Aspiring India

Ground View Conference: Key takeaways

7 June 2017

Our **Aspiring India – Ground View Conference on 30th May,** in which we hosted many eminent companies, was a big success! This report highlights the key takeaways from our interactions.

India Research Team

Boardroom meeting participants:

- ✓ **Allcargo**
- ✓ **Blue Dart**
- ✓ **Consumer sector channel partners**
- ✓ **Container Corporation**
- ✓ **Engineers India**
- ✓ **Escorts Ltd.**
- ✓ **Fleet operator & Transport Association**
- ✓ **Gulf Oil Lubricants**
- ✓ **HCC**
- ✓ **Hindustan Unilever Ltd**
- ✓ **HPCL**
- ✓ **JK Cement**
- ✓ **L&T Technology Services**
- ✓ **LIC Housing Finance**
- ✓ **Mahindra CIE**
- ✓ **Mahindra Finance**
- ✓ **Majesco Ltd**
- ✓ **Manappuram Finance**
- ✓ **Navkar**
- ✓ **Pennar Industries**
- ✓ **Royal Orchid**
- ✓ **Sanghi Industries**
- ✓ **Shriram City Union Finance**
- ✓ **Shriram Transport Finance**
- ✓ **Sintex**
- ✓ **Thyrocare Technologies Ltd**
- ✓ **Transport Corporation of India**
- ✓ **White Organic Agro**

Allcargo Logistics

- Business: Global multimodal transport operations (non-vessel-operating common carrier, less than container load, and full container load), pan-India container freight stations, inland container depots, third-party logistics, warehousing, ship owning and chartering.
- It is able to protect margins in the MTO business due to the cost-plus model. It books slots on container ships in advance with significant discounts and charges a single rate to customers (importer or exporter) including shipping and handling with 25-30% gross margin. It has been able to maintain EBITDA margins at 4.5-5.5% in MTO.
- New CFS at Kolkata port (100,000 TEU) to be operational by Q2FY18 with capital expenditure of about Rs 400mn.
- No major impact of DPD (direct port delivery) on CFS at JNPT. Expanded warehousing capacity at JNPT with capex of Rs 350mn.
- Maintained EBIT in CFS, despite lease rental CFS at Kolkata and the expenses of managing a new CFS at Mundra.
- Projects and equipment margin/revenue hit in Q4 due to transfer of freight-forwarding business and slowdown in projects. Dry-docking of a ship also lowered profits.
- Final due diligence for Jhajjar Logistic Park is done. Acquired land and applied for rail connectivity. Expects to set up this facility over two years with a capex of Rs 4-5bn.

Blue Dart

- Business: South Asian courier and integrated express package distribution company. Domestic network covering over 35,004 locations. Services more than 220 countries and territories worldwide through group company DHL. Only scheduled cargo airline in India with a dedicated fleet of freighters and infrastructure support (six Boeing 757 freighters offering a revenue payload of over 370 tonnes per day).
- ~46% market share in the organised air-express market, 13% in express-ground.
- Derives ~80% revenue from air express, rest from the ground segment. E-commerce contributes ~24% to revenue and promises high growth; industry growth seen at 20-25% over the next five years.
- Warehouses across 79 locations across in India. Bonded warehouses at seven major metros – Ahmedabad, Bangalore, Chennai, Delhi, Mumbai, Kolkata, and Hyderabad.
- GST implementation will be positive for organised logistic players due to an increase in 3PL activities.

Consumer sector channel partners' takeaways

The focal point of this year's discussion with the channel partners was the implementation of GST. Apart from this, growth prospects for various categories were also discussed. The general mood was upbeat.

Key takeaways from the discussions:

FMCG

- Companies have more or less worked out the impact of GST taxes on their portfolio. For most companies, it seems GST rates will be similar to current tax rates.
- The threat and disruption because of channel destocking seems to be exaggerated, as companies have assured the channel of compensation in case of losses.
- P&G has announced an additional 5% channel incentive scheme to prevent channel destocking. This scheme is in addition to an existing scheme, and is very lucrative.

