AMBIT INSIGHTS

8 August 2016

DAILY

Change In Stance

Titan Company Ltd

The glitter is all in the price (Click here for detailed note)

Updates

E&C/Infrastructure

Comeback kid (Click here for detailed note)

Economy

GST standard rate could be revised upwards to ~22%

Technology

Cognizant points to weak demand environment

Cummins India (SELL)

Exports under pressure

Results Update

Union Bank of India (SELL)

No respite in asset quality stress

Techno E&E Co (BUY)

Another strong quarter

Results Expectation

Britannia: (SELL, 5% downside)

Colgate: (SELL, 7% downside)

SRF Ltd: (BUY, 14% upside)

Weeklies

Economy

Utilities

Analyst Notes: Oil & Gas: Risks for GAIL/PLNG as NTPC seeks to end gas supply contract

Ritesh Gupta, CFA, +91 22 3043 3242

Problems with Petronet's long-term contracts have resurfaced with NTPC asking GAIL to terminate 2mmscmd LNG contract having back-to-back supply from Petronet-RasGas LT contract (Livemint, Bloomberg). News article mentions that GAIL was trying to exercise "take or pay" clause as NTPC was offtaking less than 10% of contracted volume. We estimate current RasGas LT contract prices to be US$6-6.5/mmbtu + US$ 2/mmbtu for transportation/regasification/other levies, implying a power price of ~Rs7/kwh vs current spot of Rs 2.5/kwh and blended NTPC average of Rs 3.2/kwh. Given excess capacity in thermal power and uncompetitive LT contracts (effective slope of 13-13.5% of crude), we don't expect gas offtake to materially improve in power sector. We believe end-demand is increasingly shifting from being dependent on absolute pricing to infrastructure expansion and competitiveness vs liquid fuels/coal and might see some disappointments (see 18 May 2016 report, Running out of gas). Recommend booking profits in PLNG (CMP Rs 311; TP Rs 285; SELL) and GAIL (CMP Rs 381; TP Rs 365; SELL).

Source: Ambit Capital research

G&C 10.0

Company name	Weight (%)	Rating	FY17 P/E (x)
PI Industries	3.3	BUY	27.8
Tata Motors	3.3	BUY	9.1
TVS Motors	3.3	BUY	25.7
MRF Ltd.	3.3	NR	8.4
Mahindra CIE.	3.3	BUY	22.3
Atul Ltd.	3.3	NR	18.5
Titan	3.3	SELL	46.8
Page Industries	3.3	BUY	51.0
ITC	3.3	BUY	26.2
HUL	3.3	BUY	40.3
Marico	3.3	BUY	41.3
AIA Engineering	3.3	BUY	25.5
Axis Bank	3.3	BUY	17.3
IndusInd Bank	3.3	BUY	23.7
Bank of Baroda	3.3	BUY	10.3
SCUF	3.3	BUY	20.3
City Union Bank	3.3	BUY	14.1
DCB Bank	3.3	NR	17.1
Havells.	3.3	BUY	37.9
Berger Paints	3.3	BUY	42.2
Supreme Industries	3.3	BUY	29.7
Gujarat Pipavav	3.3	NR	27.7
TCS	3.3	BUY	19.6
HCL Tech	3.3	BUY	13.9
IGL	3.3	BUY	17.9
Lupin	3.3	BUY	25.9
Torrent Pharma	3.3	NR	20.7
Ajanta Pharma	3.3	NR	32.0
Idea Cellular	3.3	NR	21.4
Power Grid	3.3	BUY	12.0

Source: Bloomberg, Ambit Capital research

NR – Not Rated

Note: For further details, please refer our note dated Feb 05, 2016

Please refer to our website for complete coverage universe

http://research.ambitcapital.com

Titan Company Ltd

SELL

CHANGE IN STANCE | TTAN IN EQUITY | August 08, 2016

The glitter is all in the price

Bettering revenue growth rates of 13%/15% in FY17/18E is a tough ask considering double-digit decline in non-Golden Harvest Scheme (GHS) sales in 4QFY16 and 1QFY17 would blunt impact of revenue gains in GHS. We expect PAT growth of 17%/28% in FY17/18E aided by employee cost initiatives. Sustained period of high gold prices (12-18 months) and improving discretionary demand (motivated by income levels) are necessary for pick-up in jewellery demand; whilst this will happen gradually, we fear threat of regulations to overall market size (likely shrinkage by 20%) could be permanent. Valuation of 36x FY18E EPS (near 5-year average; assumes 20% EPS CAGR) capture market share gains and leaves little room for surprises. Downgrade to SELL.

Competitive position: STRONG   Changes to this position: NEGATIVE

Near-term challenges overshadow improved GHS sales

The increase in investment limit in GHS deposits can add ₹5bn-6bn to revenue, though only from FY19E, but will be diluted by underperformance of non-GHS segment. We are increasingly concerned about the recent poor non-GHS revenues (down 18%/14% in 4QFY16/1QFY17), which could continue to partly offset impact of GHS revenue of ₹14bn in FY17E. This puts at risk Titan's target of achieving 15% topline growth in jewellery in FY17.

Cost savings cannot protect margins from near-term risks

Addressing inefficiencies in employee cost (₹300mn annually from FY18-20E) and control on overheads can only manage to somewhat limit steep fall in margins driven by drop in sales growth. Revenue growth will be capped at 16% in FY18E given poor discretionary demand and shrinking market size. So, EBITDA margin improvement will be limited to 9.4% (earlier 9.3%) and 9.9% (earlier 9.6%) in FY17E and FY18E.

We moderate our topline assumptions

We downgrade our jewellery growth assumptions for FY17E and FY18E to 13% (from 17% and below guidance of 15%) and 16% (from 17%) to factor in lower share of non-GHS revenues. However, our earnings estimates are not impacted significantly due to the above-mentioned cost saving measures.

Valuation reflect most positives; limited scope for further re-rating

We see no dent to the franchise in the long-term except risks to demand for jewellery; and like many other leading consumer names in their categories, Titan is now becoming a choice to own irrespective of valuations/risks. The stock trades close to our fair value of ₹404, which captures market share gains (4% to 7%) in a steady market. Given the risks we foresee, we suggest looking for better entry points as near-term growth risks impact the staple-like valuations. Risk to our thesis: A material increase in non-GHS demand.

Key financials

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Revenues	119,134	112,779	126,123	145,106	166,821
EBITDA margin (%)	9.6%	8.3%	9.3%	9.8%	10.1%
Net profit margin (%)	6.9%	6.1%	6.2%	6.9%	7.3%
Adjusted EPS (₹)	9.2	7.8	8.9	11.3	13.8
ROE (%)	36.3%	24.6%	23.9%	27.0%	28.9%
ROCE (%)	32.5%	24.5%	27.6%	30.3%	31.2%
P/E (x)	45.0	53.3	46.7	36.5	30.0

Source: Company, Ambit Capital research

Retail

Recommendation

Mcap (bn):	₹370/US$5.5
6M ADV (mn):	₹610/US$9.1
CMP:	₹416
TP (12 mths):	₹404
Downside (%):	3

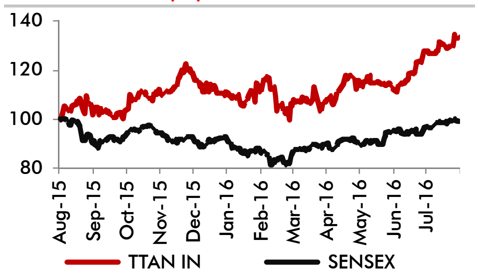
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	RED

Catalysts

- Decline in non-GHS revenues caps revenue growth to 15% in FY18E
- Slow enrollments on GHS could impact revenue and earnings in FY18E.

Performance (%)



Source: Bloomberg, Ambit Capital Research

Research Analyst

Abhishek Ranganathan, CFA

+91 22 3043 3085

abhishekr@ambitcapital.com

Comeback kid

There are early signs of an uptick in T&D spend. Tendering in two large schemes (IPDS, DDUGJY) and Green Corridor have increased in FY16/ FY17. We believe the next five years could be akin to FY04-10 period wherein revenues for top-15 specific players grew 29% CAGR driven mainly by Central Govt schemes akin to those now. However, process issues remain between Centre, States and discoms, and will be the key variable to track. Tendering and project details indicate large opportunities for Rs0.5bn-2bn projects; key opportunities will arise from sub-T&D capex, IT enablement, and rural electrification. Techno's adaptability across T&D and consistent track record of profitable execution make it one of the best bets; equipment manufacturers have a larger opportunity but face competitive intensity risk.

Long underinvestment in power T&D about to change?

Over FY08-14, only 19% of power sector spends were invested in transmission and 14% in distribution (ideally 25% each). With the start of tendering in two Central Govt schemes and Green Corridor, this could reverse over the next few years. Allocations under IPDS and DDUGJY could boost discom capex by 20-25%. Although T&D is a state matter and subject to political will, investors should focus on incremental spends rather than resolution of discoms' financial health; FY04-10 cycle is a testament (29% industry revenue CAGR).

IPDS/ DDUGJY/ Green Corridor - spending to increase

The three large T&D schemes are making progress. Tripartite agreements under IPDS (Rs766bn) have been signed by 36 discoms. Tendering in DDUGJY (Rs823bn spend over FY16-22) and IPDS (Rs823bn spend over FY16-22) combined was Rs174bn in 1QFY17 and Government allocation of Rs85bn can boost discom capex by 20-25% in FY17. Tendering was mainly for the eastern states. Awards under green energy corridor (Rs434bn) have already crossed Rs82bn; another Rs235bn is expected in FY17/18.

Opens up a plethora of opportunities

IPDS/DDUGJY projects are small but hold opportunities for smaller players. With over 80% of project cost towards equipment, manufacturers are likely to be beneficiaries especially if centralized procurement is successful. We expect transmission EPC players to significantly benefit from Green Corridor works and increasing state transco spending as higher discom spending necessitates transmission investments (see exhibit below).

Techno Electric our top pick in the sector

With capabilities across the Power T&D space, Techno's adaptability is likely to ensure the company captures spending in both. Impeccable working capital management, conservative bidding tendencies and control over fixed overheads make it the best play in the sector. Valuations of 18x of the core business EPS is expensive; but strong FCF profile justifies the multiples.

Potential beneficiaries

Scheme	Beneficiaries	Companies
IPDS/ DDUGJY	Distribution equipment manufacturers	Schneider Electric, Voltamp, Siemens, ABB, GE T&D, Crompton, Apar
	Contracting companies with distribution project capabilities	Techno, KEI Ind
Green Energy Corridor	Transmission Equipment manufacturers	ABB, Siemens, GE T&D, Skipper, Crompton,
	Contracting companies	KECI, KPTL, Techno
Knock down effect on state transco capex	Transmission Equipment manufacturers	ABB, Siemens, GE T&D, Skipper, Crompton, Apar
	Contracting companies	KECI, KPTL, Techno

Source: Ambit Capital research

Key Recommendations

Techno E&E Co	**BUY**
Target Price: 770	Upside 12%
Power Grid Corp	**BUY**
Target Price: 175	Upside: 0%

Research Analysts

Nitin Bhasin
+91 22 3043 3241
nitinbhasin@ambitcapital.com

Utsav Mehta, CFA
+91 22 3043 3209
utsavmehta@ambitcapital.com

Economy

Quick Insight

Analysis
Meeting Note
News Impact ✓

GST standard rate could be revised upwards to ~22%

Most policy experts in Delhi expect that the ~15% Revenue Neutral Rate (RNR) and the ~18% standard rate that the Chief Economic Adviser has been pointing towards are unlikely to fructify. According to two top fiscal experts, the true RNR is in fact likely to be ~20%, implying a standard rate of ~22%, and the Government appears highly likely to revise its calculations soon. Our checks suggest that the Monetary Policy Committee (MPC) is likely to be operationalised latest by end-August 2016. As regards the next RBI Governor, our checks at this stage suggest that the front-runners are Dr. Subir Gokarn (former RBI Deputy Governor) and Dr. Urjit Patel (current RBI Deputy Governor) with the probability of the former candidate being higher.

GST: Revenue neutral rate (RNR) to be ~20%, implying a standard rate of ~22%

Our discussions with some of the leading fiscal experts in India yielded the following takeaways with respect to GST:

- Policy experts in Delhi widely expect that the ~15% RNR and the ~18% standard rate that the Chief Economic Adviser has been pointing towards are unlikely to fructify. According to one fiscal expert, the true RNR is in fact likely to be ~20%, implying a standard rate of ~22%, and the Government seems likely to revise its calculations soon.
- This in turn is likely to create a difficult situation for the Central Government because: (a) If the Government opts for a lower rate than ~22%, then the Central fiscal deficit will be subject to serious fiscal pressures as the responsibility of compensating the States for revenue lost has now been squarely placed with the Centre for the next five years. (b) If the Government opts for the higher rate of ~22%, then the Central Government will have to contend with higher inflation, thereby limiting the scope for rate cuts significantly. It is worth noting that the inflationary impact of GST is likely to be concentrated in the first and second year post GST implementation.
- As highlighted in our note dated August 04 (*click here* for the note), the passage of the GST Constitutional Amendment marks the beginning of a fairly tedious legislative and operational procedure that should ultimately result in the implementation of a unified GST in India. Specifically, there seems to be an enormous amount of work left to do with regards to the GST Network, the IT platform on which the taxes will be paid. With the expectation being that the platform has to be robust enough to process 200 tax submissions per second, there is widespread concern in Delhi that the Government appears likely to miss the April 1, 2017 deadline of GST implementation. We expect GST to be implemented at the earliest by 2HFY18.

