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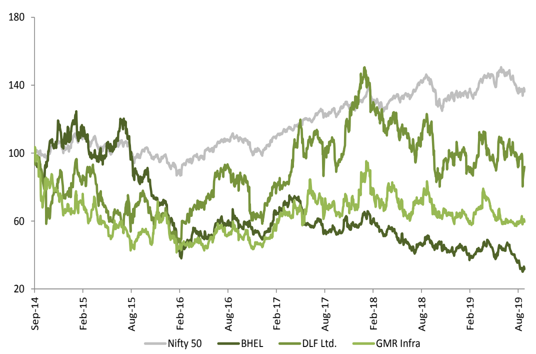
Values that bind

Switch Over Strategy

BHEL | DLF | GMR Infra



Key Stock data	
Company Name	**BHEL**
Shares o/s, cr (FV 2)	348
M Cap (cr)	17,184

Financials (Rs/cr)

Particulars	FY19	5 Yr CAGR (%)
Revenue	30,368	-5.4
Net Profit	1,000	-22.2
EPS	2.9	-
ROE (%)	3.2	-

Key Stock data	
Company Name	**DLF Ltd.**
Shares o/s, cr (FV 2)	254
M Cap (cr)	41,598

Financials (Rs/cr)

Particulars	FY19	5 Yr CAGR (%)
Revenue	8,366	6.7
*Net Profit	1,248	-5.1
EPS	6.0	-
ROE (%)	0.9	-

*includes profit from associate company

Key Stock data	
Company Name	**GMR Infra**
Shares o/s, cr (FV 1)	604
M Cap (cr)	9,090

Financials (Rs/cr)

Particulars	FY19	5 Yr CAGR (%)
Revenue	7,400	-7.0
Net Profit	-3,581	N/A
EPS	-	-
ROE (%)	-	-

Why Switch Over?

The BSE Sensex & Nifty have delivered respectable absolute returns of ~40% each over the last five years. During the same period, sectors like Realty and Capital Goods have registered returns of ~17% and ~11% respectively. The underperformance can be largely attributed to the overall sharp slowdown & challenges that the respective sectors have faced. Notably, certain companies within these sectors like BHEL, DLF & GMR Infra have underperformed grossly, with their respective stock prices posting negative returns of 67%, 12% & 40% respectively during the same period. Moreover, the stock prices are down 87-89% from their respective peak levels. This has been largely due to dismal/subdued financial performance and corporate governance issues. **Hence, with no meaningful signs of revival or turnaround in the near term, it would be advisable to switch from these stocks to established companies like Escorts Ltd, ICICI Prudential Life Insurance and Marico.**

Why switch from BHEL? CMP (Rs) - 49

- BHEL being one of India's largest engineering and manufacturing enterprise with pan-India presence has plunged nearly 67% in the last 5 years mainly due to slowdown in order inflows from the power sector and poor execution.
- The company's financial performance has also been dismal as Sales/EBITDA/PAT de-grew by 0.8%/23.8%/40.1% CAGR over FY15-19. Further, increase in debtor levels for BHEL has also resulted in stress on its balance sheet. The performance in Q1FY20 worsened with revenue down 24% and operational loss during the quarter. This is largely attributed to delay in customers taking dispatches and land related issues in certain projects.
- The thermal power plant addition in India is expected to remain subdued as 85% of under construction capacity was de-commissioned due to concerns such as availability of funds, power purchase agreements and decline in start of fresh project across government and private sectors. Therefore, we maintain our cautious view on the company's growth prospects given muted industry growth outlook coupled with company's past financial track record and elevated receivables. Hence, we would recommend to switch investment from this stock.

Why exit DLF? CMP (Rs) - 164

- Since more than a decade, Real Estate sector has underperformed due to liquidity crunch, slowdown & delay in projects, weak demand leading to increase in unsold inventory and litigation issues. Notably, DLF- a prominent name in the real estate sector has underperformed Realty Index as well as Nifty in the last 5 years. DLF's 5 year (August 2014-19) absolute returns are negative at 12%, while Realty Index and Nifty are up ~17% and ~40% respectively.
- DLF is the largest real estate developer in the NCR (Gurgaon region). The company has high unsold inventory of ~Rs 12,000cr which is a major overhang as given the liquidity issues , pick-up in sales is likely to be gradual. Further, pace of new launches by the company has been slow. Further, the company has faced several corporate governance issues in the past.
- The company's financial performance has also been disappointing over the years. The sales have grown at a tepid CAGR of 6.7% over FY14-19, whereas operating and net profit has declined during the same period.

