Investment Ideas during Market Turmoil

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- ✓ Pre-buying before the BS VI implementation in April 2020 to result in a spur in demand and hence buoyancy in truck sales.
- ✓ Various infra structural developments in the country may lead to the continuity of current growth momentum in H2 FY19 as well.
- ✓ Upcoming elections in 2019 may push MHCV sales on the back of GOI expediting infra reforms
- ✓ Axle norms implementation may pull down truck sales to some extent in the ensuing months, but the intrinsic demand strength may well offset this pull down.
- ✓ New truck launches in the higher tonnage segment (>40T) may help strong volume movement as the industry is shifting towards high range trucks
- ✓ On the LCV side of the business the recent launch of Dost+,Boss, Guru and Captain are taking up the market share (8.8% v/s 7.5% yoy). New launches in 2-5-7T range may add the steam.
- ✓ Continuous gaining of the Defense orders (~10% of topline) from GOI, strong exports penetration (10% of topline), wide AfterMarket (AM) penetration market (20% MS) are further positives.
- ✓ Operating leverage, price increase taken and improving product mix (in favor of higher tonnage trucks, exports, AM and Defense) may counter RM price hikes, from margins point of view
- ✓ At 13.7x times FY20E earnings, the stock looks extremely attractive to us from a mid to long term view.

	Revenues (₹ bn)	EBITDA (₹ bn)	EBITDA margins (%)	PAT (₹ bn)	EPS (₹)	P/E
FY 17	200.19	22.03	11.0%	12.23	4.75	24.1
FY 18	262.48	27.39	10.4%	15.63	5.53	20.7
FY 19E	323.13	32.64	10.1%	18.47	6.49	17.6
FY 20E	388.06	40.75	10.5%	23.71	8.33	13.7

Gabriel India | BUY @ 121 | Target ₹ 174

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- ✓ A strong player in the automobile shock absorber space with a wide spread clientele across the verticals of the automobile industry
- ✓ 25% market share each in the PV and 2W/3W spaces and 85% in CV space.
- ✓ No single client concentration as TVS is the biggest client with 20% contribution to topline followed by MSIL
- ✓ Single source supplier to the likes of Vitarra Brezza, Ignis, S Cross, KUV 1oo, XUV 5oo, Scorpio, Bolero and second source supplier to Alto, Wagon R, Tiago, Tigor and most of the 2Ws from Bajaj, Yamaha, TVS, Suzuki, HMSI and RE
- ✓ Gabriel wins a duopolistic contract to provide to the Alto replacement to be launched next year. This is a big opportunity which may allow the company to gain market share in PVs.
- ✓ The establishment of Greenfield facility at Sanand by Gabriel to cater to the HMSI plant in Gujarat gives an opportunity to gain 2W market share and topline growth.
- ✓ The intrinsic demand at CVs segment will keep the growth buoyant. The shift in topline contribution tilted towards 2Ws now moving towards PVs and CVs to assist margin growth.
- ✓ Rapid increase in dealers and touch points in the AM business (40% MS)and increase in traded auto parts (10% of AM topline)to help margin growth.
- ✓ Wide usage of LHBs in railways will contribute heavily to margins.
- ✓ Clean balance sheet, minimal debt, high return ratios (>20%) makes the investment case stronger.
- ✓ Attractive valuations of 12.5x times FY20E EPS, provides a good entry opportunity.

	Revenues (₹ bn)	EBITDA (₹ bn)	EBITDA margins (%)	PAT (₹ bn)	EPS (₹)	P/E
FY 17	15.21	1.46	9.6%	0.83	5.78	20.9
FY 18	18.33	1.71	9.3%	0.94	6.56	18.4
FY 19E	20.82	2.12	10.2%	1.20	8.36	14.5
FY 20E	22.82	2.44	10.7%	1.39	9.65	12.5

Indusind Bank | BUY @ 1,640 | Target ₹ 2,270

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- ✓ **Strong visibility of asset growth** - We expect 30% CAGR growth over the next 2 years (FY18-20E) led by CV cycle recovery and surge in corporate credit demand

- ✓ **Upbeat on margin outlook** - There is potential for margins to improve from current 3.95-4% led by - 1).Change in the portfolio mix more in the favour of high yielding retail assets. 2) Higher corporate credit demand (which earlier had got shifted to bond market). 3). Opportunistic demand coming from better yielding refinancing options in NCLT cases,. 4). Potential for SA rates moving down.

