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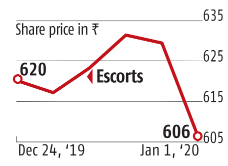
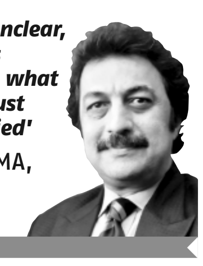
QUICK TAKE: ESCORTS DIPS ON MUTED SALES



The Escorts stock fell close to 4 per cent after the December quarter sales disappointed the Street. Despite the 10 per cent sales decline, analysts continue to be positive, given the recovery in farm incomes and agri-led spending, which should boost demand for its tractors

"Short term is unclear, but long term is excellent" Note: what is long term, must NEVER be specified'

SHANKAR SHARMA, co-founder, First Global



Baroda, Union MFs bank on mergers to increase reach

AUM of both companies declined in September quarter

JASH KRIPLANI & ABHIJIT LELE
Mumbai, 1 January

The smaller-sized fund houses — Baroda Asset Management Company (AMC) and Union AMC — which are yet to gain a significant foothold in ₹27-trillion mutual fund (MF) industry, are looking to increase their market share as bank mergers give their sponsor banks access to a wider branch network.

At the end of the September quarter (Q2), Union AMC's average assets under management (AAUM) stood at ₹4,089 crore, while that of Baroda AMC stood at ₹10,676 crore.

Compared to the corresponding period last year, Union AMC's AAUM was down 16 per cent, while the AAUM for Baroda AMC was down 21 per cent.

Both fund houses have lost assets over a period, even though the MF industry has managed an overall growth of 6 per cent, despite headwinds from regulatory changes, and the weakness in debt and equity markets.

"The bank merger gives us access to a wider customer base and more importantly a more geographically diversified presence. While Dena Bank is more strong in western parts, Vijaya Bank has a stronger presence in the southern parts," said Anthony Heredia, chief executive officer of Baroda AMC.

According to those privy to the development, the merger is an important one for the bank, given it will help it source a larger part of its revenues through fee-based income streams.

"The idea is to find ways to increase fee-based income without incurring any further significant costs. This is where the bank mergers will come into play as they will help us in plugging the gaps in the system, and leverage our network," said an official of Bank of Baroda.

For the relatively small-sized Union AMC, adding to its sales team would be key to leveraging the enhanced distribution network.

"The main benefit will be that the number of bank branches will double post-merger. We will be able to access much larger number of locations. Andhra Bank is stronger in Telangana and the Andhra region, whereas Corporation Bank has a strong presence in Karnataka," said G Pradeepkumar, chief executive officer of Union AMC.

Pradeepkumar added the AMC would need to add more people to its sales force to cater to this widened distribution presence. Both fund houses will get access to a much wider customer base due to existing relationships of the banks that are being subsumed.

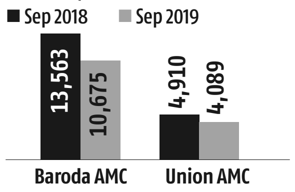
MF participants say there remains a huge scope of untapped opportunity for growth, as the market remains underserved even with 44 players currently operating. The penetration of MFs in India stands at 11 per cent of gross domestic product, which is significantly lower than other developing economies such as Brazil (59 per cent) and South Africa (49 per cent).

According to a report by the industry body Association of Mutual Funds in India, the industry has the potential to reach the ₹100-trillion mark; 3.7-times from the current levels of ₹27 trillion.

"Fund houses of all sizes have a huge opportunity in front of them, given the under-penetration of the domestic MF industry," said the chief executive officer of another fund house.

EYEING INROADS (₹ cr)

Both AMCs are looking to gain market share following the bank merger



AAUM: Average assets under management
Source: Amfi

Higher volumes, margins to fuel growth for city gas distributors

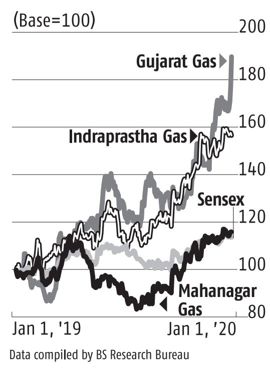
Rising demand, soft natural gas prices bode well for earnings of major firms

UJJVAL JAUHARI
Mumbai, 1 January

The Gujarat Gas stock surged over 7 per cent and scaled its all-time high on Wednesday.

At the same time, the stock of Indraprastha Gas (IGL) is also close to its peak, while that of Mahanagar Gas (MGL) is trading at around its 22-month high.

The Street's confidence on city gas distributors (CGD) remains high, considering the firm demand for gas, rising volumes, and future growth potential.