- The whole channel is still very active and may not see any major destocking in the near term. Closer to GST implementation, there could be lesser inventory push.
- GST brings huge benefits as it simplifies tax payment and refunds. Channel partners indicated there would be no need to visit tax authorities as they can manage everything online, which will significantly improve productivity and save costs.
- Growth rates across categories have normalised and demonetisation impact is now restricted to a few pockets. Discretionary categories, including personal care, are growing at a reasonable pace.

Paints

- GST rate is prima facie very high and the channel is quite unhappy.
- This industry will continue to grow at robust pace.
- Market leader Asian Paints will manage double-digit growth because of its ability to manage dealers across categories.

Tobacco

- Cigarettes volumes have recovered and growth continues to be in single digits.
- Currently the market in Maharashtra is impacted by incoming illegal cigarette stocks from other states where VAT rate is high.
- Do not expect cigarette prices to change meaningfully due to new GST rates and expect volume growth trajectory to continue. Expect GST to be positive for ITC because it will help legal cigarettes compete against illegal ones. It will also bring a uniform tax rate on cigarettes across states, which will help bring efficiencies in logistics chain and inventory management.
- ITC's 'FMCG Others' is growing in high single to double digits.
- Biscuits is growing in double digits. Yippee noodles has been able to retain share even after Maggi noodles were reintroduced. The flour (*atta*) category continues to do well. *Engage Deos* has received good response from customers. Personal care category growth is slightly sluggish due to high competitive activity and subdued demand.
- Trade channel is not yet ready for GST implementation in terms of compliance and this may lead to some disruptions in channels for the next 1-2 quarters.
- Currently, ITC has not offered any additional margins to the trade channel to reduce the possibility of retail inventory stock-outs during GST implementation.

Container Corporation

- In FY17, originating volume in exim was +5%, +10% for the domestic segment. Management expects exim handling volume growth of 10-12% in FY18.
- Exim running costs declined by 42% yoy to Rs 253mn. Number of double-stacking trains increased to 397 in 4Q from 37 yoy. Expect benefit of double-stacking to continue.
- The benefit of Services Exports from India Scheme (SEIS) is expected at Rs 1.3-1.4 per annum until 2020.
- Started five multi-modal logistics parks (MMLPs) in a phased manner out of the 15 it had planned in FY17. Expects additional seven MMLPs to start in FY18.
- Capital expenditure at Rs 1bn in FY17; expects this to continue over the next few years, mainly for logistics parks and rail capacity.
- Market share in exim increased to 75.1% from 73.3% yoy; JNPT market share up 250bps to 81.8%.
- GST is neutral to positive with additional credit on rake (benefit of Rs 20mn per rake). Most customers are corporate, so any tax levied will be passed on.
- JNPT Port used to have an additional container handling charge of Rs 3000 per TEU for railway transport compared to handling charges for road. It has removed in April 2017 for all rail operators which is positive for Concor.

Engineers India

Robust order opportunities, but subdued guidance

- EIL expects Rs 20-25bn of new orders p.a in FY18 and FY19. Orders will be driven by refinery expansions, petchem plants, and fertilisers.
- Work on the west-coast mega refinery is progressing fast. Land for the project has been identified and acquisition will start soon. However, it is unlikely to be an order prospect for FY18-19.
- Efforts to diversify exposure from oil & gas. Looking at infrastructure as a segment for growth. Namami Ganga consultancy project, which was an FY18 prospect, is delayed.
- Revenue growth in FY18 at 10%, FY19 could be +25%. Turnover in FY19 will be skewed towards the turnkey segment.
- Consultancy segment margins in FY18 should be around 25% due to the impact of wage provisions; turnkey margins should be 5-7%.
- Provision write-backs in FY17 were Rs 1.3bn; FY18 likely to be ~Rs 200-300mn in the turnkey segment.
- Competitive intensity in midsized projects is high, large projects (such as Vizag) have better margins.

Escorts Ltd.