- ✓ **Productivity improvements likely** – Cost ratios which are high, currently at 46-47% have potential to come down by more than 200 bps led by benefits of operating leverage, which would be realized (nearly 43% of branches of the bank have avg. age of <3 years)

- ✓ **Merger would be best fit into the bank's product suite** - In our view, within 2 years itself sizeable benefits of synergies will start to accrue. Unlike other MFIs, Bharat Financial Inclusion BFIL has pan-India presence with more of rural focus (access to 1 lakh villages in 342 districts with a customer base of 7.3 mn). This low cost rural focused unique distribution model will leapfrog the rural strategy of the bank by multiple years. Other benefits of merger are – 1) Cross-sell opportunities to offer both retail assets & liability products to BFIL customers. 2) Lower cost of funds and lesser requirement of capital at the bank level and 3) Opportunity to sell BFIL's loan (enjoying PSL status) in the market.

- ✓ **Sustained strength in the asset quality will continue** – Asset quality profile to remain robust as we expect credit cost of 55-60 bps in FY19E similar to last year levels

- ✓ **Valuations** - Return profile is likely to improve for better – we estimate ROE to improve to 18% in FY20E from 16% in FY18. We recommend a BUY rating on the stock with a TP of ₹ 2,270. The company is trading at 3.6x & 3x FY19E & FY20E ABV respectively.

	PAT (₹ bn)	yoy (%)	ABV (₹)	P/ABV (x)	ROE (%)	ROA (%)	Gross NPAs (%)	PCR (%)
FY18	36.1	25.7	378.5	4.7	16.2	1.8	1.2	56.3
FY19e	45.1	24.9	456.8	3.6	17.1	1.8	1.3	58.5
FY20e	57.1	26.8	540.4	3.0	18.0	1.8	1.5	52.3
FY21e	72.2	26.3	649.0	2.5	18.9	1.8	1.6	50.5

Jamna Auto | BUY @ 71 | Target ₹ 103

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- ✓ Market leader in leaf springs used in CVs and globally #2 in this business has got a wide array of clientele
- ✓ Strong market share of 73% in the leaf springs space and 95% in parabolic leaf springs space
- ✓ The company earns 83% of its topline from OEMs and hence is proxy to the CV upcycle
- ✓ Tata Motors sources ~73% while Ashok Leyland sources 91% of its requirement from Jamna
- ✓ Widening distribution network, increasing tie-ups with retailers and garage personal and growing aftermarket exports are positives for the replacement business (10-15% market share).
- ✓ With capacity utilization of 75% the company has a good potential for gaining from operating leverage.
- ✓ Increasing demand for parabolic leaf springs used in higher tonnage trucks is moving up with the shift in tonnage from lower to higher.
- ✓ The company is doubling its parabolic spring(25% of volumes) capacity which would in turn provide it with higher volumes and margins.
- ✓ Higher emphasis on Infraprojects by GOI, pick up in mining activity, demand from some of the big corporates to update the CV fleet and possible implementation of 'cash for clunkers' scheme will ensure CV sales remain on fast track. Jamna is EV agnostic.
- ✓ Clean balance sheet, zero net debt, high return ratios (between 30-40%) makes the investment case stronger.
- ✓ At inexpensive valuations of 12.6x times FY 20E EPS, it is a good investment opportunity.

	Revenues (₹ bn)	EBITDA (₹ bn)	EBITDA margins (%)	PAT (₹ bn)	EPS (₹)	P/E
FY 17	12.98	1.81	14.0%	1.03	2.59	27.5
FY 18	17.38	2.38	13.7%	1.25	3.15	22.5
FY 19E	20.12	2.86	14.2%	1.71	4.30	16.5
FY 20E	24.25	3.64	15.0%	2.25	5.65	12.6