Data compiled by BS Research Bureau

All three companies have received upgrades by foreign brokerages.

With lower natural gas prices (global prices down over 20 per cent in two months), their profitability, too, will continue to improve.

The CGD companies have already outperformed their upstream and downstream oil and gas peers, driven by strong volume-led earnings growth, and margin expansion during the September quarter (Q2).

The CGD companies saw improvement in margins of 153-460 basis points in the September quarter year-on-year, while volumes grew up to 40 per cent year-on-year, with Gujarat Gas leading the pack. Not surprising then, that their profits rose 25-125 per cent year-on-year in Q2.

The forward outlook remains strong, say analysts. Volume growth is expected to be healthy, led by increased availability of natural gas, as well as rising demand for CNG (compressed natural gas) by automobiles, PNG (piped natural gas) for household and industrial use, more so in the back of pollution control measures.

The government, too, aims to increase the share of gas in India's energy mix to 20 per cent by 2025 from the 6 per cent at present, which — along with the thrust to promote use of natural gas to reduce pollution — provides strong volume growth opportunity for the three listed CGD companies.

This, coupled with the allocation of cheap domestic gas (for CNG and domestic PNG use) and low LNG prices, will help CGD companies to sustain high Ebitda margins, says Abhijeet Bora of Sharekhan.

IGL, led by growth in the national capital region (NCR), use of CNG for inter-city travel, increased conversion to CNG on account of BS-VI implementation, and contribution from newer geographies, is seen reporting good growth, which analysts at Motilal Oswal peg at 10-11 per cent.

The higher volume growth for Gujarat Gas is seen driven by strong industrial sector demand and supplies. For FY20 and FY21, analysts at IIFL expect Gujarat Gas to register 44 and 15 per cent year-on-year volume growth.

This is due to sustained off-take from the Morbi cluster (given the ban on coal usage); growth in sales to other smaller industrial units upon expnasion of its network and higher off-take from existing players; and stable growth in CNG and domestic PNG sales.

Though MGL may not have won new geographical areas, the management has, nevertheless, guided for 5-6 per cent volume growth.

Rising CNG and PNG demand in Mumbai and pipeline expansions in Maharashtra are likely to drive growth. For MGL, the overhang of stake sale is also over with Shell India having already sold its stake.

As volume growth remains firm, the soft natural gas prices continue driving operating performance and profits for these companies. Foreign brokerages have also upgraded earnings for Gujarat Gas by 13-15 per cent and for MGL by 7-11 per cent for FY20 and FY21.

IGL, too, is amongst top mid-cap picks of some foreign brokerages.

EARNINGS GROWTH TRAJECTORY

	EPS (₹)			CAGR (%)
	FY19	FY20E	FY21E	FY19-21E
Gujarat Gas	6.1	12.7	14.6	**54.8**
Indraprastha Gas	14.9	16.3	18.8	**12.2**
Mahanagar Gas	72.4	77.2	82.3	**6.6**

E: estimates, EPS: earnings per share
Source: Sharekhan Research

Benchmark indices begin new year on a flat note

The benchmark indices started the New Year with a slight gain, as the Sensex rose 52.28 points or 0.13 per cent to close at 41,306.02 on Wednesday. Financials, IT, FMCG, and power stocks advanced.

The broader Nifty closed 14.05 points or 0.12 per cent higher at 12,182.5, with 23 constituents ending in the green.

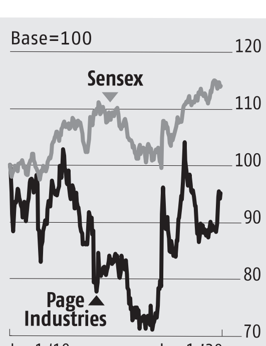
"Indian markets started the new year on a positive note, without much cues on the global front, as markets remained closed. Sentiments remained positive on the report that India's current account deficit narrowed to 0.9 per cent of the GDP, or $6.3 billion, in the September quarter, on account of lower trade deficit," said Narendra Solanki, head of fundamental research (investment services) and AVP (equity research), Anand Rathi Shares & Stock Brokers.

In the broader market, the BSE MidCap and SmallCap outperformed the benchmark indices, rallying up to 0.64 per cent. PTI

THE COMPASS

Page Industries' near-term outlook not comforting

Delayed winter, higher input costs, high base may hurt growth



Compiled by BS Research Bureau

SHREEPAD S AUTE

The Page Industries stock has risen by 7.5 per cent over the last one month, outpacing the Sensex.

The latter has gained 1.3 per cent during the same period. The recent reaffirmation of a good credit rating (AA/A1+) by ICRA and expectations of higher growth of high-margin winter wear in December quarter have turned investor sentiment positive towards Page.

