the margins front in general. Most of the deals have larger portion of digital revenue.
- **Margins under pressure amid back-ended investments:** Margins saw a dip of 140bp led by lower utilization (-70bp), higher localization (-30bp), INR appreciation (-30bp) and deal ramp up (-30bp). Investment cycle is mostly over and going ahead we can see some margin improvement led by operational efficiency.
- **Attrition inched up again!:** Attrition during the quarter stood 20.4%; rise in attrition was majorly in the experience band of 3-5% .INFY has taken various initiatives to curb attrition although it will take some time to come through.
- **Hurting from tightening H1B:** Talent availability is constrained by overall demand environment. Like others, INFY is also opting for subcontractors for fulfilling excess demand. To tackle the problem, INFY is aggressively focusing on localization. It added total of 9000 local resource in the US in past 2 years (Guided for 10,000 over FY17-20).
- **Communication led growth:** Almost all of the growth this quarter was the function of one large deal win in communication vertical [1] BFSI saw stronger exit in FY19 (YoY basis), and is expected to fare better in FY20. [2] CPG and Retail space is seeing high consolidation, which creates some opportunities. Retail growth remains strong on the prospect of shift from stores to hybrid structure. [3] E&U will see good digital growth on behalf of pipeline modernization and digitization. [4] LS will remain muted on client specific issues.

LTI
Let's Solve

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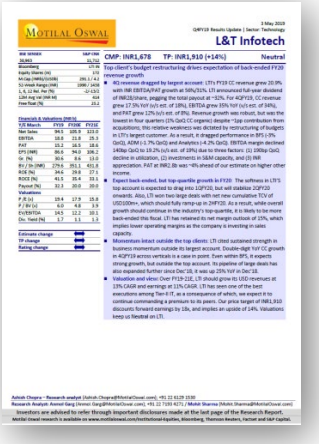

L&T Infotech — Neutral

Current Price INR 1,777

- **Outlook healthy, but interim tightness in top account:** Growth will be in the top quartile of the industry, although more back-ended, due to weakness in the top account. 1Q is expected to have muted growth with pass-through of revenue in 2HFY20. Net margins are expected to remain around 15%; any excess delta will be reinvested for better growth outlook.
- **Top Customer:** Weakness persists in LTI's top account as it continues to cut its budgets. New leadership is driving restructuring in spending priorities; that said, no wallet share is lost in the client's IT budget. Weakness in top account should be behind by 1QFY20 and should return to stability after 1-2 quarters.

Commentary on key verticals:

- **BFSI –** Weakness was primarily due to restructuring in the top account. LTI remains confident on its growth prospects, outside the temporary challenges in the top account. During 4QFY19, LTI added new clients in the segment and enhanced its presence by two acquisitions in the Temenos space. Insurance continues doing well with addition of a large deal from a re-insurer client in 4Q. Expect growth in capital markets and wealth management sub-segments.
- **CPG, Retail & Pharma –** Company won two large deals in 1Q and 2Q, which is helping drive momentum. Vertical grew by 35% in FY19 on the back of 30% growth in FY18.
- **Manufacturing-** Digital spending into segment continues along with widespread ERP implementation complementing growth for the vertical. In 4Q, to transform its IT landscape, a global auto major selected LTI for implementing SAP S/4 HANA for its trading and manufacturing arm.
- **Increase in attrition:** The industry in general, is witnessing strong demand, and many other companies are doing well. Therefore, opportunities for talented employees are high in the market. LTI's attrition also increased 100bp to 17.5%. However, it is unlikely to impact margins or wage hikes as LTI will opt for a different structure, providing better opportunities for employees and adapting a skill-based compensation plan.
- **M&A:** LTI will continue to do capability acquisitions to cater to customer requirements in newer and different technology areas. This is similar to the past four acquisitions, including that of Nielsen + Partner/ Ruletronics that have added capability in BFSI/Digital.
- **No potential merger with Mindtree:** At present, there are no discussions on any merger; acquisition of MTCL is an attempt by L&T to increase its presence in the services space. Nothing will change for LTI as it will be business as usual.
- **Analytics:** Consecutive decline in Analytics Services segment over the past two quarters is mainly from the top account; slightly offset by growth in other accounts.

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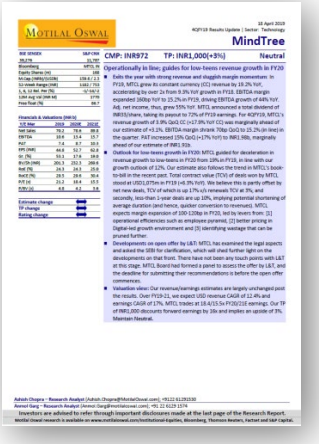

MOTILAL OSWAL

18 April 2019
4QFY19 Results Update | Sector: Technology

MindTree

CMP: INR972 TP: INR1,000(+3%) Neutral

Operationally in line; guides for low-teens revenue growth in FY20

- Exits the year with strong revenue and sluggish margin momentum: In FY19, MTCL grew its constant currency (CC) revenue by 19.2% YoY, accelerating by over 2x from 9.3% YoY growth in FY18. EBITDA margin expanded 160bp YoY to 15.2% in FY19, driving EBITDA growth of 44% YoY. Adj. net income, thus, grew 55% YoY. MTCL announced a total dividend of INR35/share, taking its payout to 72% of FY19 earnings. For 4QFY19, MTCL's revenue growth of 3.9% QoQ CC (+17.8% YoY CC) was marginally ahead of our estimate of +3.2%. EBITDA margin (Ex-rank 70bp QoQ to 15.2% (in line) in the quarter. PAT increased 15% QoQ (+17% YoY) to INR1.9Bn, marginally ahead of our estimate of INR1.81b.
- Outlook for low-teens growth in FY20: MTCL guided for deceleration in revenue growth to low-teens in FY20 from 19% in FY19, in line with our growth outlook of 12%. Our estimate also follows the trend in MTCL's book-to-bill in the recent past. Total contract value (TCV) of deals won by MTCL stood at USD1.075bn in FY19 (+6.3% YoY). We believe this is partly offset by net new deals, TCV of which is up 17% v/s renewals TCV at 3%; and secondly, less-than-1-year deals are up 10%, implying potential shortening of average duration (and hence, quicker conversion to revenues). MTCL expects margin expansion of 100-120bp in FY20, led by levers from: [1] operational efficiencies such as employee pyramid, [2] better pricing in Digital-led growth environment and [3] identifying wastage that can be pruned further.
- Developments on open offer by L&T: MTCL has examined the legal aspects and asked the SEBI for clarification, which will shed further light on the developments on that front. There have not been any touch points with L&T at this stage. MTCL Board had formed a panel to assess the offer by L&T, and the deadline for submitting their recommendations is before the open offer commences.
- Valuation view: Our revenue/earnings estimates are largely unchanged post the results. Over FY19-21, we expect USD revenue CAGR of 12.4% and earnings CAGR of 17%. MTCL trades at 18.4/15.5x FY20/21E earnings. Our TP of INR1,000 discounts forward earnings by 18x and implies an upside of 3%. Maintain Neutral.

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Motilal Oswal research is available on www.motilaloswal.com/institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Mindtree — Neutral

Current Price INR 965

Outlook:

- Optimistic demand environment across chosen verticals. High confidence that growth momentum will be maintained. Growth in FY20 will be in low teens in constant currency based on the macroeconomic and technology growth.
- Salary revisions to happen in two rounds. Target to improve margins between 100-120bp for the full year. Levers: [1] Operational parameters such as pyramid, [2] Pricing given the traction in Digital, [3] Identifying wastes – costs beneficial neither to the customers nor to employees. Subcontracting costs may go up a little (today at 7% of revenues).
- New accounting standards for Lease effective April 1, 2019. Reported EBITDA should increase by 150bp. EBIT will be negatively impacted by ~170bp. Minor drop in PAT/EPS (25-30bp).
- Visa costs will be insignificant in 1Q, applied for lesser visas and the focus is to continue to hire local resources.
- ETR should be 27-28%.

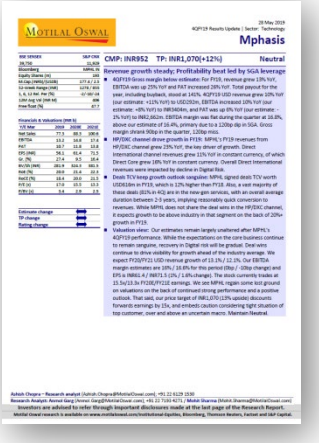
Margins:

- Currency: 50bp negative impact on margins QoQ in 4QFY19.
- BFSI margins are lower (currently in low-to-mid single digits) due to 1-2 client specific issues. That should start improving soon.

- **Top-customer:** Amongst top-10, two customers have been since inception. Confident on reasonably broad-based growth. Seeing much more traction in travel, Hi-tech and Retail/CPG verticals. Top-customer growth broad-basing from top-client to 2-10 and also 11-20.
- **L&T Bid:** Examined the legal aspects and asked SEBI for clarification. Not impacting attrition (though it inched up a bit this quarter). No touch-points with the L&T team at this stage. The independent committee appointed by MTCL Board needs to make the recommendations before the open offer commences. No instance of any client distraction as a consequence of this development.
- **Package implementation:** Services around SAP is moving very strong. Oracle segment of the business is slower, which drove weakness in the overall segment. Going forward, the focus will be on SAP.
- **Deal wins:** Deal win ratios are improving. TCV growth rate decline should not be a concern given clients' purchase cycles are different. Largest customer has July to June annual cycle. Occasionally, there is a bump up due to one very large deal in any given quarter. T&M deals are not captured fully given that there is no estimable value.
- **BFSI:** Vertical has begun to do well. That said, it will be slightly slower than the rest of Mindtree. Margins have been muted despite growth due to a couple of client specific issues and expect to report margin improvements soon.
- **Number of Bots:** 576 bots deployed across MTCL.
- **Increase in Capex:** Investment in the digital/ new services continued to support growth. Increase in capex attributed to setting up development centers opened in San Jose and Minneapolis.

Mphasis
Unleash the Next

Click below for Detailed Concall Transcript & Results Update



Mphasis — Neutral

Current Price INR 971

Direct Core channel (60% of revenues)

- MPHL had called this out as a primary vector for long-term growth. Grew 16% YoY CC in FY19.
- 3 pillars of growth: [1] Strategic customers, [2] Blackstone portfolio, [3] New accounts.
- Blackstone channel almost doubled in revenues in FY19. Opportunities continue to exist.
- New client acquisitions too saw revenue growth of 80%+ YoY. 79% of the USD616m TCV is in new-gen services.
- Management is confident of growing above market rates next year.

BFSI Vertical

- Environment for new-gen services remains very healthy. Cloud is at the center of that while there is not much demand for old legacy IT services.
- BFSI is growing above company-average for MPHL excluding the Digital Risk headwinds.
- While banks may be insourcing, they continue to look for ideas and help, not diminishing the relevance of bets taken by MPHL.

DXC/HP channel (28% of revenues):

- Transformed the relationship through three themes: [1] Strategic partner (help DXC reduce cost to service), [2] Expand geographic footprint, [3] Growth partner.
- From Americas and ITO segment, moved to become DXC's Apps-to-cloud strategic partner. Won first services transformation contract in early FY18.
- Less than 30% of the work is traditional outsourcing.
- 1/3rd of revenues are generated from geographies outside North Americas.
- Strategic vectors for growth:
- Reducing DXC's cost of running business through use of Automation and other options.
- Accelerate Application growth for DXC: Jointly pursuing legacy modernization of client's IT Estates.
- Vertical footprint expansion: DXC is a market leader in Insurance, looking to partner and grow in the same.
- The MSA with DXC is valid till 2027. The only factor that changes at the end of five years is that the minimum revenue commitment goes away. So, no binary event is coming up that could risk this channel. That said, since the MSA, this today is a completely transformed relationship.
- Multi-year service transformation deals are driving growth. These are bundled as outcome-based deals and helping DXC bring down its cost to serve. So the risk on pricing is limited.
- Three engagements: Work-for: An extension of delivery not visible to the end customer. Work-with: Joint GTM. Work-as: good visibility to the customer, taking the work over completely. Some of these have an element of re-badging.
- Base effect is high. Don't expect 20%+ growth in that channel in this fiscal.

Margins: expected to be range-bound with a positive skew

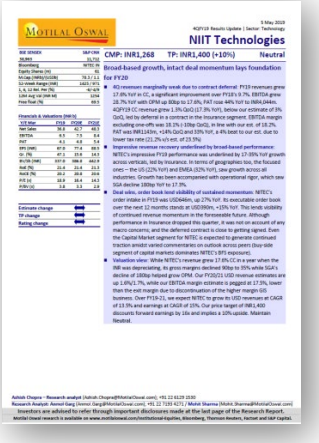
- EBIT is expected to be in the 15-17% range (16.1% in FY19). Will continue to find ways to optimize operating efficiencies, but also to keep reinvesting the same.
- The tailwind from hedge gains in the revenue line helps accelerate investments.

- Segmental margins: There are certain transformational deals that require upfront investments (such as Re-badging costs). That leads to quarterly volatility in this segment.
- G&A is fairly well optimized, may see an uptick there, if anything.
- Average hedge rate for FY20 is 71. MPHL has a 2-year layered hedge. So gains on the top-line from hedges will be higher in FY21.
- Gross margin decline in 4QFY19 was a function of deal dynamics. Also the expansion of the talent pool. 4Q is largely deal-related.
- Lease accounting change (Ind-AS 116): Management is still working the impact out. Prima-facie it should not have much of an impact on EBIT or net profit, rather it will be very marginal.

Digital Risk

- Revenue grew this quarter; it had significant new wins in 4Q.
- The segment will continue to march towards quarterly revenue run-rate of USD28-30m (currently USD23.5m).

Click below for Results Update



NIIT Technologies — Neutral

Current Price INR 1,308

- **Outlook:** Confidence intact with the deal wins, in the absence of client-specific issues and also a healthier order book.
- **Margins in FY20**: Management has mentioned that 18% is the new normal, excluding GIS. GIS business divestment does not impact that outlook. SGA is down from 19.1% to 17.4%. Going forward, SGA should remain in the range of current levels.
- **Insurance (declined 6.5% QoQ):** A contracting closure issue that drove the decline during the quarter. It is close to getting signed. Not due to any macroeconomic factors like Brexit. All businesses remain healthy and growth again should be broad-based next year.
- **Mining of top-accounts:** Growth achieved by focus on cross-sell of new service lines – data, cloud and automation in top-10 accounts. Managed to obtain a higher wallet share in some of these top accounts.
- **Digital:** It now contributes 30% to revenues and grew 45% YoY. Wishworks is the kind of capability that NITEC has been chasing for a while. Mulesoft is the gold standard for Digital Integration. Mulesoft capabilities are in significant demand. Secondly, Pega is in the Digital process transformation space (BPM).
- **Offshore:** Digital engagements are short-term and onsite heavy. Yet they are higher margin engagements. It should continue to remain around these levels.
- **Supply constraints:** Added 1,000+ people of the base of ~9,500 last year. There has been pressure in talent supply. Paid USD1m more for immigration-related expenses this year. Have been able to manage the cost structure despite that. Wage inflation will be comparable to last year. Subcontracting numbers have not moved much. Margin pressures due to subcontractors continue but have been managing it with operational efficiencies. Pricing environment remains stable as of now.
- **Aviation opportunity:** Completed a project for a largest airline in the world – roll out a set of check-in kiosks with a lot of interventions possible to help generate ancillary revenues for the airline. IoT is being actively considered when it comes to baggage management and tracking. Also, Biometric technologies at airports and airlines. All these are evolving very fast.

- **Incessant (14% of revenues):** Had requested the founders of the acquired entity to stay back for another year, 12 months ago. They will leave by end of May. Operationally, the reigns have been with the NITEC leadership for a while now. Don't see any blip in operations on a go-forward basis.
- **On new ownership after promoters' stake sale:** Barings comes in with an agenda to help drive organization growth on a go-forward basis. Large clients have been apprised of the same. Baring is not engaged directly with the clients yet. The new board will take a decision on the capital allocation going forward.

PERSISTENT

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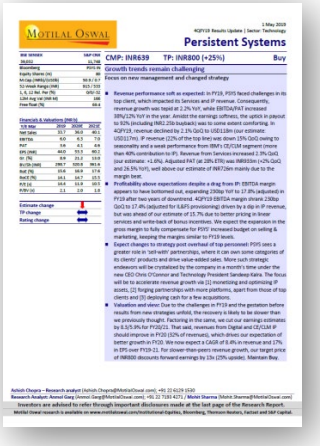

Persistent Systems — Buy

Current Price INR 598

- **Weak FY19 performance:** Overall growth was soft in FY19 (+2.2% YoY), led by flattish IP revenue and muted growth in Services. FY19 saw challenges in contribution from top client, primarily led by challenges faced by the customer. Apart from this, two customers had discontinued projects in 2Q, leading to further slowdown in overall growth. Most of the impact on growth was due to internal challenges, while overall market demand remains strong.
- **New CEO:** Christopher O'Connor, ex. IOT head of IBM was hired as new CEO in 4Q. He has been a customer for PSYS for more than 10 years. With new leadership and Chris' expertise, PSYS is looking to add multiple models of revenue in its IP stream and selling the existing solutions beyond top customers. He is also expected to further enhance revenue model from alliance by focusing on value-added services around the IPs.
- **Focus on IPs:** PSYS has multiple revenue streams in IP; within this, Accelerite – which includes end of the life products – is expected to have a healthy uptick with more deals in FY20. Apart from this, PSYS will focus on reselling business as it may have a big opportunity going ahead.
- **Margins to be in the current band:** Levers for margins will be monetization of assets build over the last two years and increase in onsite utilization. Further, PSYS expects offshore revenue to increase as more and more projects will shift led by scarcity of talent at onsite. This will have a positive effect on margins, which will be offset by hiring of more sales personnel and uptick in marketing budgets. Overall margins should remain in the current range.
- **Capital Allocation:** PSYS suggested that buyback may not be a regular option for capital allocation. PSYS will use cash (~USD215m) for a couple of quick acquisitions to fill in the gaps in its Services portfolio. It is looking for companies having domain-related expertise and presence in European region.
- **Outlook for improved growth:** Next year should see a good uptick in revenues as most the structural changes are behind. The company will keep hiring sales personal for monetization of created assets as well as selling of the existing ones. On the margin front, the expansion in the gross margin will fully offset the company's efforts to increase sales and marketing. Margins should be sustained at FY19 levels.