As highlighted earlier, there is a heightened sense of awareness in BJP circles regarding the adverse impacts of GST implementation and most experts believe that the Government is expected to exhibit a clear pro-revex tilt in FY18 and FY19 in a bid to restrict the likely negative electoral impact of GST.

Monetary policy committee likely to comprise three 'non-Congress' academicians

Our checks suggest that the Monetary Policy Committee (MPC) is likely to be operationalised latest by end-August 2016. Out of the six members of MPC, three members will be from the RBI, including the Governor, the Deputy Governor and one officer of from the RBI. The other three members of MPC will be appointed by the Central Government on the recommendations of a search-cum-selection committee.

Research Analysts

Ritika Mankar Mukherjee, CFA
ritikamankar@ambitcapital.com
Tel: +91 22 3043 3175

Sumit Shekhar
sumitshekhar@ambitcapital.com
Tel: +91 22 3043 3229

The Government has now constituted a search-cum-selection committee which is required to "recommend up to three persons for every vacancy" based on certain eligibility criteria. The Central Government will then make the ultimate decision regarding the external members based on the superset of options provided by this committee.

The eligibility criteria that have been specified for the external members are fairly restrictive as it specifies that the following persons are not allowed to be appointed as external members,

(a) A person who is a member of any Board or committee of the bank,

(b) A person who is an employee of the bank,

(c) A person who is a public servant,

(d) A person who has a material conflict of interest with the bank and is unable to resolve such conflict and

(e) A person who is more than 70 years of age.

This leaves a fairly narrow range of experts who can be made external members of the MPC (with the eligibility criteria (a) being particularly problematic).

This selection committee held its first meeting last week. Based on the highly restrictive selection criteria given above, the few high quality economists who make the cut are: Rakesh Mohan (Executive Director, IMF), Rajiv Kumar (Senior Fellow, Centre for Policy Research), Ashok Lahiri (Chairman, Bandhan Bank board) and Dr. Rathin Roy (Director, NIPFP).

Given the calibre of the economists under consideration, it appears like the MPC will be a relatively independent body if the experts selected are from the realm of academics. Our only concern now remains regarding accountability. Even as the MPC is required to explain to Parliament if it misses the target for 3 consecutive quarters, we worry about the accountability 'in spirit' as: (1) a group is likely to be less accountable as compared to a single governor keen to create a legacy with his personal credibility at stake; and (2) there is no real penalty for missing the inflation target.

As regards the next RBI Governor, our checks at this stage suggest that the front-runners for the top job are Dr. Subir Gokarn (former RBI Deputy Governor) and Dr. Urjit Patel (current RBI Deputy Governor) with the probability of the former candidate being higher at this stage.

Technology

Cognizant points to weak demand environment

Some of Cognizant's largest clients in BFSI segment (40% of revenues) have postponed discretionary spend due to (1) weak macroeconomic environment, specifically low interest rates; (2) uncertainty due to US elections; and (3) uncertainty due to Brexit. This has negative takeaways for TCS/Infosys which derive 40%/33% from the BFSI segment, of which a majority likely come from the same clients. We had cut our revenue growth estimates for our coverage universe post Brexit but based on recent channel checks and disappointing Jun-16 results, it appears even those are at risk. Whilst the structural drivers for the offshore IT services industry (increasing technology intensity, low penetration of offshore) are intact, the near-term outlook is tepid. At current valuations, Wipro (highest exposure to discretionary spend, ongoing management restructuring) is our top SELL. TechM (most insulated from global slowdown; internal margin levers) remains a high conviction BUY.

NEGATIVE

Quick Insight

Jun-16 revenue growth was in line with consensus and guidance

- Cognizant delivered revenue growth of 5.2% QoQ (USD, reported terms), in line with guided range of 4.3-6.2% QoQ growth. The growth was broad-based across verticals and major geographies. BFSI and Healthcare segments delivered positive QoQ growth after a weak Mar-16 quarter when the two verticals saw QoQ revenue decline (-1.7% for BFSI and -4% for Healthcare).
- Reported EBIT margin of 17.5% was 50bps below Street estimates and down 10bps YoY. Mar-16 revenue growth was slightly below consensus estimates.

Key takeaways from the conference call

- **Near-term weakness seen in BFSI (macro driven) and Healthcare (M&A driven)**: The company has once again reduced its revenue guidance for 2016 by 2% to 8.5-9.5% growth due to the following factors (descending order of magnitude): 1) sluggish discretionary spend in 2H16 due to weak macro, low interest rates, impact of Brexit (including second order effect on interest rates and currency); 2) consolidation-driven pause in spending in healthcare; and 3) building-in of some conservatism for other factors, including potential uncertainty due to upcoming US elections. The guidance implies 1.5% to 2.5% revenue CQGR over the next two quarters.
- **...but medium to long term fundamentals remain strong.** Cognizant expects that the current trend of 'increasing technology intensity' in all businesses and the fragmented nature of the IT services industry will continue to drive growth for large IT services players like itself. In the digital space, the market remains fragmented with no clear leader. Along with front-end work, digital projects also involve lot of work related to integration with the back-end and companies with capabilities in both these areas stand to benefit from this shift towards digital. The management sees no signs of clients' IT budgets coming down and expects flat to moderate growth. From BFSI clients, the company is seeing strong traction in digital services related to customer experience, data analytics and private cloud; the focus on cost cutting is also creating more business opportunities. For Healthcare, the long-term opportunity remains strong driven by regulation and focus on medical costs.
- **Platforms is now a key part of Cognizant's strategy** with Digital Transformation and Simplification being the other two components. Clients increasingly demand outcomes (instead of services) and platforms enable this. Cognizan't experience with the Trizetto acquisition has also encouraged it ("worked far better that we could have imagined").

Research Analysts

Sagar Rastogi
sagarrastogi@ambitcapital.com
Tel: +91 22 3043 3291

Kushank Poddar
kushankpoddar@ambitcapital.com
Tel: +91 22 3043 3209

Where do we go from here?

We had cut our revenue growth estimates for our coverage universe after Brexit. See our notes dated *27th June 2016* and *5th July 2016* for details. However, recent channel checks, macro-economic data and disappointing June 2016 results from the leading Indian IT services companies make us even more wary. At current valuations, Wipro is our top SELL and TechM is the only high conviction BUY.

We are worried about Wipro's prospects because of its poor portfolio mix. For instance, even in infrastructure management, the company has high exposure to project-based work which can be quickly ramped down as clients turn nervous. Also, as projects complete it needs to keep hunting for new sources of revenue. It also lacks a domain-expertise-led culture which is increasingly crucial today. Both of these problems are hard to fix overnight and current valuations of 14x FY18E, in-line with five-year averages, are not tempting enough.

We like TechM because: (1) there is ample headroom to improve EBIT margin (FY14A: 19.4% - aspirational margin level, FY16A: 13.3%, FY18E: 15.5%) with internal margin levers; (2) telecom segment growth will likely reaccelerate as it retains competitive advantage (global top-3) and top clients start spending again after a lull. Moreover, with conservative earnings expectations (FY16-18E EPS CAGR of just 8%), current valuations of 11x FY18 EPS, vs 5-year average of 13x, provide a margin of safety.

Exhibit 1: Jun-16 results: revenue growth was in line with consensus while margins were weaker

Cognizant results summary	Jun-16	Mar-16	QoQ	Mar-15	YoY	Consensus	vs. consensus
Revenue (US$mn)	3,370	3,202	5.2%	3,085	9.2%	3,371	0.0%
EBIT	591	554	7%	546	8%	607	-3%
EBIT margin	17.5%	17.3%	20bps	17.7%	-10bps	18.0%	-50bps
EPS (cents)	87	72	21%	62	40%	82	6%

Source: Company, Bloomberg

Exhibit 2: Outlook - 2% downgrade (mid-point) in revenue growth guidance was a negative surprise for the Street

In US$ mn	Guidance	Consensus	vs consensus	old guidance	vs old
Revenue	13,535	13,752	-1.6%	13,825	-2.1%
EPS	338	337	0.4%	338	0.0%

Source: Bloomberg, company

Exhibit 3: Guidance for 2016 implies a sluggish 1.5% to 2.5% CQGR over next two quarters

	Actual	Actual	Guided	Implied	Guided
	Mar-16	Jun-16	Sep-16	Dec-16	2016
Guidance Low end	3,202	3,370	3,430	3,468	13,470
Growth (QoQ/YoY)	-0.9%	5.2%	1.8%	1.1%	8.5%
Guidance High end	3,202	3,370	3,470	3,558	13,600
Growth (QoQ/YoY)	-0.9%	5.2%	3.0%	2.6%	9.5%

Source: Company, Ambit Capital research

Cummins India

SELL

Exports under pressure

Management raised FY17 domestic growth guidance from 8-12% to 10-12% given green shoots of demand recovery in infra, data centres and real estate. Industrial segment should perform well due to product launches and ramp-up in capex by railway, mining and road. Powergen growth is likely to decelerate vs FY16 given further market share gain looks unlikely given higher competitive intensity and sluggish demand. Exports remain under pressure given muted global outlook and weak telecom capex in Africa; export guidance downgraded from flat to flat to marginally negative. We cut FY17 EBITDA by 4% and TP by 3% to Rs558. We reiterate SELL given core thesis of structural decline in EBITDA margin due to: (a) shift in portfolio towards low-margin medium/low KVA, (b) deceleration in distribution segment given shift towards back-up applications. So, valuation of 26x FY18E P/E (~50% premium to five-year average) should de-rate.

Quick Insight

Analysis	
Meeting Note	✓
News Impact	

Stock Information

Bloomberg Code:	KKC IN
CMP (Rs):	866
TP (Rs):	558
Mcap (Rs bn/US$ bn):	240/3.7
3M ADV (Rs mn/US$ mn):	330/3.9

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2	(1)	(18)	(19)
Rel. to Sensex	(0)	(11)	(16)	(25)

Source: Bloomberg, Ambit Capital research

Key takeaways from the conference call

Raised lower end of FY17 domestic guidance and cut export guidance

Management raised the lower end of FY17 domestic revenue growth guidance from 8-12% earlier to 10-12% given green shoots of pick-up in demand from infra-led capex, data centres, low cost residential housing and Pharma. We are building in domestic revenue growth of 9% in FY17.

On exports, management cut FY17 guidance from flat growth to flat to marginally negative given continued weakness in the global powergen market; KKC's export declined by 22% YoY in 1QFY17. Headwinds in exports are likely to continue given weakness in telecom segment in Africa. We now build in flat export revenue in FY17.

Overall, FY17 revenue guidance implies a growth of 6-8%. On margins, management is guiding for maintaining 1QFY17 EBITDA margin of 16.4% vs earlier guidance of maintaining FY16 EBITDA margin of 16.1%. Moreover, management expects margin improvement of up to 100bps under GST (assuming this savings is not passed on to the consumer) given the savings on logistics and freights. We are not factoring in margin improvement due to GST given difficulty in quantifying the impact and sluggish market conditions.

Exhibit 1: FY17 revenue growth guidance is 6-8% vs earlier 5- 8%

Revenue growth YoY (%)	FY15	FY16	FY17 guidance		Comment
			Original	Revised	
Domestic	-3%	16%	8-12%	10-12%	Raising of lower end of guidance led by marginal improvement in demand environment
Export	44%	-3%	Flat	0% to marginal negative	Marginal cut given weakness in the global powergen demand outlook especially in Africa
Blended	10.8%	7.2%	5 to 8%	6 to 8%	

Source: Company, Ambit Capital research

Subdued outlook on exports

Exports declined by 22% YoY in 1QFY17. Management remains bearish on exports given near-term headwinds in demand in Africa, especially in the telecom segment. Whilst KKC's management did not share any outlook on exports to other geographies, Cummins Inc.'s management, in its conference call, highlighted weakness across geographies – North America (weak industrial demand), China (weak mining demand), the Middle East (decline in crude prices) and Europe (continued weakness).

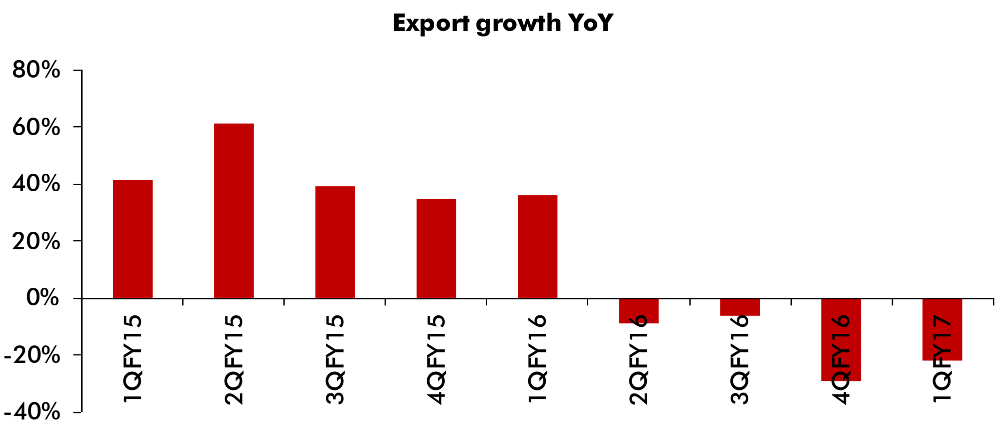
Consequently, management is guiding for flat to marginally negative growth in FY17 exports. However, management's outlook remains upbeat on ramping up exports significantly over FY17-22 (we expect 15% CAGR) given Cummins Inc. is shifting low KVA powergen manufacturing to its low cost manufacturing facility in Phaltan, Pune.