- FY17 market share in strong states up by 100bps, weak states up by 50bps.
- Recently launched *Farmtrac 6055 T20* and hopes for market share gains as this tractor provides 25% more fuel efficiency with equal or higher power.
- Expect strong double-digit tractor industry growth in FY18-19. Aims for 15% market-share in the next 3-4 years.
- Sees the CE segment growing by 10-15% in FY18.
- Cost-cutting measures to continue; management eyes 13-15% EBIT margin in agri-equipment by FY20 vs. 10% in FY17.
- New products commercialisation will be a growth driver in railways. Expect locomotive braking system/metro segment products to be launched in FY18.
- Will launch new premium tractors in the 70-90HP segment and small HP tractors in the orchard segment.

Fleet operator and secretary of BGTA

- Operates a 250+ fleet and represents Bombay Goods Transport Association, which has about 2,000 members and a fleet strength of over 100,000.
- Movement of goods has slowed considerably as channel has been largely destocking before GST.
- After GST, the business of small unorganised operators will be hit to only a small extent because 75% of fleets are owned by these players and the industry cannot operate without them.
- Most fleet operators have been expanding by attaching small operators to themselves as organised players do not want the hassle of managing the operational aspect of trucks and prefer to be asset-light.
- GST should lead to some consolidation; Chinese players have started bidding for 49% stake in mid-sized operators.
- Hope that efficiency and KM/day improves post GST, but currently there is confusion and overhang in the industry on the outcome of GST.
- Operators will not be buying trucks in a hurry as: (1) they pre-bought in 4QFY17 to benefit from big discounts despite weak business, and (2) people will wait for 9-12 months for feedback on the maintenance of BS4 vehicles.
- See Bharat Benz gaining strong footing after BS4, as price gap has reduced and its product quality is superior.

Gulf Oil Lubricants

Focused on growth and margin

- GOLI aims to maintain its 2-3x industry volume growth target. Against an expected market growth of 2-3%, GOLI will try to clock double-digit volume growth.
- The company remains margin focussed and would not go for destructive pricing. Across the board, pricing discipline was seen among lubricant players. GOLI was the first player to take a hike in November 2016, followed by a major increase in January 2017.
- Base-oil prices have remained strong but rupee appreciation is helping.
- BS-4 and other upgradations are positive for margins.
- Demonetisation had impacted the infra-mining sector (6-7% of volumes), but it is recovering as cash availability increased.
- Chennai plant capex increased to Rs 1.7-1.8bn from Rs 1.5bn due to higher quality standards. Rs 750mn capex done till now. Plant to commission in Q3FY18. Capacity of 40-50mn ltr annually.
- Geared up for GST. Rate is 18% for most of lube products (with 70% crude-based mineral-oil content), which is positive for demand, as current effective rate is 28%. Lower taxes will be passed on.

HCC

- The company has received Rs 5.4bn against its various claims till date – all from NHAI.
- Currently in possession of letters accepting Rs 18bn of payment to be made to it, in lieu of the 75% payment to be made under the NITI AYOG circular. It is making all efforts to submit bank guarantees for them ASAP.
- NHPC wants a single escrow account for all the cases (claims worth Rs 6.5bn), and hence there has been a delay in this process. Now all formalities are now complete, and HCC should submit the BG/Escrow account details soon.
- As per the S4A restructuring agreement, any money received from claims will have to be first paid towards accrued interest on the sustainable debt – which comes to Rs 2.35bn. Any amount received beyond that will be used to repay the OCDs.
- The new circular by RBI dated 7th May 2017 has been a boost for Lavasa, which already had approval of more than 65% of its bankers and can now go ahead with the proposed restructuring of its debt.
- Execution in FY17 was tepid as the management was occupied with submitting bank guarantees for its claims – which also increased its bank exposure – leading to stretched WC limits. As money starts coming in from claims, its funded exposure will gradually convert into the non-funded part – leading to easing of WC burden. It expects decent double-digit growth in FY18.