TATA CONSULTANCY SERVICES

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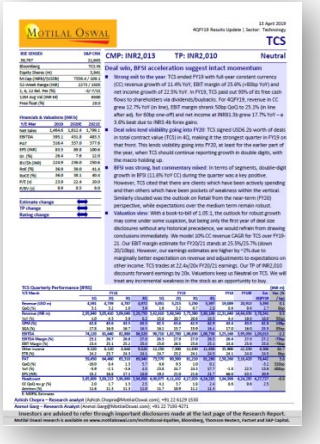

Tata Consultancy Services — Neutral

Current Price INR 2,167

- **Demand:** TCS' pipeline expanded across segments and geographies. Total TCV of deals in 4QFY19 amounted to USD6.2b, highest in FY19. Customers have shown a good adoption of their business 4.0 proposition. While the rate of change of technology is high, the ability to stay invested and transform themselves and remain relevant to customers will be important – demand is perennial and has a multi decade visibility.
- **Supply:** US visa rejection rates have been going up and situation remains similar to last year, but management has ensured talent acquisition through reskill and local hiring strategy across different markets so that execution of deals does not suffer. They have a hiring plan in place that it believes should meet next year's business requirement.

Segmental – Key observations:

Vertical:

- **BFSI momentum:** BFSI returned to double digit growth after nine quarters. It's a very heterogeneous industry with multiple opportunities and challenges. Europe has been growing faster than other places. Couple of large banks had challenges in this quarter. While Insurance is seeing broad based demand and growth, Capital markets segment has been volatile.
- **Retail:** Medium term outlook is very positive. Focus of industry players to invest in digital technology is high as we see the business shifts away from stores / traditional retailer to web, social media.

Geography:

- **U.K:** Continues to grow at 21% YoY as the focus is on customer based opportunities and not on macro scenarios. BFSI for TCS has been better in UK/Europe than in US.
- **Europe:** TCS' positioning in Europe is much stronger than that in the US, since that geography came in later. Engagements are much further up in the executive chain compared to traditional markets. US will still continue to remain a primary market.
- **Pricing:** Pricing is becoming more complex and depends on provider's capability on newer technologies, ability to provide value to customer. Pricing is better in Europe's fragmented market compared to US which is lowest priced in the developed markets. Price of services hardly reduces over the years – hence it's not a commodity industry and margins have been resilient.
- **Digital:** With 31% of revenues now coming from digital, it has becomes the de facto focus of new deals and cuts across verticals. Entire new technology stack is classified as Digital. Customers no more think of whether to pursue digital but rather think of when to go digital.
- **Platforms:** Strong performance by platforms TCS Bancs, Ion.
- **Organization Structure:** It continues to be exactly the same as a decade ago - running ~150 P&L units at the granular level. It's modular and scalable. These are all independent and autonomous.

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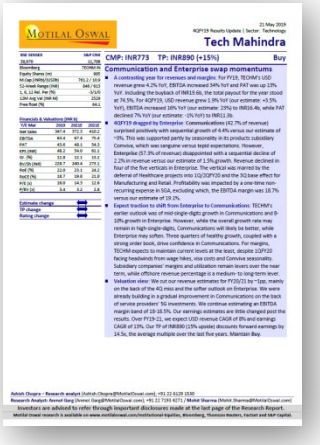

MOTILAL OSWAL

21 May 2019
4QFY19 Results Update | Sector: Technology

Tech Mahindra

BSE SENSEX	S&P CNX
38,978	11,746

Bloomberg	TECHM IN
Equity Shares (m)	
M-cap (INR b)/(USD m)	342.1 / 4.9
52-week Range (INR)	948 / 613
1, 6, 12 Mo. Fwr. (%)	-1/-5/-9
12M Avg Vol (INR M)	259
Free float (%)	64.1

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	347.4	372.3	402.7
EBITDA	69.4	67.4	75.4
PAT	45.6	48.1	56.5
EPS (INR)	49.2	54.0	63.1
EPS Gr. (%)	(0.4)	9.8	16.9
BV/Sh (INR)	233.7	269.4	279.2
RoE (%)	21.9	21.1	24.2
RoCE (%)	18.7	19.4	21.8
P/E (x)	14.9	14.3	12.4
P/BV (x)	3.0	2.7	2.6

Estimate change	
TP change	
Rating change	

CMP: INR773 TP: INR890 (+15%) Buy

Communication and Enterprise swap momentums

- A contrasting year for revenues and margins: For FY19, TECHM's USD revenue grew 4.2% YoY, EBITDA increased 54% YoY and PAT was up 13% YoY. Including the buyback of INR19.6b, the total payout for the year stood at 74.5%. For 4QFY19, USD revenue grew 1.9% YoY (our estimate: +3.5% YoY), EBITDA increased 18% YoY (our estimate: 29%) to INR16.4b, while PAT declined 7% YoY (our estimate: -1% YoY) to INR12.1b.
- **4QFY19 dragged by Enterprise**: Communications (42.7% of revenue) surprised positively with sequential growth of 4.4% versus our estimate of -3%. This was supported partly by seasonality in its products subsidiary Comviva, which was sanguine versus tepid expectations. However, Enterprise (57.3% of revenue) disappointed with a sequential decline of 2.2% in revenue versus our estimate of 1.3% growth. Revenue declined in four of the five verticals in Enterprise. The vertical was marred by the deferral of healthcare projects into 1Q/2QFY20 and the 3Q base effect for Manufacturing and Retail. Profitability was impacted by a one-time non-recurring expense in SGA, excluding which, the EBITDA margin was 18.7% versus our estimate of 19.1%.
- **Expect traction to shift from Enterprise to Communications**: TECHM's earlier outlook was of mid-single-digits growth in Communications and 8-10% growth in Enterprise. However, while the overall growth rate may remain in high-single-digits, Communications will likely be better, while Enterprise may soften. Three quarters of healthy growth, coupled with a strong order book, drive confidence in Communications. For margins, TECHM expects to maintain current levels at the least, despite 1QFY20 facing headwinds from wage hikes, visa costs and Comviva seasonality. Subsidiary companies' margins and utilization remain levers over the near term, while offshore revenue percentage is a medium-to long-term lever.
- **Valuation view**: We cut our revenue estimates for FY20/21 by ~1pp, mainly on the back of the 4Q miss and the softer outlook on Enterprise. We were already building in a gradual improvement in Communications on the back of service providers' 5G investments. We continue estimating an EBITDA margin band of 18-18.5%. Our earnings estimates are little changed post the results. Over FY19-21, we expect USD revenue CAGR of 8% and earnings CAGR of 13%. Our TP of INR890 (15% upside) discounts forward earnings by 14.5x, the average multiple over the last five years. Maintain Buy.

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Tech Mahindra — Buy

Current Price INR 741

Growth outlook

- Earlier outlook was of mid-single-digits growth in Telecom and 8-10% in Enterprise. However, while the overall growth rate may remain in high-single digits, the profile of growth will be more balanced.
- There have been three quarters of growth in Communications along with healthy deal wins. That will continue to grow in a meaningful way.
- There is a strong funnel in Enterprise, and that could change the outlook upwards if and when TECHM lands those deals.

Communications

- There will be repurposing of capital as service providers move from 5G trials and go on to modernize their systems.
- Focus has been on large deals, larger relationships (potentially big spenders that may not be in top-20 list today).
- Positive outlook with the TCV of deal wins in the last three quarters.
- Seasonality: Some of the deals won will be ramping up in 2Q and beyond. 1Q will be muted. The performance will improve as we move through the year. Seasonality will continue playing out on expected lines.

5G roll out

- It is already a catalyst for demand. Early days yet, but should pick up some speed towards the end of this year.
- Regions such as the Middle East may latch on to 5G before Europe and some of the others. Some deal wins in the last quarter may not directly qualify as 5G, but the long-term orientation of those spends was to be 5G ready.
- Samsung is an important relationship across the device and network footprint. Working with them for the tie-ups they have in the US.
- Industrial IoT will always be an opportunity. That will be a couple of cycles behind the service providers. Network roll-outs will have to precede that trend.

Impact from US' Huawei ban on 5G spending

- Don't perceive any impact from the recent developments in Huawei. Over the next 12 months, anyways most of the 5G activities were to be headquartered out of the US. TECHM is playing in the software leg, and don't see much impact on the business as of now. Huawei is not in TECHM's top-20/30 customer list.

Enterprise

- Higher 3Q base hurt growth in 4Q both in Manufacturing and in Retail. That was compounded by deferral of projects in Healthcare into 1Q. All verticals declined QoQ. TECHM executed a few not-so-profitable deals in 4Q, which also had an impact.
- The funnel is building up which TECHM should be able to convert. That will drive better growth than the current outlook
- BFS – lot of change-the-business work in the segment, which is project-centric in nature. Continuing to build a proposition in the vertical.
- Focus on M&A remains. The fact that there was less M&A in FY19 was a function of not finding the right target rather than change in direction or strategy.
- Deal wins in Enterprise have been more spaced out. That is the reason for volatility of growth there. The recovery will be gradual in 1Q and 2Q.

Margins and Attrition

- 4QFY19 had an element of a charge that is not expected to repeat. Normalized margins are 18.7-18.8% - the sequential decline is owing to currency movements.
- Attrition has come down on a quarterly annualized basis (~200bp). Attrition is much lower in the top talent. Initiatives such as career transformation programs have helped contain it slightly.
- Wage hikes have been announced and are effective from April 1st, 2019 – which is higher than normal.
- The goal would be to maintain or expand margin by leveraging various levers. However, it is expecting a softer margin in 1QFY20 given headwinds from Comviva seasonality, wage hikes and H-1B fees.
- Utilization and portfolio companies' profitability remain levers to margins. In the later quarters, offshore could be a lever.
- Cash flow conversation was strong: Free cash flow of USD173m at 109% of PAT was the highest ever in the quarter. DSO was down to 102. Focus on cash generation continues.
- Hedge gains at current currency rates: TECHM realized USD50m of accumulated gains on the balance sheet based on the current hedging position.

BPS v/s IT Services

- Momentum in BPS has been good – it grew by 5.3% QoQ and 25% YoY.
- Within the IT portfolio, traditional is being replaced by Digital services. While digital grew at ~40%, traditional declined 8-10%. This trend is expected to continue going forward.
- Deal wins: TCV of deals won grew ~33% YoY in FY19. The pipeline remains strong with 4QFY19 deal win TCV at USD408m.

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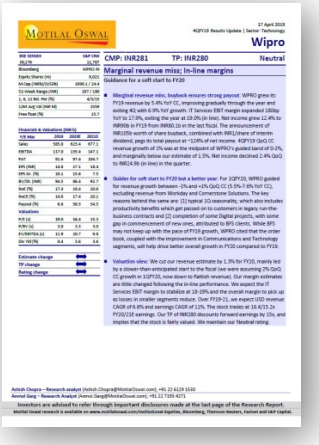

Wipro — Neutral

Current Price INR 292

Guidance and revenue outlook:

- **Revenue growth in FY20 will be better than that last year.**
- **Soft guidance of -1 to 1% QoQ CC growth for 1QFY20 due to Q1 seasonality and productivity clauses:** Productivity gains are also part of the guidance traditionally. A lot of renewals are happening in IMS/RTB space. Focus is on cross-selling to reduce the dependence on a single service within an account.
- **Project delays:** Some of it is just a timing issue as a lot of Digital work comes in the form of projects. In a stable market such work comes immediately. Strong order book in 4Q (closer to double digit growth). For a couple of deals in BFSI space, customers took more time to commence the deal. In another customer, there was a CIO change. No pattern, but a few areas are impacting 1Q guidance.
- **Margins:** Continuing to drive revenue momentum as margins will be a byproduct of the same. 1Q will have salary increases for the whole company. Automation, FPP management, bulge management, pricing will continue to be the levers. Optimization has been driven in G&A spending. That has either been taken on the margins or been reinvested in S&M. Largely stable run-rate but there will always be puts and takes.

Verticals:

- **E&U, CBU, BFSI will lead growth:** There is an interim change in leadership at BFSI. Shaji is going to take some time off due to health issues. There is some impact

from macro in BFS, but that should not come in the way of traction, although revenue growth may not match that of last fiscal. E&U is approaching double-digit growth and should remain strong, so also the Consumer business unit.

- **Communications and Tech will improve:** Communications has started doing well. This quarter was a bit choppy due to the India segment. Investments in 5G will drive some traction and growth there.
- **Healthcare and Manufacturing may remain choppy:** Core of the Healthcare business has been doing relatively well (ex-HPS). Manufacturing has been under pressure due to program closures. Deal renewals in legacy have been at lower rates. Wipro is now trying to drive the shift to modern applications and engineering areas. Results should come in a couple of quarters. Pipeline will get better, and expect improvement in the second half of the year.

Progress on the six execution themes

- **Digital:** Digital Services grew 6.4% QoQ (+32.3% YoY), 34.8% of revenues. Received a "No shore delivery model" order in engineering from an O&G major.
- Client mining efforts have seen robust results. Top-10 grew 9.6% QoQ CC. Number of clients for 1m+ declined from 595 in FY18 to 571 in FY19. This was mainly attributed to divestiture of Workday and Cornerstone on Demand business which had customers in low end range.
- **Automation:** HOLMES is now in 350+ clients. Bots contributed 11.3% of FPP compared to 6.7% in 3Q.
- **Localization:** Reached 64% in US, up from 62.6% in the last quarter. They have very well established hiring program in place across the country.
- WPRO venture funds had first exit at 5.5x investment value. Invested in 16 themes in FY19.
- Top coder continues to see strong traction – as it is considered to be the way of working for the future.
- **Security breach:** WIPRO faced a zero day malware attack. A few employee accounts were subjected to a sustained phishing campaigns. On knowing these alerts, steps were taken to contain any impact from the incident.

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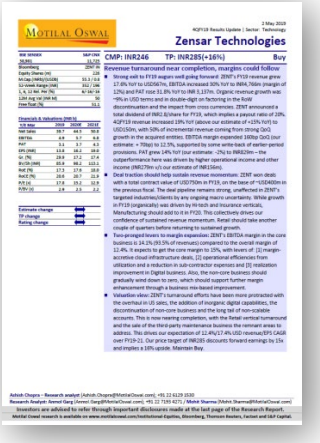
Zensar Tech — Buy

Current Price INR 250

- **Healthy deal wins:** Total deal wins for the quarter was upward of USD150m, with strong LTM bookings at USD 750m v/s USD 450m last year. Revenue growth was a result of multiple deal ramp-ups, both organically and in acquired entities. Growth drivers were recent acquisitions Keystone (16% QoQ), Indigo plate (6.5% QoQ), Cynosure (18.3% QoQ) and Foolproof grew 10% QoQ. Core business, which now contributes 93.5% of revenues, grew 5.2% QoQ.
- **With scope to improve margins:** Core business margin is 14.1% currently which in medium term the management would like to improve to 15% through cost optimization levers such as utilization. In 4Q, the absence of furloughs of 3Q and sub-contractor costs reduction helped margins. Wage hike will come in Q2 and is expected to similar to last year. Also looking to monetize platform in the medium term and drive better realizations within the Digital Business.
- **Demand outlook:** ZENT has been very focused on its GTM. ISG included ZENT in the booming 15 list for the first time in 1QCY19. Digital-led, next generation cloud infrastructure-led propositions are expected to do well. Pipeline remains



2 May 2019
4Q FY19 Results Update | Sector: Technology

Zensar Technologies

BSE SENSEX	S&P CNX
36,604	10,977

Stock Info	
Bloomberg	ZENT IN
Equity Shares (M)	229
M-Cap (INRB)/(USDB)	55.2 / 0.8
52-Week Range (INR)	312 / 146
1, 6, 12 Mo. Avg. (%)	6/ 18/ 14
12M Avg Val (INR M)	50
Free float (%)	51.5

Financials & Valuations (INR B)			
y/e Mar	2018	2019E	2019Ep
Net Sales	18.7	19.7	19.6
EBITDA	3.3	3.4	3.4
PAT	3.1	3.7	4.3
EPS (INR)	13.8	16.1	19.0
Gr. (%)	28.9	17.2	17.4
BV/Sh (INR)	65.8	68.2	115.1
RoE (%)	17.3	17.8	18.0
RoCE (%)	20.6	20.7	21.8
P/E (x)	17.8	15.2	12.9
P/BV (x)	2.8	2.5	2.2

Estimate change	⬌
TP change	⬌
Rating change	⬌

CMP: INR246 TP: INR285(+16%) Buy

Revenue turnaround near completion, margins could follow

- Strong exit to FY19 augurs well going forward. ZENT's FY19 revenue grew 17.8% YoY to USD567m, EBITDA increased 30% YoY to INR4,766m (margin of 12%) and PAT rose 31.8% YoY to INR 3,137m. Organic revenue growth was ~9% in USD terms and in double-digit on factoring in the Rolil discontinuation and the impact from cross currencies. ZENT announced a total dividend of INR2.8/share for FY19, which implies a payout ratio of 20%. 4QFY19 revenue increased 18% YoY (above our estimate of +12% YoY) to USD150m, with 50% of incremental revenue coming from strong QoQ growth in the acquired entities. EBITDA margin expanded 160bp QoQ (our estimate: + 70bp) to 12.5%, supported by some write-back of earlier-period provisions. PAT grew 14% YoY (our estimate: -2%) to INR829m – the outperformance here was driven by higher operational income and other income (INR179m v/s our estimate of INR156m).
- Deal traction should help sustain revenue momentum: ZENT won deals with a total contract value of USD750m in FY19, on the base of ~USD400m in the previous fiscal. The deal pipeline remains strong, unaffected in ZENT's targeted industries/clients by any ongoing macro uncertainty. While growth in FY19 (organically) was driven by Hi-tech and Insurance verticals, Manufacturing should add to it in FY20. This collectively drives our confidence of sustained revenue momentum. Retail should take another couple of quarters before returning to sustained growth.
- Two-pronged levers to margin expansion: ZENT's EBITDA margin in the core business is 14.2% (93.5% of revenues) compared to the overall margin of 12.4%. It expects to get the core margin to 15%, with levers of: [1] margin-accretive cloud infrastructure deals, [2] operational efficiencies from utilization and a reduction in sub-contractor expenses and [3] realization improvement in Digital business. Also, the non-core business should gradually wind down to zero, which should support further margin enhancement through a business mix-based improvement.
- Valuation view: ZENT's turnaround efforts have been more protracted with the overhaul in US sales, the addition of inorganic digital capabilities, the discontinuation of non-core business and the long tail of non-scalable accounts. This is now nearing completion, with the Retail vertical turnaround and the sale of the third-party maintenance business the remnant areas to address. This drives our expectation of 12.4%/17.4% USD revenue/EPS CAGR over FY19-21. Our price target of INR285 discounts forward earnings by 15x and implies a 16% upside. Maintain Buy.

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strong at USD1b+ and management doesn't see any macro slowdown in the US in ZENT's focus industries.