Research Analysts

Bhargav Buddhadev
bhargavbuddhadev@ambitcapital.com
Tel: +91 22 3043 3252

Deepesh Agarwal, CFA
deepeshagarwal@ambitcapital.com
Tel: +91 22 3043 3275

Exhibit 2: Exports remain under pressure; declined 22% YoY in 1QFY17

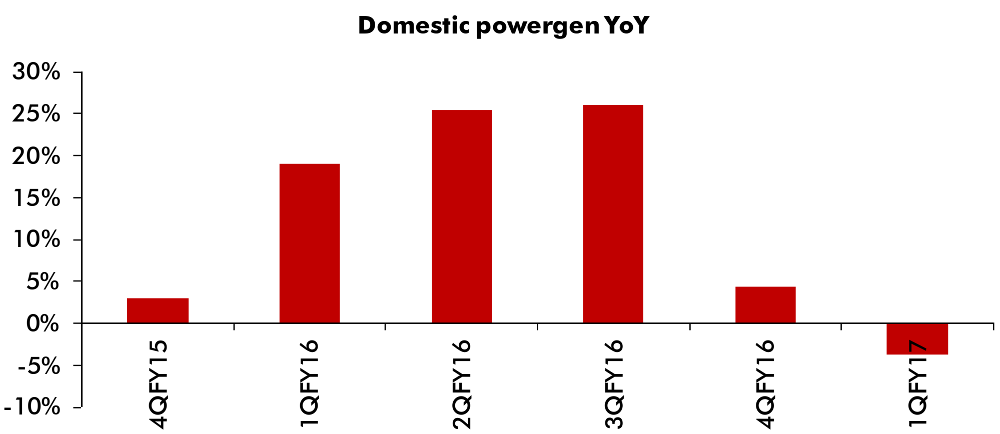


Source: Company, Ambit Capital research

Powergen growth decelerates as market share peaks

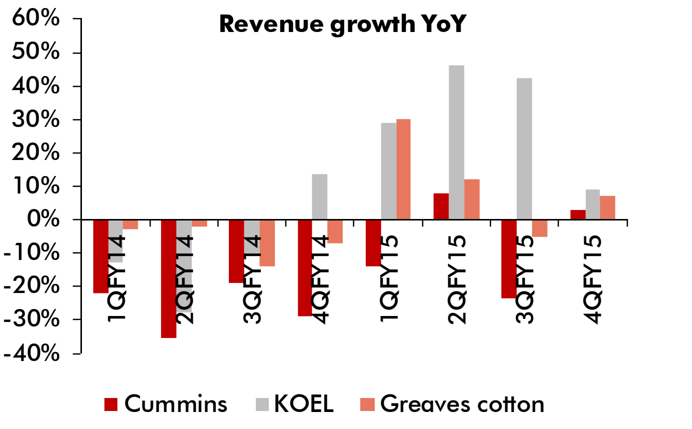
After clocking strong growth of 18% YoY in FY16 led by market-share gains, the company saw it domestic powergen revenues decline by 4% YoY in 1QFY17. Management said the decline was due to lower volumes and would be transient. In FY17, growth in domestic powergen would be led by pick-up in the demand environment rather than market-share gains given scope to improve market share is limited because of higher competitive intensity; MNC players like Perkins have been increasingly focusing on India given sluggish global powergen demand.

Exhibit 3: Domestic powergen revenues declined 4% in 1QFY17 from registering 18% growth in FY16…



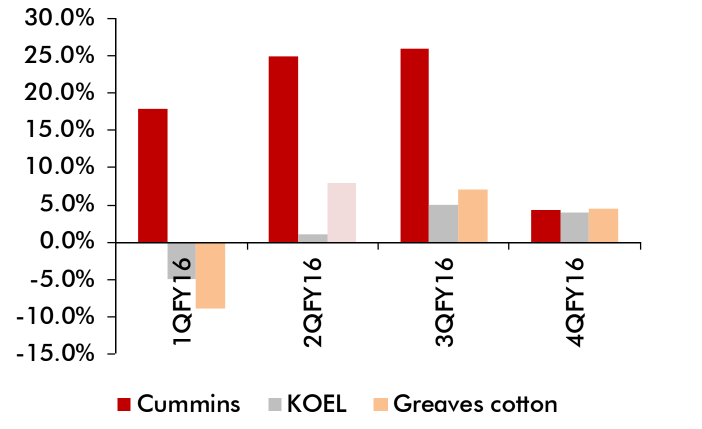
Source: Company, Ambit Capital research

Exhibit 4: ...with market share loss over FY14-15...



Source: Company, Ambit Capital research

Exhibit 5: ...which reversed in FY16



Source: Company, Ambit Capital research, Note – figures for Cummins and Greaves Cotton for 1QFY17 not available

Strong outlook on industrial segment

Management commentary on the industrial segment remained strong given 42% YoY growth in this segment led by growth across the sectors – construction (up 38% YoY), compressor (up 50% YoY), railways (up 40% YoY), and mining (up 60% YoY). Management remains confident that the industrial segment will grow the fastest given: (a) improvement in capex in railways, construction and infra; and (b) expansion of product portfolio – launched QSK 50 engine for railways recently (revenue earning potential of Rs500mn).

Exhibit 6: Industrial segment reported strong, broad-based growth of 42% YoY

Rsmn	1QFY17	1QFY16	YoY
Construction	600	435	38%
Compressor	500	333	50%
Railway	400	286	40%
Mining	200	125	60%
Marine	50	50	0%
Total industrial	**1,750**	**1,229**	**42%**

Source: Company, Ambit Capital research

Where do we go from here?

Given the continued weakness in exports (revenue declined by 22% YoY in 1QFY17 vs our earlier full-year FY17 growth assumption of 11%), we cut our FY17/FY18 export revenue growth estimates from 11%/18% earlier to 0%/15%. Consequently, we cut our FY17/FY18 EBITDA for KKC by 3.5%/4.3% and TP by 2.9% to Rs558 (FY18E P/E of 18x; in line with 5-year historical average). We believe this is a fair multiple given ROIC declined from 46% over FY10-13 to 27% over FY15-16.

Exhibit 7: Change in estimates

Rs mn	Old		New		% deviation		Comments
	FY17	FY18	FY17	FY18	FY17	FY18	
Recommendation	SELL		SELL				
Target Price (Rs/share)	575		558		**-2.9%**		Led by cut in FY17/FY18 EBITDA by 4%/4%
Revenues	**51,764**	**60,177**	**49,961**	**57,603**	**-3.5%**	**-4.3%**	Cut led by lowering of export revenue growth expectation from 11%/18% in FY17/FY18 to 0%/15% given weak global demand scenario
Gross Margin (%)	37.2%	37.2%	37.2%	37.2%	0bps	0bps	No change
EBITDA	**8,231**	**9,628**	**7,944**	**9,216**	**-3.5%**	**-4.3%**	Trickle down impact of cut in revenue
EBITDA Margin (%)	15.9%	16.0%	15.9%	16.0%	0bps	0bps	No change
Depreciation	990	1,071	990	1071	0.0%	0.0%	Cut in FY17 led by lower than expected FY16 closing gross block.
Other income	2,489	3,338	2,398	3,237	-3.6%	-3.0%	Led by lower cash balance due to cut in EBITDA
PBT	9,721	11,887	9,343	11,375	-3.9%	-4.3%	Trickle down impact of cut in EBITDA
Tax rate	18%	26%	18%	26%	0bps	0bps	No change
PAT	7,971	8,796	7,662	8,417	-3.9%	-4.3%	Trickle down impact of cut in PBT

Source: Ambit Capital research

Stretched valuations – P/E de-rating candidate

KKC is trading at stretched multiple of 29x FY18E P/E, which is at ~50% premium to its historical average. KKC's P/E multiple has been re-rated by ~75% since the beginning of Jan 2014 (Phaltan facility was commissioned in 4QFY14) led by strong growth in exports. However, we believe excitement may plummet as investors learn that this export opportunity is only transient as it is led by shift in low KVA manufacturing from Darlington facility of Cummins Inc. in UK to KKC at Phaltan. Moreover, high-KVA is unlikely to emerge as an export opportunity for KKC as Cummins Inc. recently invested ~US$160mn for setting up a high-KVA facility in Chongqing, China (http://goo.gl/F5HsH0) which has per annum revenue potential of US$2bn. The global medium-KVA market is too small for Cummins Inc to consider setting up a manufacturing hub.

Given the improving power situation globally, the global genset industry is unlikely to report double-digit growth. Even in our most optimistic scenario of KKC tapping the entire power genset export opportunity (including low, medium and high KVA) of Rs60bn by FY18, KKC is trading at 18x FY18E P/E. We believe this is punchy especially given the uncertain global demand outlook for gensets compounded by risk of replacement by solar powered batteries.

Moreover, we expect KKC's EBITDA margin to structurally decline, given: **(a)** shift in genset portfolio towards low-margin medium and low KVA, and **(b)** deceleration in distribution and after-sales segment given low running hours for engines used for back-up applications. As margins decline, KKC's punchy valuation should de-rate. We have modelled in an average EBITDA margin of 16% over FY16-18E vs 17% over FY13-FY15, resulting in average RoE declining to 23% over FY16-18E vs 29% over FY13-FY15.

On comparison with Kirloskar Oil Engines (KOEL), the only comparable domestic peer, KKC is trading at a 46% premium on FY18E P/E.

Exhibit 8: Cummins trades at a 69% premium to global powergen players, 46% premium to KOEL on FY18 P/E

Company	Country	CMP	Mcap (US$mn)	P/E (x)		EV/EBITDA (x)		RoE (%)		CAGR (FY16-18) (%)	
				FY17	FY18	FY17	FY18	FY17	FY18	Revenue	EPS
Cummins	India	866	3,567	31.3	28.5	30.1	26.0	22.7	22.0	10.4	5.8
Indian Peers											
KOEL	India	290	628	24.2	19.5	12.1	10.4	11.9	13.9	6.0	27.6
Divergence				**29%**	**46%**	**148%**	**149%**	**1080bps**	**810bps**	**440bps**	**-2180bps**
Global powergen peers											
Cummins Inc.	USA	123	20,785	15.2	15.5	8.8	9.0	18.1	NA	(4.8)	(5.9)
Caterpillar Inc.	USA	82	47,773	23.3	23.0	10.7	10.2	12.3	NA	(8.7)	(11.8)
General Holdings	USA	35	2,338	13.1	12.3	12.6	11.4	19.7	NA	6.5	1.3
Wichai Power	China	10	5,451	21.9	18.4	5.4	4.9	6.5	NA	10.1	27.2
Kunming Unming Yunnepi	China	8	1,013	23.4	16.8	15.3	12.4	9.0	NA	25.0	40.0
Median				**21.9**	**16.8**	**10.7**	**10.2**	**12.3**	**NA**	**6.5**	**1.3**
Divergence with KKC				**43%**	**69%**	**182%**	**155%**	**1040bps**	**NA**	**NA**	**640bps**

Source: Bloomberg, Ambit Capital research; Note: Prices as on 05 August 2016; Calendar year ending for global powergen peers

Balance sheet

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Networth	25,652	28,865	31,713	35,807	40,657
Loans	-	-	-	-	-
Other liabilities	465	631	817	817	817
Sources of funds	**26,117**	**29,496**	**32,530**	**36,624**	**41,474**
Net block (incl. CWIP)	10,149	14,046	18,086	21,596	22,025
Net current assets	11,014	10,800	11,090	11,673	16,094
Investments	4,954	4,650	3,354	3,354	3,354
Application of funds	**26,117**	**29,496**	**32,530**	**36,624**	**41,473**

Source: Company, Ambit Capital research

Income statement

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Revenue	39,767	44,058	47,243	49,961	57,603
EBITDA	6,967	7,351	7,604	7,944	9,216
Depreciation	528	797	810	990	1,071
Interest expense	42	45	9	9	9
Other income	1,777	2,050	2,279	2,398	3,237
PBT	8,175	9,374	9,064	9,343	11,375
Provision for taxation	2,175	1,515	1,546	1,682	2,957
Consolidated adj PAT	6,000	7,043	7,519	7,662	8,417
EPS diluted (Rs)	21.6	25.4	27.1	27.6	30.4

Source: Company, Ambit Capital research

Cash flow statement

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY17E
PBT	8,175	9,374	9,064	9,343	11,375
WC changes	(1,607)	(1,142)	(181)	2,178	(2,330)
Others	(2,945)	(3,221)	(2,328)	(683)	(1,878)
CFO	3,624	5,012	6,556	10,839	7,166
Net capex	(4,678)	(3,304)	(4,523)	(4,500)	(1,500)
Net Investments	1,516	1,296	1,296	-	-
CFI	539	(563)	(1,780)	(4,500)	(1,500)
Others	(4,258)	(4,261)	(4,679)	(3,620)	(3,576)
CFF	(4,258)	(4,261)	(4,679)	(3,620)	(3,576)
FCF	4,163	4,449	4,776	6,339	5,666

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenue growth (%)	(11.8)	10.8	7.2	5.8	15.3
EBITDA margin (%)	17.5%	16.7%	16.1%	15.9%	16.0%
Net margin (%)	15.1%	16.0%	15.9%	15.3%	14.6%
RoCE (%)	21.0	20.6	19.2	18.1	18.0
RoE (%)	24.2	28.8	24.8	22.7	22.0
Net debt / Equity (x)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
P/E (x)	40.0	34.1	31.9	31.3	28.5
P/B(x)	9.4	8.3	7.6	6.7	5.9
EV/EBITDA(x)	34.3	32.5	31.5	30.1	26.0

Source: Company, Ambit Capital research

Union Bank of India

No respite in asset quality stress

Union Bank of India reported 1QFY17 net profit of Rs1.66bn (down 68% YoY), 25/50% below our/consensus estimates. Fresh NPA addition remained elevated in 1QFY17 at 6% (annualised) driving increase in gross NPA ratio to 10.2% and credit cost of 220bps. The underlying operating performance was weak as well with subdued loan growth (3.5% YoY), muted NIM (2.3%) and fee income to assets at 0.7%. Thus, core operating profit was flat YoY. With loans under "SMA-II" staying high at ~6% and blended provision coverage of 34% on stressed loans, we expect credit costs to stay elevated (~140bps over FY17-18). Weak tier-1 capital of 8.4%, along with muted profitability, will keep balance sheet growth weak. We have cut our FY17/FY18 EPS by 13%/1% and expect flat RoA/RoE of ~0.4%/7%. We retain SELL with unchanged TP of Rs110, valuing the bank at 0.35x FY17E BV.

