Investor

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EXPERT VIEW

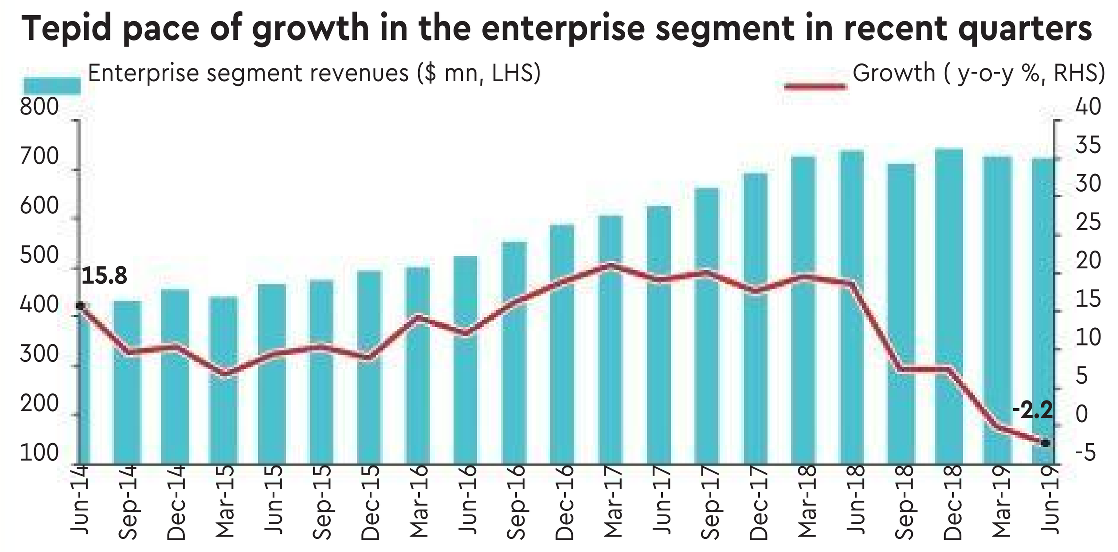
Tech Mahindra is confident of growth recovery in enterprise in 2HFY20. The confidence stems from a strong deal pipeline

— Kotak Institutional Equities

TECH MAHINDRA RATING: ADD

Enterprise segment prospects getting better

Tepid pace of growth in the enterprise segment in recent quarters



Source: Company, Kotak Institutional Equities

Slowdown in auto and weak spending in large accounts behind growth moderation; recovery is possible from Q3FY20; 'Add' maintained

WE SPOKE TO Jagdish Mitra, Chief Strategy Officer and Head of Growth, to get an assessment of enterprise growth prospects. Key insights from the call: (i) growth moderation in enterprise is due to slowdown in auto and lower spending in key accounts, (ii) weakness is not structural and growth can recover from Q3FY20, (iii) new initiatives and conversion of large deals in the pipeline will help growth recovery and (iv) acquisitions will continue to be a priority area.

Slowdown in auto and weak spending in large accounts led to growth moderation in enterprise

Enterprise segment revenue growth has slowed down in recent quarters. Moderation in growth was due to ramp-down of projects and cancellation of a few engagements, especially in manufacturing. Loss of revenues in Pininfarina pulled down growth in Q1FY20. Growth in manufacturing vertical has been weak in the past few quarters and was a key cause of slowdown in growth. Tech Mahindra indicated that the broader slowdown in the auto industry reflected in weak growth numbers for the manufacturing vertical. Weak growth in Europe and restructuring in a few large accounts in banking, financial services and insurance (BFSI) and retail also impacted growth.

TM is confident of growth recovery in enterprise

TM is confident of growth recovery in 2HFY20. The confidence stems from a strong deal pipeline—TM indicated that the pipeline for large deals and the overall pipeline of deals are at the highest point in the past couple of years. TM has reported healthy growth in new deal wins in enterprise division. TM indicated that emphasis on growth will not impede focus on profitability although transition costs associated with large deals can drive margins down in the near term. We have detailed key building blocks for potential revival in growth.