Segmental:

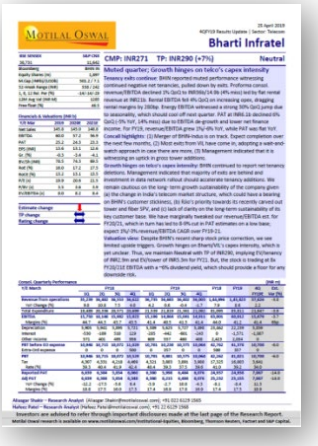
- **Insurance:** Softness in one client where the core infrastructure services piece of work completed, renewal for which will happen in a couple of quarter's time.
- Retail: should improve after a couple of quarters as the pipeline has started to build up. Deal sizes remain small and management is rethinking its strategy here.
- **Capital allocation:** ZENT has an obligation to pay USD6-10m in FY20 in the form of earn outs. Capex for FY20 should be higher than FY19 (USD9m) as it invests in creating additional office space for 1,500 employees
- **Non-core business:** ROW has been mostly divested barring for a few customers, while MVS business is being reorganized to ensure revenues and margins improve before they consider selling it.
- **Investments in R&D:** With R&D expense at 2.5% of revenues, there are 250 people working on building platforms. Applied for 53 patents across areas such as IoT, new language learning, Block chain, AI, Robotics, etc.

- **Managements of Bharti/Vodafone Idea sounded bullish given the over-subscription of rights issue and the turnaround in the India wireless performance in 4Q. However, they remained cautious on subscriber churn in the near term and plan to deleverage balance sheet (through monetization of assets). Bharti Infratel reiterated that the exits are behind and gross additions will gain momentum. TCOM appeared optimistic given promising prospects in Growth/Innovation services.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY20	Margins
Bharti Airtel	▪ Peak capex levels are now behind; FY20 capex should see some moderation. ▪ Airtel Thanks with an array of services like entertainment, music, financial services, etc. should drive ARPU. ▪ Evaluating all possible opportunities for monetization of Bharti Infratel stake.	▪ No guidance on consol. margins provided.
Bharti Infratel	▪ Merger of BHIN-Indus is on track. Expect it to get completed over the next few months. ▪ Company is witnessing an uptick in gross tower additions and will hold on to current margins as most exits have been played out. ▪ Uptick in tower rollouts does not include rollouts from VIL currently; however, management believes that once the VIL fund raising (rights issue) is done, BHIN should receive orders	▪ No guidance on consol. margins provided
Vodafone Idea	▪ Impact on subscriber churn due to minimum recharge has not been fully done yet. ▪ Capex guidance for FY20 stands at INR168b. ▪ Reiterated that network integration will get completed across all circles by Jun'20.	▪ No guidance on consol. margins provided
Tata Comm	▪ Growth Services — see 18-20% revenue growth in FY20; margins to hit 5-7%. ▪ Expect FY20 capex to be in the range of USD225-230m. ▪ Innovation Services portfolio's EBITDA losses to remain at current level in FY20 and should turn EBITDA profitable in FY22.	▪ Traditional Services' — FY20 EBITDA margin to range between 29-30%

Click below for Detailed Concall Transcript & Results Update



Bharti Infratel — Neutral

Current Price INR 273

Key Takeaways

- Company is witnessing an uptick in gross tower additions and will hold on to current margins as most exits have been played out.
- Uptick in tower rollouts does not include rollouts from VIL currently, however, management believes that once the VIL fund raising (rights issue) is done, BHIN should receive orders.
- Towers capacities are not fungible and there should not be any significant impact due to new tower companies coming up (and sharing towers).
- Net debt/EBITDA of the merged company (BHIN-Indus) should increase led by (1) payout to VIL, if it opts for cash, and (2) capex for fiberizing towers. FY20 capex to be in the range of INR18b.
- Merger of BHIN-Indus is on track. Expect it to get completed over the next few months.

4QFY19 & FY19 performance

- Consolidation in the telecom sector led to BHIN losing ~40k tenancies on consol. basis and ~75k tenancies on 100% Indus basis in FY19.
- Tailwinds of exits are still coming in, primarily from VIL due to network consolidation.

- Despite 20% loss due to opening co-locations, EBITDA for FY19 fell only 6% YoY; EBITDA for 4Q fell 4% QoQ.
- Board declared second interim dividend of INR7.5/share, leading to a total dividend of INR15/share for FY19.
- Receivables for FY19 at INR15b are high, but this is a temporary phenomenon. There is no change in payment terms with customers towards exit charges.

Infratel-Indus merger

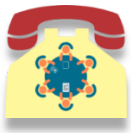
- Merger of BHIN-Indus is on track; expect it to get completed over the next few months.

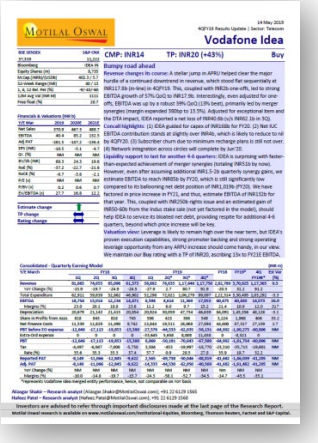
Business Outlook

- Management indicated that most exits from VIL have come in; will wait-andwatch to see if there are any more.
- Large chunk of the tenancies as part of the 2016 settlement have been extended to 2022; thus, there would be a small number of tenancies that would come up for renewal over the next one year.
- Management alluded that it is witnessing an uptick in gross tower additions.
- Uptick in tower rollouts does not include rollouts from VIL currently, however, management believes that once the VIL fund raising (rights issue) is done, BHIN should receive orders.
- Connecting the last-mile fiber to tower is a new avenue the company is evaluating.
- FY20 capex to be in the range of INR18b.
- Management indicated that it would hold on to the current margins as most exits have been played out.
- Ensuring 4G pan-India presence and increasing data consumption should drive tower demand.
- Towers capacities are not fungible and there should not be any significant impact due to any new tower company coming up (and sharing towers).
- BHIN is geared up to meet the increased demand from operators as and when required.
- Rights issue for VIL and Bharti augurs well as it would provide operators fresh funds for network rollout.
- Net debt/EBITDA of the merged company (BHIN-Indus) should go up, led by (1) payout to VIL, if it opts for cash, and (2) capex for fiberizing towers.
- Telcos cannot have differences in coverage if all three want to have a similar market share. Thus, higher coverage should drive network rollout.
- With 5G technology, intra-tower site distances will get further reduced leading to higher demand.
- China mobile has more than 1.2m towers; India— given its size, still has room for more number of towers.
- Still evaluating the impact from Ind-AS 116.

Vodafone Idea Limited

Click below for Detailed Concall Transcript & Results Update





Vodafone Idea — Buy

Current Price INR 13

Key takeaways

- Net IUC revenue has reduced to INR4b from INR4.5b in 3Q.
- The company has been adding 3-3.2m subscribers on unlimited price plans every month.
- Impact on subscriber churn due to minimum recharge has not been fully done yet
- Capex guidance for FY20 stands at INR168b.
- Reiterated that network integration will get completed across all circles by Jun'20.

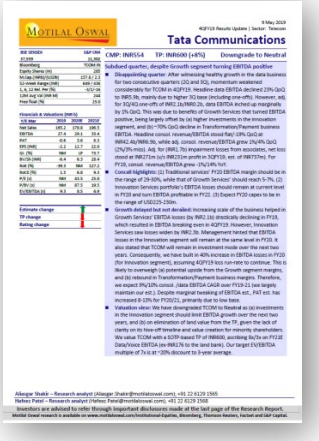
4Q performance

- The company has been adding 3-3.2m subscribers on unlimited price plans every month.
- Proportion of incoming-only subscribers has come down substantially as a result of minimum recharge plans.
- Lag between de-loading and re-loading of broadband sites has led to a drop in the count of total broadband sites.
- Revenue for 4Q grew marginally by 0.1% QoQ; average daily revenue was up 2.3% QoQ.
- Added 5.4m 4G subscribers, taking the total base to 80.7m.
- EBITDA improved 57% QoQ; however, adjusted for INR2b one-offs, it was up 39% QoQ.
- INR2b one-offs adjustments largely include one-offs in network cost.
- Net debt stands at INR1,183b; Capex for 4Q stood at INR32b.
- Post rights issue of INR250b, net debt stands at INR933.6b; net debt to equity of 1.2x.
- Net IUC revenue has reduced to INR4b from INR4.5b in 3Q.
- IUC cost has gone up, primarily due to higher international calling rather than domestic.
- Increase in non-current financial liabilities is due to an increase in capex creditors.
- INR102b has been re-classified from non-current borrowings to current maturities of long-term debt for not meeting certain covenant clauses.

Five-pillar strategy

Accelerate integration

- Company is using cluster-based approach for integration and has completed network integration in 10 of the 22 circles.
- Network consolidation and spectrum re-farming have led to capacity enhancement by 34% QoQ.
- Enhanced capabilities of some of 900MHz sites through dynamic spectrum refarming.
- Also re-farmed 2,100MHz spectrum from 3G to 4G on selected sites.
- Optimized loading on 24k sites out of the total 67,000 co-located sites.
- Completed targeted integration of distributors, retailers, service stores/centers network during the quarter.
- Reiterated that merger synergies of INR84b will be achieved by FY21.
- Achieved 60% of targeted synergies within seven months of merger completion.



MOTILAL OSWAL

9 May 2019
4QFY19 Results Update | Sector: Telecom

Tata Communications

CMP: INR554 TP: INR600 (+8%) Downgrade to Neutral

Subdued quarter, despite Growth segment turning EBITDA positive

- Disappointing quarter: After witnessing healthy growth in the data business for two consecutive quarters (2Q and 3Q), momentum weakened considerably for TCOM in 4QFY19. Headline data EBITDA declined 23% QoQ to INR5.9b, mainly due to higher 3Q base (including one-offs). However, adj. for 3Q/4Q one-offs of INR1.1b/INR0.2b, data EBITDA inched up marginally by 1% QoQ. This was due to benefits of Growth Services that turned EBITDA positive, being largely offset by (a) higher investments in the innovation segment, and (b) ~70% QoQ decline in Transformation/Payment business EBITDA. Headline consol. revenue/EBITDA stood flat/-18% QoQ at INR42.4b/INR6.9b, while adj. consol. revenue/EBITDA grew 1%/4% QoQ (2%/3% rep). Adj. for (INR1.7b) impairment losses from associates, net loss stood at INR271m (v/s INR231m profit in 3QFY19; est. of INR737m). For FY19, consol. revenue/EBITDA grew ~1%/14% YoY.
- Concall highlights: (1) Traditional services' FY20 EBITDA margin should be in the range of 29-30%, while that of Growth Services' should reach 5-7%. (2) Innovation Services portfolio's EBITDA losses should remain at current level in FY20 and turn EBITDA profitable in FY22. (3) Expect FY20 capex to be in the range of USD225-230m.
- Growth delayed but not derailed: Increasing scale of the business helped in Growth Services' EBITDA losses (by INR2.1b) drastically declining in FY19, which resulted in EBITDA breaking even in 4QFY19. However, Innovation Services saw losses widen by INR2.3b. Management hinted that EBITDA losses in the Innovation segment will remain at the same level in FY20. It also stated that TCOM will remain in investment mode over the next two years. Consequently, we have built in 40% increase in EBITDA losses in FY20 (for Innovation segment), assuming 4QFY19 loss run-rate to continue. This is likely to overweigh (a) potential upside from the Growth segment margins, and (b) rebound in Transformation/Payment business margins. Therefore, we expect 3%/10% consol. /data EBITDA CAGR over FY19-21 (we largely maintain our est.). Despite marginal tweaking of EBITDA est., PAT est. has increased 8-10% for FY20/21, primarily due to low base.
- Valuation view: We have downgraded TCOM to Neutral as (a) investments in the Innovation segment should limit EBITDA growth over the next two years, and (b) on elimination of land value from the TP, given the lack of clarity on its hive-off timeline and value creation for minority shareholders. We value TCOM with a SOTP-based TP of INR600, ascribing 8x/7x on FY21E Data/Voice EBITDA (ex-INR17b to the land bank). Our target EV/EBITDA multiple of 7x is at ~20% discount to 3-year average.

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Motilal Oswal research is available on www.motilaloswal.com/institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Prioritizing investments

- Company is using district approach rather than circle-wise approach and investments are made in high potential districts.
- Added 8,915 4G TDD sites during the quarter to augment 4G capacity.
- Deployed 2,000 massive MIMO sites added during 4Q; 4,650 massive MIMO added till date.
- 4G population coverage stands at 65% as on Mar'19.
- Target to achieve more than 95% of 4G population in high-potential districts by FY20.
- Target to increase capacity by 2.5x by Mar-20 (from Sept-18 levels).
- Exited 9,900 low utilization sites.

Driving ARPU through simplification

- Lost 53m subscribers due to minimum recharge plans, of which majority were incoming only subs or with low ARPU.
- ARPU for 4Q came in at INR104, up 16% QoQ.
- Introduced INR119 plan targeting non-data customers and encouraging them to upgrade to unlimited plans.

Growing revenue stream and partnership to drive value

- Continues to focus on IoT, cloud offering etc.
- Content partnerships include Netflix, Amazon Prime, Zee, Sony, Eros etc.
- Shutting down the Idea Music; plans to come up with new Music app.

Strengthening balance sheet

- Concluded INR250b rights issue; issue was oversubscribed by 1.2x by nonpromoter shareholders.
- Continue to work toward monetization of 158k km of intra-city and inter-city fiber.

Business outlook

- Impact of subscriber churn due to minimum recharge has not been fully done yet. Expect some residual impact in ensuing quarters.
- Reiterated that network integration will get completed across all circles by Jun'20.
- Capex guidance for FY20 stands at INR168b.
- New investments are made only in 4G/massive MIMO technology; not investing any more in 3G technology.
- Reiterated guidance of having 170-180k base stations – all with 2G/4G, some with 3G.
- Additional network rollout, rent increase and compensation increase will offset the INR84b synergies.
- Most of the 4G customers are on unlimited price plans.
- Focused on ramping up 'family plans' for postpaid customers.

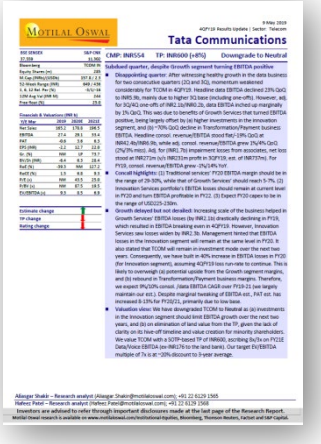
TATA COMMUNICATIONS

Click below for Detailed Concall Transcript & Results Update

Tata Communications — Neutral

Current Price INR 531

- **Growth Services — see 18-20% revenue growth in FY20; margins to hit 5-7%.**
- **Traditional Services' — FY20 EBITDA margin to range between 29-30%.**
- **Expect FY20 capex to be in the range of USD225-230m.**
- **Innovation Services portfolio's EBITDA losses to remain at current level in FY20 and should turn EBITDA profitable in FY22.**
- **Will aim to achieve guidance of 25% data EBITDA margin by FY22 (earlier FY21).**



MOTILAL OSWAL

9 May 2019

4QFY19 Results Update | Sector: Telecom

Tata Communications

BSE SENSEX	S&P CNX
39,035	11,761

Stock Info	
Bloomberg	TCOM IN
Equity Shares (m)	200
M Cap. (INRbn)/(USDbn)	107.6 / 1.5
52-Week Range (INR)	660 / 428
1, 6, 12 Mo. Rev (%)	N/A / NM
LTM Avg Vol (INR M)	244
Free float (%)	73.6%

Financials & Valuations (INR B)			
YE Mar	2018	2019E	2021E
Net Sales	167.2	170.9	184.7
EBITDA	27.4	29.1	35.4
PAT	-0.0	3.8	6.5
EPS (INR)	-2.2	12.7	22.8
Gr. (%)	NM	LP	79.7
BV/Sh (INR)	-8.4	6.3	28.4
RoE (%)	-28.5	NM	127.2
RoIC (%)	1.5	8.8	9.5
P/E (x)	NM	49.5	25.8
P/BV (x)	NM	87.5	19.5
EV/EBITDA (x)	9.3	8.5	6.8

Estimate change	
TP change	
Rating change	

CMP: INR554 TP: INR600 (+8%) Downgrade to Neutral

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Motilal Oswal research is available on www.motilaloswal.com/institional-equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

4QFY19/FY19 performance

- Adjusted for one-time AFA gains in 3Q, consol. revenue grew 1.2% QoQ; EBITDA grew 8.3% QoQ.
- FY19 consol. revenue declined 1.5% YoY to INR165.3b, primarily due to degrowth in the Voice business (-27.1% YoY). Healthy performance in Data business (+10.4% YoY) helped mitigate this decline to a large extent.
- FY19 consol. EBITDA at INR 27.4b grew 13.8% YoY; margins came in at 16.6%, an increase of 220bp over last year, driven by shift in favor of Data business and on Growth Services turning profitable.
- FY19 Total contract value sold/order book stood at USD1.4b, up 41% YoY.
- Traditional Services' TCV stood at USD590m (flat YoY), while Growth & Innovation Services' TCV stood at USD790m.
- Capex for FY19 was at USD267m v/s USD235m in FY18, due to additional investment towards India backbone expansion (USD25m).
- Working capital pressure led to increase in net debt.
- Operator consolidation impacted Traditional and Transformational Services segment.
- TCOM has recently launched market place for IoT solutions.

Data segment:

- Adjusted for one-time AFA gains in 3Q, revenue grew 2.8% QoQ.
- FY19 revenue grew 10. 4% YoY led by strong growth in Growth services; EBITDA grew 16.6% YoY.
- Data biz contributes 77%/87% to total revenue/EBITDA.

Voice segment

- 4QFY19 EBITDA grew 27.1% QoQ led by shift in traffic to more profitable locations and one-time settlement benefit.
- FY19 Voice revenue fell 27.1% YoY, while EBITDA declined only 3.1%.

Traditional services

- FY19 revenue declined 2.2% YoY. However, EBITDA grew 6.7% YoY; margins expanded 280bp YoY to 32.9% due to cost efficiency measures.
- FY20 EBITDA margin should range between 29-30%.

Growth services

- Revenue grew 9.2% QoQ.
- In 4QFY19, TCOM received one-time revenue of USD4m due to early termination penalty on Hosted Contact Center deal.
- FY19 revenue grew 15.1% YoY to USD398m; EBITDA loss stood at USD7.4m (v/s USD40m in FY18).
- Expect 18-20% revenue growth in FY20; margins to reach 5-7% in FY20.

Innovation Services

- FY19 revenue stood at USD9.4m.
- Strong order book should lead to significant ramp-up in revenue.
- Innovation portfolio to achieve EBITDA profitability in FY22.
- EBITDA losses should remain at same levels as rising investments will be offset by increasing revenue.