Hindustan Petroleum

Strong refining performance

- HPCL's core margins were driven by improvement in distillate yield and maximisation of high-margin products like bitumen and furnace oil, especially during Q4FY17. Refinery utilisation has also been robust since many quarters. Refinery opex is ~US$ 2/bbl.
- HPCL will have a 74% stake in Barmer refinery while Rajasthan state government will hold the remaining 26%. The Rs 430bn project will have an embedded petrochemical complex. It will be able to process imported crude sourced by reverse pumping of the Cairn crude oil pipeline.
- Consolidated profit includes Rs 15bn from Bhatinda refinery and Rs 5bn from MRPL. Bhatinda refinery's gross PAT was hence Rs 30bn on double-digit GRMs.

- Minor expansion at Bhatinda will raise capacity to 11mmtpa from 9mmtpa. Not much change in complexity. Currently shutdown is initiated for commissioning expanded capacity. Capex was low as it is a creeping expansion. HPCL has the entire marketing rights of Bhatinda refinery.
- Gross debt went up at the end of FY17 due to excise duty payments and interim dividend. Currently, debt is at a comfortable level of Rs 150bn or below – Rs 45bn is oil bonds outstanding and Rs 10bn is government receivables. Cost of debt is 7-8%. Long-term debt (forex) is Rs 100bn and short-term is Rs 50bn.
- Share of cashless sales is not as high as expected. It went up after demonetisation, but fell again.
- Lubricant/pipeline segment EBITDA was Rs 7/8bn in FY17. Recurring marketing EBITDA was Rs 42bn.
- Prize Petroleum (upstream business) had a write-down of Rs 1.8-1.9bn.
- Mega refinery work is progressing, though it is still at a preliminary stage.

JK Cement

Robust operating performance will continue to rerate valuations

- UAE operations remain EBITDA positive, but not earnings accretive.
- Management commentary remains positive, especially on volumes. Prices need to improve to deliver earnings.
- Indian operations – commentary remains positive, but management stays cautious on price commentary. All efforts will be towards sustaining better prices; volumes are not an immediate priority.
- Confident of maintaining and sustaining operational efficiencies.
- No major capex plans on the cards, except for maintenance and land purchases.
- Optimistic on demand outlook, but delays not ruled out completely.

LIC Housing Finance

- Loan growth seen at 15%. This does not factor in the opportunity in the affordable housing segment.
- Loan against property and builder loan proportion to remain stable, but change (few bps) cannot be ruled out.
- Spread to remain stable due to lower cost of funds.
- Added two regional offices – in Bhopal and Patna.
- Focus on affordable segment. Channelizing existing work force to cater to the affordable segment.

L&T Technology Services

- For FY18, the company expects to report double-digit organic revenue growth driven by transportation and industrial products.
- LTTS' FY17 revenue growth was impacted by a 15% decline in the process industry, largely driven by delays in capex by its top clients in the US due to political uncertainties from elections and delay in decision-making in telecom and hi-tech.
- With the presence of almost all Indian IT companies apart from global competitors, telecom remains highly competitive. With consolidation in the industry, it does not see major growth in this domain.
- LTTS has a competitive advantage in the process-design domain, and has been able to make inroads into many clients (Shell, Unilever, P&G) because of its parent company L&T. Currently, this segment is reeling under the pressure of lower incremental capex by clients. As capex picks up, LTTS should benefit immensely.
- In May 2017, it acquired US-based Esencia Technologies Inc, a provider of design services in Digital Signal Processing for Communications, Video Security, and Networking. This acquisition will help it to enhance its delivery capabilities in

Perceptual Computing, IoT, Advanced Silicon Products, and Wireless Networking Technologies.

Manappuram Finance

Demonetisation and southern (India) water crisis impacting business

- Business: Largely into gold loans. Also provides SME finance, money transfer, and CV loans.
- Consolidated balance sheet CAGR seen at 20-25% over the next 2-5 years. Housing book to grow to Rs 30bn by FY20 from current Rs 3.1bn.
- Auction was significantly higher in Q4 as MGFL postponed auctions in Q3, resulting in higher yields and decline in GNPA ratio.
- Demonetisation disrupted the working-capital cycle in the organised sector, which is still getting back on its feet. May take 1-2 quarters before things are back to normal.
- Acute water shortage in southern states Karnataka, Tamil Nadu, Kerala, Andhra Pradesh, and Telangana affected business badly – all key markets for MGFL.
- Microfinance portfolio saw sharp rise in GNPA, largely coming from Karnataka, Maharashtra, and Uttar Pradesh.