TM is taking steps to drive growth in enterprise

TM outlined key initiatives to drive growth in the enterprise segment—(i) the company has consolidated go-to-market with verticals as opposed to diffusion with competency units and verticals earlier. Competency units are now aligned to verticals to drive client-centric sales; (ii) TM has centralised its large deal team that has led to far better qualification of deals. In addition the company has opened up new channels for deals through advisory and private equity. Overall the quantum of large deals and win rates has improved as a result; (iii) TM is shifting focus from custom work for clients to developing a portfolio of reusable solutions that can be sold across a wider client base. The company has set up an initial target of developing 25 such solutions and scaling them up to $25 mn each; and (iv) TM has hired senior resources to cross-sell telecom services to enterprise clients. TM recently won a deal for providing network services to a BFSI client which can be a template for more such deals.

KOTAK INSTITUTIONAL EQUITIES

CEMENT SECTOR

Volumes are trailing estimates

Prices and costs have offset effect on Ebitda; risk-reward is favourable; SRCM, TRCL and UTCEM are top picks

OUR CHANNEL CHECKS suggest industry volumes likely declined in high-single digit y-o-y in Aug'19 impacted by heavy rains across most regions especially in West and East and lower government spending. Volumes likely declined in low-single digit y-o-y during Jul-Aug'19 (combined for better comparison owing to variability in monsoon) similar to that observed in Q1FY20. Dealers across most regions suggest companies are attempting a ₹10-15/bag hike from mid-Sep'19 (₹40-50/bag in AP) mainly to avoid further fall in prices. While volume growth is trending below our estimates, better prices and lower costs offset the impact on overall Ebitda. We believe risk-reward is favourable as valuations have corrected by ~15% recently on concerns of lower volumes. SRCM, UTCEM and TRCL remain our top picks.

■ Demand in North and Central regions during Jul-Aug'19 remained broadly flat y-o-y on heavy monsoon and weak government spending. Average prices declined 1-2% m-o-m and are up sharply by 13% y-o-y in North and 7% in Central regions owing to high utilisation.

■ South region volumes during Jul-Aug'19 remained broadly flat y-o-y as volume declined in Andhra Pradesh/Telangana on high base and change of government in Andhra Pradesh offset by demand improvement in Tamil Nadu and Kerala. Average prices declined further by 2-3% m-o-m and are now flat y-o-y in Aug'19. The AP government unveiled a new sand mining policy in the first week of Sep'19.

Volumes may remain muted till Oct'19 owing to delayed monsoon and early festive season and growth may pick up from Nov'19 on higher govt spends and better rural housing demand

■ Volumes in West region during Jul-Aug'19 likely declined by mid-single digit as strong demand in Maharashtra led by pre-election state spending got more than offset by weak demand in Gujarat due to rains. Average prices likely declined 3-4% m-o-m in Maharashtra with marginal price decline in Gujarat in Aug'19.

■ Demand in East region during Jul-Aug'19 likely declined in mid-single digit y-o-y due to floods in Bihar and Jharkhand and muted government spending across most other states in East. Prices corrected ~3% m-o-m and are now flat y-o-y.

Average pan-India prices still up 4% y-o-y in Aug'19

However, they declined 2% m-o-m. Volume growth may remain muted till Oct'19 owing to delayed monsoon and early festive season and growth may pick up from Nov'19 on higher government spends and better rural housing demand. Besides, benefit of >20% decline in coal/petcoke prices since Mar'19-end would also flow through the rest of FY20e. Overall, consensus FY20-21e Ebitda has been upgraded 9-10% over the past four months and the same is unlikely to be downgraded. We maintain our positive view as industry clinker utilisation is expected to cross 80% in FY21e enabling Ebitda-accretive price increases.