Transformation Services

- 4QFY19 EBITDA declined 70% QoQ due to customer exits, timing mismatch between revenue loss and cost realignment, and on revenue shifting in favor of domestic business.

- FY19 revenue grew 11.3% YoY led by new deal wins, partly offset by impact from operator consolidation.
- 3-4 new international deals (likely to close in the next 1-2 quarters) would drive 18-20% revenue growth and also lead to margin expansion.
- Margins to reach pre-FY19 levels from FY21.

Payment business

- EBITDA down 67% QoQ due to lower average transactions per day from 92 days in 3QFY19 to 88 days in 4QFY19.
- During FY19, TCOM closed 3,395 ATMs; turned EBITDA positive in FY19.
- Average transactions per ATM increased from 70 in FY18 to 90 in FY19.
- Witnessing steady uptick in transaction numbers.

Consol. Business Outlook

- Indian enterprise IoT market is expected to grow at 35% CAGR over CY23.
- Funnel for FY20 stands at USD2.3b; funnel win rate stands at 31% (v/s 27% YoY).
- FY20 capex should be in the range of ~USD225-230m.
- Expect FY20 net debt to remain constant.
- No update on merger of TTSL's Enterprise business.
- Do not expect further impairment loss from the Singapore associate — STT Tai Seng Pte Limited.
- MCA hearing on land de-merger is scheduled for 17th May'19.

UTILITIES

- **NTPC expects ~5GW of capacities to achieve commercialization in FY20. According to the company, higher captive mine production, import order for 3mt of coal and possible enhancement of ACQ should help address fuel availability issues. Power Grid (PWGR) has targeted capitalization of INR200-250b of projects in FY20. However, its guidance may be at risk if RoW issues for the Raigarh-Pugalur line continue. PWGR has also undertaken provisions of INR3.9b pertaining to payment delays from a private generator. The company cited it may require further annual provisioning of INR1b for the next two years. In terms of new projects awards, PGCIL highlighted that INR190b of projects are under different stages of bidding. JSW Energy noted that power tariff would be the most important factor while acquiring assets. The company would consider acquiring assets with tariff lower than INR4-4.5/kWh.**

JSW Energy Limited

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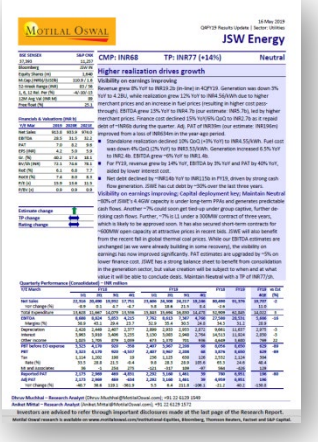


JSW Energy — Neutral

Current Price INR 72

- Loans to third parties: Current outstanding loan to JSP's Tamnar project stands at INR3.31b. Long stop date of transaction is 30th June, post which the company expects to recover the money. Visibility of the transaction going through remains low. Loan provided to JPVL is INR7.52b. Provisions have been made for the same and the un-provided amount stands at INR1.78b.
- Sector consolidation: The company is hopeful that cases will get admitted to NCLT and resolution will take place this year. It is seeking assets with power tariff lower than INR4-4.5/kWh, thereby providing preference in merit order dispatch.
- Receivables: Receivables have been largely under control as discoms have been able to raise money from banks. However, there have been delays in payment at Barmer.
- PPA market: Discoms appear to be moving from short-term to medium-term market, with tenders for 9-60 months of PPA being floated in the past six months.

PPAs for Vijaynagar:

- Vijaynagar plant has secured a 300MW PPA from Telangana for a period of nine months from July 1st 2019.
- L1 bidder for 3-year PPA of 290MW at Vijaynagar plant.
- The company mentioned there is strong visibility to tie-up entire Open Capacity under LT PPA within JSW Group over next 2-3 years.

PPAs for Ratnagiri:

- Open capacity at Ratnagiri plant has been fully tied up till 1HFY20 through short-term contracts.
- Ratnagiri's open capacity to be fully tied up under LT PPA from April-2020 within JSW Group, after completion of JSW Steel's Dolvi Plant expansion.

NHPC

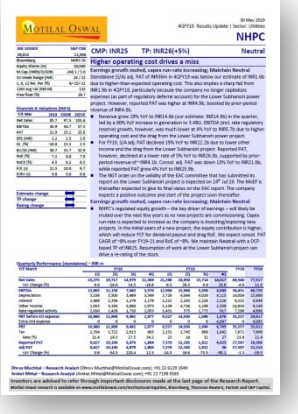
Click below for Results Update

NHPC — Neutral

Current Price INR 25

Lower Subhanshiri

- The expert committee has submitted its recommendations to the MoEF. NGT's order on the validity of the expert committee membership is awaited. NGT is likely to give its order on 24th Jul'19. The company expects a positive outcome



and the project construction to start soon thereafter. The project cost is estimated at ~INR194b, of which ~INR100b is already spent.

- Project is expected to commission in Dec'21. It has started tunneling work from the other end too, which will fasten project execution.

Capital cost under-recovery on seven projects

- The petition of approval of final capital cost for seven projects is already submitted to the CERC. First round of hearing is complete. It will boost revenue by ~INR2.5b p.a. The cumulative revenue build-up is ~INR12.4b.

New projects

- Ratle hydro project, 850MW: It has signed an MoU with J&K State Power Development Corporation (JKSPDC) and the J&K state government for development of the project. It will be a 51:49 JV between NHPC and JKSPDC, respectively. The project cost is estimated at ~INR49b and would take ~5 years to complete once all approvals are in place.
- Teesta VI: It was the highest bidder in the NCLT process for the project. It has bid INR9b (against amount spent in the project of ~INR20b). Final regulatory approvals are pending before the project is handed over to NHPC. The project cost is estimated at INR57b. The levelized tariff is estimated at INR4.7/kWh. It has received consent from Bihar and Jharkhand state governments for a longterm PPA. It will take 4-5 years for the project to be completed.

New projects

- Capex is expected to increase from INR22b in FY19 to INR38b in FY20. It includes ~INR8b for Parbati-II, ~INR9b for acquisition of Teesta-VI, ~INR11b for Lower Subhansiri (assuming the project is commissioned) and certain other projects.
- Prior-period revenue for the year includes (a) INR2.1b for Sewa-II, (b) INR1b for TLDP-IV, (c) INR1.5b for short-fall of energy generation in prior years and (d) INR0.5b for GST-related increase in cost as pass-through of cost.

NTPC — Buy

Current Price INR 136

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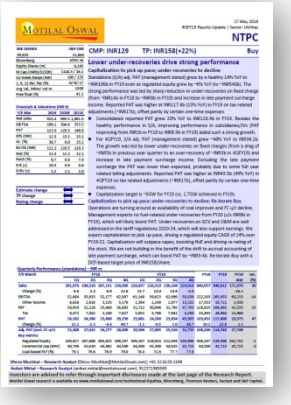

Capital expenditure

- Capex for NTPC parent for FY19 stood at INR277b. On a group level, total capex was INR335b.
- Capital outlay for FY20 is estimated at INR200b.

Coal supply

- NTPC does not expect coal supply issues for its new plants. The company has placed ordered for 3mt of imported coal, and is awaiting deliveries of the same. Supplies at its captive mines (Pakri Barwadih and Dulanga) are expected to ramp up to ~5mt. In addition, NTPC is in discussion with Coal India to enhance its ACQ.

Capacity additions and regulated equity

- Regulated equity at the end of FY19 stood at INR539.9b.
- In 4Q, NTPC at a group level commissioned 1.96GW of capacities and commercialized 1.16GW of capacities.
- The company expects to commercialize ~5GW of capacities in FY20. It includes Meja 660MW, Lara 800MW, Gadarwara 800MW, NPGCL 660MW, Khargone 660MW, Tanda 660MW, Baruani 250MW and Darlipali 800MW.

Late payment surcharge

- Late payment surcharge for FY19 was at INR12.9b v/s INR5.7b in FY18.

- Total debtors due for more than 60 days stood at INR76b.
- NTPC has shifted accounting of late payment surcharge based on accrual versus cash earlier. Late payment surcharge is received by NTPC due to the delay in payments (>60 days) from DISCOMs. In our view, this better aligns the impact of higher WC and interest cost (accrual based) due to such delays with the corresponding surcharge income. Dues outstanding >60days stood at ~INR76b at end-FY19.

FGD

- 65.8GW of capacities are to be equipped with FGD systems for emission control. Of these, contracts for 31.9GW have been awarded and ~33GW are under different stages of tendering and implementation.
- FGD system has been installed at 500MW unit of Vindhyanchal. NTPC highlighted that it has observed 90% reduction in SOx emissions.

Fixed charge under-recoveries

- NTPC has recovered INR3b of fixed charge (FC) due to higher availability in 4Q. For FY19, NTPC's fixed charge under-recoveries stood at INR8b v/s INR14.4b in FY18.
- The company is hopeful of not incurring any FC disincentives in FY20 as Unchahar unit#6 (500MW) has restarted and Badarpur is now decommissioned. Under-recoveries at Mauda are expected to reduce with regular supplies of coal and stabilization of plant operations.

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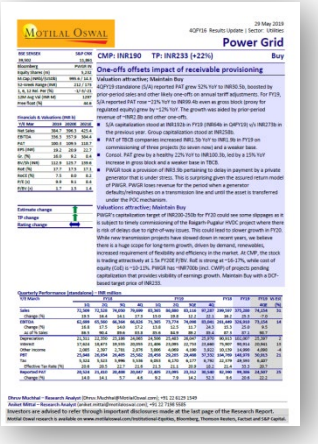

Power Grid Corp — Buy

Current Price INR 196

- **Capex & capitalization:** Standalone FY19 capex stood at INR218b. Standalone capitalization stood at INR192b for the year. Capitalization of TBCB projects was INR62b. The company guided for FY20 capex of INR150b and capitalization of INR200-250b.
- **TBCB projects:** INR94b of TBCB projects have been capitalized so far. The remaining TBCB project work in hand stands at INR90b.
- New projects: The company highlighted that INR190b of projects are under various stages of bidding. INR93b pertains to inter-state projects, mainly related to green energy corridor. Another INR97b worth of projects are related to intra state projects.
- **Provision:** The company has taken a provision of INR3.9b pertaining to payment delay related to a private generator under financial stress. This is due to the gap between the generator defaulting/relinquishing the transmission line and the subsequent transfer to POC mechanism. PWGR highlighted that it may require provisioning of INR1b annually for the next two years.
- **Raigarh Pugalur:** PWGR highlighted that while terminal works for its Raigarh Pugalur (INR210b) project are progressing well, issues related to RoW remain. The company's FY20 capitalization guidance could be at risk if these issues persist.
- **FY20-24 regulatory norms:** The company highlighted that it does not expect any significant impact of the new tariff norms.

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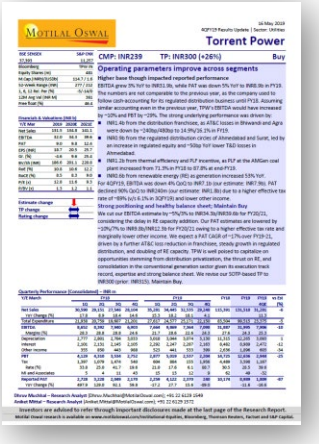

Torrent Power — Buy

Current Price INR 244

- Tax charge in 4Q increased due to the annual assessment of MAT credit utilization, leading to a higher deferred tax charge.
- TPW used to follow cash-accounting for its regulated distribution business until FY18. The prior year EBITDA and PBT numbers are boosted by ~INR4.2b on account of true-up related revenue recovery relating to prior years (but booked in FY18 on cash recovery basis). Adjusted for this, TPW's PBT was INR9.8b vs. reported PBT of INR14b in FY18. This distortion is impacting the reported YoY performance comparison.
- Capex for FY19 stood at INR16.9b; FY20 capex for license and distribution franchise to be ~INR16b. In addition, capex on wind projects is estimated at INR38b in FY20/21.
- Increase in other financial assets reflects regulatory assets. Regulatory assets stand at ~INR9.4b, of which ~INR2b has been approved and ~INR7.4b is likely to get approved in the next true-up.

Distribution

- T&D losses at Ahmedabad decreased by 0.7pp YoY to 5.6%; For Surat, losses reduced 0.1pp YoY to 4.2%.
- AT&C losses at Bhiwandi decreased by 2.4pp YoY to 14.9%; For Agra, AT&C loss was lower by 4.8pp YoY to 16.1%.
- Capex for franchise distribution business (incl. Agra, Bhiwandi and Kalwa) expected to be at INR4b per annum over the next three years.
- Expect to operationalize Kalwa in the upcoming year. In the prevailing scenario, management expects to get one distribution area every year. Maharashtra, Uttar Pradesh, Rajasthan and Madhya Pradesh could bid projects under the DF model. On the other hand, Orissa could follow a privatization model.
- Expect AT&C losses to reduce by ~2pp and ~1pp for Agra and Bhiwandi respectively. Every 1pp reduction adds profitability of INR240m for Bhiwandi and INR160m for Agra.
- For Kalwa DF, AT&C loss stands at 47%; Every 1pp reduction to lead to INR65m of profit contribution.

Conventional generation

- Carrying value of DGEN on the books stands at INR43.65b.
- Sugen sold more than 200mWh on the merchant market, with average realization at INR7.4/kWh.
- Sugen has tied up fuel till Dec 2020 at ~USD6.5/mmbtu amounting to at least 75% of capacity. LNG market is oversupplied and the company is looking to tieup fuel beyond Dec'20.
- AMGen is an embedded generation project for Ahmedabad. It is part of the islanding scheme, which ensures availability of power if national grid collapses. The useful life of project is up to FY27-28. Hence, the project may not necessarily be phased out in Dec'22. Besides, the land value of the project is big and can offset the book value (unrecovered assets: ~INR4.15b).

Renewable

- 851MW of wind projects under development to be funded through long-term loans accounting for 70% of the project cost.

- SECI-I project scaled down to 100MW because of the inability of Inox (EPC) to complete the project.
- For SECI-III, land is an issue and project will get delayed beyond scheduled COD. Change in land allocation policy by Gujarat govt. led to delays. Issues though have been resolved. Govt. will likely extend the scheduled COD. Currently, 27-30% of land has been acquired.
- MSEDCL project is on track, while SECI-V would go ahead upon resolving of land issues. Since the issue pertains to land acquisition, no costs have been incurred.

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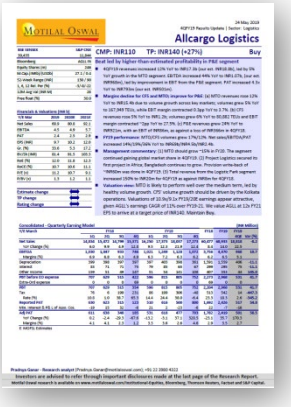

Allcargo Logistics — Buy

Current Price INR 108

Multimodal Transport Operations:

- MTO should grow ~15% in FY20; LCL should exceed industry growth at ~4-5%.
- The segment continued gaining global market share in 4QFY19.
- Volumes from allied and FCL services continue to grow.
- CFS' volumes grew 6% YoY due to volumes surging in Kolkata and Chennai operations.

Project and Engineering division:

- Improved utilization of Engineering Solution assets, driven by Wind and Power Sector.
- The current executable order book is ~INR1.5b.
- Renewed revival in eight core sectors — coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and power.
- Project Logistics secured its first project in Africa; Bangladesh continues to grow.
- Provision write-back of ~INR60m in 4QFY19.

Logistics Park update:

- The new Logistics Park segment has become a reportable segment according to Ind-AS 108 'Operating Segments'; consequently, the company reclassified the amounts reported in the earlier periods. Investment in FY19 for the Logistics Park was INR4.58b.
- Total revenue increased 150% to INR20m in 4QFY19 v/s INR8m in 4QFY18.
- As part of the Logistics Park offering, the company plans to have nationwide warehousing footprint of 5m sq.ft. by 2021 through strong connectivity to industrial hubs and transport routes.
- GST will impact Logistic Park Development in the following ways:
- Hub and spoke rule
- Efficient and larger warehouses
- Reduced cost to customers
- Net debt in FY19 stood at INR 3.3b
- Capex for FY20 is INR 4b

Ashoka Buildcon Ltd.

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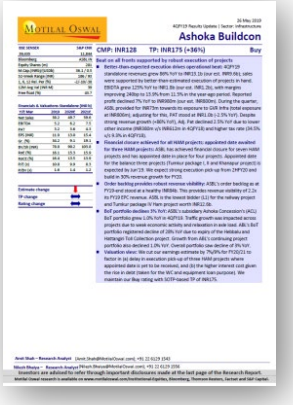
Ashoka Buildcon — Buy

Current Price INR 143

BoT/HAM projects

- The company witnessed traffic decline of ~3.0% on YoY basis, impacted by weak economic activity and relaxation in axle load.
- ASBL has received financial closure for all seven HAM projects. ASBL received appointed date for four HAM projects and expects to receive appointed date for the balance three projects by Jun'19.
- Land availability status: (a) Tumkur Shivmoga package-I—95% on 3G basis and 51% on 3H basis, (b) Tumkur Shivmoga package II—99% 3G basis and 37% on 3H basis.
- ASBL will invest incrementally INR3.6b in FY20 and balance INR2.0b in FY21 in the HAM projects.


Ashoka Buildcon

CMP: INR128 TP: INR175 (+36%) Buy

- ASBL has INR840m exposure to GVR Infra, which has been admitted to NCLT. However, ASBL has security in place; 24% GVR Infra shares is pledged with ASBL for the Chennai ORR project, and hence, it believes it has covered its exposure.
- Expects revenue growth of 25-30% for FY20.

Asset monetization plans

- SBI Macquarie has received two years extension to exit from the ACL portfolio where it holds 39% stake.
- ASBL plans to monetize the ACL portfolio, its proceeds will be utilized as growth capital for new Ham projects.