Mahindra CIE

- Business: A multi-technology automotive components supplier.
- The company will be the only investment vehicle in the forgings segment for CIE.
- M&M is a part of DNA, 50% of CIE's growth has been through acquisitions.
- India customer concentration: 40% exposure to M&M and 15% to Maruti, looking at both organic and inorganic ways to increase Maruti's share.
- Will not buy stressed assets; believe in buying quality assets at a reasonable price.
- Prefer to buy companies through internal accruals; dilution will be the last option.
- Aims for 15% consolidated EBITDA margin by 2020.

Mahindra Finance

Improved cash flows and likely good monsoon augurs well

- Business: Rural-focused NBFC.
- Rural cash flow improved and with good monsoons, it will get better – positive for the company.
- Expects AUM growth of 15% and disbursement growth of 20% in FY18. Sustainable RoA for the business is 2.5% with seasonal peak RoA of around 3%. Commercial vehicles, used vehicles, and SME to drive growth.
- SME/used-vehicles share in the portfolio to increase to 8%/15% from current 4%/8%.
- Higher operating leverage, reduction in opex ratio, and lower credit costs to drive improvement in RoA. Cost-to-income ratio to moderate to around 40% in FY18 and further to 35% in FY19, from current 45%.
- Except Karnataka and Tamil Nadu, all other states saw a drop in GNPA levels. While weak monsoon and negligible mining activity caused stress in Karnataka, political instability was a bugbear in Tamil Nadu. The company has about 12% exposure to these two states with share in GNPA at 15%.
- To raise capital (Rs 13-15bn) in FY18 – this will take care of the next three years of growth.
- Credit cost likely to be 50bps lower in FY18 vs. FY17.
- While UP, Rajasthan, MP, and Gujarat are doing well, Karnataka and Tamil Nadu are in bad shape due to water scarcity, no government spending, and weak mining activity.

Majesco

- Business: Provides insurance technology and core system software solutions to over 120 insurance carriers globally.
- Muted growth in FY17 due to: (1) shifting to cloud impacted the business models of insurance services providers significantly, resulting in lower revenues for IT solutions providers. (2) One of its largest clients ramped down in September 2016 (US$ 2.5mn/quarter), resulting in lower revenues. Expects work to start for this particular client in H2FY18.
- Unlike on-premise, cloud shifting does not have any implementation revenues, hence lower revenues in initial years.
- The company is working with 30 clients on cloud. With 70% of the newer deals on cloud, it expects 100% of its business moving to cloud in the next two years.
- R&D: It expenses out the cost in P&L. For FY17, the product development cost was 14% of revenue. Gross profit margin stood at 48% while EBITDA margin was 5.5% (vs. 1% in FY16).
- Majesco signed an agreement with IBM for joint-go-to-market in November 2016 and secured the first deal in May 2017.

Navkar Corporation

- Business: Container freight stations and rail terminals.
- Rail facility at Vapi will be complete in 20-25 days while the logistics park is 90% complete and likely to be operational by June 2017.
- Board approval for raising Rs 5bn as an enabling provision for capitalising certain opportunities in CFS /ICD. The discussion for sale of land at Panvel is on.
- Total container market in south Gujarat is ~1.5mn TEU vs. Navkar's Vapi ICD capacity of 470,000 TEU per annum. It added 45 customers at Vapi and expects traction after railway starts.
- Limited impact of DPD – 2% drop in volume at JNPT. CFS has started handling DPD cargo at Panvel. The incentive to shipping lines have stopped, which could have a marginal negative impact in the short term.
- Completed installation of all six rubber-tyred gantry cranes (RTGS), increasing the capacity by ~80% to 560,000 TEU at Panvel. Trains handled at Panvel totalled 627 in FY17 vs. 765 in FY16. Import and export volume mix was 53:47 at Panvel.
- Out of the Rs 4.8bn it raised through its IPO, it has utilised Rs 3.6bn, including loan repayment of Rs 872mn. Pending capex of Rs 1.16bn will be complete in 1HFY18.