Results overview: Union Bank of India reported 1QFY17 net profit of Rs1.66bn (down 68% YoY), 25%-50% below our and consensus estimates. Fresh NPA addition remained elevated in 1QFY17 at 6% (annualised) driving increase in gross NPA ratio to 10.2% and credit cost of 220bps. Underlying operating performance was weak with slowing loan growth and decline in NIMs. Core operating profit growth was muted at ~2% YoY.

In 1QFY17, fresh addition to NPA was Rs36bn, lower than Rs62bn in 4QFY16, but significantly higher than Rs15-19bn average quarterly run rate in quarters prior to 4QFY16. Most of the fresh slippages arose from iron & steel and power accounts. With recovery/upgrades staying weak, gross NPA thus increased by 13% QoQ, driving credit cost of 220bps in 1QFY17. Standard restructured loans declined by 15% QoQ, but total bad loans increased to ~13.0% of loans (vs 11.9% at end-FY16). Blended provision coverage on bad loans was ~34% vs 33%in 4QFY16.

Both loan book growth and deposit growth were muted at ~3.5% YoY. While corporate loans (51% of loans) were down by 2% YoY, SME loans (21% of loans) increasing by 19% YoY. This was in-line with bank strategy to focus on RAM (Retail, MSME and Agri) segments and diversify away from corporate loans. However, NIMs declined by 11bps YoY to 2.28% (partly due to income reversals), leading to flat growth in net interst income YoY. However, non-interest income increased sharply by 33% YoY due to booking of higher treasury profits. Thus, operating profit increased by 9.2% YoY. Core operating profit grew by just 2% YoY. Tier-1 capital was weak at 8.39%.

The management expect to end FY17 with loan book growth of ~10% with NIM at 2.4-2.5% and gross NPA ratio of 9% along with credit costs of ~150bps. The management thus appears to be expecting NPA recovery/upgrades to pick up in rest of FY17.

Where do we go from here?

Management indicated that loans under "SMA-II" (60-90dpd) category stand at ~6% of loans (unchanged QoQ). Whilst management expects fresh NPA addition to normalise from next quarter, a large pool of un-provided stress on the balance sheet will keep credit costs elevated, in our view. Stressed loans, net of provisions, form ~9% of loans and 98% of equity. We expect credit costs to remain elevated, at ~140bps, leading to muted RoAs and RoEs of 0.4% and 7%, respectively, over FY17-18E. We have cut FY17/FY18 EPS by 13%/1% to reflect elevated credit costs. We remain SELLers with unchanged target price of Rs110, valuing the bank at 0.35x FY17E BV.

SELL

Result Update

Stock Information

Bloomberg Code:	UNBK IN
CMP (Rs):	137
TP (Rs):	110
Mcap (Rs bn/US$ bn):	94/1.4
3M ADV (Rs mn/US$ mn):	771/11.5

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2	17	(33)	(8)
Rel. to Sensex	(1)	6	(32)	(15)

Source: Bloomberg, Ambit Capital research

Ambit Estimates - standalone

Rs bn	FY16	FY17E	FY18E
NII	83.1	90.5	91.8
PAT	13.5	15.2	17.6
EPS (Rs)	19.7	22.2	25.5

Source: Bloomberg, Ambit Capital research

Research Analysts

Ravi Singh
Tel: +91 22 3043 3181
ravisingh@ambitcapital.com

Pankaj Agarwal, CFA
Tel: +91 22 3043 3206
pankajagarwal@ambitcapital.com

Rahil Shah
Tel: +91 22 3043 3217
rahilshah@ambitcapital.com

Exhibit 1: Quarterly snapshot

Earnings Table (Rs mn)	1QFY16	4QFY16	1QFY17	YoY (%)	QoQ (%)	1QFY17E	A/E (%)
NII	**21,302**	**20,847**	**21,023**	**-1%**	**1%**	**20,139**	**4%**
Non-Interest income	**7,832**	**9,964**	**10,399**	**33%**	**4%**	**10,462**	**-1%**
Total Income	**29,134**	**30,811**	**31,421**	**8%**	**2%**	**30,601**	**3%**
Employee Cost	8,533	9,363	8,590	1%	-8%	8,801	-2%
Other Operating Expenses	5,719	7,352	6,581	15%	-10%	6,616	-1%
Total Operating Expenses	14,252	16,715	15,171	6%	-9%	15,418	-2%
Operating Profit	**14,882**	**14,096**	**16,251**	**9%**	**15%**	**15,183**	**7%**
Total Provisions	**6,424**	**15,647**	**13,530**	**111%**	**-14%**	**10,523**	**29%**
PBT	8,458	-1,551	2,721	-68%	-275%	4,660	-42%
Tax	3,270	-2,512	1,058	-68%	-142%	1,561	-32%
Reported Profit	**5,188**	**961**	**1,663**	**-68%**	**73%**	**3,099**	**-46%**
Balance sheet (Rs bn)							
Deposits	3,272.6	3,427.2	3,387.3	4%	-1%	3,461.5	-2%
Net Advances	2,480.8	2,673.5	2,568.6	4%	-4%	2,593.3	-1%
Total Assets	**3,897.9**	**4,047.0**	**4,040.4**	**4%**	**0%**	**3,913.4**	**3%**
Low-cost Deposits (%)	28.3%	32.3%	31.5%				
Loan-Deposit ratio (%)	75.8%	78.0%	75.8%				
Key Ratios							
Credit Quality							
Gross NPAs (Rs mn)	141,436	241,709	272,809	93%	13%	262,210	4%
Net NPAs (Rs mn)	76,338	140,259	158,247	107%	13%	152,082	4%
Gross NPA (%)	5.56%	8.71%	10.17%			9.70%	
Net NPA (%)	3.08%	5.25%	6.16%			5.86%	
Loan Loss Provisions (%)	0.76%	2.98%	2.21%			1.66%	
Coverage Ratio (%)	46.0%	42.0%	42.0%			42.0%	
Capital Adequacy							
Tier I (%)	7.46%	8.14%	8.39%				
CAR (%)	10.14%	10.56%	10.75%				
Du-pont Analysis							
NII / Assets (%)	2.21%	2.10%	2.08%			2.02%	
Non-Interest Inc. / Assets (%)	0.81%	1.00%	1.03%			1.05%	
Operating Cost / Assets (%)	1.48%	1.68%	1.50%			1.55%	
Operating Profits / Assets (%)	1.54%	1.42%	1.61%			1.53%	
Provisions / Assets (%)	0.67%	1.57%	1.34%			1.06%	
ROA (%)	**0.54%**	**0.10%**	**0.16%**			**0.31%**	

Source: Company, Ambit Capital research

Exhibit 2: Change in estimates

	New Estimates		Old Estimates		Change	
	FY17E	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**
Recommendation	**SELL**		**SELL**			
Target price (Rs)	**110**		**110**			
Assumptions						
YoY assets growth	2.9%	3.0%	2.9%	3.0%	0 bps	0 bps
Net interest margins (calculated)	2.31%	2.27%	2.31%	2.27%	0 bps	0 bps
Cost to income	50.6%	53.7%	51.6%	53.7%	-96 bps	0 bps
Credit cost*	1.54%	1.30%	1.35%	1.29%	20 bps	1 bps
Outputs (Rs mn)						
NII	90,540	91,804	90,540	91,804	0%	0%
Operating profit	66,297	63,597	63,797	63,597	4%	0%
Net Profit	15,245	17,559	17,453	17,707	-13%	-1%
EPS (Rs)	22.2	25.5	25.4	25.8	-13%	-1%
ROA (%)	0.37%	0.42%	0.43%	0.42%	-5 bps	0 bps
ROE (%)	7.2%	7.7%	8.2%	7.7%	-100 bps	1 bps

Source: Company, Ambit Capital research

Balance sheet (standalone)

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net worth	168,686	183,362	203,100	218,345	235,904
Deposits	2,976,756	3,168,699	3,427,200	3,564,288	3,706,860
Borrowings	294,276	353,600	309,574	287,156	266,981
Other Liabilities	83,133	96,252	81,273	77,210	73,349
Total Liabilities	**3,522,851**	**3,801,912**	**4,021,147**	**4,146,999**	**4,283,093**
Cash & Balances with RBI & Banks	230,729	223,780	292,762	299,493	313,909
Investments	937,232	844,617	892,083	922,078	959,210
Advances	2,291,044	2,556,546	2,673,540	2,750,991	2,833,994
Other Assets	63,847	176,969	162,761	174,436	175,980
Total Assets	**3,522,851**	**3,801,912**	**4,021,147**	**4,146,999**	**4,283,093**

Source: Company, Ambit Capital research

Income statement (standalone)

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Interest Income	293,494	320,840	321,988	325,650	322,762
Interest Expense	214,701	236,401	238,857	235,110	230,958
Net Interest Income	**78,793**	**84,439**	**83,131**	**90,540**	**91,804**
Total Non-Interest Income	28,215	35,230	36,317	43,672	45,506
Total Income	**107,009**	**119,669**	**119,448**	**134,211**	**137,310**
Total Operating Expenses	54,828	61,434	63,022	67,914	73,712
Employees expenses	33,078	37,855	36,993	39,282	42,217
Other Operating Expenses	21,750	23,579	26,029	28,632	31,495
Pre Provisioning Profits	**52,181**	**58,235**	**56,426**	**66,297**	**63,597**
Provisions	31,511	30,401	38,772	43,372	37,193
PBT	20,670	27,834	17,654	22,925	26,405
Tax	3,726	10,017	4,138	7,680	8,846
PAT	**16,944**	**17,816**	**13,516**	**15,245**	**17,559**

Source: Company, Ambit Capital research

Ratio analysis (standalone)

Year to March (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Credit-Deposit (%)	77.0%	80.7%	78.0%	77.2%	76.5%
CASA ratio (%)	30.0%	29.7%	33.0%	36.3%	34.9%
Cost/Income ratio (%)	51.2%	51.3%	52.8%	50.6%	53.7%
Gross NPA (Rs mn)	95,637	130,309	241,709	282,613	293,355
Gross NPA (%)	4.10%	4.98%	8.71%	9.85%	9.91%
Net NPA (Rs mn)	53,403	69,190	140,259	163,916	167,212
Net NPA (%)	2.33%	2.71%	5.25%	5.96%	5.90%
Provision coverage (%)	44.2%	46.9%	42.0%	42.0%	43.0%
NIMs (%)	2.42%	2.38%	2.22%	2.31%	2.27%
Tier-1 capital ratio (%)	7.5%	7.5%	8.1%	8.5%	8.9%

Source: Company, Ambit Capital research

Du-pont analysis (standalone)

Year to March	FY14	FY15	FY16	FY17E	FY18E
NII / Assets (%)	2.4%	2.3%	2.1%	2.2%	2.2%
Other income / Assets (%)	0.9%	1.0%	0.9%	1.1%	1.1%
Total Income / Assets (%)	3.2%	3.3%	3.1%	3.3%	3.3%
Cost to Assets (%)	1.7%	1.7%	1.6%	1.7%	1.7%
PPP / Assets (%)	1.6%	1.6%	1.4%	1.6%	1.5%
Provisions / Assets (%)	1.0%	0.8%	1.0%	1.1%	0.9%
PBT / Assets (%)	0.6%	0.8%	0.5%	0.6%	0.6%
Tax Rate (%)	18.0%	36.0%	23.4%	33.5%	33.5%
ROA (%)	0.51%	0.49%	0.35%	0.37%	0.42%
Leverage	20.4	20.8	20.2	19.4	18.6
ROE (%)	10.4%	10.1%	7.0%	7.2%	7.7%

Source: Company, Ambit Capital research

Valuation parameters (standalone)

Year to March	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs)	26.9	28.0	19.7	22.2	25.5
EPS growth (%)	-26%	4%	-30%	13%	15%
BVPS (Rs)	267.6	288.4	295.4	317.6	343.2
P/E (x)	5.1	4.9	7.0	6.2	5.4
P/BV (x)	0.51	0.48	0.46	0.43	0.40

Source: Company, Ambit Capital research

Techno E&E Co

BUY

Result Update

Another strong quarter

Techno's continued its strong earnings momentum in 1QFY17 – EPC revenue/ EBIT was up 30%/ 46% YoY. Backed up by a strong wind season, the company's consolidated revenue/EBITDA grew by 34%/ 50%. By our estimate, order inflow could be in excess of Rs6bn during the quarter. The only potential cause of concern was the Rs4.7bn increase in capital employed in the EPC segment. We marginally upgrade our core EPC business earnings by 0-1% and stop consolidating Patran in our estimates. An impeccable track record of execution (control over costs and working capital) and refusal to compromise on margins for growth make Techno amongst the best plays to capitalise on increasing investments in power T&D. Strong FCF generation (core business yield of 6%) provides comfort despite punchy 18x valuations.