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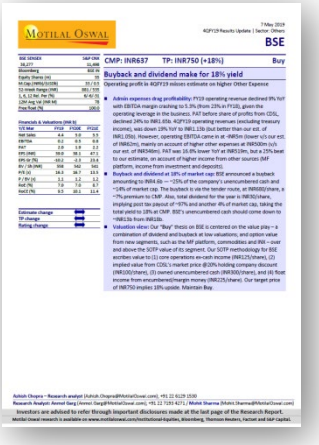
BSE

CMP: INR637 TP: INR750 (+18%) Buy

Buyback and dividend make for 18% yield

BSE — Buy

Current Price INR 618

- **MF segment:** The platform was set up in 2009. Intermediaries can process, purchase and submit redemption requests of units on the platform. Over the last five years, CAGR of transactions on the platform has been 117%. The MF started charging for this segment towards the end of last fiscal. It garnered INR291m in FY19; 36m orders were processed v/s 17m in the previous year. Value was up 36% to 161t from 118t. Orders in March were up 57% YoY. BSE's market share in the segment is 79%. Currently, the run-rate is 4.3m transactions per month, which BSE is targeting to increase to between 10-20m per month.
- **INX:** ADT grew 615% YoY to USD766m in FY19. Equity derivatives constitute 73% of the volumes, while commodities derivatives constitute 27%. BSE's market share is 71% in the segment. The liquidity enhancement scheme will continue in the segment (INR125m cost in FY19), till its competitor also continues with it. Volumes are still not high enough for BSE to start monetization.
- **Interoperability of clearing corporation:** SEBI had issued guidelines to take all necessary steps, not later than 1st Jun'19. Interoperability goes live from that date, although there has been resistance from the competitor. The introduction of interoperability will reduce the need for funds to trade on another exchange. Utilization of margins will be more efficient.
- **Capital allocation:** Unencumbered cash is INR18b; buyback is 25% of that amount. BSE will continue to return capital and also the dividend payout will remain high. Investment requirements for the business are not high.
- **Operating expenses:** FY19 saw operations of commodities' transactions (that run for longer ho urs) requiring investments in additional people. Average cost per employee increased by 10% YoY; in the future, 8-10% should be the inflation.

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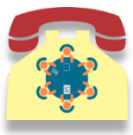
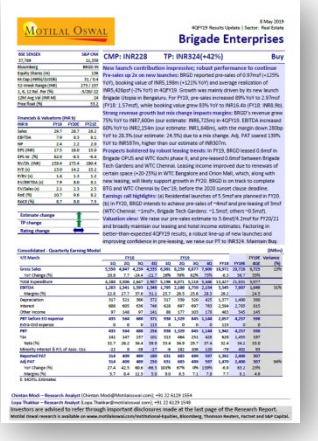


Brigade Enterprises — Buy

Current Price INR 246

- Residential launches of 5.5msf are planned in FY20.
- In FY20, BRGD intends to achieve pre-sales of ~4msf and pre-leasing of 3msf WTC-Chennai: ~1msf+; Brigade Tech Gardens: ~1.5msf; others ~0.5msf).
- New launches: Brigade El Dorado (a major project for BRGD) in North Bangalore with 3BHK units priced at below INR4.5m will be launched shortly. In the hospitality segment, 149 keys are likely to be launched in one hotel near the Bangalore International Airport.


MOTILAL OSWAL

Brigade Enterprises

CMP: INR228 TP: INR324(+42%) Buy

- Due to the recent liquidity concerns in the real estate industry, 30-40% of players (accounting for 25-30% of the Bengaluru market size of 55-60msf) are likely to get weeded out over the next two years. BRGD will evaluate greenfield projects for joint developments. The company aims to reach double-digit market share from single-digit currently.
- In Phase 1 of Brigade Tech Gardens (BTG), OC has been received for 1msf of commercial space (of this, 3,60,000sf has been leased).
- BRGDs current lease rates are at INR80 psfpm in WTC, Chennai and INR55 psfpm in BTG, Bengaluru.
- BRGD is in discussion with PE partners to sell the hotel business, but valuation has been a constraint.
- Of the 3msf of pre-sales achieved in FY19, ~1msf came from new launches and balance 2msf from existing projects.
- Contribution of affordable housing increased, which dragged the average selling price. As and when the affordable segment expands further, the average selling price could further fall by 5-7%.
- The company has acquired a 13-acre land parcel in Thiruvanthapuram for INR250m – payable in three years – in order to develop a WTC asset.

Castrol India — Buy

Current Price INR 146

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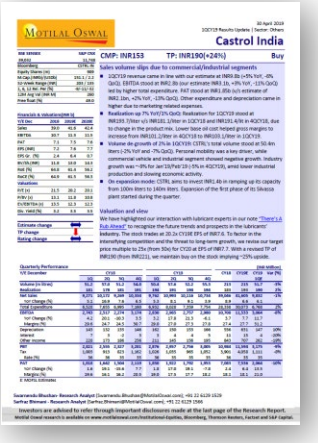

MOTILAL OSWAL

Castrol India

CMP: INR153 TP: INR190(+24%) Buy

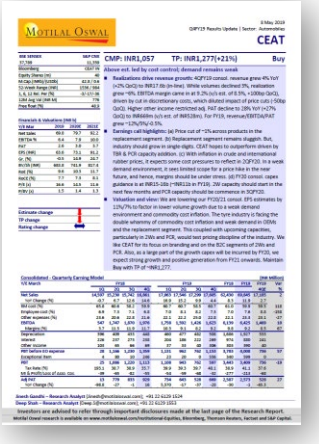
- Auto segment constitutes 86% of the volume, while the Marine segment constitutes the rest. Within auto segment, 70% is retail – PCMO and CVO in equal proportion within retail.
- CSTRL is expected to grow at ~2-4% in CY19 with volumes improving in 2HCY19.
- Continued focus on product mix and strategic raw material sourcing helps improve gross margin for the company. CSTRL maintains its guidance for gross margin at ~90-100/lit during the year.
- Castrol launched two additional variants (Activ Start-Stop and Activ Cruise) in its best seller Castrol Activ range for 2W engine oils.
- The company has entered into strategic partnership with Ford India for supplying engine and transmission oils.
- Transition to BS-VI will provide huge volume growth opportunity for synthetic oil.
- Castrol does not see any threat to the commercial and industrial segment demand due to evolution of EVs.
- Spent INR200m on advertising in the quarter, ad expenditure is expected to remain at ~3-4% of sales.

CEAT — Buy

Current Price INR 991

Click below for Results Update

- Volumes in OEM and replacement segments are currently under pressure. The replacement segment is facing challenges since Nov'19; CEAT does not expect any meaningful improvement in the same in the coming 3-5 months.
- The TBR segment has been growing in single-digit since Nov'19 (v/s over 20% growth achieved in 1HFY19).



- In FY20, industry volume is expected to grow in single-digits. But, CEAT should grow faster due to the new TBR & PCR capacity. In PCR, it already has OEM orders.
- With increase in crude and international rubber prices, RM cost pressure is expected to gradually increase from 2QFY20. Do not expect pricing environment to change in the replacement segment.
- Price cuts of 1% were taken across categories during 4Q in the replacement segment.
- Commenced commercial production of TBR (peak capacity of 80k/month) in Jan'19. TBR's new capacity would focus on gaining market share in both replacement and OEMs. Current market share in TBR is at 3-4% v/s ~13% in TBB.
- CV radialization level at OEMs - 80% and replacement — 50%. Expect radialization at industry level to increase to 65-70% and stabilize at that level.
- Capex guidance of INR13-14b for standalone and INR2b in OTR.

Container Corp — Buy

Current Price INR 525

On 4QFY19 results

- Stable rates were announced for all customers for a year (effective 1st Apr'19). The move has its links to a Railway Ministry policy issued last year, which protects customers paying advance freight for a year from hikes in freight/haulage charges. These charges were affected during the year as part of a strategy to tame CONCOR's high operating ratio.
- CONCOR paid around INR30b to Indian Railways in early-Apr as advance freight to avail the scheme in FY20.
- Empty running charges for EXIM declined from INR317m in 3QFY19 to INR160m in 4QFY19, while that for domestic declined from INR308m to INR260m; this was due to Indian Railways announcing 25% discount for empty containers effective Jan'19.
- Average lead distance stood at 789km for the quarter (786km in 3QFY19).
- CONCOR booked SIES incentive-related income of INR843.7m in 4QFY19.
- CCRI continues to enjoy leadership position at JNPT. It has a market share of ~77.47% in JNPT; 51.71% in Mundra and 54% in Pipavav port.
- The double-stacked running trains increased to 780 trains in 4QFY19 (+72QoQ). Originating EXIM volumes decreased 2% YoY to 521,065 TEUs, while domestic volumes increased 2% YoY to 79,293 TEUs.
- The company started coastal shipping operations in 4QFY19.
- The company has also signed MOUs with (a) JSC RZD Logistics, (b) Russia for exploring logistic opportunities, (c) India and international corridors, including but not limited to The International North South Transportation Corridor (INSTC).
- CONCOR incurred capex of INR7.68b in FY19 with plans of INR10b capex in FY20.
- JNPT constitutes 33.49% of the port mix; Mundra 32.16% and Pipavav 15.17%. The eastern coast constitutes the remainder of the mix.

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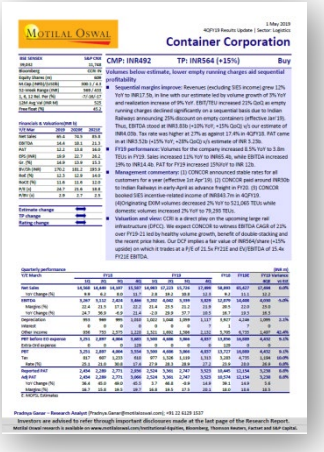

Coromandel
FUTURE POSITIVE

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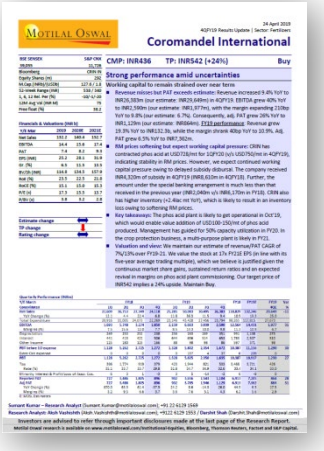

MOTILAL OSWAL

24 April 2019
4QFY19 Results Update | Sector: Fertilizers

Coromandel International

BSE SENSEX	S&P CNX
38,896	11,759
Bloomberg	CRH IN
Equity Shares (m)	200
M.Cap. (INRb)/(USDb)	127.8 / 1.8
52-week Range (INR)	316 / 244
1, 6, 12 Mo. Fwr. PE	4.0/ 4.7/ 6.6
Liber Avg Vol (INR M)	76
Free Float (%)	34.2

Financials & Valuations (INR b)

Y/E Mar	2019	2019E	2021E
Net Sales	131.2	144.4	170.7
EBITDA	14.4	15.8	17.4
PAT	7.1	8.1	9.1
EPS (INR)	35.4	40.5	45.9
Gr. (%)	20.2	14.4	13.3
BV/Sh (INR)	159.9	194.5	237.9
RoE (%)	23.9	22.8	21.8
RoCE (%)	25.1	22.8	21.3
P/E (x)	27.3	23.9	21.7
P/BV (x)	6.8	5.2	4.0

Estimate change
TP change
Rating change

CMP: INR436 TP: INR542 (+24%) Buy

Strong performance amid uncertainties

Working capital to remain drained over near term

- Revenue misses: but PAT exceeds estimate: Revenue increased 9.4% YoY to INR26,382m (our estimate: INR25,640m) in 4QFY19. EBITDA grew 40% YoY to INR2,590m (our estimate: INR1,877m), with the margin expanding 210bp YoY to 9.8% (our estimate: 6.7%). Consequently, adj. PAT grew 38% YoY to INR1,120m (our estimate: INR844m). FY19 performance: Revenue grew 19.3% YoY to INR132.3b, while the margin shrank 40bp YoY to 10.9%. Adj. PAT grew 6.5% YoY to INR7,362m.
- RM prices softening but expect working capital pressure: CRIN has contracted phos acid at USD728/mt for 1QFY20 (v/s USD750/mt in 4QFY19), indicating stability in RM prices. However, we expect continued working capital pressure owing to delayed subsidy disbursal. The company received INR4,320m of subsidy in 4QFY19 (INR8,610m in 4QFY18). Further, the amount under the special banking arrangement is much less than that received in the previous year (INR2,040m v/s INR6,170m in FY18). CRIN also has higher inventory (+2.4lac mt YoY), which is likely to result in an inventory loss owing to softening RM prices.
- Key takeaways: The phos acid plant is likely to get operational in Oct'19, which would enable value addition of USD100-150/mt of phos acid produced. Management has guided for 50% capacity utilization in FY20. In the crop protection business, a multi-purpose plant is likely in FY21.
- Valuation and view: We maintain our estimate of revenue/PAT CAGR of 7%/13% over FY19-21. We value the stock at 17x FY21E EPS (in line with its five-year average trading multiple), which we believe is justified given the continuous market share gains, sustained return ratios and an expected revival in margins on phos acid plant commissioning. Our target price of INR542 implies a 24% upside. Maintain Buy.

Quarterly Performance (INRm)

Y/E March	FY18				FY19				FY19	FY19E	Var
Consolidated	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	Rev	Rev	%
Net Sales	31,600	36,270	31,130	24,114	34,100	35,100	36,380	26,382	132,960	132,960	0.0
YoY Change (%)	12.1	12.7	21.4	8.8	7.9	14.0	16.9	9.4	19.7	19.7	19.0
Total Expenditure	27,000	31,000	26,000	21,000	29,000	30,000	31,000	23,000	113,000	114,000	(1.0)
EBITDA	4,600	5,270	5,130	3,000	5,100	5,100	5,380	3,390	19,960	18,960	5.3
Margin (%)	14.6	14.5	16.5	12.4	15.0	14.5	14.8	12.9	15.0	14.3	0.7
Depreciation	410	410	410	410	410	410	410	410	1,640	1,640	0.0
Interest	410	410	410	390	410	410	400	390	1,600	1,600	0.0
Other Income	110	140	110	190	90	90	90	90	570	370	54
PBT before EO expense	4,100	4,600	4,520	2,410	4,380	4,380	4,670	2,680	16,040	15,690	2.2
EO	-	-	-	-	-	-	-	-	-	-	-
PBT	4,100	4,300	4,570	2,500	4,600	4,600	4,800	2,800	16,300	15,900	2.5
Tax	396	1,770	919	279	420	1,344	901	550	3,400	3,315	2.5
Rate (%)	9.6	41.2	20.1	11.2	9.1	29.2	18.8	19.6	20.9	20.9	0.0
Reported PAT	3,704	2,530	3,651	2,221	4,180	3,256	3,899	2,250	12,900	12,585	2.5
Adj PAT	3,704	2,530	3,651	2,221	4,180	3,256	3,899	2,250	12,900	12,585	2.5
YoY Change (%)	12.1	4.8	2.0	9.8	12.8	28.7	6.8	1.3	7.3	6.0	1.3
Margin (%)	11.7	8.1	11.7	9.2	12.3	9.3	10.7	8.5	9.7	9.5	0.2

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/institutional/equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Coromandel Intl — Buy

Current Price INR 428

Agriculture scenario

- Below-normal south-west and north-east monsoon impacted sowing of Kharif and Rabi. The acreage suffered the most in pulses, paddy and coarse cereals.
- The south-west monsoon of 2019 is forecast to be near normal with estimated rainfall of 96% of long-term average.

Business front

- RM prices have begun stabilizing. The company has finalized the price at USD728/mt for 1QFY20 v/s USD750/mt in 4QFY19.
- The company has taken a strategic call to hold off inventory (+2.4lac MT YoY) so that it does not lose out on market share in the upcoming Kharif season due to the lack of dealer shelf space.
- Ammonia prices too are coming down – USD299/mt in April'19 v/s USD320/mt at the beginning of the year. The price is expected to continue to be in the range of USD280-300/mt.
- The phos acid plant will get fully operational in Oct'19. The company expects 50% capacity utilization in FY20.
- Capex planned for FY20 stands at INR4,500-5,000m. INR1,500m out of this will go toward phos acid plant, INR1,000-1,200m toward plant for planned offpatented molecules, INR300-400m toward infrastructure improvement, while the remaining would be maintenance capex.
- Revenue growth in crop protection would be driven by new product launches. Seven new molecules are expected in FY20, of which three would be patented. The company expects double-digit growth in the crop protection business in FY20.

Company's performance

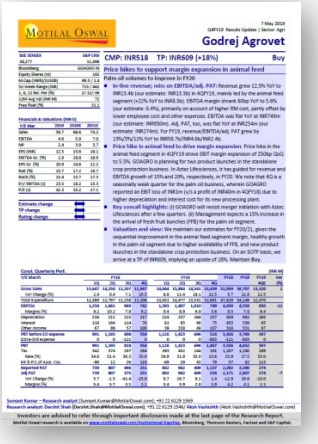
- Growth in unique grade products was 10% in FY19, with share from unique grade at 34%. The market share increased from 15.8% to 16.3% in FY19, with contribution from coming all operating states.
- Retail business had a soft quarter due to north-east monsoon failure.
- SSP delivered volume growth of 9% YoY. Two new unique grade products launched in FY19 have been received well. The company has increased market share in the segment by 1% and continues to be the market leader.
- The revenue share from subsidy business stood at 80% in 4QFY19 (v/s 79% in 4QFY18). EBITDA share from subsidy business stood at 73% (v/s 65% in 4QFY18).
- The increase in finance cost was due to higher level of borrowing due to high inventory and a delay in subsidy disbursal.
- With INR appreciation, forex gain was witnessed to the tune of INR280-300m in 4QFY19, which has been adjusted from other expenses.
- The company clocked revenue of INR1,670m in biopesticides in FY19. The margins in the segment are better than crop protection and the company is looking at double-digit growth in it. At current capacity, another 20-30% in revenue can be attained in the segment.

Subsidy

- Total subsidy outstanding as of Mar'19 stood at INR23.9b v/s INR26.3b last year. This includes subsidy of INR11b claimed but pending for disbursement. The company has filed DBT claims up to end of Feb'19 and is working on some

software-related issues to submit the balance claims of Mar'19. The company received a subsidy of INR4,320m in 4QFY19 v/s INR8,610m in 4QFY18. The subsidy flow from the government has not been forthcoming and any clarity would surface post elections. Hence, the company expects working capital strain in 1QFY20.

Click below for Detailed Concall Transcript & Results Update



Godrej Agrovet — Buy

Current Price INR 504

Animal Feed segment

- Margins to expand by 1% in the coming quarters.
- Took price hike during the quarter, but entire RM price increase not yet passed on to farmers.
- In the current year, chicken and egg prices have increased. Hence, cost pass through will be possible but with a lag. In cattle feed, RM prices are going up but the company has been able to pass it on, as milk supply in certain pockets is short and prices have not fallen.
- Very little maize and no soybean is used in cattle feed; however, the same is used in poultry.

Standalone crop protection

- Sales mix was more skewed toward traded products.

Astec Lifesciences

- The company had initiated the process of merger of its subsidiary Astec Lifesciences Limited, which has been withdrawn. However, the company may reconsider the same after a few quarters.
- Management expects revenue growth of 15% and EBITDA growth of 20% in FY20. Management expects 0.75-1% EBITDA margin expansion on account of backward integration.
- Astec had postponement of orders which will be picked up in the coming quarters.
- Exports grew by 23.6% in FY19 to INR2,430m.
- Company has INR800m of capex planned which will be deployed mainly towards setting up an R&D center and investing in a herbicide plant (on its existing land). Part of it will be used to fund capex for debottlenecking. Of the INR800m capex, INR500m will be deployed towards the herbicide plant.