Sun TV Network | BUY @ 645 | Target ₹ 990

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- ✓ The South Indian broadcaster with significant presence in 3 out of 4 states (AP & Telangana, Kerala, Karnataka) and market leader in one (TN)
- ✓ Improving content, shift to commission model, market share betterment in key markets like TN and AP to maintain ~15-20% Ad revenue growth.
- ✓ Increasing ad spends from the FMCG, auto, e-commerce sectors to be the backbone of Ad business growth
- ✓ New channel launches like GECs in TN and AP and entry into Bangla and Marathi to provide the delta in Ad revenues
- ✓ Big opportunity lies in the Subscription business as 50% households(8-10 mn) in TN are yet to be digitized under Phase III and IV which would provide volumes as well as ARPU growth.
- ✓ Settlement of issues with Arasu Cable will smoothen the path for better ARPU sharing, benefitting the broadcasters like Sun, especially on margins front.
- ✓ SunNxt app to take care of the OTT battle going around. But south being primarily a TV centric market, mainly in rural areas will still take some time for the proliferation of OTT.
- ✓ Upcoming 3 blockbusters in H2 (one which includes Rajinikanth) will lift up Movies business of Sun to a great extent.
- ✓ IPL business revenues has great potential to grow from here with topline growth moving up with more title sponsors, gate revenues, performance related prize money, agreement with BCCI, popularity of IPL and reduction in franchisee costs.
- ✓ At 15.6x times FY20E earnings SUN TV provides attractive risk-reward.

	Revenues (₹ bn)	EBITDA (₹ bn)	EBITDA margins(%)	PAT (₹ bn)	EPS (₹)	P/E
FY 17	26.46	17.70	66.9%	10.02	25.63	25.2
FY 18	29.63	20.04	67.6%	11.13	28.46	22.7
FY 19E	35.28	24.38	69.1%	13.71	34.98	18.4
FY 20E	42.25	29.57	70.0%	16.22	41.27	15.6

Yes Bank | BUY @ 235 | Target ₹ 350

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- ✓ **Management succession plan underway** – In the recent developments, the bank's board has formed Search & Selection Committee (SSC) in order to find replacement of CEO. This 5 member committee (namely Mr. T S Vijayan, Mr. O P Bhatt, Mr. Brahm Dutt, Dr. Mukesh Sabharwal, Mr, Subhash Kalia) shall shortlist 3 candidates and these names shall be given to RBI by Nov 2018 end. RBI consent is more likely to come by Jan 2019. Meanwhile, Mr.Rajat Monga and Mr.Pralay Mondal have been appointed as Executive Directors of the bank.
- ✓ **In the recent conference call, the management has reiterated its growth & asset quality outlook** - As per the Q2FY19 unaudited numbers, advances grew by 61.5% yoy to ₹ 2.4 tn, deposits by 41% and CASA deposits by 28% (ratio 33.8%), while the credit cost guidance for the current FY19 fiscal has been maintained at 50-70 bps. Though RBI annual supervision is underway, management is not anticipating any big divergence.
- ✓ In this turmoil, stock is corrected by nearly 50% from its peak levels. We view the present uncertainty as an opportunity till the new CEO takes charge
- ✓ **Retailisation gaining momentum** – Retail assets contribute 14% to total advances, 20% in fee income and 35% in CASA deposits
- ✓ **Yes Bank market share has improved considerably from 1.3% to 2.4% over the last 2 years in total systemic credit.** Share of AAA rated customers in total corporate book has increased substantially from 17% to 23% over the last 6 quarters
- ✓ **Competitiveness of the bank has improved** – interest rate differential in cost of deposits of the bank between Yes Bank and other large cap private banks which was 2% 3 years ago has come down to 0.7% now. This would enable the bank to cater & further deepen the relationship with good quality rated corporates without sacrificing the margins
- ✓ **Room for margin improvement from current 3.5%** - As differential in savings deposit rates of Yes & other banks is still 1-2%, reduction in rates could add further 30-40 bps to the margins
- ✓ **Valuations** – At current CMP of ₹ 235, the stock is trading at 1.9x FY19E and 1.6x FY20E ABV. Given the recent correction, it is trading at attractive valuation, hence we retain BUY rating on the bank with a TP of ₹ 350 (target multiple of 2.3x FY20E ABV).

	PAT (₹ bn)	PAT (yoy %)	EPS (₹)	ABV (₹)	P/ABV (x)	ROE (%)	ROA (%)
FY18	42.2	26.9	18.3	102.4	2.3	18.2	1.6
FY19e	54.8	29.7	23.8	123.0	1.9	19.8	1.5
FY20e	72.8	32.9	31.6	151.2	1.6	21.4	1.6
FY21e	95.3	31.0	41.4	189.1	1.2	22.5	1.6

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