Why sell GMR Infra? CMP (Rs) - 14.8

- GMR infra, a leading global infrastructure conglomerate, has been facing tough times across its key business segments. The company has presence in Airport, Energy and transportation & urban infrastructure. From past many years, real estate/infrastructure sector encountered subdued demand, liquidity crunch and delay in completion of projects. While energy sector faced problems like pricing pressure, lack of policy framework and mismatch between demand and supply.
- Notably, GMR has underperformed Nifty in last 5 years, wherein GMR's 5-years return are negative 40%, while Nifty index is up 40%. The company's track record over last 5 years has not been encouraging. Its consolidated revenue declined by 9.1% CAGR from FY15-19. On bottom-line it has been making losses since FY15. Further, the company's total debt stood at Rs ~22,500 cr by FY19 end.
- GMR is taking steps to reduce its debt and strengthen balance sheet. Besides, it has plans to demerge and restructure its businesses, to establish leadership position in airport business. In our view, given the liquidity crunch and uncertain outlook in the real estate sector, it may take time for the restructuring plan to materialize successfully. Further, poor financials and leveraged balance sheet will continue to weigh on the company's performance. Hence, we recommend exiting the stock at current levels.

BUY

CMP (Rs)	492
Sensex	36,563
Nifty	10,798

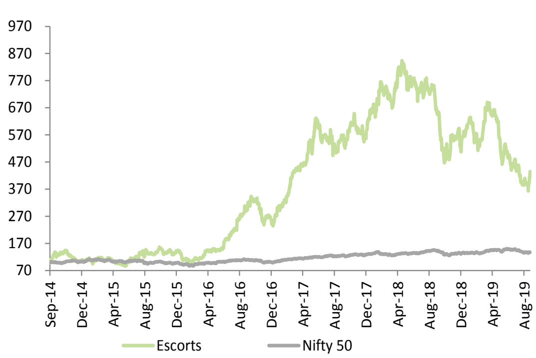
Key Stock data

BSE Code	500495
NSE Code	ESCORTS
Bloomberg	ESC:IN
Shares o/s, Cr (FV 10)	12.3
Market Cap (Rs Cr)	6,254
3M Avg Volume	764,314
52 week H/L	834/424

Shareholding Pattern

(%)	Dec-18	Mar-19	Jun-19
Promoter	40.1	40.1	40.3
FII	21.7	24.6	20.4
DII	4.9	3.3	5.5
Others	33.4	32.0	33.8

5 Years relative price performance



Research Analyst

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Long term growth story intact

Incorporated in 1948, Escorts is one of India's leading engineering conglomerates, which manufactures equipment for agriculture, infrastructure and railways. In the agriculture segment (77% of revenues in FY19), it is the fourth largest tractor manufacturer in India with a healthy market share of 11.8%. It provides technologically superior range of 12 HP to 80 HP tractors under two star brands – "Farmtrac" and "Powertrac". In the construction equipment segment (17% of revenue), it caters to India's diverse infrastructure requirements with a wide basket of material handling, road building, earth moving and other equipment services. In the railway equipment (6% of its revenues), Escorts is engaged in manufacturing of critical railway components.

Investment Rationale

- The domestic tractor industry witnessed a strong CAGR of 16.8% over FY16-19 led by implementation of MSP for key crops, easy availability of retail finance, farm loan waivers and near-normal monsoon conditions. However, due to highly cyclical nature of the industry, the volume growth in FY20 is expected to be impacted (Q1FY20 tractor volumes down 15% YoY) due to delayed monsoon, uneven distribution of monsoon, lower sowing activity, liquidity crunch amongst NBFCs. However, notwithstanding the current cyclical slowdown, we expect healthy recovery in volumes in FY21E. Further, we expect Escorts would continue to outperform led by consistent market share gains in the domestic market, increased focus on exports and strong product portfolio.
- Over the last five years, the government's increased focus on infrastructure development (real estate, roads, railways and construction) has led to robust growth in the construction equipment industry. However, the growth in construction equipment segment was impacted in Q1FY20 due to financing issues and delayed payments in on-going infra projects. Nonetheless, we expect Escorts to continue to outperform led by recovery in volumes by H2FY20, new product launches and increase in distribution network.

Outlook

The company has set a medium term goal of attaining 15% market share in the domestic tractor industry and increase its exports volumes which we believe is attainable due to its strong product portfolio and expansion of its geographical footprint. Further, we remain optimistic on its construction equipment and railway segment as increased government spending on key infrastructure areas like roads and railways augurs well for Escorts' growth prospects. We believe the near term concerns of slowdown in the tractor and the construction equipment industry are largely factored in the price of Escorts. Hence, we have a positive view on the company on account of its consistent market share gains and strong financial performance.