Palm oil

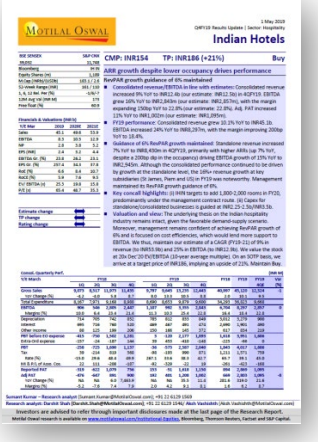
- In FY19, company lost FFB arrival owing to pricing difference between Andhra Pradesh (AP) and Telangana government's palm oil prices (1% higher in Telangana). Due to such price difference, farmers from AP (which were ideally supposed to supply to GOAGRO) supplied FFB to mills located in Telangana. Slippage on account of such price difference was 30,000MT. However, now the price parity is maintained. Thus, management expects 15% growth in arrival of FFB in FY20.
- 4Q performance was impacted as it is a seasonally weak quarter and also the company had higher depreciation and interest cost from the new plant.
- There is a 10% reduction in palm oil prices in last one month. On an absolute level, the contribution margin has contracted. However, management expects the prices to increase on account of the Ramzan festival.

Other key points

- GOAGRO increased the stake in Godrej Tyson Foods to 51%; latter became subsidiary from 27th March 2019. Ludhiana plant, which was set up to increase vegetarian processed food product range, is now operational.
- 4QFY19 includes a loss of INR32m on sale of land which has been included in other income.

IHCL

Click below for Results Update



Indian Hotels — Buy

Current Price INR 150

- In FY19, ARR for the standalone business stood at INR11,000, with occupancy at 68% (+100bp YoY).
- In 4QFY19, standalone ARR grew 7% YoY, whereas occupancy dipped by 200bp to 74% (dip in occupancy was on account of the Holi festival). In 4QFY19, domestic network hotels ARR grew by 6% YoY
- Domestic F&B revenue continues to grow in double digits.
- 4QFY19 subsidiary level EBITDA loss was at the same level, mainly on account of the currency impact (EBITDA loss stood at INR102m in 4QFY19 vs loss of INR108m in 4QFY18).
- Preliminary planning approval for the upcoming hotel – Ginger (Santacruz, Mumbai) – has already been granted. Currently, final planning is going on. Expect 2.5 years to open the hotel. Company is in final negotiation with journal of the contractor for theterms of construction. Total number of rooms to be more than 375.
- St James and US subsidiary revenue grew by 19% and 17%, respectively, in FY19. EBITDA swing in the Pierre hotel for FY19 was USD7m. Cumulative EBITDA of Pierre, Campton and St James stood at USD4.5m in FY19. Piem Hotel revenue grew by 16% YoY in FY19.
- Management expects intense competition among industry players to get rooms under management contracts to affect management fees income (as a % of sales).
- In FY19, the company signed 22 new contracts and four additional contracts are signed in April itself.
- Targets to open one hotel every month in FY20, mainly under management contract – expects to add 1,800-2,000 rooms over FY20 (900 rooms under Taj brand, 500 in Ginger and 500 in SeleQtions).
- In FY19, the company opened five new hotels: (i) Taj Rishikesh Resort & Spa, Uttarakhand, (ii) Taj Aravali Resort & Spa, Udaipur, (iii) Taj Theog Resort & Spa, Shimla, (iv) Vivanta Kathmandu and (v) Vivanta Katra.
- Management contract revenue for FY19 stood at INR1,570m and reimbursement stood at INR660m.
- IHIN signed a management contract for two hotels in Goa adding 506 rooms to its pipeline. The company took over management of 207 key Cidade de Goa which is part of the SeleQtions portfolio. Additional 299 rooms which are under construction will be added to the same complex under the Taj brand (scheduled to open by the end of this year).
- Consolidated/standalone gross debt as on 31st March 2019 was INR23,260m/INR17,840m. Consolidated/standalone net debt as on 31st March

2019 was INR19,250m/INR15,020m. Consolidated/standalone net debt to equity as on 31st March 2019 stood at 0.44x/0.33x.

- Revenue from website booking has increased by 11% in FY19. The company's own reservation network and website accounts for 22% of the bookings. Hotel reservation office booking revenue is 48%.
- Capex for standalone business will be INR2.25-2.5b and consolidated will be INR3.5b.
- During the quarter, other income increased primarily on account of sale of residential apartments amounting to INR140m (2 apartments are sold in the last quarter and one in the current quarter).
- Standalone tax rate is expected to increase to 40% in FY20 as the company doesn't get the tax benefit of losses of its US hotel.
- IHIN renewed its contract for Taj lake Palace, Udaipur, one of the most photographed hotels in the world.

INFO EDGE

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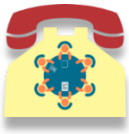

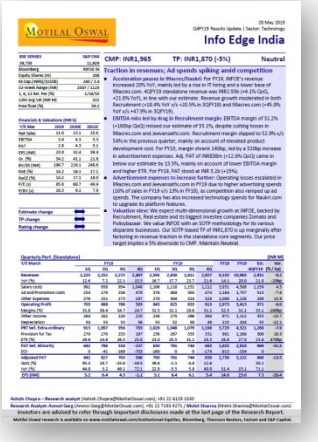

Info Edge — Neutral

Current Price INR 2,294

99acres.com

- Losses in 99 acres came down in this quarter, led by some recovery from previous year's events. Going forward, the company will keep investing on the platform as well as on higher advertisement in order to increase/retain market share. Current market share for 99acres stands at 52%.
- 99acres is seeing traction again as spending ramps up in the segment, following more clarity on RERA.
- Pipeline has now started clearing up of existing projects, although full-scale ramp-up in new launches is yet to be seen. Overall market is now stabilizing.
- 99acres is seeing greater traffic from brokers and channel partners rather than builders and developers. Total billing from brokers stood at 62%, while the rest was contributed by builders. Currently, the platform has ~90,000 brokers and ~5,000 builders.

Naukri.com

- Acquired IIM Jobs to scale up in ultra-high end job space. INFOE will use the growing portal to gain further market share. IIM Jobs had revenue of INR166m for FY19 (+25% CAGR for past two years) with approximately 400 customers.
- Going ahead Naukri will expand to more categories in IIM Jobs.
- Billing saw a healthy jump in 9MFY19 led by uptick in IT hiring. Going forward, the same can impact growth rate for Naukri.
- Company cited that it will start ramping up ad spends which had been muted for some time now. Increasing investments in ad spends and technology updating is more of a judgmental call for long-term traction rather than short-term strategy to increase billing.

Others

- INFOE will keep investing in Jeevansathi in order to catch up on market share. Going ahead, it will consolidate its position in Jeevansathi and increase market spends. Quarter saw an 11% increase in billing rate.
- Zomato has been aggressive on spending, and with that, it has been able to increase/maintain market share. Currently, there is no consolidation in this space. All competition is spending aggressively to increase market share in a very fast growing market.

Interglobe Aviation — Neutral

Current Price INR 1,671

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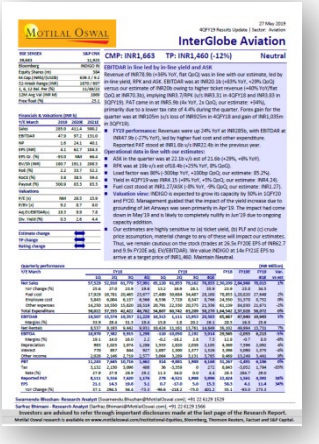

4QFY19 performance

- Overall capacity increased by 29% during the quarter, with a 24% rise in domestic segment and ~60% in international segment. Current international capacity is ~20% of total fleet capacity.
- On-time performance for the quarter averaged ~76.6%, with increase in OTP in March at ~90%. Company had ~40% overlap with Jet Airways routes.
- During the quarter, unit revenue increased ~5%, of which ~2.5% can be attributed to improved efficiency, while the rest can be attributed to cessation of Jet Airways operations.
- CASK (ex. fuel) was up 5% YoY as more number of older aircraft went through second shop visit of 8 year. Company generally has a lease of 6 years for an aircraft.
- At end-FY19, cash on books was INR153b, with INR61b of free cash while the rest as restricted cash.
- With increase in industry capacity, domestic passenger growth is also expected to come back.

Company guidance

- Company has guided ASK growth of ~30% in 1QFY20 and FY20, with half of new aircraft allotted to domestic and half to international segment. All the new additions would be Neo aircraft.
- A321neo (v/s A320neo) is expected to have ~8-10% better range on unit cost basis, with ~15% fuel burn improvement.
- INDIGO expects to add ~50 new A320neo aircraft and ~11 ATR in FY20.
- Over the last year and a half, INIDGO is looking to buy planes and already has ~12 planes on its books.
- Company seems positive on maintaining regular dividend policy going forward.

Kaveri Seeds — Buy

Current Price INR 528

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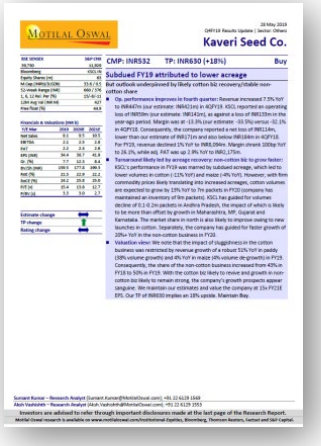

- The company launched corn cob drying facility in Telangana with capacity of 1,456MT/cycle, which is distributed across 36 bins.
- High commodity price is translating into an increase in acreage. New launches in cotton should result in improved market share in North India.
- The company has guided to return accumulated cash back to the shareholders via buyback and dividend, with the former option being the most likely.
- The company launched cotton hybrids in northern market for the first time in FY19. The market size there is 60-80lac packets which the company intends to tap.
- Revenue from vegetable seeds stood at INR145m in FY19 v/s INR100m in FY18. The business is likely to contribute meaningfully to overall revenue in the next 3-5 years.
- The company expects healthy growth in maize products – Drona, Profit, KMH 3712, KMH 463 and KMH 3089.
- The new hybrids across Hot Pepper, Okra, Tomato, Sweet corn and Gourds are likely to display a strong performance.
- The inventory write-off stood at INR160-170m in FY19 v/s INR190m in FY18.

- The company's pan-India market share in hybrid rice stands at 8%, 10-11% in maize, 15-16% in cotton and 10% in bajra.
- Management has guided for growth of 15-20% in FY20, with cotton business posting growth of 10-15% and non-cotton business growing 20%+. Capex has been guided at INR300-400m per year going forward.
- Exports were slightly lower than last year at INR140-150m v/s INR160m in FY18.
- The company expects de-growth of 0.1-0.2m packets in Andhra Pradesh, but robust growth is expected in Maharashtra, MP, Gujarat and Karnataka.

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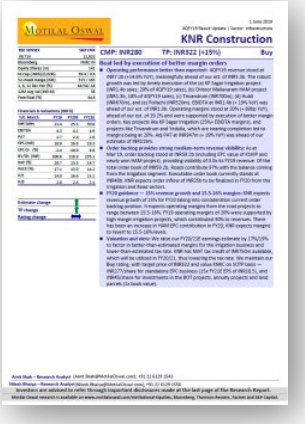

KNR Constructions — Buy

Current Price INR 275

- Revenue growth guidance of 15% for FY20 and operating margin guidance of 15-16%.
- Expect order inflow of INR25b for FY20 and capex of INR2.0b for FY20.
- Toll collection — Walayar project at INR1.8m/day; Muzaffarpur-Barauni project at INR2.4m/day.
- It has achieved financial closure for all four HAM projects; it has received appointed date for the Tirumala project and Ramsanpalle project. It expects to receive appointed date for two more projects (Chidambaram and Trichy) by Jun'19.
- Irrigation projects worth INR200b are under negotiation and KNR will work as sub-contractor.
- INR1.1b invested as equity in HAM projects; incrementally another INR1.9b to be invested in HAM projects.
- Subcontracting expenses to decline from 9% in FY19 to 5% in FY20.

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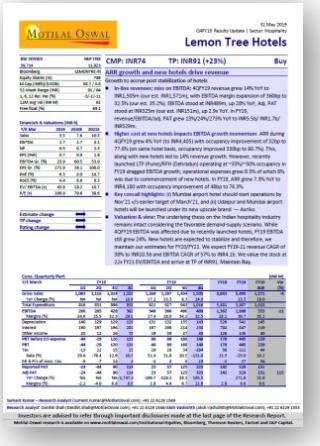

Lemon Tree Hotels — Buy

Current Price INR 69

- Keys Hotel Acquisition — currently due diligence process is being conducted; expect deal completion by June-end.
- Company has received occupancy certificate for its Andheri (Mumbai) hotel few days ago; expect it to commence operations by Jun'19 (postponement was due to delay in receiving approvals owing to elections).
- LTP (Pune) launched on 6th Dec'18 operated at 33% occupancy for the first four months; RFH (Dehradun) launched on 22nd Oct'18 operated at 50% occupancy for the first five months.
- Currently, company is evaluating 20 hotels for management contracts.
- As of FY19, receivables increased to 55 days v/s 40 days in FY18 as some of its corporate customers faced liquidity issues, thus, deferring payments by few days. However, currently receivable days stand at 43 days; the company is targeting to bring it down to 40 days by 1HFY20.
- Postponement in commencement of managed hotels is due to delay in receiving approvals. Also many hotel owners are causing delays on purpose as many are facing difficulties in their core business, which generates surplus cash (deployed for building hotel).
- Company currently has INR15m exposure to Jet Airways.

MCX METAL & ENERGY Trade with Trust

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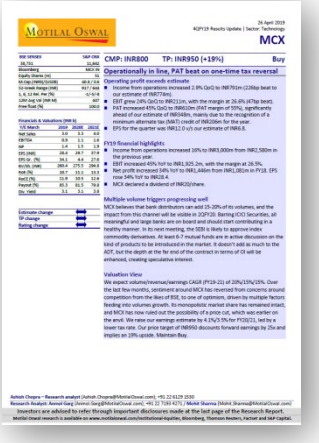

MOTILAL OSWAL

26 April 2019

4QFY19 Results Update | Sector: Technology

MCX

BSE SENSEX	S&P CNX
38,751	11,642

Bloomberg	MCX IN
Equity Shares (m)	70
52-Week range (INR)	1,018 / 644
1, 6, 12 mo. Fwd P/E (x)	42.5/ 34.9/ 29.1
M.Cap. (INR Bn) / (USD Bn)	48.6 / 0.6
1M Avg Vol (INR bn)	4.0
Free float (%)	100.0

Financials & Valuations (INR b)			
Y/E March	2019	2020E	2021E
Net Sales	5.6	5.3	6.1
EBITDA	0.9	1.1	1.4
Adj PAT	0.6	0.8	1.0
EPS (INR)	8.4	10.7	14.3
EPS gr. (%)	34.1	6.4	27.9
BV/Sh. (INR)	200.4	175.5	184.3
RoE (%)	19.7	15.1	18.5
RoCE (%)	11.9	10.9	12.6
Payout (%)	85.3	81.5	76.0
Div. Yield	3.1	3.1	3.0

Estimate change	
TP change	
Rating change	

CMP: INR800 TP: INR950 (+19%) Buy

Operationally in line, PAT beat on one-time tax reversal

Operating profit exceeds estimate

- Income from operations increased 2.9% QoQ to INR791m (238bp beat to our estimate of INR770m).
- EBIT grew 24% QoQ to INR211m, with the margin at 26.6% (470bp beat).
- PAT increased 41% QoQ to INR610m (PAT margin of 55%), significantly ahead of our estimate of INR548m, mainly due to the recognition of a minimum alternate tax (MAT) credit of INR200m for the year.
- EPS for the quarter was INR12.0 v/s our estimate of INR6.8.

FY19 financial highlights:

- Income from operations increased 10% to INR3,000m from INR2,580m in the previous year.
- EBIT increased 45% YoY to INR1,925.2m, with the margin at 26.5%.
- Net profit increased 34% YoY to INR1,446m from INR1,081m in FY18. EPS rose 34% YoY to INR20.4.
- MCX declared a dividend of INR20/share.

Multiple volume triggers progressing well

MCX believes that bank distributors can add 15-20% of its volumes, and the impact from this channel will be visible in 2QFY20. Barring ICICI Securities, all meaningful and large banks are on board and should start contributing in a healthy manner. In its next meeting, the SEBI is likely to approve index commodity derivatives. At least 6-7 mutual funds are in active discussion on the kind of products to be introduced in the market. It doesn't add as much to the ADT, but the depth at the far end of the contract in terms of OI will be enhanced, creating speculative interest.

Valuation View

We expect volume/revenue/earnings CAGR (FY19-21) of 20%/21%/15%. Over the last few months, sentiment around MCX has reversed from concerns around competition from the likes of BSE, to one of optimism, driven by multiple factors feeding into volumes growth. Its monopolistic market share has remained intact, and MCX has now ruled out the possibility of a price cut, which was earlier on the anvil. We raise our earnings estimates by 4.1%/3.9% for FY20/21, led by a lower tax rate. Our price target of INR950 discounts forward earnings by 25x and implies an 19% upside. Maintain Buy.

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Motilal Oswal research is available on www.motilaloswal.com/institutional-equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

MCX — Buy

Current Price INR 801

- Bank distributors: Bank distributors will be an additive number to the market. They are 30-40% of equity markets. They should add at least 15-20%. Barring ICICI Securities, all meaningful and large banks are on-board and should start contributing in a healthy manner from 2QFY20 to overall turnover.
- Mutual funds: At least 6-7 mutual funds are in active discussion on the kind of products that can be introduced in the market. It doesn't add as much to the ADT, but to the depth at the far end of the contract in terms of OI.
- Index products: There is an expectation that in the next SEBI meeting, they should approve Index commodity derivatives. Not very widely traded globally. From the Indian market perspective, appetite has been larger, even when looked at equities.
- Delivery ecosystem: We cannot compare MCX's delivery ecosystem with the global ecosystem. India has delivery centers in as many products as needed.
- Options: MCX is not monetizing it just yet, and will take a decision by the end of June.
- Hedgers: The number of hedgers is increasing in the system. Options are unlikely to solve the problem of depth. MFs will help in the far duration contracts.
- Technology: Management is keeping all options open with respect to whether the contract with 63Moons will be renewed or MCX would want to own it.
- Prop traders v/s retail traders: Realization has gone down from 2.22/lakh to 2.17/lakh. This would suggest that volumes from larger participants have grown faster.
- Impact from broker bans: Banned members were anyways not active and they have started the business in another entity. So it has not had any impact on volumes.
- ETR: There are still some long-term capital losses to be set-off. So ETR should be ~22% for the next two years.
- Impact from higher royalty by CME: ~INR70m in FY19 financials. Will be another INR40-50m in FY20.