ICICI SECURITIES

Average pan-India prices likely down ~2% m-o-m/up 4% y-o-y

Cement price per bag of 50kg

	North	East	West	Central	South	All-India
Average Aug '19	330	321	309	352	320	325
Average Jul '19	337	329	319	355	328	333
M-o-m change (%)	(2.1)	(2.4)	(3.1)	(0.8)	(2.4)	(2.2)
Average Aug '18	291	319	298	328	322	312
Y-o-y change (%)	13.4	0.6	3.7	7.3	(0.6)	4.2

Source: I-Sec research

LEMON TREE HOTELS RATING: BUY

Execution of strategy will be key

Capex cycle to end in 3 years; Ebitda CAGR of 71% is estimated; 'Buy' maintained

LEMONTRE HOSTED AN analyst meet at its recently launched hotel— Lemon Tree Premier in Mumbai. The company shed light on its execution strategy and addressed investor concerns regarding debt. Key insights are highlighted below:

Besides synergies, Keys' acquisition to help add rooms via management contract: While the acquisition of 'Keys Hotel' brings with it synergistic benefits, the deal is also expected to aid room addition under management contract. LEMONTRE is confident of achieving an immediate 4% revenue improvement coupled with 2% cost decrease (of sales) post acquisition.

Capex cycle to end in the next three years: As of Jun'19, LEMONTRE had a debt of ₹12.66 bn; of this, 55% can be attributed to adult hotels, which have the capability of generating enough cash to service the debt themselves. Thus, management is comfortable with its current level of debt. With major capex being required only for the 669-room Keys Hotel in Mumbai, management expects capex cycle to end in the next three years.

Valuation and view: While we maintain our estimates over FY19-21e, we expect revenue to grow 45% to ₹11.6 bn and Ebitda CAGR at 71% to ₹4.9 bn. The growth should mainly be driven by the recently commenced/upcoming hotels in high demand and high ARR markets of Pune, Mumbai, Kolkata and Udaipur. Additionally, management remains confident of achieving Ebitda of ₹600 m in FY21 from its acquisition of Keys Hotels. We value the stock at 18x FY21 EV/Ebitda and arrive at a TP of ₹75. Maintain **Buy**.

MOTILAL OSWAL

Financials snapshot (₹ bn)

Y/E Mar	2019	2020E	2021E
Sales	5.5	8.2	11.6
Ebitda	1.7	3.2	4.9
NP	0.5	0.6	1.5
EPS (₹)	0.7	0.8	1.9
Ebitda Gr (%)	23.9	88.3	55.7
EPS Gr. (%)	271.9	15.8	140.6
BV/Share (₹)	11.2	17.4	19.3
RoE (%)	6.3	5.5	10.3
RoCE (%)	4.4	5.7	7.4
EV/ Ebitda (x)	33.9	20.8	13.6
P/E (x)	78.4	67.7	28.1

Source: Company data, Motilal Oswal

Personal Finance

EQUITY INVESTING

Creating wealth with discipline & patience

If you can invest in a disciplined manner and stay calm for long periods of time, you need not worry about stock picking, timing or luck. The power of dumb money and compounding will work to create wealth for you

MAYANK JOSHIPURA

ILLUSTRATION: SHYAM KUMAR PRASAD

MANY OF US believe that equity is a risky asset class and one needs stock-picking and timing skills and a bit of luck to create wealth. But what if I have none of these on my side? Can I still create wealth by equity investing? The answer is 'yes', provided that you have the patience and discipline.

A rub-of-green is always welcome but not necessary for wealth creation. That is the power of dumb money. As Warren Buffet said: "Paradoxically, when 'dumb' money acknowledges its limitations, it ceases to be dumb."

Discipline and patience

Well, you have heard it right. You just need discipline and patience to create wealth by investing in equity. It is difficult to believe, so let me tell you a story of three friends named Fortunate, Star-crossed and Composed. They started investing in the year 1990 and have been investing in a disciplined manner for 30 years. They decided not to go for active stock picking and invested equal sum money in BSE Sensex once a year, every year.

While Composed chose not to time the market and invested on the first day of every year, Fortunate got lucky with his market timing. Every year when he invested money it turned out to be the lowest Sensex level for that year and he got the best buy-price every time. Star-crossed faced the opposite fate. All these years, whenever he invested money it turned out to be the highest Sensex level for that year and got the worst buy-price every time.

The trio met on the final weekend of 2018 and reviewed their equity investments. Fortunate earned the highest CAGR of 16.06% and Starcrossed earned the lowest CAGR of 12% as expected. Composed earned CAGR of 14.78%. All three were happy as they earned reasonable returns that outperformed most asset classes and enjoyed an additional 1.5% of annual dividend yield.