Result snapshot – EPC marginally outperforms high expectations; wind drives superlative performance

- **Revenue – marginal beat**

  EPC business revenue increased by 30% YoY vs our expectation of 25% growth. As a result, consolidated revenue growth of 34% to Rs2.7bn was 4% ahead of our expectations and 1% ahead of consensus. Wind business outperformed our expectations by 6%.

- **Margins – EPC business led outperformance**

  EBIT margin in the EPC business was 14.5%, an increase of 160bps YoY vs our estimate of no increase. The wind business margin at 60% was in line with our expectations.

  Due to the margin beat in the EPC business, EBITDA was 12% ahead of our expectations and 1% ahead of consensus and grew by 50% YoY.

- **PAT – finance cost, tax and other income drove 139% growth**

  Net profit of Rs484mn was up 138% YoY vs our and consensus expectations of 50-60% growth. Profit growth was aided by strong growth in other income (up 77% YoY) and lower tax rate (15% vs 29% in 1QFY16). Finance cost was down 20% YoY.

Ind AS restatements

TEEC's consolidated EBITDA was revised *upwards* by 6% for 1QFY16 under Ind AS. The main difference was lower other expense. Finance cost was restated upwards by the same amount. As a result, there was no material change in the reported profits.

However, note that the company has not reported other comprehensive income like peers have.

Questions for the management

The earnings call is scheduled for Monday, 8 August 2016 at 3pm. Key questions for the management:

- With increased tendering under IPDS and DDUGJY, is the company looking to capture larger projects, if the opportunities arise?
- The company's capital employed in the EPC business has increased to Rs1.5bn vs negative Rs3.2bn in 1QFY16. What is the reason for such a sharp increase in capital employed?
- Has the company participated in any new transmission BOOT tenders this quarter and if so, by how much margin did it lose the project?
- Has the momentum in the wind business sustained into the second quarter? What is the valuation targeted by the company for its sale?

Stock Information

Bloomberg Code:	TEEC IN
CMP (Rs):	683
TP (Rs):	770
Mcap (Rs bn/US$ bn):	39/0.6
3M ADV (Rs mn/US$ mn):	24/0.4

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	14	26	28	27
Rel. to Sensex	10	15	29	20

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY16	FY17	FY19
Revenues	11.0	14.6	17.6
EBITDA	2.2	3.4	3.7
EPS (Rs)	16.9	23.0	30.4

Source: Bloomberg, Ambit Capital research

Research Analysts

Utsav Mehta, CFA
utsavmehta@ambitcapital.com
Tel: +91 22 3043 3209

Nitin Bhasin
nitinbhasin@ambitcapital.com
Tel: +91 22 3043 3241

- With PGCIL adopting reverse bidding in its projects, does the company foresee a few lean quarters of order inflows?

Maintain BUY

We have marginally changed our estimates after this quarter's performance. We have upgraded the EPC business revenues for FY17/FY18 by 1%; resultant change on core EPS is 0-1%. We no longer consolidate the Patran Transmission BOOT project. Our consolidated EPS estimates are 17-22% ahead of consensus.

With capabilities across the Power T&D space, Techno's adaptability is likely to ensure the company captures spending in both. Impeccable working capital management, conservative bidding tendencies and control over fixed overheads make it the best play in the sector. We expect a revenue/EPS CAGR of 26%/ 34% over FY16-18E in the core business. Valuations of 18x of the core business FY18E EPS is expensive; but strong FCF profile justifies the multiples (FY17/FY18 core business average FCF yield of 6%). Our TP implies a 21x FY18E core EPS.

Exhibit 1: Consolidated result snapshot – strong performance in both businesses

Rs mn	Jun-16	Jun-15	YoY	Ambit Est	Deviation	Consensus	Deviation	Jun-15 IN-GAAP	Deviation
Revenue	**2,709**	**2,015**	**34%**	**2,601**	**4%**	**2,682**	**1%**	**2,015**	**0%**
EPC	*2,311*	*1,779*	*30%*	*2,224*	*4%*			*1,779*	*0%*
Wind	*399*	*235*	*69%*	*377*	*6%*			*235*	*0%*
EBITDA	**712**	**476**	**50%**	**635**	**12%**	**704**	**1%**	**450**	**6%**
EBITDA Margin	**26.3%**	**23.6%**	**270 bps**	**24.4%**	**190 bps**	**26.3%**	**00 bps**	**22.3%**	**130 bps**
EBIT	**579**	**357**	**62%**	**504**	**15%**			**331**	**8%**
EPC	*335*	*229*	*46%*	*278*	*21%*			*229*	*0%*
Wind	*239*	*95*	*152%*	*226*	*6%*			*95*	*0%*
EBIT margin	**21.4%**	**17.7%**	**370 bps**	**19.4%**	**200 bps**			**16.4%**	**130 bps**
EPC	*14.5%*	*12.9%*	*160 bps*	*12.5%*	*200 bps*			*12.9%*	*00 bps*
Wind	*60%*	*40%*	*1970 bps*	*60%*	*00 bps*			*40%*	*00 bps*
Other income	*82*	*46*	*77%*	*51*	*61%*			*46*	*0%*
Finance cost	*92*	*115*	*-20%*	*110*	*-16%*			*89*	*29%*
Adj PBT	***569***	**288**	***97%***	***446***	**28%**			**288**	***0%***
Exceptional items	*4*	*(247)*	*-102%*	*-*				*(247)*	*0%*
PBT	***574***	**535**	***7%***	***446***	**29%**			**535**	***0%***
Tax	*84*	*158*	*-46%*	*134*	*-37%*			*158*	*0%*
PAT	***489***	***377***	***30%***	***312***	*57%*			***378***	***0%***
Share from assc/ minority	*(0)*	*-*	*NA*	*-*				*(7)*	*-100%*
Net profit	*489*	***377***	*30%*	*312*	*57%*			*370*	*2%*
Adj PAT	**484**	**203**	**138%**	**312**	**55%**	**340**	**42%**	**210**	**-3%**
PAT Margin	18%	10%	780 bps	12%	590 bps	13%	520 bps	10%	-30 bps

Source: Company, Ambit Capital research

Exhibit 2: Change in estimates – we largely maintain our estimates; we also remove Patran from consolidation

	New				Change			
	Standalone		Consolidated		Standalone		Consolidated	
Rs mn	**FY17**	**FY18**	**FY17**	**FY18**	**FY17**	**FY18**	**FY17**	**FY18**
Order Book								
Order inflow (Rs bn)	18.3	21.9	18.3	21.9	0%	0%	0%	0%
Growth (YoY)	*15%*	*20%*	*15%*	*20%*	*00 bps*	*00 bps*	*00 bps*	*00 bps*
Closing order book	31	37	31	37	0%	-1%	0%	-1%
Book to bill	2.4	2.3	2.4	2.3	0.0 x	0.0 x	0.0 x	0.0 x
Income statement								
Revenues	13,318	16,523	14,557	17,613	1%	1%	0%	-1%
Growth (YoY)	*29%*	*24%*	*33%*	*21%*	100 bps	00 bps	-60 bps	-20 bps
EPC	*12,983*	*16,228*	*12,983*	*16,228*	*1%*	*1%*	*1%*	*1%*
Wind	*335*	*295*	*1,574*	*1,385*	*0%*	*0%*	*0%*	*0%*
Wind PLF	25%	22%	25%	22%	00 bps	00 bps	00 bps	00 bps
EBITDA	**2,160**	**2,655**	**3,351**	**3,696**	**2%**	**1%**	**-3%**	**-5%**
EBITDA margin	**16%**	**16%**	**23%**	**21%**	**20 bps**	**00 bps**	**-70 bps**	**-100 bps**
EPC	*15%*	*15%*	*15%*	*15%*	*20 bps*	*00 bps*	*20 bps*	*00 bps*
Wind	*75%*	*75%*	*92%*	*91%*	*00 bps*	*00 bps*	*00 bps*	*00 bps*
Depreciation	138	143	495	503	0%	0%	-14%	-16%
EBIT	2,022	2,512	2,856	3,193	2%	1%	-1%	-3%
PBT	**1,893**	**2,470**	**2,533**	**3,020**	**1%**	**1%**	**2%**	**0%**
EPC	*1,698*	*2,238*	*1,698*	*2,238*	*1%*	*0%*	*1%*	*0%*
Wind	130	100	739	584	*0%*	*0%*	*3%*	*4%*
PBT margin	**14%**	**15%**	**17%**	**17%**	**00 bps**	**00 bps**	**40 bps**	**10 bps**
EPC	*13%*	*14%*	*13%*	*14%*	*00 bps*	*-10 bps*	*00 bps*	*-10 bps*
Wind	*39%*	*34%*	*47%*	*42%*	*00 bps*	*00 bps*	*160 bps*	*180 bps*
PAT	1,457	1,902	2,162	2,536	1%	1%	2%	1%
EPS (Rs)	26	33	38	44	1%	1%	2%	1%
Core EPS (Rs)	23	30	23	30	1%	0%	1%	0%
Balance sheet								
Working capital	1,860	1,648	3,547	3,175	0%	1%	7%	8%
Working Capital turns	6.5	9.4	4.0	5.2	-0.2 x	0.0 x	-0.2 x	-0.4 x
Capital Employed	10,129	11,366	16,146	17,543	0%	0%	-7%	-6%
Capem turns	1.4	1.5	0.9	1.0	0.0 x	0.0 x	0.0 x	0.1 x
Net debt/ Equity	(0.1)	(0.3)	0.0	(0.2)	0.0 x	0.0 x	-0.2 x	-0.1 x
RoE	18%	20%	20%	20%	20 bps	10 bps	30 bps	10 bps
RoCE	16%	18%	15%	15%	20 bps	10 bps	30 bps	50 bps

Source: Ambit Capital research

Exhibit 3: Ambit vs consensus

Rs mn	Ambit	Consensus	%diff
Revenue			
FY17	14,557	14,039	4%
FY18	17,613	16,881	4%
Revenue growth			
FY17	33%	28%	470 bps
FY18	21%	20%	80 bps
EBITDA			
FY17	3,351	2993	12%
FY18	3,696	3406	9%
EBITDA margin			
FY17	23.0%	21.3%	170 bps
FY18	21.0%	20.2%	80 bps
PAT			
FY17	2,162	1,774	22%
FY18	2,536	2,175	17%
EPS			
FY17	37.9	31.08	22%
FY18	44.5	38.111	17%

Source: Bloomberg, Ambit Capital research

Balance sheet

Rs mn	FY16	FY17E	FY18E	FY19E
Shareholder's funds	**10,145**	**11,806**	**13,592**	**15,785**
Debt	5,122	4,333	3,944	3,554
Deferred Tax Liability	8	8	8	8
Sources of funds	**15,275**	**16,146**	**17,543**	**19,347**
Net block	**8,046**	**7,684**	**7,319**	**6,951**
Goodwill	200	200	200	200
Investments (incl current)	**1,547**	**1,547**	**1,547**	**1,547**
Inventories	379	109	136	169
Sundry Debtors	4,963	5,338	6,193	7,560
Cash and Bank	1,116	3,160	5,773	8,120
Other Current Assets	1,181	1,181	1,181	1,181
Loans and Advances	1,105	912	578	251
Trade Payables	2,875	2,686	3,346	4,192
Other Current Liabilities	206	818	1,328	1,542
Provisions	181	481	709	898
Net current assets	**5,482**	**6,716**	**8,478**	**10,649**
Application of funds	**15,275**	**16,146**	**17,543**	**19,347**