NHAI

- Current NHDP pipeline of 10,000km is remaining – which should be awarded over the next two years.
- As a next step, Bharatmal project – which comprises of 44,000km of projects – is already underway. DPRs for multiple projects have been awarded – first construction order could be awarded as early as December 2017.
- First TOT package of multiple projects is in the last stages of being awarded by NHAI – expects to raise US$ 1bn from this. Many foreign investors have shown interest.
- Financial closure for HAM projects that were due is achieved, except for one developer (possibly MBL Infra). Initially, banks were reluctant to fund this model – but have agreed after NHAI gave them a detailed presentation about its merits.
- The new chairman is very strict about land acquisition and is not willing to award any project without 90% land acquisition complete. While this may delay order awards, it will ensure that there are no hiccups during execution.

Pennar Industries

- Business: Offers specialised, engineered steel solutions. Precision engineered products, tools and dies. Six manufacturing plants in Hyderabad, Chennai, and Tarapur (Maharashtra).
- Order book: PEBS at Rs 3.7bn, Enviro Rs 2.5bn, Railways Rs 1.6bn, Solar ~Rs 2bn. Expects significant pick up in Enviro with strong order book.
- Planning to sell 28MW solar power assets, this could improve its balance sheet.
- Revenue in Tubes to grow 30% in FY18 on addition of a new tube mill in Hyderabad; increase in CDW sales to 300 tonnes a month and focus on exports.
- Design engineering in PEBS to contribute Rs 100mn in FY17 vs. Rs 50mn in FY15. Capacity addition in design engineering to double revenue in FY18. New engineering facility with 75 seats under Software Export Promotion Program in progress with State Government of Andhra Pradesh for PEBS.
- Steel product and PEBS – both were dented by an increase in steel prices in Q4. Higher inventory of raw material also increased working-capital needs.
- Capex addition of Rs 400mn in FY18 in Solar, Railways and Industrial Component.
- Production at third-party Baroda factory on a job-work basis (in PEBS) remained at ~1,000 tonnes per month in Q4 (800 tonnes per month in Q1). In view of growing volumes, it has taken an additional facility in Hyderabad on lease for paint and fabrication work.

Royal Orchid Hotels Limited

- Business: Hotel chain with 5-star to economy business hotels.
- Focussing on growing through the asset-light model - management contract.
- Expecting to add ~800 keys in the next two years (by adding about a hotel a month). Company had started its first management-contracted hotel three years ago.
- FY17 occupancy @ 70% vs. 69% in FY16, ARR @ Rs 3,600 vs. Rs 3,450 (not much improvement in occupancy because of room addition).
- Swapped debt to long-term with RIICO and TFC. Interest rate reduced to 13% from 16% and repayment increased to 10 years from five. Thus, stress on repayment has reduced.
- Consolidated debt: Rs 820mn. Standalone debt: Rs 415mn. Will deleverage its balance sheet by selling its non-core assets. Selling Mumbai and Tanzania assets.
- In FY17 it added 12 hotels (through management contracts); management expects this trend to continue and will be adding 12 hotels in FY18 through management contracts. It currently has 43 hotels (10 owned + 33 managed).
- GST positive for Royal Orchid. Rate @18% as ARR is below Rs 5,000 – current tax @ 21%.
- All management-contract properties (hotels) are EBIT positive in FY17. Revenue from this – FY17 Rs 105mn, Rs 135mn seen in FY18.
- Expects online booking to increase to 35% over the next 2-3 years from current 25%.