Financial Summary - standalone

Particulars, Rs cr	FY16	FY17	FY18	FY19
Net revenue	3,472	4,093	4,995	6,196
EBITDA	160	324	557	733
EBITDAM (%)	4.6	7.9	11.2	11.8
APAT	89	201	345	484
APATM (%)	3.0	4.8	7.0	7.6
EPS (Rs)	7.5	16.4	28.1	39.5
PE (x)	65.7	30.0	17.5	12.5
RoE (%)	5.7	10.2	15.5	17.0

Source : Company; RBL Research

BUY

CMP (Rs)	424
Sensex	36,563
Nifty	10,798

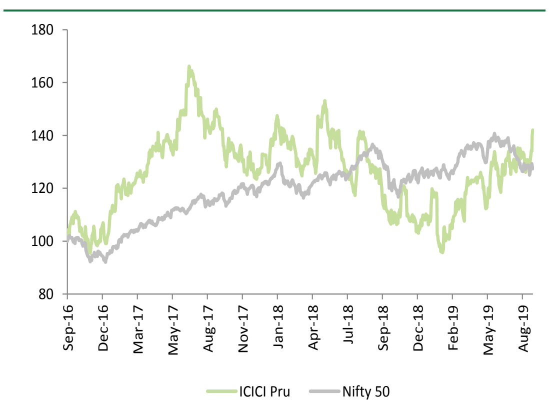
Key Stock data

BSE Code	540133
NSE Code	ICICIPRULI
Bloomberg	IPRU IN
Shares o/s, Cr (FV 10)	143.6
Market Cap (Rs Cr)	60,951
3M Avg Volume	22,280,51
52 week H/L	427/278

Shareholding Pattern

(%)	Dec-18	Mar-19	Jun-19
Promoter	78.7	75.0	75.0
FII	8.6	10.1	11.5
DII	4.7	6.5	5.7
Others	8.0	8.4	7.8

Relative price performance since listing



Research Analyst

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Ensuring a better future

ICICI Prudential Life Insurance (IPru Life) is promoted by ICICI Bank (52.9% shareholding as on June, 2019) and Prudential Corporation Holdings Ltd. (22.1%). It has consistently remained amongst the top private sector life insurance company since commencement on a retail weighted premium (RWRP) basis. Its Assets Under Management (AUM) as on June 2019 were Rs 1,640 bn. It's Annual premium equivalent (APE) comprises of savings (85.4% FY19 Total APE) and protection segments. (14.6%).

Investment Rationale

- IPru Life reported decent set of results in Q1FY20. The total premium grew by 14.7% YoY to Rs 6,329cr in Q1FY20. The persistency ratio was also flat at 84.4% as on June 30, 2019. However, APE growth was muted at ~5.3% YoY due to subdued growth in savings business. Growth in protection business was driven by both individual and group. AUM growth was strong at 15.0% YoY at Rs 1,640bn. Further, solvency ratio stood at 217% in Q1FY20.
- IPru Life is expected to do well on account of new product launches in protection segment. Further, healthy persistence ratio as well as decline in operating cost will lead to margin improvement. IPru Life has a diversified distribution network out of which bancassurance channel is the biggest source of new business. However, direct channel is also gaining traction gradually. The company is moving towards balanced product categories and mass affluent customer segments, which could help reduce volatility in the business.
- Insurance is one of the highly under-penetrated industries in India. Its penetration is considerably lower than the global average. Going forward, rising demand for retirement/pension products in life segment, more innovative tax savings and life cover products, supportive regulations and increasing transparency of cost and pricing shall lead to strong growth in India's insurance industry.

Outlook

The Indian life insurance industry is progressing rapidly backed by increasing opportunities from rising workforce participation and higher financial savings, which is leading to increase in demand for insurance products. The recent budgetary announcement of 100% FDI allowance in insurance intermediaries (from 49%) will benefit the insurance companies (both life and general), by widening the channels of distribution. Banking-led insurance players like IPru Life are likely to perform well and gradually gain market share over the medium to long term considering stable regulatory regime and strong distribution framework. We are positive on IPru Life as it boasts of strong distribution, brand equity and trades at attractive valuation. Therefore, the stock can be considered for long-term investments.