Yet, relatively, Fortunate was disappointed. She said, "Despite investing at the lowest level every year, I could earn only 1.28% higher than Composed. Just 1.28% for my luck! This is unfair. Star-crossed too looked disappointed but for a different reason. She said, "Instead of failed market timing attempts, if I had invested like Composed I would have earned better returns." Composed said, "I am happy that with no stock-picking or timing skills I could earn returns that many investors envy." We all know that it is not possible to replicate Fortunate or Star-crossed in real life. The only thing you can do is to replicate what Composed did to create wealth.

Creating wealth

Last but not the least, you may say that it is a good story, but don't forget that the trio invested in Indian markets and that is enough evidence that they were lucky. Had they lived and invested in Japan for past 30 years, they would have faced ruin.

Nikkei hit its lifetime high of 40,000 just before 1990 and has been struggling at 20,000 today even after 30 years. It could never reclaim its highs! That is true, but our trio would have earned CAGR of 2.77%, 2.13%, and 2.35%, respectively even if they had invested the constant sum of money every year in Nikkei instead of Sensex. Add to that an average annual dividend yield of 1.5%. The total annualised return of 3.5/5% is a great return in a country where the bonds would have hardly earned 1% and inflation has remained near zero all these years.

So, if you can invest in a disciplined manner and stay calm for long periods of time, you need not worry about stock picking, timing or luck; the power of dumb money and compounding will work to create wealth for you.

The writer is professor, Finance, School of Business Management, NMIMS, Mumbai

When should you not claim motor insurance?

Whether to file a claim depends on impact on no-claim bonus, quantum of loss and deductibles. It is always advisable to avoid filing a claim if the amount is low

YOUR MONEY

SAJJA PRAVEEN CHOWDARY

ILLUSTRATION: SHYAM KUMAR PRASAD

AMONG ALL OTHER accidents, road accidents are the most common in India. In 2017, there were around 4,66,000 road accidents in which 147,913 persons died. With a population of a little over 1.33 billion and 182.45 million registered vehicles, India has a traffic collision rate of about 0.8 per 1000 registered vehicles. As per a survey finding, a majority of road accidents (78%) are due to the driver's fault which includes incidents like overspeeding, hit and run cases and driving under the influence of alcohol.

In order to protect yourself against unexpected financial expenses due to damage to your vehicle, the best thing to buy is a comprehensive motor insurance for your vehicle. A motor insurance vehicle consists of two major components—Third Party (TP) Damage and Own Damage (OD). While TP insurance provides cover to third parties which include other person's vehicle and property, OD insurance covers for damage to your own vehicle.

In any road accident, the very first thing that comes to the vehicle owner's mind is motor insurance unless there is any casualty. Anyone would think of making a claim with the insurer to get the vehicle repaired. However, making a claim with the insurer after an accident is not always a great idea. There are numerous factors that one must consider before making a claim in order to enjoy maximum benefits.

Whether to file a claim or not mostly depends on —impact on no-claim bonus (NCB), quantum of loss and deductibles. However, it is always advisable to avoid filling a claim in case the amount is low. Here's what role all these factors play in the claim filing process.

Impact on No-Claim Bonus

The no-claim bonus (NCB) is usually a discount that the insurer gives on the following year's premium if the policyholder does not file any claim in the current policy year or at end of a claim-free year. Usually, the NCB starts at 20% for the first claim-free year and steadily increases with every claim-free year moving forward. The maximum discount that one can claim is 50%. However, one must learn that if any claim is made in any of the years, the NCB becomes zero.

Deductibles

Motor insurance has a 'deductible' element or clause under which a portion of any claim amount has to be paid by the policyholder. During any claim which you have filed, the deductible amount has to be paid by the policyholder and the remaining is paid by the insurer. This is the reason why it is considered better not to file claim for a smaller amount as at times you might end up paying more than the amount paid by the insurer due to the deductible clause.

Quantum of loss

Quantum of loss means the nature of the claim wherein the insurer verifies whether the damage to the car is due to fault of the driver or the third party. For instance, if someone hits your car from behind, chances are that the insurer will approve the claim. However, if the fault is yours and such claims are quite frequent, the insurer attaches high charges and approves only a partial amount of the claim. It is therefore advisable to get the proper calculations before filing a claim.

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