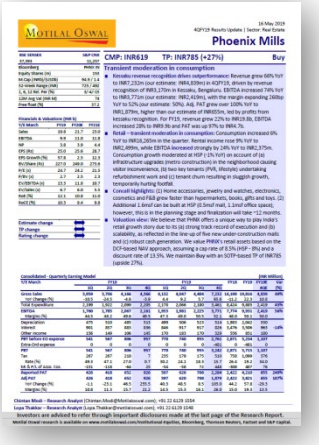
The Phoenix Mills Limited

Click below for Detailed Concall Transcript & Results Update

Phoenix Mills — Buy

Current Price INR 654

- Extraordinary gain refers to the provision for premium on redemption of nonconvertible debentures of INR481m made in the earlier years, which has been written back.
- Other comprehensive income for the quarter includes realized gain of INR621.8m on the sale of investments of 8,15,551 equity shares of Graphite India Limited.
- PHNX currently has 5.9msf of operational retail portfolio and 4.90msf of underdevelopment retail portfolio. The company is evaluating options to add another 3msf of retail space in tier 1 cities in India.
- Average cost of borrowing is up marginally to 9.38%. However, it expect interest rates to come down in the coming quarters. Modest debt maturities of INR3-5b per year for the next three years. Cash flows from residential sales are expected to fund future retail acquisitions.



Phoenix Mills

CMP: INR619 TP: INR785 (+27%) Buy

- Fountainhead Tower 1 leasable area is 0.17 msf, of which 0.14 msf (80%) has been leased and 0.07 msf is currently operational as of March 2019. Tower 2 leasable area is 0.22 msf and construction commenced in 4QFY19. Tower 3 leasable area is 0.35 msf and construction is expected to commence in 1QFY20.
- Palladium Chennai has completed its first year of operations. EBITDA margin (currently 41%) will move closer to 100% once the mall stabilizes and occupancy increases above 90%.
- The residential segment reported 4QFY19 revenue recognition of INR3,852m. Sales in FY19 included OBW – 31 units (77,491sf) at INR1,150m in sales value at sales price of INR14,150psf; Kessaku reported sales of 8 units (62,067 sft) at INR927m in sales value and achieved sales price of INR 14,046psf.

Piramal

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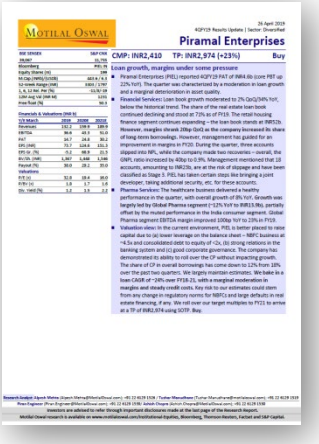


Piramal Enterprises

CMP: INR2,410 TP: INR2,974 (+23%) Buy

Piramal Enterprises — Buy

Current Price INR 2,069

- Strategic priorities: (a) Diversification of borrowings (ST to LT borrowings), (b) diversification from RE to other corp/retail lending and (c) a reduction in client concentration.
- CP borrowings down from INR180b to INR89b in the last two quarters.
- Raising INR10b of T2 capital in the next two quarters; looking at raising USD and ECB bonds.
- 18 deals (exposure at risk in worst-case scenario) amounted to INR23b (part of this is included in stage 3).
- Expect margins to improve (~20%) in the DRG business in FY20.
- Addition to NPA during the quarter at INR3.8b (Lotus Green (Noida), Jain Heights (Bangalore) and SK group (INR610m ECG exposure)).
- INR1.1b of recovery from 3C and Nirmal Lifestyle.
- Update on largest exposure (a) 40% of the exposure in the standalone balance sheet, (b) planning to down sell INR10-12b in 1QFY20 and (c) exposure is down from INR44b to INR38b.
- INR50b of exposure is sitting on the standalone balance sheet and will be down by INR15b in 1QFY20 and come to zero by end of the year.
- Debt to equity ratio 3.5:4 (max) in future.
- Looking at merging all the Shriram entities into one.
- Margins to normalize from 1QFY20, and 4QFY19 should be considered one-off.
- Overall debt in Pharma (INR45b) and DRG (INR40b).
- No account transferred to Piramal Reality.

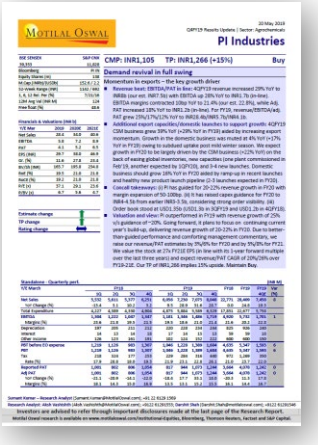
Inspired by Science

Click below for Detailed Concall Transcript & Results Update

P I Industries — Buy

Current Price INR 1,116

- The global agrochemical industry is currently witnessing a revival. Since CY15, the market was in midst of a slowdown leading to heavy inventory in the system. Therefore, since CY16, companies started cutting down their offtake, resulting in inventory levels declining to reasonable levels. Currently, low inventory levels are pushing further procurement. Further, there is supply uncertainty for certain products from China, which is helping offtake from India (PI Industries' 2-3 products are beneficiaries of the same).
- Monsoons in 2018-19 were 10% below average with rainfall sharply declining post monsoons. The same trend was witnessed over the past few years resulting



in weaker demand of agri inputs, especially in Andhra Pradesh, Maharashtra, Rajasthan, Jharkhand, Odisha and Gujarat.

- PI's domestic business grew 4% YoY in 4QFY19 backed by healthy growth in key brands. This, despite softer demand on poor rainfall distribution for Rabi crops.
- FY19 tax rate came in at 23.7%, an increase of 300bp due to change in the share of business mix. Tax rate for FY20 has been guided at 23.5%.
- The company launched three new CSM molecules in FY19 and expects 3-4 more launches in FY20.
- Order book stood at USD1.35b. Capex has been guided at INR4-4.5b for FY20.
- Company expects scaling up of utilization in the CSM business; its focus is on transfer of more products from R&D stage to commercialization.
- The CSM business has 22-23 molecules currently. Company's high guidance is on account of various pipeline products moving from R&D stage to commercialization. Also, number of projects has improved substantially. Currently, assets are being utilized at 90%, and hence, FY20 capex is extimated to be high. With its current land bank, company has the ability to put up 3-4 more plants.
- Company has commissioned one plant in Feb'19, which is already functional; it expects to commission one more plant towards 1QFY20-end.
- Company's balance sheet strengthened further with cash surplus of INR1.95b.
- The average net working capital improved from 108 days to 101 days. The year end net working capital remained higher at 26% of net sales (v/s 24% in FY18) due to higher sales in 4QFY19.
- The transition to IND-AS115 has resulted in benefit of INR380m in revenues for 4QFY19 and INR1b for FY19.
- Company witnessed surge in RM prices due to uncertainty around supply in China; it could not pass this on, which impacted margins in the short term. Product mix also changed given the challenges in the domestic market. However, the RM price situation has improved currently, which should release some pressure on the company's gross margins.
- The board has recommended a dividend of INR1.5/share, which takes the total dividend for FY19 to INR4/share.

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Quess Corp — Neutral

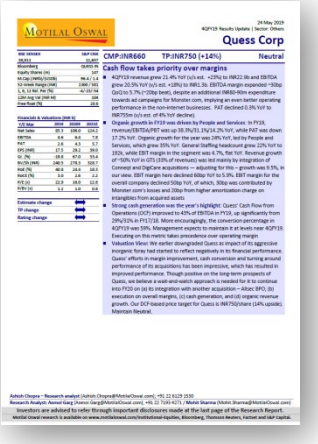
Current Price INR 625

Global Technology Solutions (31% of revenues)

- IT Staffing India: Hiring sentiment in IT Services has improved. Magna is banking on Captives, Direct Enterprises and IT players. There are some green-shoots, but awaiting the extent of pick-up. Margins of 9-10% for Magna should continue, while in MFX, especially with the entities combined, margins should grow.
- Singapore: Comtel had a good year; but with the economy growing only 2-3%, hiring was a problem. Hiring per month has started increasing, and therefore, numbers will continue to get better in the next few months. A restriction on the EBIT has eased out. 7-8% margins should continue.

People and Staffing (48% of revenues)

- Much growth came into the BFSI segment while telecom, FMCG and retail have been traditionally strong. BFSI momentum should continue this year as well. Post GST, the Manufacturing sector is also opening up, which should lead the next set of growth numbers.



24 May 2019
4QFY19 Results Update | Sector: Others

MOTILAL OSWAL

Quess Corp

BSE SENSEX	S&P CNX
38,872	11,657
Bloomberg	QUESS IN
Equity Shares (m)	147
M-Cap (INR) (m)/(USD)	98,4 / 1.4
52-week Range (INR)	1360 / 761
1, 6, 12 Mo. Avg. Vol. (m)	42 / 33 / 34
Liquidity (m) (INR M)	106
Free float (%)	23.0

CMP:INR660 TP:INR750 (+14%) Neutral

Cash flow takes priority over margins

- 4QFY19 revenue grew 21.4% YoY (v/s est. +12%) to INR22.9b and EBITDA grew 20.5% YoY (v/s est. +18%) to INR1.3b. EBITDA margin expanded ~30bp QoQ to 5.7% (~25bp beat), despite an additional INR30-40m expenditure towards ad campaigns for Monster.com, implying an even better operating performance in the non-Internet businesses. PAT declined 6.3% YoY to INR755m (v/s est. of 6% YoY decline).
- Organic growth in FY19 was driven by People and Services. In FY19, revenue/EBITDA/PBT was up 38.3%/31.1%/14.2% YoY, while PAT was down 17.2% YoY. Organic growth for the year was 24% YoY, led by People and Services, which grew 35% YoY. General Staffing headcount grew 22% YoY to 192k, while EBIT margin in the segment was 4.7%, flat YoY. Revenue growth of ~50% YoY in OTS (10% of revenues) was led mainly by integration of Conneqt and DigiCare acquisitions — adjusting for this — growth was 9.5%, in our view. EBIT margin here declined 60bp YoY to 5.0%. EBIT margin for the overall company declined 50bp YoY, of which, 30bp was contributed by Monster.com's losses and 20bp from higher amortisation charge on intangibles from acquired assets
- Strong cash generation was the year's highlight. Quess' Cash Flow from Operations (OCF) improved to 43% of EBITDA in FY19, up significantly from 29%/31% in FY17/18. More encouraging, the conversion percentage in 4QFY19 was 59%. Management expects to maintain it at levels near 4QFY19. Executing on this metric takes precedence over operating margin
- Valuation View: We earlier downgraded Quess on impact of its aggressive inorganic foray had started to reflect negatively in its financial performance. Quess' efforts in margin improvement, cash conversion and turning around performance of its acquisitions has been impressive, which has resulted in improved performance. Though positive on the long-term prospects of Quess, we believe a wait-and-watch approach is needed for it to continue into FY20 on (a) its integration with another acquisition – Allsec (BPO), (b) execution on overall margins, (c) cash generation, and (d) organic revenue growth. Our DCF-based price target for Quess is INR750/share (14% upside). Maintain Neutral.

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Collect-n-pay

- The initial target is to reach 75-80% (v/s current level of 65%). The model does not dilute margins. Efficiencies from technology, combined with cross-selling of managed services' sale can help margins and working capital.
- Core-to-associate ratio should continue to inch up (after spiking to 1:330 from 1:250 YoY).

Margins

- Sharper focus will be on maintaining current levels of cash flow conversion over expanding operating margins.
- Business mix is a challenge to the reported margins — P&S has been growing at a healthier pace while full-year margin was 4.7% in FY19.
- That said, there are some levers to offset the same: (1) AllSec — 20% margin, Conneqt — 8.5-9%, therefore combined BPM business should be in low double digits, (2) Industrial Asset Management too should improve profitability next year.
- Target will be to reduce debt after making some payment for the AllSec acquisition; and thereby lower interest expenses.

Trimax

- Has gone into insolvency with NCLT. SCADL (Smart City Ahmedabad Development Ltd) is progressing well. Therefore, they will pay the money to the JV — TSIPL (Trimax Smart Infra projects Private Ltd). Quess has had discussions with SCADL with the knowledge that the former is executing the project.
- Deloitte is the auditor. 270 days is the period for insolvency resolution, but the project is nearing completion. Most of the payments should be available in the next 60 days. Not seeing any issue of write-offs on this account. Money will be received in the next 1-2 quarters.

Monster.com

- Brand campaign called 'Work-Life Balance' has been launched, which escalated losses for the quarter by INR80-90m.
- Traffic is up 68% to 11m+ per month since the time of acquisition. New seeker registrations are up 28%.
- The differentiation that Monster has been trying to build is user experience.
- The burn-on marketing may be another INR300-400m; traction will take some time.
- Budgeting for EBITDA loss of INR200-250m in FY20.

Associate companies in 4QFY19

- East Bengal had a loss of ~INR100m. In FY20, cost should be INR150m, with revenues between INR50-70m.
- Terrier profit is ~INR70m and was offset by Heptagon losses (INR50m). Company is making higher investments in Terrier; its profits should increase in FY20.
- Heptagon losses were at ~INR50m, which too should decline next fiscal.

Industrial Asset management (5% of revenues)

- Not pursuing any further Smart City project. Margins in the Industrial segment should bounce back to 6-6.5%. Typically, Industrial has a long sales cycle. Revenue growth will be in low double-digits, but margins should expand.

Facilities management (14% of revenues)

- Indirect business is down to only ~10%, down from 30% 4-5 years ago.
- Current levels of margin at 7%+ can be sustained. With Greenpeace as a part of overall offering, there is some scope.

Allsec BPO acquisition

- Had acquired a company in the mortgage space couple of years back, therefore cleaning up the Balance Sheet before Quess takes over. No impact on the business.
- INR2.5-2.6b revenues with 20% margins. Operates mainly in three segments: CLM Manila, CLM India and HRO (35-40% margins in the latter).

Sadbhav Engg. — Neutral

Current Price INR 253

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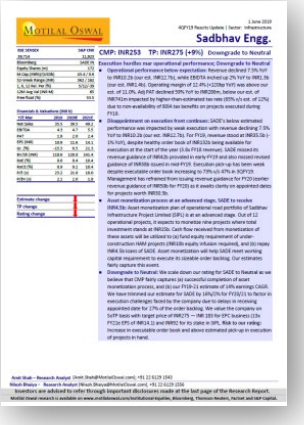

- 31% of the order book yet to start contribution to revenue.
- INR5.3b — amount to be received from SIPL. Increased the loans given liquidity tightness prevailing in the economy and delay in receiving funds from banks.
- Capex of INR500-800m in FY20.
- Rohtak - Panipat have faced traffic decline of 20% YoY as alternate road has opened up, which is leading to traffic diversion.
- Mumbai - Nagpur is facing forest clearance issue, which is partially resolved.
- INR4.4b total investment in HAM projects and INR2.5b is yet to be invested.
- INR35b revenue is possible from INR80b of order book available.
- INR6b advance is to be received from 12 HAM projects.
- Land status: Kim Vaddara (67% land available), Vizag port (57% available), Tumkur (60% available), and Bhimsar Bhuj (72% available).

SRF — Buy

Current Price INR 2,842

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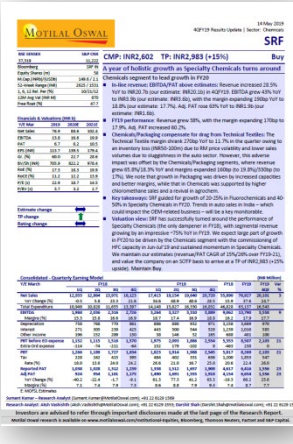

- The company has made following investments in Chemicals segment – CGMP plant, P32 plant (first ever AI plant) and P34 plant. With these investments in place and demand in agri gaining momentum, the company expects strong growth from the segment (40-50% revenue growth guided in Specialty Chemicals business).
- The company was instructed by the Gujarat Pollution Control Board to close operations of Dahej plant on non-compliance under Water Act. The company got the order revoked; however, the issue has impacted the operations in April. Further, the company had issues with GIDC related to water and treated effluent discharge, which also impacted operations. SRF intends to make up for the impact over the coming 5-6 months.
- Healthy volume growth was witnessed in coated and laminated fabric. The company maintained market leadership position in coated fabric.
- The company is selling engineering plastic division for a realization of INR3,200m. The rationale being the fact that scaling the business further would have required significant time, and thus, passing the business on to a credible player made sense. The company would clear some debt with the proceeds from the sale.

- Net debt as of Mar'19 stands at INR3,4b. The company expects the change in mix of debt in India and overseas to lead to a reduction in finance cost.
- Capex incurred in FY19 stood at INR11b, driven by Chemicals business and some portions of Thailand and Hungary capex. In FY20, another capex of INR11b is expected (INR5b in India and INR6b in Thailand and Hungary).
- SRF intends to reduce standalone debt by INR5-6b in FY20, although consolidated debt should remain flat or decline marginally by INR500-1,000m.
- The company has overall invested INR18b in Specialty Chemicals and achieved a turnover of INR10b in FY19. The company further expects 40-50% growth in the segment in FY20 and has stated that there would still be room for further growth before further investments are required.
- Standalone tax rate has been guided at 28-30%.

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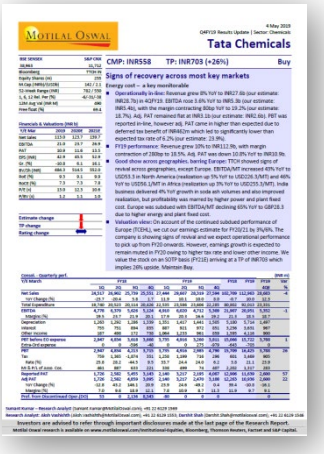

Tata Chemicals — Buy

Current Price INR 624

Basic Chemistry Business

- Domestic demand remains balanced with pockets of tightness witnessed in the market in the previous quarter.
- The performance in Europe was suppressed by high energy cost, which more than offset increase in realization.
- The company expects India to continue witnessing a surge in soda ash imports and the market will remain balanced in the medium term.
- TTCH plans to carry out two major projects in Europe – (1) setting up a bicarbonate unit using carbon capture which will allow more conversion of soda ash into bicarbonate – much higher-value product and (2) derive energy from waste unit being set up, which will reduce operating cost.
- The company is guiding for a sustainable EBITDA of 25m GBP per year in Europe business and expects it to inch up once the aforementioned projects are carried out (will take 18-24 months).
- The company is coming up with low energy soda ash purification process. This will upgrade the quality of soda ash being produced in the plant.