Source: Company, Ambit Capital research

Income statement

Rs mn	FY16	FY17E	FY18E	FY19E
Revenue	**10,972**	**14,557**	**17,613**	**21,671**
EPC	*10,143*	*12,983*	*16,228*	*20,286*
Wind	*829*	*1,574*	*1,385*	*1,385*
Total expenses	8,769	11,205	13,917	17,368
EBITDA	**2,203**	**3,351**	**3,696**	**4,303**
EPC	*1,440*	*1,908*	*2,434*	*3,043*
Wind	*764*	*1,443*	*1,262*	*1,260*
EBITDA margin	**20.1%**	**23.0%**	**21.0%**	**19.9%**
Depreciation	495	495	503	511
EBIT	1,709	2,856	3,193	3,792
Interest expense	443	419	372	344
Other income	375	96	198	329
Exceptional income	254	-	-	-
Adj PBT	1,640	2,533	3,020	3,777
Tax	487	435	568	729
Adj PAT	**1,217**	**2,162**	**2,536**	**3,157**
Reported PAT	1,406	2,162	2,536	3,157
Adj EPS (Rs)	21	38	44	55

Source: Company, Ambit Capital research

Cash flow statement

Rs mn	FY16	FY17E	FY18E	FY19E
PBT	**1,894**	**2,533**	**3,020**	**3,777**
Depreciation	495	495	503	511
Others	(184)	323	173	15
Direct taxes paid	(297)	(435)	(568)	(729)
Change in working capital	(1,583)	209	372	(252)
CFO	325	3,125	3,500	3,321
Purchase of fixed assets	1,920	(133)	(138)	(143)
Investments in subs	(1)	-	-	-
Interest/dividend received	71	96	198	329
Sale of Investment	11	-	-	-
Others	(6)	302	250	239
CFI	**1,995**	**265**	**311**	**425**
Proceeds from borrowings	(683)	(789)	(389)	(389)
Change in share capital	-	-	-	-
Interest paid	(459)	(419)	(372)	(344)
Dividends paid	(309)	(137)	(437)	(666)
CFF	**(1,451)**	**(1,346)**	**(1,198)**	**(1,399)**
Change in cash	**869**	**2,045**	**2,612**	**2,347**
Free cash flow	2,245	2,992	3,362	3,178

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

	FY16	FY17E	FY18E	FY19E
Growth				
Revenue	**38%**	**33%**	**21%**	**23%**
EPC	52%	28%	25%	25%
Wind	-34%	90%	-12%	0%
EBITDA	**4%**	**52%**	**10%**	**16%**
EPC	48%	33%	28%	25%
Wind	-33%	89%	-13%	0%
EBIT	13%	67%	12%	19%
PBT	31%	54%	19%	25%
Net profit	16%	78%	17%	25%
Margin				
EBITDA	**20%**	**23%**	**21%**	**20%**
EPC	14%	15%	15%	15%
Wind	92%	92%	91%	91%
EBIT	16%	20%	18%	17%
PBT	15%	17%	17%	17%
Net profit	11%	15%	14%	15%
Balance sheet				
Gross Block Turnover (x)	0.9	1.3	1.6	1.9
Net Block Turnover (x)	1.2	1.9	2.3	3.0
Working Capital turns (x)	3.4	4.0	5.2	6.6
Net debt/ equity	0.3	0.0	(0.2)	(0.3)
Gross debt/ equity	0.5	0.4	0.3	0.2
Net debt/ EBITDA	1.4	0.1	(0.7)	(1.3)
Book value per share	178	207	238	277
Balance sheet				
RoE	13%	20%	20%	21%
RoCE	8%	15%	15%	17%
Valuation				
P/E (ex-embedded value)	33.1	24.3	18.4	14.4
EV/ EBITDA	19.1	11.7	9.8	7.8
P/B	3.8	3.3	2.9	2.5

Source: Company, Ambit Capital research

Britannia: 1QFY17 results expectation

(BRIT IN, mcap US$5.2bn, SELL, TP Rs2,750, 5% downside)

Analyst: Rakshit Ranjan, CFA, rakshitranjan@ambitcapital.com, +91 22 3043 3201

Britannia will report its 1QFY17 results today. We expect revenue growth of 9% YoY to Rs22bn, mainly driven by higher volumes. We expect gross margin to contract by ~30bps YoY due to rising input costs. EBITDA margin is likely to increase by ~70bps YoY to 15% due to operating efficiencies. We expect PAT growth of 12% YoY to Rs2.1bn, ahead of topline growth due to EBITDA margin expansion.

Key things to watch for: (a) biscuit volume growth, (b) performance of its new launches, (c) product innovation pipeline, and (d) EBITDA margin change.

The stock is currently trading at 30x FY18E earnings. We remain SELLers on the stock with a TP of Rs2,750 (5% downside, implying FY18E P/E of 29x).

Exhibit 1: Results expectations (Rs mn, unless specified)

Particulars	Jun'16E	Jun'15	Mar'16	YoY	QoQ	Comments
Sales	22,025	20,186	22,114	9%	0%	Assuming 9% YoY revenue growth driven by higher volumes
EBITDA	3,301	2,884	2,912	14%	13%	Expect gross margin to contract by ~30bps YoY due to rising input costs; EBITDA margin expansion of ~70bps YoY due to operating efficiencies
EBITDA margin (%)	15.0%	14.3%	13.2%	70	182	
PBT	3,131	2,785	2,831	12%	11%	PAT is expected to grow by 12% ahead of top-line due to EBITDA margin expansion
PAT	2,129	1,897	1,902	12%	12%	

Source: Company, Ambit Capital research

Colgate: 1QFY17 results expectation

(CLGT IN, MCap US$3.9bn, SELL, TP Rs895, 7% downside)

Analyst: Rakshit Ranjan, CFA, rakshitranjan@ambitcapital.com, +91 22 3043 3201

Colgate will declare its 1QFY17 results today. We expect gross sales to grow 10% YoY comprising 4.5% YoY volume growth and 6% price/mix-led growth. Our channel checks suggest that Colgate possibly lost market share to Patanjali and Dabur Red and Meswak due to growing demand for Ayurveda-based toothpaste.

We expect gross margin to expand only ~30bps YoY due to end of deflationary pressure in input cost. EBITDA margin should contract by 20bps to 19.8% due to higher A&P spends on new product launches. PAT growth is expected to grow by 4% due to EBITDA margin expansion.

Things to watch for: (a) volume growth during the quarter; (b) market share changes due to higher competitive intensity from Dabur and Patanjali; and (c) EBITDA margin change following the deflation in input costs.

The stock is currently trading at 33x FY18E. We remain SELLers on the stock.

Exhibit 1: Results expectations (Rs mn, unless specified)

Particulars	Jun'16E	Jun'15	Mar'16	YoY	QoQ	Comments
Sales	11,162	10,102	10,988	10%	2%	Assuming 4.5% volume and 6% price/mix-led growth.
EBITDA	2,208	2,018	2,412	9%	-8%	Expect gross margin to expand only ~30bps YoY; higher A&P spends of 13% YoY to impact EBITDA margin
EBITDA margin (%)	19.8%	20.0%	22.0%	(20)	(217)	
PBT	1,988	1,853	2,229	7%	-11%	PAT growth is expected to grow by only 4% due to margin contraction
PAT	1,382	1,331	1,459	4%	-5%	

*Source: Company, Ambit Capital research; Note: * Change in EBITDA margin is in bps*

SRF Ltd: 1QFY17 results expectation

(SRF IN, mcap US$1.3bn, BUY, TP Rs1,750, 14% upside)

Analyst: Ritesh Gupta, CFA, riteshgupta@ambitcapital.com, +91 22 3043 3242

PI will report its 1QFY17 results today. We expect SRF to deliver 8% top-line growth led by 20% growth in chemicals and flat revenues in technical textiles and packaging films. We expect growth in chemicals to be led by higher exports in pharma and a gradual pick-up in global demand for agrochemicals. We expect EBITDA margin expansion of 85bps led by: (a) positive mix impact from higher-margin chemicals business, (b) improving profitability of technical textiles and packaging films; (c) higher leverage on fixed assets (primarily from fixed assets). We expect SRF to report PAT growth of 29% YoY driven by margin expansion and lower tax rates on a YoY basis.

Exhibit 1: Q1 FY17 results expectations

Rs mn	Jun'16	Jun'15	Mar"15	YoY	QoQ	Comments
Technical Textiles Business	4,925	4,925	3,973	0%	24%	
Chemicals & Polymers Business	4,558	3,798	4,320	20%	5%	We expect the chemicals business to grow by 20% led by better pharma revenues
Packaging Films	3,528	3,528	2,873	0%	23%	
Sales (Rs mn)	13,010	12,072	10,931	8%	19%	
EBITDA (Rs mn)	2,985	2,666	2,232	12%	34%	We expect the overall EBITDA margin to improve as operating leverage kicks in and the packaging films unit improves realisations
EBITDA margin (%)	22.9%	22.1%	20.4%	85bps	252bps	Increase in EBITDA margin due to improvement in margins of the chemicals segment
PBT (Rs mn)	1,980	1,650	1,356	20%	46%	Leverage over fixed assets will drive PBT growth of 20%
Adjusted PAT (Rs mn)	1,465	1,132	1,088	29%	35%	We expect PAT to grow at around 29% on a YoY basis driven by EBITDA margin expansion

Source: Company, Ambit Capital research

Economy

Quick Insight

Analysis	✓
Meeting Note	
News Impact	

Ambit's qualitative leading indicators' (QLI) tracker

With qualitative data collected through primary data networks often proving to be a stronger leading indicator of changes in the economy, we collate a weekly tracker that captures these critical qualitative inputs. On the positive front: (1) India's manufacturing and Services PMI registered robust growth in July; (2) coal and cement production lifted core sector growth to 5.2% YoY in June; and (3) the Government adopted a CPI inflation target of 4% (+/-2%) for the period spanning FY2016-2021. On the negative front: (1) the Government sought Parliament's nod for net additional spends Rs209bn (or 0.1% of GDP) in FY17; (2) the Government decided to shelve critical labour reforms in the run-up to key state elections; and (3) the passage of the GST Constitutional Amendment last week marks only the beginning of a long process that should ultimately result in the implementation of a unified GST in India at best by 2HFY18 (vs the 1 Apr 2017 deadline that the Centre is working with).

Research Analysts

Ritika Mankar Mukherjee, CFA
ritikamankar@ambitcapital.com
Tel: +91 22 3043 3175

Sumit Shekhar
sumitshekhar@ambitcapital.com
Tel: +91 22 3043 3229

Exhibit 1: Ambit's qualitative indicators tracker for the week commencing 1st August 2016

Head	Description	Positive/ Negative
Economy: India's manufacturing PMI and services PMI rise in July 2016	▪ The country's manufacturing sector saw a significant uptrend in July, registering the highest reading since April this year as both production and new orders rose. ▪ The Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose to 51.8 in July from 51.7 in June (source: http://goo.gl/DJ19qu). ▪ Simultaneously, India's services sector expanded at the fastest pace in three months. ▪ The Nikkei India Services Business Activity Index, which tracks changes in activity at service companies on a monthly basis, increased to 51.9 in July, up from 50.3 in June (source: http://www.econotimes.com/India-services-PMI-surges-to-three-month-high-in-July-backed-by-strong-business-inflow-243816).	Positive
Economy: Core sector shows robust growth in June	▪ India's core sector grew at 5.2% in June, i.e. the fastest pace in two months on the back of double-digit growth in coal and cement sectors. ▪ The eight infrastructure sectors — coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity — expanded by 3.1% in June 2016 (source: http://www.livemint.com/Politics/gNdxqmZAKhV7NgF00mlAIM/Core-sector-expands-52-in-June.html).	Positive
Economy: India adopts CPI inflation target of 4%	▪ India adopted a CPI inflation target of 4% for the next five years under the monetary policy framework and in line with the RBI's previously stated target under the Governorship of Raghuram Rajan. ▪ The Finance Ministry has notified the consumer inflation target for RBI until 31 March 2021, with an upper tolerance level of 6% and lower limit of 2%. ▪ This prepares the ground for setting up the Monetary Policy Committee that will set rates in keeping with this target (source: http://economictimes.indiatimes.com/news/economy/indicators/india-adopts-inflation-target-of-4-for-next-five-years-under-monetary-policy-framework/articleshow/53564923.cms).	Positive
Automobile: July 2016 volume update - CVs decline; PVs/2Ws buoyant	▪ Passenger vehicle (PV) volumes grew by 11% YoY in July, helped by Maruti making up for impact of production loss on June volumes (92,133 units vs 125,764 in July). Ex-Maruti, industry volumes growth was lower, at 7% YoY but better than 3% in June 2016. ▪ MHCV volumes (down 4% YoY) reported its first decline in 2 years. ▪ However, we maintain FY17 our volume growth estimate of 15% aided by pre-buying in 4QFY17 ahead of the mandatory Bharat IV norms from 1 Apr 2017. ▪ In 2Ws, the top three players (ex-Bajaj) reported 13% YoY volume growth, better than 10% in June 2016. ▪ While Hero (+9% YoY on low base) underperformed industry, TVSM (+15% YoY) fared better. We maintain 12% growth for 2W industry volumes in FY17 (vs 3% in FY16) due to continuing strong demand for scooters/premium bikes in urban areas and improved motorcycle sales in rural areas (normal rains, low base) (*click here* for our note dated August 02 for details).	Neutral
Auto NBFCs: Horses for courses - remain selective	▪ Auto sales data and our channel checks indicate divergent trends in growth, margins and asset quality for various vehicle categories. Used CVs and LCVs are the best performing while PVs are seeing increasing headwinds ▪ We turn BUYers on Shriram Transport and maintain BUY on Cholamandalam as they are the primary beneficiaries of improving LCV/used-CV financing market (40%/90% of AUM). ▪ We remain SELLers on M&M Financial Services as earnings growth will disappoint Street owing to slower-than-expected rural turnaround and headwinds in car/UV loan business (55% of AUM). Magma is a turnaround play and will see earnings growth improving due to better operating efficiencies and economic recovery (*click here* for our note dated August 01 for details).	Neutral