Sintex Industries

- Business: Manufacturing includes a wide range of plastic products including prefabricated structures, industrial custom moulding products, monolithic constructions, and water storage tanks. In textiles, it focuses on the niche segment – men's shirting in the premium fashion category.
- Started 300,000 spindles in phase-1 spinning project in 4QFY17, running at 85% utilisation.
- Phase-2 of 300,000 spindles is likely to start in June 2017 and will take 12 months to reach full capacity. Expects 65% revenue from exports to ~29 countries.

- Expects better realisation and margins in phase-2 due to value-added product mix. Revenue from phase-1 could be ~Rs 14bn with EBITDA margins of 18-20% while phase-2 will be at Rs 16bn with EBITDA margins of ~22% at full capacity.
- Current gross debt is ~Rs 41bn (net debt of Rs 34bn); expects peak debt of Rs 44bn in FY19. Rs 24bn will be capitalised in FY18.

Sanghi Industries

Re-rating triggers visible

- Business: Production and distribution of cement under the brand Name *Sanghi Cement*.
- Management continues to remain confident of timely delivery of the next phase of capacity expansion. Capacity (tonnes) to increase to ~8mn p.a. (current 4mn) by the end of H1FY20 (capex at ~Rs 13bn). Gujarat will continue to be a key target market. Financial closure likely in the next couple of quarters.
- Commentary on demand remains positive, extremely positive on cement prices. Domestic cement volumes have improved 10% yoy and price realisations by +20% qoq – this is in line with our take that Q1FY18 will be a turnaround quarter for the cement industry, and depending on the region of operation, EBITDA/tonne for most players is likely to improve by Rs 200-500/tonne qoq.
- **Sanghi's commentary implies an incremental improvement in EBITDA/tonne of Rs400/tonne (minimum) in Q1 (qoq).**
- Management sounds confident that cement price recovery is sustainable and raised no concerns of a drop in cement prices.
- Market rumours of cement being included in 'essential commodities' were broadly rejected.
- GST remains neutral for the sector. No material price falls expected (after GST implementation) based on the anti-profiteering clause. Marginal opex savings likely, because of reduction in GST rates for inputs – especially fuels. Input credits should also help the cement industry to reduce overall costs.
- Sanghi continues to remain extremely convinced on delivery of better efficiencies than peers in all market conditions because of its advantage of being able to access all markets at lowest cost (domestic and overseas) given its location advantage.
- Overall, we sensed strong optimism on demand and price outlook from Sanghi. We continue to believe that the valuation gap between mid-caps and large-caps will narrow substantially in FY18 driven by better operating results

Shriram City Union Finance

SME to remain a key growth driver

- Business: Deposit-accepting NBFC specialising in retail finance. Offerings include two-, three-, and four-wheeler finance (both new and pre-owned passenger and commercial vehicles), personal loans, small business loans, and loan against gold.
- SME portfolio to remain a key growth driver with share in the portfolio to further increase by 5-10% over the next couple of years.
- Guided for AUM growth of 20-22% in non-gold book and flattish growth in gold-loan book. Expect NIMs to contract by 50bps in FY18 as SCUF gains share in the urban market, where yields are lower.
- Around 70% of the accounts where SCUF took benefit of RBI dispensation in Q3 were upgraded in Q4. Rest 30% likely to be upgraded in Q1/Q2 FY18.
- While the company reported GNPA on 120dpd, if it were to report on 90/150dpd, the GNPA would have been 9.72%/6.16% vs. 9.5%/ 4.49 % in Q3. The management intends to keep provision cover of 60% on 90dpd in Q4FY18.

Shriram Transport Finance

Growth to be back-ended

- Business: Deposit-taking NBFC focused on commercial vehicle finance.
- Average utilisation level for trucks was 22 days, but for the industrial segment, it was slightly lower at 20 days.
- There are 8mn used vehicles of which a third are refinanced every year.
- Aims to keep 62-65% provision cover when it moves to 90dpd by Q4FY18.
- While economic activity is improving, self-employed, proprietors, and SMEs haven't recovered fully from the impact of demonetisation. Expect the impact for two more quarters before seeing a pick-up in demand by September (after monsoons). Expect AUMs to grow by 12-15% in FY18, aided by high government infra spending.
- While the company will remain aggressive in the used category, the new-vehicle segment will see moderate growth until Q2 due to uncertainty over GST.
- NIMs to expand by 15-20bps in FY18 aided by lower costs of funds, even as yields are likely to remain stable.
- Collection efficiency was low in Q4 as customers have still not recovered fully from the impact of demonetisation.

