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BROKERAGE TAKE

Power generation in peak mode as summer arrives

POWER GENERATION has increased 5.5 per cent year on year (YoY) in March primarily due to onset of summer and incremental capacity. Growth was driven by 6 per cent YoY and 12.3 per cent YoY rise in generation across the coal-based plant and hydroelectric plants, respectively.

The overall industry plat load factor (PLF) was flat at 43.6 per cent. PLF declined across the gas and nuclear segment witnessing a 314 basis points (bps) and 1,378 bps YoY fall, respectively. PLF across the coal and hydro was up by 130 bps and 180 bps YoY, respectively.

Both base and peak deficit in March declined to 0.3 per cent and 0.5 per cent, respectively, against 0.5 per cent and 0.6 per cent, respectively, in February. Rates on Indian Energy Exchange declined 1.6 per cent YoY to Rs 2.6 per unit. On a YoY basis, both peak and based deficit improved significantly from 1.6 per cent.

In March, the net capacity addition was 4,180 mw against the target of 650 mw. In FY17, the net capacity addition was 17,518 mw against the target of 13,384 mw. Coal inventory at stations continue to impress, with only one plant facing sub-critical inventory levels in March compared with two in February. Dispatch of coal to the power sector remained flat at 40 million tonnes in March, primarily due to surplus coal inventory with Coal India.

—Emkay Global Financial Services

Axis Bank

Axis Bank has delivered yet another dismal quarterly performance on operating and assets quality front in the fourth quarter of FY17. Its operating profit declined by 0.5 per cent YoY and 5.7 per cent quarter-on-quarter (QoQ) to Rs 4370 crore led by muted growth in operating income and higher operating expenses. Fresh slippages remained elevated at Rs 4,810 crore against Rs 4,560 crore in Q3FY17 and Rs 1,470 crore in Q4FY16. Further, the bank sold gross loan – including one standard loan portfolio – to the tune of Rs 2,350 crore during the quarter, which may have been declared non-performing assets (NPAs) subsequently.

Fresh slippages from the corporate book stood at Rs 4,320 crore, out of which around 83 per cent came from the watch-list portfolio. Total slippages from watch-list accounts to NPAs stood at 58 per cent and the bank had revised it guidance of slippages from watch list to a significantly higher level in FY18E.

Expecting the bank's credit cost to remain at elevated level in next 4-5 quarters and rolling over our estimates to FY19E, we reiterate our 'hold' recommendation on the stock with an upwardly revised target price of Rs 502 based on 2x FY19E adjusted book value.

Though we continue to admire core operating performance and business franchise of Axis Bank, the current headwinds indicate more pressure on profitability in the near-term. We believe the bank will continue to witness higher credit cost, which will keep its earning profile and return ratio subdued over next 4-6 quarters.

—Reliance Securities

Maruti Suzuki

Maruti Suzuki delivered in line revenue up 20 per cent YoY to Rs 18,300 crore in the fourth quarter. Ebidta margins came in lower at 13.9 per cent down by 129 bps YoY, impacted by higher commodity prices and raw material cost up 359bps YoY. Adjusted profit after tax (PAT) came in lower than expectations at Rs 1,700 crore, up 15 per cent YoY, due to margin contraction and higher-than-expected depreciation.

We remain positive on the Maruti Suzuki's growth story on the back of strong volume growth, led by consistent volume up tick of Ciaz, Brezza and Baleno, and success of Ignis, increasing ASP, led by an expanding portfolio in the premium segment, fresh capacity addition from the Gujarat facility, uptick in the rural demand and supporting macro tailwinds like the 7th pay commission payout, falling interest rates, urbanisation and growing middle class.

With 20 per cent EPS CAGR over FY17-19E and structural improvement in RoE at 25 per cent by FY19E against 10-year average of around 17 per cent, we maintain a 'buy' on Maruti Suzuki with a target price of Rs 7,070, based on 20x 19E EPS.

—HDFC Securities

Shriram Transport Finance

Shriram Transport Finance's Q4FY17 performance was well below our as well as the street estimates due to sharp up tick in credit costs as the company transitioned to 120-day period non-performing loan (NPL) recognition method. The gross NPLs inched up to 8.2 per cent against 6.7 per cent in Q3FY17 due to 120-day period migration. Asset under management growth moderated to 8 per cent YoY and 3 per cent QoQ as disbursements fell 17 per cent YoY and 30 per cent QoQ, albeit on a high base.

Calculated net interest margin (NIMs) contracted around 20bps quarter-on-quarter on high interest income reversals

Our key concerns for Shriram Transport Finance is large balancesheet size constraining growth/margins, slower pace of recoveries resulting in elevated NPLs and credit costs and regulatory costs weighing down on return ratios.

STF's valuations at 2x FY19E P/ABV though appears cheap (relative to peers), however, need to be seen in context of the asset quality overhang and relatively weak return ratios. We cut our FY18/19E earnings estimates by around 15 per cent each and maintain our reduce call.

—Emkay Global Financial Services