Head	Description	Positive/ Negative
BFSI: New bank licenses - Corporates out, individuals in	▪ The new "on tap" universal bank license guidelines excludes corporates and public entities but includes experienced banking professionals with banking experience as eligible candidates, which is in complete contrast to guidelines issued in Feb 2013 ▪ NBFCs associated with corporate groups can still apply it they form 60% or more of assets/gross income of their respective groups. Apart from increasing overall competitive intensity in the sector, these guidelines pose key man risk for private sector banks where some senior and capable management personnel might decide to pursue their own ventures. ▪ Ineligibility of public entities and stringent guidelines on NBFCs associated with corporate groups becoming banks imply some prominent NBFCs like Power Finance Corporation, Rural Electrification Corporation, LIC Housing Finance, M&M Finance, L&T Finance, Bajaj Finance etc. may be ineligible for license (*click here* for our note dated August 02 for details).	Neutral
Economy: GST - The journey has only begun	▪ Contrary to popular belief, the passage of the GST Constitutional Amendment last week marks only the beginning of a long process that should ultimately result in the implementation of a unified GST in India at best by 2HFY18. ▪ Although the adoption of a unified GST is a major step forward from a long-term perspective, in the short-term we highlight that this is likely to result in: (1) a mild pick-up in inflation as hitherto untaxed goods and services are now brought under the tax net, (2) a meaningful loss of jobs in the informal sector as this sector will no longer be able to fly under the radar of the taxman, and (3) consequently trigger pro-electorate measures in the form of higher revenue expenditure from FY18 onwards as the Central Government begins preparing for the 2019 General Elections (*click here* for our note dated August 04 for details).	Neutral

Source: Media reports, Ambit Capital research

Exhibit 2: Ambit's qualitative indicators tracker for the week commencing 1st August, 2016 (continued)

Head	Description	Positive/ Negative
Economy: Govt. seeks Parliament nod for additional spend	▪ The Government has sought Parliament approval for gross additional spend of Rs1.03tn (0.7% of GDP) and net additional spends of Rs209bn (0.1% of GDP). ▪ The main cash spend related to transfer of Rs50bn to National Employment Guarantee Fund; transfer of Rs70bn to states (including additional assistance of Rs20bn for states affected by natural calamities such as hailstorm and unseasonal rain); providing Rs10bn to Indian Strategic Petroleum Reserves Ltd for Sovereign Strategic Crude Oil Reserve at Vizag, Mangaluru and Pudur, and Rs10bn to Universal Service Obligation Fund (USOF) (source: http://www.thehindubusinessline.com/news/first-batch-of-supplementary-demand-for-grants-tabled-in-lok-sabha/article8928922.ece). ▪ In this context, it is critical to note that the Government has already exhausted 61% of the fiscal deficit target for FY17 in 1QFY17 itself (vs 56% during the same time last year).	Negative
Economy: Labour reforms put on hold ahead of state polls	▪ Big-bang labour reforms proposed by consolidating 44 central laws into four codes may not be implemented any time soon on account of upcoming state elections in Uttar Pradesh and Punjab, setting back the Government's push to improve the ease of doing business in India. ▪ The Government does not want to move ahead with any change that would lead to charges of pro-corporate policy-making. ▪ The shift in strategy comes even after Prime Minister Narendra Modi mentioned his Government's intent to come up with the labour codes in his Independence Day speech last year. Barely 10% of India's total work population, estimated at 480 million, is in the organised sector and a huge part of migrant workers are from states including Uttar Pradesh and Bihar (source: http://economictimes.indiatimes.com/news/economy/policy/labour-reforms-put-on-hold-ahead-of-state-polls/articleshow/53495248.cms).	Negative
Coal India: Weak volume growth of 1.4% YoY in Jul-16	▪ Coal India's production growth came in at 5.5% for Jul-16 but offtake growth was merely 1.4% YoY. Strong offtake growth by ECL, MCL and NCL (>12%) was offset by sharp decline in offtake at WCL (50%) and SECL (6%). ▪ Offtake of 174.4mt in 4MFY17 was ~12.3mt higher than production of 162.1mt, which is typical of 1H. We highlight that overall offtake growth of 1.4% is in line with coal-based power generation growth of 1.1% for the first 28 days of July-16 (overall power generation growth at 1.7%) and coal inventory at plants remains stable MoM.. ▪ With YTDFY17 coal offtake growth being a weak 2.6%, we see risks to our FY17 offtake growth estimate of 8.5%	Negative

Source: Media reports, Ambit Capital research

Utilities

Weekly tracker

In this weekly update, we have compiled the key news flow, regulatory developments and key management/regulator interviews that occurred last week. The key positive news: Coal India to supply blended fuel for import substitution at thermal plants. The key negative news: (a) power generation growth decelerates in Jul 2016; (b) international coal prices surge by ~20% in Jul 2016; (c) Cheyyur UMPP unlikely to be economically viable; and (d) Adani Power's proposed project in Jharkhand fails to get environmental clearance.

NEUTRAL

Quick Insight

Analysis	
News Note	✓
Meeting Note	

Research Analysts

Bhargav Buddhadev
bhargavbuddhadev@ambitcapital.com
Tel: +91 22 3043 3252

Deepesh Agarwal, CFA
deepeshagarwal@ambitcapital.com
Tel: +91 22 3043 3275

Exhibit 1: Key news flow during last week

Sub-Segment / Company	Title	Implications	Description	Source
Power generation	Power generation growth decelerates in July'16 to 1.5% YoY	Negative	Growth in power generation has decelerated from 9.2% YoY in 1HCY16 to 1.5% YoY in Jul'16. Coal based generation increased by only 1.3% in Jul'16 (http://goo.gl/nlvfuo) vs 12.9% in 1HCY16. Average PLF (thermal) for NTPC, JSW and Tata Power has declined from 80%/82%/71% in 1HCY16 to 74%/54%64% in Jul'16. **Our view:** Weak power generation could be on the back on subdued underlying power demand given availability of coal is not an issue (CIL's offtake growth declined from 7% in June'16 to 1.4% in July'16 on back of weak demand from generators). Whilst we were expecting tapering of power generation growth from 9.2% in 1HCY16 to 7-8% (in-line with GDP), power generation growth of 1.5% has surprised us negatively. If the trend persists then we may have to downgrade our earnings estimates for companies under our coverage.	http://goo.gl/5GdpTI
International coal	Global coal prices surge 20% as China, Indonesia reduce output	Negative	Since June-end, average international coal prices have increased by ~20% on a YoY basis. The rise in prices can be attributed to reduced supplies from Indonesia and cut in production at Chinese mines. **Our view:** This is negative for JSW Energy as 65% of its thermal capacity is dependent on imported coal. This is also negative for Adani Power as ~62% of its capacity is exposed to imported coal. Whilst increase in coal prices is negative for Tata Power's Mundra UMPP, on a consolidated basis it is positive for the company as it is net long on Indonesian coal due to its stake in Indonesian mines. Also, Tata Power is seeking compensatory tariff hike at Mundra; a decision likely in 2HFY17	http://goo.gl/BGesRg

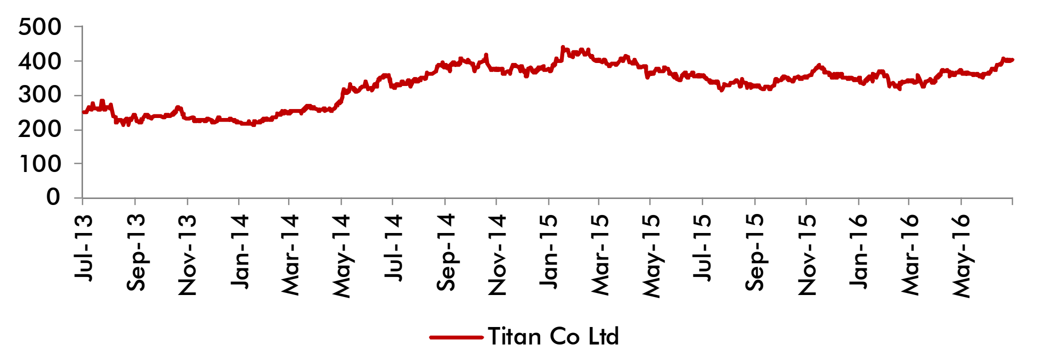
Sub-Segment / Company	Title	Implications	Description	Source
Coal Supply	Coal India to supply blended fuel for import substitution at thermal plants	Positive	Coal India is tweaking its long-term forward e-auction calendar to supply a mix of coal with high-energy and low-energy content simultaneously. According to a CIL official, coastal plants are designed to operate on imported coal which has 30% high-energy content and 70% low-energy high-ash coal. By blending different grades of domestic coal, CIL will supply coal which would be similar to imported coal, i.e. 30:70 ratio of high: low energy mix. As per the CIL official, at current international coal prices, blended domestic coal would be cheaper than imported coal even at farthest port of Krishnapatnam. **Our view:** If CIL manages to supply coal equivalent to imported coal at a cheaper rate (including freight) it will be positive for imported coal-based players like JSW Energy, Adani Power, Tata Power (Mundra, if discoms allow to change source of fuel).	http://goo.gl/OFDuuB
UMPP	Cheyyur UMPP electricity to be unaffordable	Negative	As per Institute for Energy Economics and Financial Analysis (IEEFA), 4GW coal-fired Cheyyur UMPP in Tamil Nadu is likely to be a non-starter at best or a financial disaster for consumers. Under the revised bidding guidelines, the levelised cost is likely to be Rs5.93/unit, which is far higher than average generation cost of Rs3-4/unit. **Our view:** We see limited rationale for UMPP in Tamil Nadu given it had power deficit of only 302MW in FY16. With 22 states becoming power surplus by FY19 and ~50GW plants waiting for PPA, there is little need for new capacity. We do not build in any UMPP orders for BHEL and Thermax in FY17-FY18.	http://goo.gl/skfCK1
Adani Power	Adani Power project to supply electricity to Bangladesh crosses major hurdle	Negative	Adani Power's project of 1.6GW in Jharkhand is gathering steam due to lack of environmental clearance. This Rs139bn coal-based project was planned under a partnership agreement with Bangladesh in Jan'10 (PPA with Bangladesh Power Development Board). **Our view:** We are skeptical of any capacity expansion by Adani Power given funding constraints; Adani has a debt of Rs495bn on its balance sheet (debt:equity of ~7x) despite aggressive accounting (it has accrued all compensatory tariff hike despite pending litigation) and has still not paid Avantha for the acquisition of Korba's 1320MW.	http://goo.gl/2CetcU
NTPC	NTPC plans to scale up coal output to meet 25% of needs	Neutral	After the opening of Pakri-Barwadih mine in May'16, NTPC is now guiding for ramping up its captive coal production and meeting 25% of coal requirement from captive mines over a longer tenure (timeline not given). It is also guiding for mining 1MT from Pakri-Barwadih mine in FY17 and ramping up production to 18MT by FY20. **Our view:** We are not excited by NTPC's guidance on captive mining given the history of slow pace of work at NTPC's mines. Note that NTPC has failed to mine coal from Pakri-Barwadih block in the past 12 years due to slow pace of work and cancellation of MDO. If NTPC manages to ramp up captive coal production it would be positive for NTPC's PLF as its new plants will get more coal vs ACQ (annual contracted quantity) of 70-75% on coal received from CIL under FSA.	http://goo.gl/khMzio