Financial Summary

Particulars, Rs cr	FY16	FY17	FY18	FY19
Total Operating Income	20,850	37,816	38,972	42,135
Total Premium	19,164	22,354	27,069	30,930
*VNB Margin (%)	8.0	10.1	16.5	17.0
Profit After Tax (PAT)	1,650	1,682	1,619	1,139
PAT growth (%)	0.6	1.9	-3.7	-29.7
EPS (Rs)	11.5	10.9	11.3	7.9
Price/Embedded Value	4.4	3.8	3.2	2.8

Source : Company; RBL Research, *value of new business

BUY

CMP (Rs)	386
Sensex	36,563
Nifty	10,798

Key Stock data

BSE Code	531642
NSE Code	Marico
Bloomberg	MRCO:IN
Shares o/s, Cr (FV 1)	129.1
Market Cap (Rs Cr)	50,476
3M Avg Volume	16,42,069
52 week H/L	402/283

Shareholding Pattern

(%)	Dec-18	Mar-19	Jun-19
Promoter	59.7	59.7	59.7
FII	26.7	26.9	25.7
DII	5.8	5.4	6.0
Others	7.8	8.0	8.6

5 Years relative price performance

Research Analyst

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Sustained volume led growth

Marico Ltd (Marico) is one of India's leading consumer products companies operating in the beauty and wellness space. The company has strong presence in 25 countries across emerging markets of Asia and Africa. Internationally Marico's products are present in Bangladesh, other SAARC countries, the Middle East, Egypt, South and Sub-Saharan Africa, Malaysia, Myanmar and Vietnam. The company has nurtured multiple brands in the categories such as hair care, skincare, edible oils, healthy foods, male grooming and fabric care. Its portfolio includes well-known brands such as Parachute, Saffola, Hair & Care, Parachute Advansed, Nihar Naturals and Livon, which occupy leadership positions in their respective categories. Other products which are gaining momentum includes Saffola FITTIFY Gourmet, Mediker, True Roots, Kaya Youth O2, Coco Soul, Revive, Set Wet, Fiancée, HairCode, Caivil, Black Chic, Isoplus, Code 10, Ingwe, X-Men, Sedure and Thuan Phat.

Investment Rationale

- Marico's domestic business (78% of total revenue) includes segments such as coconut oil (38%), Value Added Hair Oils (VAHO) (25%), Saffola (17%) and others (Male grooming, Premium hair and E-Commerce). These businesses have been growing consistently driven by volumes growth, continuous investment behind his core brands and introduction of new products every quarter. Further, benign raw material price from past one-two quarters have helped margin expansion. Moreover, margin led growth is expected to sustain in the future. Hence, we believe the company's growth would be driven by strengthening and investing behind the core segments, focusing on growing in rural area, spending on advertisement & promoting activities and lastly by increasing focus on growing digital (e-commerce) business.
- On international business front (22% of total revenue), Marico has presence in countries like Bangladesh (46%), South east Asia (26%), MENA region (15%), South Africa (8%) and New country development and exports (5%). The company has been focusing on building brands beyond coconut portfolio, which has supported in delivering healthy growth. Except South Africa, all the other regions have showed stable performance. Going forward, company aims double-digit constant currency growth and is confident to capitalize on the market opportunities in these countries.

Outlook

The Indian FMCG industry is the fourth largest sector in the economy, which is currently witnessing economy and demand slowdown, thus we believe that in the near term sector would continue to face challenges. However, we expect the sector to revive going forward and grow steadily led by increasing demand from both rural and urban areas, changing consumer preference, spending more income on the brands and emerging e-commerce space. With positive sector outlook, management remains confident on growing its revenue by ~13-15% yoy and volumes by ~8-10% yoy. Further, we believe the company would drive sustained profitable volume-led growth over the medium to long term, which would be driven by product mix, innovating new products, maintaining leadership position in key brands and by increasing promotion and advertisement spends. In addition, declining copra prices would help in providing cushions to margins. Hence, we would recommend to buy the stock for healthy returns over long term.

Financial Summary - consolidated

Particulars, Rs cr	FY16	FY17	FY18	FY19
Net revenue	6,025	5,936	6,333	7,334
EBITDA	1051	1,159	1,137	1,281
EBITDAM (%)	17.5	19.5	17.9	17.5
APAT	670	812	827	1,136
APATM (%)	11.1	13.7	13.0	15.5
EPS (Rs)	5.2	6.3	6.4	8.8
PE (x)	74.4	61.3	60.3	43.9
RoE (%)	33.2	34.9	32.5	37.4

Source : Company; RBL Research

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Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? **[If answer is yes, nature of Interest is given below this table]**		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :
...

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS..No.	Name(s) of RA.	Signtures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.