However, these expectations may be realised at least in the December quarter, and may lead to some correction in the stock price.

According to an analyst at a domestic broking house, "Page will continue reporting muted volume growth in the December quarter. Sustained demand pressure and delayed winter are likely to have hurt its volumes. This could wash off the recent gains by the stock."

Page is the Indian maker of popular premium innerwear brand Jockey. The high-margin winter wear products have an approximate share of 20-25 per cent in the company's overall business, according to estimates of some analysts.

The recent price hikes in select products, taken in November and December, as well as the high base in the December 2018 quarter, when volumes grew 12 per cent, will also have a bearing on volume growth figures of the recently concluded quarter. While winter has picked up, growing volumes may not be easy in the challenging demand environment.

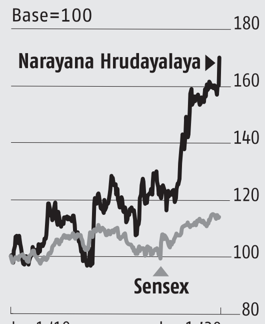
In fact, higher competitive intensity could restrict Page's volume growth even beyond the December quarter. According to Anand Rathi's report: "While competition wasn't credible in the past, the newer competition (Van Heusen from Aditya Birla Fashion & Retail, US Polo Innerwear by Arvind Fashions) is more credible, has sound brand equity and better distribution." Thus, how the company navigates this in the coming quarters would be crucial.

Additionally, prices of key raw materials are still higher, even after the recent correction. This may keep hurting the gross margin, say analysts. In the September quarter, while a lower base, retail schemes, and higher sales incentives by the company had led to volume growth of around 9 per cent, higher raw material cost had resulted in a 145-basis-point year-on-year contraction in Ebitda (earnings before interest, tax, depreciation and amortisation) margin to 19.2 per cent.

Investors should await the management's commentary on volume and margin fronts post December quarter earnings, even as Page's long-term growth potential appears healthy. The stock, which had halved over a year's period ending August 2019 and has seen some rebound thereafter, is still trading at a rich 48 times FY21 estimated earnings.

Improving mix to keep growth intact for Narayana

Return ratios to double over the FY19-22 period



Compiled by BS Research Bureau

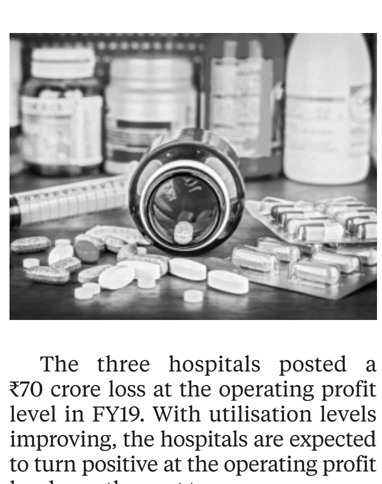
RAM PRASAD SAHU

With a jump of 61 per cent, Narayana Hrudayalaya was the best-performing hospital stock last year.

Given the 6 per cent addition to those gains on Wednesday, the rally seems to have more steam left. Investors have been switching from large generic pharma companies (which have been pegged back by compliance issues) to health care service providers, in search of higher returns.

Further, completion of capital expenditure programme, asset light expansions and improving return ratios have led to the switch. For Narayana, in addition to the strong operating performance over the last five quarters, there are additional triggers.

The losses at new hospitals at Gurugram, Mumbai and Dharamshila are expected to come down going ahead. This is due to higher occupancies, scaling up of operations and expansion into new categories.



The three hospitals posted a ₹70 crore loss at the operating profit level in FY19. With utilisation levels improving, the hospitals are expected to turn positive at the operating profit level over the next two years.

The growth in its multi-speciality hospital at the Cayman Islands is another area investors are keeping an eye on.

The hospital targets North American patients given the price difference of treatment at its unit and in the US. The hospital posted a 58 per cent growth in operating profit led by higher utilisation and improving mix. Analysts at Elara Capital believe that the addition of an oncology unit will drive the revenues and profits of this overseas venture.

The Cayman subsidiary accounts for a quarter of the consolidated operating profit of the company.

Core growth is expected to continue at its Bengaluru unit where it is adding complex procedures and programmes to boost revenues and improve its mix. Cost control measures and higher share of overseas patients should also help. The company is enhancing its capacity and investing in equipment to offer a wider range of services at its other centres across India.

Analysts at ICICI Securities believe that the company's focus on affordable care and asset right model will improve average realisations and double its return ratios over the FY19-22 period. Given the sharp run up in the stock, investors can look at the same on dips.