Source: Media reports, Ambit Capital research

Institutional Equities Team

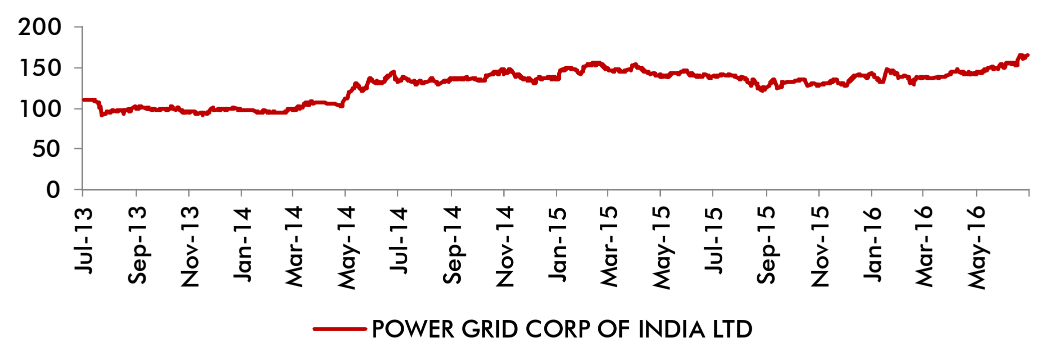
Saurabh Mukherjea, CFA	CEO, Institutional Equities	(022) 30433174	saurabhmukherjea@ambitcapital.com
Research Analysts			
Name	**Industry Sectors**	**Desk-Phone**	**E-mail**
Nitin Bhasin - Head of Research	E&C / Infra / Cement / Industrials	(022) 30433241	nitinbhasin@ambitcapital.com
Aadesh Mehta, CFA	Banking / Financial Services	(022) 30433239	aadeshmehta@ambitcapital.com
Aakash Adukia	Oil & Gas / Chemicals / Agri Inputs	(022) 30433273	aakashadukia@ambitcapital.com
Abhishek Ranganathan, CFA	Retail	(022) 30433085	abhishekr@ambitcapital.com
Achint Bhagat, CFA	Cement / Home Building	(022) 30433178	achintbhagat@ambitcapital.com
Anuj Bansal	Mid-caps	(022) 30433122	anujbansal@ambitcapital.com
Ashvin Shetty, CFA	Automobile	(022) 30433285	ashvinshetty@ambitcapital.com
Bhargav Buddhadev	Power Utilities / Capital Goods	(022) 30433252	bhargavbuddhadev@ambitcapital.com
Deepesh Agarwal, CFA	Power Utilities / Capital Goods	(022) 30433275	deepeshagarwal@ambitcapital.com
Dhiraj Mistry, CFA	Consumer	(022) 30433264	dhirajmistry@ambitcapital.com
Gaurav Khandelwal, CFA	Automobile	(022) 30433132	gauravkhandelwal@ambitcapital.com
Girisha Saraf	Mid-caps / Small-caps	(022) 30433211	girishasaraf@ambitcapital.com
Karan Khanna, CFA	Strategy	(022) 30433251	karankhanna@ambitcapital.com
Kushank Poddar	Technology	(022) 30433203	kushankpoddar@ambitcapital.com
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 30433206	pankajagarwal@ambitcapital.com
Paresh Dave, CFA	Healthcare	(022) 30433212	pareshdave@ambitcapital.com
Parita Ashar, CFA	Metals & Mining / Aviation	(022) 30433223	paritaashar@ambitcapital.com
Prashant Mittal, CFA	Strategy / Derivatives	(022) 30433218	prashantmittal@ambitcapital.com
Rahil Shah	Banking / Financial Services	(022) 30433217	rahilshah@ambitcapital.com
Rakshit Ranjan, CFA	Consumer	(022) 30433201	rakshitranjan@ambitcapital.com
Ravi Singh	Banking / Financial Services	(022) 30433181	ravisingh@ambitcapital.com
Ritesh Gupta, CFA	Oil & Gas / Chemicals / Agri Inputs	(022) 30433242	riteshgupta@ambitcapital.com
Ritesh Vaidya, CFA	Consumer	(022) 30433246	riteshvaidya@ambitcapital.com
Ritika Mankar Mukherjee, CFA	Economy / Strategy	(022) 30433175	ritikamankar@ambitcapital.com
Ritu Modi	Automobile	(022) 30433292	ritumodi@ambitcapital.com
Sagar Rastogi	Technology	(022) 30433291	sagarrastogi@ambitcapital.com
Sumit Shekhar	Economy / Strategy	(022) 30433229	sumitshekhar@ambitcapital.com
Utsav Mehta, CFA	E&C / Industrials	(022) 30433209	utsavmehta@ambitcapital.com
Vivekanand Subbaraman, CFA	Media	(022) 30433261	vivekanands@ambitcapital.com
Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Sarojini Ramachandran - Head of Sales	UK	+44 (0) 20 7614 8374	sarojini@panmure.com
Dharmen Shah	India / Asia	(022) 30433289	dharmenshah@ambitcapital.com
Dipti Mehta	India / USA	(022) 30433053	diptimehta@ambitcapital.com
Hitakshi Mehra	India	(022) 30433204	hitakshimehra@ambitcapital.com
Krishnan V	India / Asia	(022) 30433295	krishnanv@ambitcapital.com
Nityam Shah, CFA	USA / Europe	(022) 30433259	nityamshah@ambitcapital.com
Parees Purohit, CFA	UK / USA	(022) 30433169	pareespurohit@ambitcapital.com
Praveena Pattabiraman	India / Asia	(022) 30433268	praveenapattabiraman@ambitcapital.com
Shaleen Silori	India	(022) 30433256	shaleensilori@ambitcapital.com
Singapore			
Pramod Gubbi, CFA – Director	Singapore	+65 8606 6476	pramodgubbi@ambitpte.com
Shashank Abhisheik	Singapore	+65 6536 1935	shashankabhisheik@ambitpte.com
USA / Canada			
Ravilochan Pola - CEO	Americas	+1(646) 361 3107	ravipola@ambitpte.com
Production			
Sajid Merchant	Production	(022) 30433247	sajidmerchant@ambitcapital.com
Sharoz G Hussain	Production	(022) 30433183	sharozghussain@ambitcapital.com
Jestin George	Editor	(022) 30433272	jestingeorge@ambitcapital.com
Nikhil Pillai	Database	(022) 30433265	nikhilpillai@ambitcapital.com

Titan Co Ltd (TTAN IN, SELL)



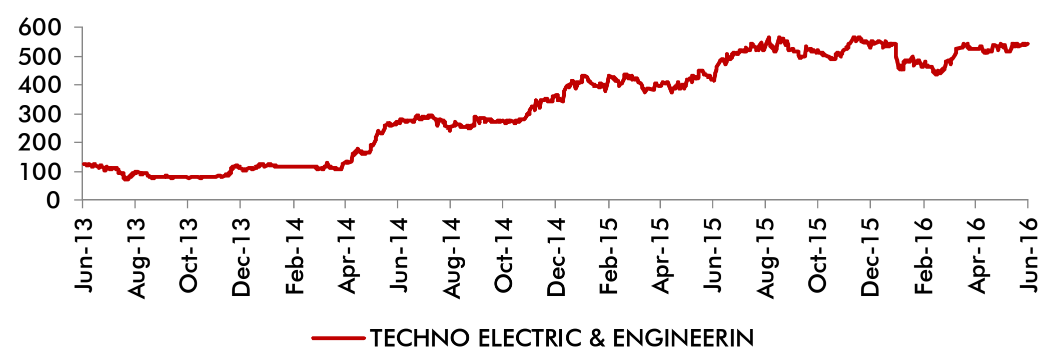
Source: Bloomberg, Ambit Capital research

Power Grid Corp of India Ltd (PWGR IN, BUY)



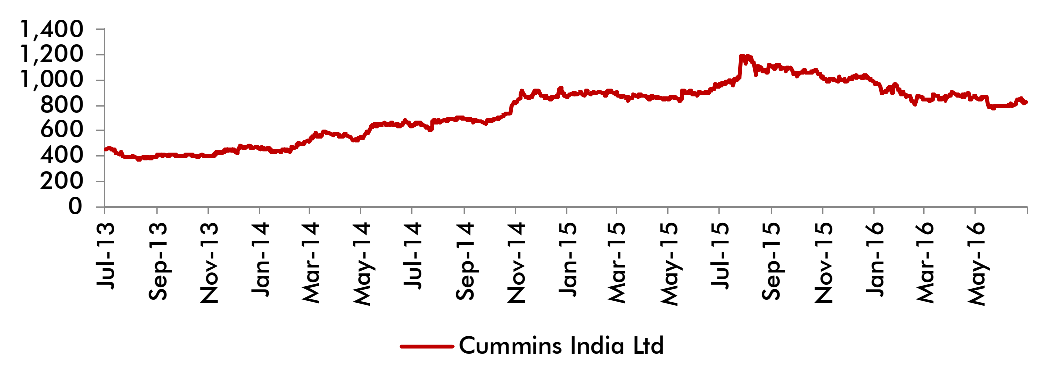
Source: Bloomberg, Ambit Capital research

Techno E&E Co. (TEEC IN, BUY)



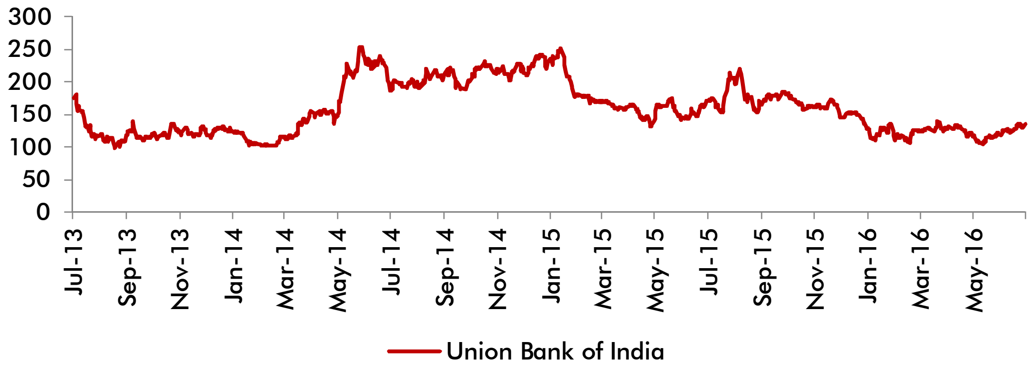
Source: Bloomberg, Ambit Capital research

Cummins India Ltd (KKC IN, SELL)



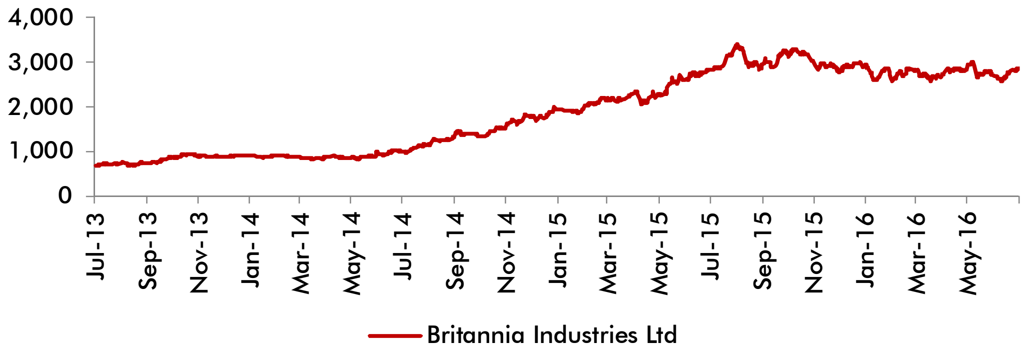
Source: Bloomberg, Ambit Capital research

Union Bank Of India (UNBK IN, SELL)



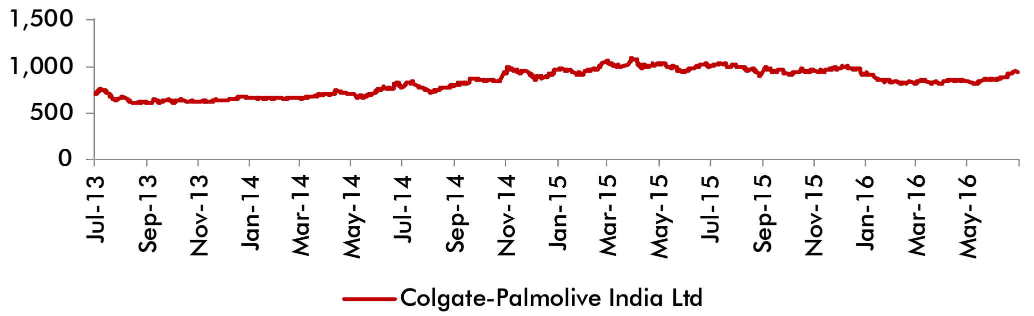
Source: Bloomberg, Ambit Capital research

Britannia Industries Ltd (BRIT IN, SELL)



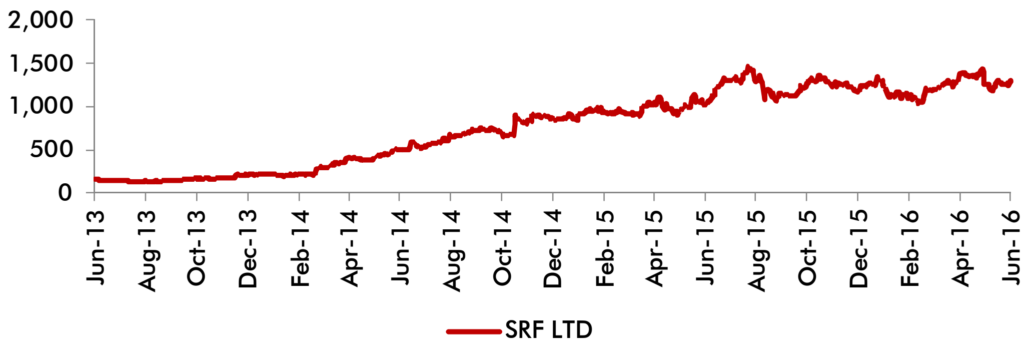
Source: Bloomberg, Ambit Capital research

Colgate Palmolive (India) (CLGT IN, SELL)



Source: Bloomberg, Ambit Capital research

SRF Limited (SRF IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>10%
SELL	≤10%
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NOT RATED	We do not have any forward looking estimates, valuation or recommendation for the stock
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs

Disclaimer

AMBIT
Acumen at work

Ambit Capital Pvt. Ltd.
Ambit House, 3rd Floor. 449, Senapati Bapat Marg,
Lower Parel, Mumbai 400 013, India.
Phone: +91-22-3043 3000 | Fax: +91-22-3043 3100
CIN: U74140MH1997PTC107598
www.ambitcapital.com