Consumer business

- Tata Salt continues to maintain its market leadership position with 25% market share.
- The company has expanded the scope of consumer business by entering into non-foods segment. The company has launched detergent power which as of now is in test phase in West Bengal. The company will continue to test the product in West Bengal throughout the year before getting into other regions.
- The near term plan is to attain a turnover of INR50b in the consumer segment with INR4.5b contributed by salt, pulses and spices.
- The Nellore plant for nutraceuticals is in final stage of commissioning. The plant will go through pilot production and the company is targeting commercial production by the end of Dec'19.
- The performance of Rallis was suppressed due to high import price and low volumes due to high sales returns.
- The board has declared a dividend of INR12.5/share compared to INR22/share in FY18 which included INR11/share of special dividend due to proceeds from sale of urea.

- The company has guided to get into three segments in Lithium ion business viz. 1) manufacturing of batteries (cell), 2) recycling of batteries, and 3) chemical coating which goes into making batteries. The estimated supply time is 2021-22, but it depends on the ramp up by auto players and arrival of commercial orders. The company has also hinted at getting into manufacturing battery pack at later stages.
- The consolidated net debt stands at INR19.6b as on Mar'19.

TeamLease™
Putting India to work

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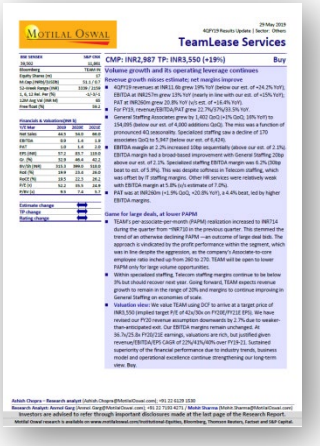

MOTILAL OSWAL

29 May 2019
4QFY19 Results Update | Sector: Others

TeamLease Services

CMP: INR2,987 TP: INR3,550 (+19%) Buy

Volume growth and its operating leverage continues

Revenue growth mixes estimate; net margins improve:

- 4QFY19 revenues at INR11.6b grew 19% YoY (below our est. of +24.2% YoY); EBITDA at INR257m grew 19% YoY (nearly in line with our est. of +25% YoY); PAT at INR260m grew 20.8% YoY (y/s est. of +16.6% YoY).
- For FY19, revenue/EBITDA/PAT grew 22.7%/37%/33.5% YoY.
- General Staffing Associates grew by 1,402 QoQ (+2% QoQ). 18% YoY to 154,095 (below our est. of 4,000 additions QoQ). The miss was a function of pronounced 4Q seasonality. Specialized staffing saw a decline of 170 associates QoQ to 5,947 (below our est. of 6,424).
- EBITDA margin at 2.2% increased 10bp sequentially (above our est. of 2.1%). EBITDA margin had a broad-based improvement with General Staffing 20bp above our est. of 2.3%. Specialized staffing EBITDA margin was 6.2% (30bp beat to est. of 5.9%). This was despite softness in Telecom staffing, which was offset by IT staffing margins. Other HR services were relatively weak with EBITDA margin at 5.8% (y/s estimate of 7.0%).
- PAT was at INR260m (+1.9% QoQ, +20.8% YoY), a 4.4% beat, led by higher EBITDA margins.

Game for large deals, at lower PAPM

- TEAM's per associate-per-month (PAPM) realization increased to INR714 during the quarter from ~INR710 in the previous quarter. This stemmed the trend of an otherwise declining PAPM —an outcome of large deal bids. The approach is vindicated by the profit performance within the segment, which was in line despite the aggression, as the company's Associate-to-core employee ratio inched up from 260 to 270. TEAM will be open to lower PAPM only for large volume opportunities.
- Within specialized staffing, Telecom staffing margins continue to be below 3% but should recover next year. Going forward, TEAM expects revenue growth to remain in the range of 20% and margins to continue improving in General Staffing on economies of scale.
- Valuation view: We value TEAM using DCF to arrive at a target price of INR3,550 (implied target P/E of 42x/30x on FY20E/FY21E EPS). We have revised our FY20 revenue assumption downwards by 2.7% due to weaker-than-anticipated exit. Our EBITDA margins remain unchanged. At 36.7x/25.8x FY20/21E earnings, valuations are rich, but justified given revenue/EBITDA/EPS CAGR of 22%/41%/40% over FY19-21. Sustained superiority of the financial performance due to industry trends, business model and operational excellence continue strengthening our long-term view. Buy.

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TeamLease Services — Buy

Current Price INR 2,935

Revenue growth outlook

- Revenue growth at 20% should continue to hold on.
- 4Q every year seasonally has a moderate increase in Associate count. Larger increase happens in 2Q and 3Q, so 4QFY19's 1,400 increase in associates is largely in line.
- Revenue growth in other HR Services should normalize, after a steep jump in NETAP trainees. All elements of the segment have reached profitability.

Margin expansion outlook intact amid multiple levers

- Margins amid range-bound / lower PAPM.
- Lower PAPM through larger engagements may still drive margins upwards.
- General staffing scale will continue to play to the economies of scale.
- IT staffing should be 10-12%, excluding the recent acquisition of E-centric. That has an EBITDA margin of 7%. Cumulatively, IT staffing margins should range between 9-10%.
- Telecom staffing EBITDA declined slightly below 3%. This should get back to 4-5% in FY20.
- HR Services increased to 6.5% this year from 5.9%. Should increase in a similar range in FY20 as well.

PAPM trend (per associate per month)

- PAPM was trending downwards through the course of this year. That has been stemmed now, with it increasing marginally in 4QFY19 to 714 from 710.
- The trend has been a factor of large accounts. Large accounts give a lesser PAPM and the smallest accounts give the highest PAPM. Large ticket mandates came this year and some may come next year as well.

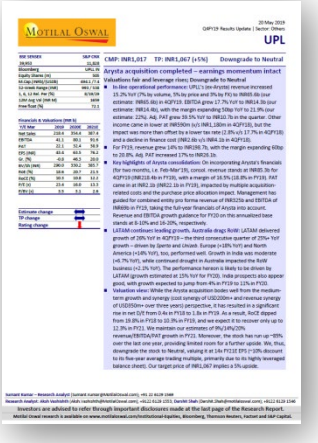
Competition

- Larger contracts do come at a lower price point. Medium and smaller accounts balance that element of PAPM.
- Top-10 accounts are only 20% of overall volumes.
- In India, the model is always based on PAPM. Variable model where the take rate is a percentage of salary, factors in wage inflation. 25% of contracts are now variable model-based. This is the case with only smaller accounts.
- Average realization of few large players is more or less the same.

E-centric Solutions acquisition

- 850 associates will get added to TEAM's IT staffing, taking the count to ~3,000. It should add INR450m revenues annually.
- E-centric caters to product and captive segment, where TEAM had limited presence.
- It had only three overlapping clients with Teamlease.

Click below for Results Update



MOTILAL OSWAL

20 May 2019
Q4FY19 Results Update | Sector: Others

UPL

BSE SENSEX	S&P CNX
38,602	11,905

Stock Info	
Bloomberg	UPL IN
Equity Shares (m)	546
M-Cap (INRB)/(USDB)	6861.7 / 9.4
52-Week Range (INR)	991 / 568
1, 6, 12 Mo. Fwd P/E (%)	8/10/10
Avg Cons Rev. (INR M)	6604
Free float (%)	72.1

Financials & Valuations (INR B)			
Y/E Mar	2018	2019E	2020E
Net Sales	250.4	316.4	367.4
EBITDA	42.1	60.1	70.4
Adj. PAT	21.5	40.4	56.3
EPS (INR)	39.4	73.9	103.0
GR. (%)	-0.8	88.3	39.5
BV/Sh (INR)	280.0	330.2	385.7
RoE (%)	10.6	20.7	23.9
RoCE (%)	10.1	19.8	22.2
P/E (x)	25.6	13.6	9.7
P/BV (x)	3.6	3.3	2.8

Estimate change	
TP change	
Rating change	

CMP: INR1,017 TP: INR1,067 (+5%) Downgrade to Neutral

Arysta acquisition completed – earnings momentum intact

Valuations fair and leverage rises; Downgrade to Neutral

- **In-line operational performance:** UPL's (ex-Arysta) revenue increased 15.2% YoY (7% by volume, 5% by price and 3% by FX) to INR65.6b (our estimate: INR65.6b) in 4QFY19. EBITDA grew 17.7% YoY to INR14.3b (our estimate: INR14.4b), with the margin expanding 50bp YoY to 21.9% (our estimate: 22%). Adj. PAT grew 39.5% YoY to INR10.7b in the quarter. Other income came in lower at INR390m (v/s INR1,180m in 4QFY18), but the impact was more than offset by a lower tax rate (2.8% v/s 17.7% in 4QFY18) and a decline in finance cost (INR2.8b v/s INR4.1b in 4QFY18).
- For FY19, revenue grew 14% to INR198.7b, with the margin expanding 60bp to 20.8%. Adj. PAT increased 17% to INR20.1b.
- **Key highlights of Arysta consolidation:** On incorporating Arysta's financials (for two months, i.e. Feb-Mar'19), consol. revenue stands at INR85.3b for 4QFY19 (INR218.4b in FY19), with a margin of 16.5% (18.8% in FY19). PAT came in at INR2.2b (INR22.1b in FY19), impacted by multiple acquisition-related costs and the purchase price allocation impact. Management has guided for combined entity pro forma revenue of INR325b and EBITDA of INR69b in FY20, taking the full-year financials of Arysta into account. Revenue and EBITDA growth guidance for FY20 on this annualized base stands at 8-10% and 16-20%, respectively.
- **LATAM continues leading growth, Australia drags RoW:** LATAM delivered growth of 20% YoY in 4QFY19—the third consecutive quarter of 25%+ YoY growth – driven by Iperno and Ukiah. Europe (+18% YoY) and North America (+14% YoY), too, performed well. Growth in India was moderate (+4.7% YoY), while continued drought in Australia impacted the RoW business (+2.2% YoY). The performance herein is likely to be driven by LATAM (growth estimated at 15% YoY for FY20). India prospects also appear good, with growth expected to jump from 4% in FY19 to 12% in FY20.
- **Valuation view:** While the Arysta acquisition bodes well from the medium-term growth and synergy (cost synergy of USD200m+ and revenue synergy of USD350m+ over three years) perspective, it has resulted in a significant rise in net D/E from 0.4x in FY18 to 1.8x in FY19. As a result, RoCE dipped from 19.8% in FY18 to 10.3% in FY19, and we expect it to recover only up to 12.3% in FY21. We maintain our estimates of 9%/14%/20% revenue/EBITDA/PAT growth in FY21. Moreover, the stock has run up ~35% over the last one year, providing limited room for a further upside. We, thus, downgrade the stock to Neutral, valuing it at 14x FY21E EPS (~10% discount to its five-year average trading multiple, primarily due to its highly leveraged balance sheet). Our target price of INR1,067 implies a 5% upside.

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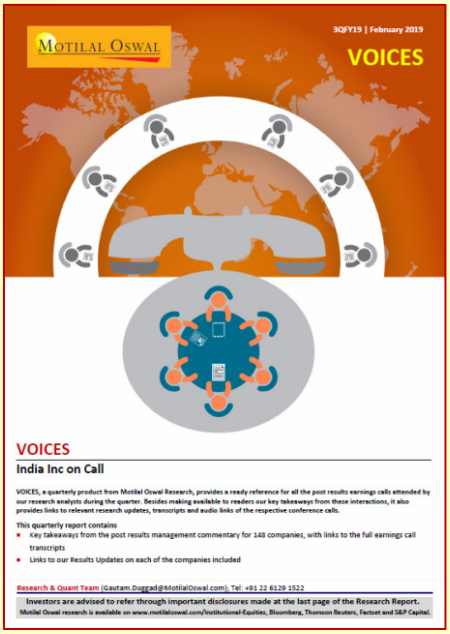
UPL — Neutral

Current Price INR 1,011

- Board has recommended payment of dividend of 400%, i.e., INR8 per equity share.
- The board has also recommended the issue of bonus shares by capitalization of its reserves in the ratio of 1 bonus equity share for every 2 existing equity shares held by the members. The record date for the same is yet to be finalized.
- Consolidation of Arysta has been completed and the combined entity now has more than 550 R&D professionals, 3,000+ projects with more than USD3b of peak sales value potential, of which 50% is proprietary AI. The combined entity also boasts of 25+ R&D facilities across four continents.
- The company has taken a loan of USD3b for Arysta acquisition at the rate of LIBOR + 160bp. The company has swapped USD1.5b loan into Euros, shaving off 1.5% points in interest cost. The company has also swapped USD400m of loan into Yen which saved 75bp in interest cost.
- The tax rate has been guided at 15-20% of the combined entity.
- The operations of Arysta prior to acquisition were spread out over 63 different ERP systems. UPLL has managed to bring 60% of its business under SAP and targets to achieve 100% integration under SAP by Dec'19.
- The company has guided for 8-10% revenue growth and 16-20% EBITDA growth in FY20 on a base of INR325b revenue and INR69b EBITDA which are the approximately full year numbers of the combined entity.
- The company expects gluphosinate to gain market share due to the fact that glyphosate has been facing weed resistance issue worldwide.
- The company has guided for further integration cost of USD60-80m in FY20 and gross margin improvement of 200-300bp on account of synergies over three years.

GALLERY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VOICES
India Inc on Call
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Key takeaways from the post results management commentary for 148 companies, with links to the full earnings call transcripts
Links to our Results Updates on each of the companies included
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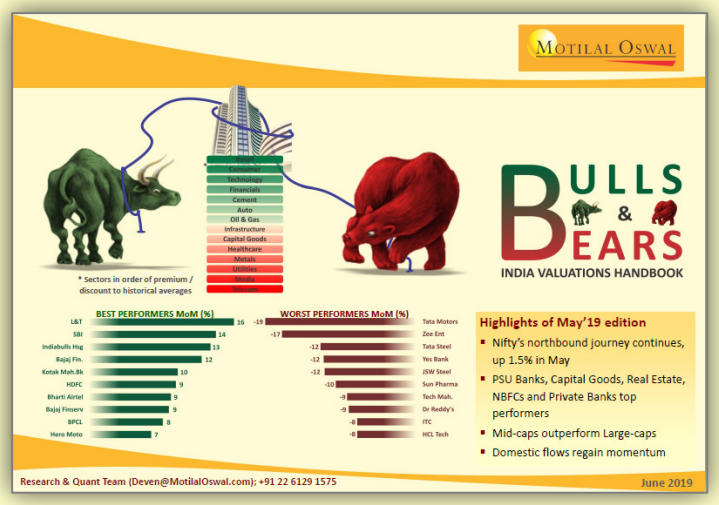
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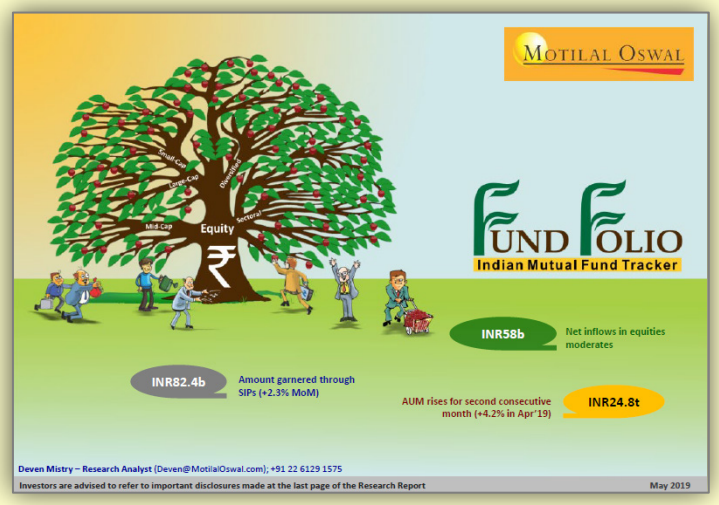
BULLS & BEARS
INDIA VALUATIONS HANDBOOK
* Sectors in order of premium / discount to historical averages
BEST PERFORMERS MoM (%)
WORST PERFORMERS MoM (%)
Highlights of May'19 edition
Nifty's northbound journey continues, up 1.5% in May
PSU Banks, Capital Goods, Real Estate, NBFCs and Private Banks top performers
Mid-caps outperform Large-caps
Domestic flows regain momentum
Research & Quant Team (Deven@MotilalOswal.com); +91 22 6129 1575
June 2019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FUND FOLIO
Indian Mutual Fund Tracker
Equity
INR58b
Net inflows in equities moderates
INR82.4b
Amount garnered through SIPs (+2.3% MoM)
AUM rises for second consecutive month (+4.2% in Apr'19)
INR24.8t
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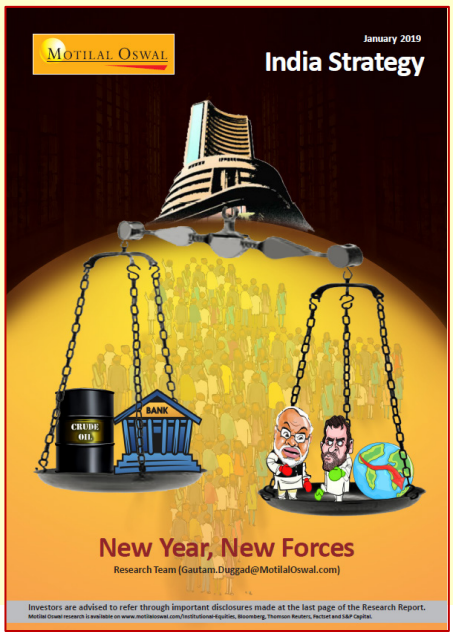
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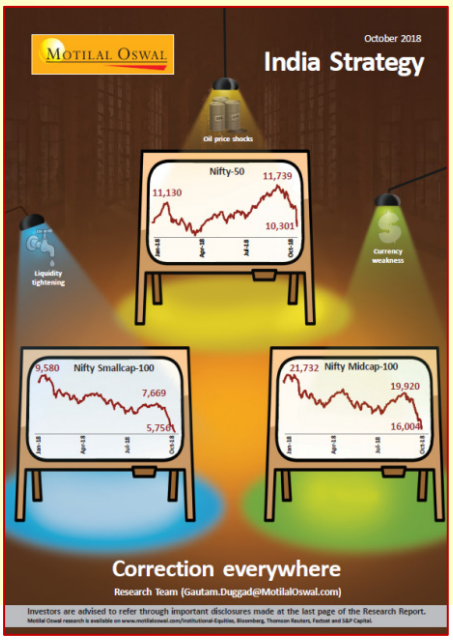
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Liquidity tightening
Currency weakness
Nifty Smallcap-100
Nifty Midcap-100
Correction everywhere
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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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