Transport Corporation of India

- Business: Integrated player with a presence in road, rail and sea. All businesses are managed as SBUs. TCI has the capability to provide door-to-door services with multi-modal business.
- GST: Does not see immediate impact – will take 2-3 years for a network redesign. Need to select locations and set up warehouses – which will take time.
- Expects the share of roads (in express) to increase from air with pressure on ecommerce companies to focus on costs and profits.
- Freight business is mainly full truck and small LTL. Planning to increase FTL. Working capital required in FTL is high as business is on credit.
- Believes asset ownership is not a good model in the long term as ownership cost is high. The ownership model suffers badly and India is not well distributed in consumption and distribution.
- Own fleet is mainly for strategic reasons. Believes 20-25% ownership is a good model in truck and warehouse ownership.
- Supply chain: Dedicated business model. After GST, distribution model will change. Currently TCI is helping customers for network studies and mapping out hubs. Most C&F agents are not in a position to provide larger warehouses and services – TCI is planning to provide solutions in this niche.
- Margins 9.0-9.5%. Expects 20-25bps improvement every year with better revenue mix. Looking at minimum 15% ROCE, expects 13% in FY17.
- Capex plan of Rs 1-1.25bn mainly for trucks and ships in FY18.

Thyrocare Technologies Ltd

Ramp up in PET-CT to add value growth

- Business: A chain of diagnostic and preventive care laboratories that offer preventive and health wellness tests on human blood samples.
- Diagnostic market growth at 15-16% currently, but competition (entry of new players) is rising faster than industry growth.
- While pathology business saw healthy double-digit growth, radiology (PET-CT) is challenging.
- 5 PET-CT centres (one cyclotrons). 75 scans per day – implying 15 scans per scanner. At this rate, the radiology business is already PAT positive and any incremental scans (40 maximum per scanner per day) would add to earnings.
- Has plans to set up 60 PET-CT centres with four cyclotrons in the medium term.

- Expects pathology business to earn a profit of over Rs 1bn per year soon (Rs 748mn in FY17) and indicated that 50% of this would be used for dividend payouts and the rest would be ploughed back into radiology.
- In the PET-CT space, currently 90% of the scans are performed in hospitals and just 10% at standalone PET-CT centres. Thyrocare foresees a reversal of this mix, which would drive value growth for the company due to limited competition.

White Organics

- Business: Originally a diamond trading company, which entered organic farming in September 2016. It has its own sourcing and processing units for organic products and has started a retail business.
- Caters to the entire organic product range with 200+ premium organic products in 12 major categories and 17 sub categories.
- Operates in the domestic market currently; will focus on exports from FY19 (after completion of three years for certification).
- Planning to scale up operations to 2000 acres of organic farming land from 530 currently. It has 470 acres of own land while the rest is lease and contracted farmer land.
- Six retail stores are operational in Mumbai, Surat, Baroda, Morbi, and Anand. In the first phase of expansion, it is looking at 50 retail stores in Maharashtra and Gujarat.
- Sees ecommerce as a high-potential way of increasing sales and awareness. It recently launched a fully integrated commerce online gateway and plans to launch a mobile application soon. It has franchise pickup points and an option for home delivery.
- Sells its products under the brand name *White Organics*. Focusing on brand creation and will approach larger retailers such as Big Bazaar in the future.
- Has been successfully granted a manufacturing license from the Joint Commissioner, Food and Medical Control Department, for various organic medicinal and nutritional products (ayurvedic and herbal tablets, capsules and churna for oral consumption as well as few cosmetics).
- Estimates export:import mix at 60:40 over the next five years.

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