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PBG Research

December 05, 2019

Portfolio Stock Ideas December 2019

Companies	CMP	Target Price	Recomm	Portfolio
Apollo Hospitals	1470	1705	Buy	Aggressive
Gujarat State Petronet	218	336	Buy	Aggressive & Conservative
Petronet LNG	276	347	Buy	Aggressive & Conservative
Phoenix Mills	771	971	Buy	Aggressive
Infosys	708	854	Buy	Aggressive & Conservative
State Bank Of India	342	392	Buy	Aggressive & Conservative

Note: CMP are as on 4 December 2019, Please refer to Disclaimer and Disclosure on the last slide.

Apollo Hospitals Enterprise CMP: Rs.1470

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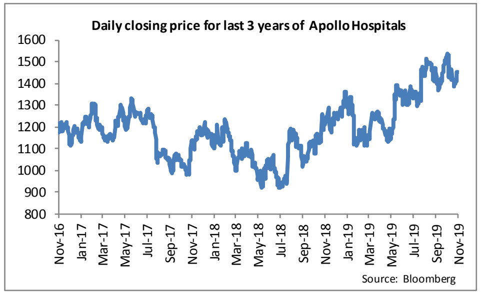
Background: Apollo Hospitals Enterprise Ltd. (AHEL) is an India-based company, which operates a private hospital group. As of Sept'19, the Company has 70 (45 owned + 11 Day care/Short surgical stay centers + 10 Cradles + 4 managed) hospitals with total bed capacity of 10262 (8816 owned + 274 Day Care + 283 Cradle + 889 managed) beds. It also has presence in pharmacies, diagnostic clinics, medical transcription services, third-party administration and telemedicine.

Key Triggers:

- Focus on operationalizing and improving occupancy levels is paying off with both mature and new hospitals witnessing double digit revenue growth, which is expected continue going ahead as well.
- Improvement in occupancy at existing hospitals as well as in new hospitals are likely to help in margin expansion to continue in near term.
- Rise in share of high margin products in pharmacy business is likely drive segmental margins.
- Apollo Health & Lifestyle (AHLL) and Proton business is expected to see sharp improvement, which would help in improvement in consolidated EBITDA.
- With capex cycle coming to an end, return ratio of the company is expected to improve on a steady basis
- Management has guided for reduction in its debt and promoter pledge levels (from 66.2% currently to 20-25% of promoter holding by Q4FY20).

Key Details	
52 week H/L(Rs)	1574/1083
Market Cap (Rs. Bn)	205
Book Value (Rs) YTD	267
FV (Rs)	5.0
PE (X) (TTM)	61.3
Dividend Yield (%)	0.4

View: AHEL continued to reap-in benefits of its strategy of focusing on improvement in occupancy level in hospital segment to bring revenue growth and focusing on cost control initiatives and improving operating efficiency to improve EBITDA margin, which is visible in recent quarters performance. Similarly, Pharmacy business margin also saw improvement owing to higher share of OTC and proprietary products. In addition, AHLL and Proton business have started to witness improvement in overall performance and are expected to see further improvement going ahead given the improving operating leverage. We remain long term positive on the stock considering its strong brand equity, robust business model with low leverage (~0.9x net debt equity ratio in FY19), focus on improving penetration in Tier-II & Tier-III cities and expected improvement in return ratio as the company is near completion of capex cycle. Going ahead, the concern regarding pledge holding and any other liquidity related event would be key variable to watch out. **Currently, we maintain our Buy rating on the stock with the target price to Rs.1705 at 18x to FY21E EBITDA and adjusting net debt of Rs.218 per share in FY19.** Any earning/rating revision would depend on the performance of new hospitals, improvement in occupancy level & margins and changes in general business momentum.



Source: Bloomberg

Earnings Summary – Consolidated

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Mn	(%)	Rs Mn	(%)	Rs Mn	Rs	%	X	%
18A	82435	15.9	7932	9.6	1174	8.4	(46.9)	174.2	0.3
19A	96174	16.7	10637	11.1	2360	17.0	101.0	86.6	0.4
20E	109406	13.8	12582	11.5	2964	21.3	25.6	69.0	0.4
21E	125970	15.1	14864	11.8	3651	26.2	23.2	56.0	0.4

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	30.80
Institutions	61.60
Others	7.60
Total	100.00

Gujarat State Petronet

CMP: Rs.218

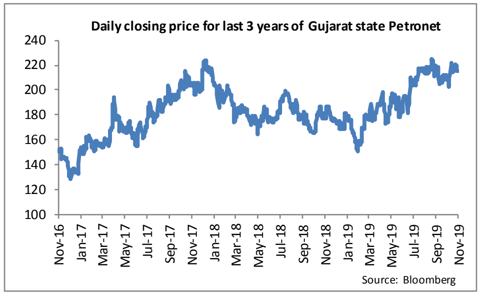
Background: Gujarat State Petronet Ltd (GSPL) is a natural gas infrastructure and transmission company engaged in gas transportation business and operates 2621 kms of pipeline in the state of Gujarat. It serves various industries, such as power, fertilizer, industries, refineries & petrochemical, CGD, etc. It also owns stake in CGD companies like Gujarat Gas Ltd and Sabarmati Gas Ltd.

Key Triggers:

- Volume growth to remain steady led by upcoming capacity expansion of Petronet LNGs' Dahej (Gujarat) LNG terminals from 15 MTPA to 17.5 MTPA, translating into additional 9 mmscmd gas volumes vs ~34 mmscmd achieved in FY19. Also upcoming Mundra Terminal may provide further volume uptick.
- Recent correction in gas prices likely to boost demand from price sensitive user segments like Power and Fertilizer companies.
- Outlook for Gujarat Gas (GSPL holds 54.17% stake) continues to remain strong as recent orders from NGT to use gas over petcock for Tiles manufacturers in Morbi region of Gujarat has led to sharp rise in volumes for the company
- Strong Free Cash Flow generation capability of GSPL to help reduce overall debt and thereby drive accelerated PAT growth.
- Strong financials and reasonable valuations offer a much protected downside risk

View: GSPL remains a structural story of India's increasing gas demand due to increasing demand from key users like power, fertilizers, refineries and petrochemical companies, CGD and industrial players. Moreover, given the lower LNG prices in the recent past, we believe demand from the price sensitive players (largely power/Fertilizer/Industrials) is also expected to rise going ahead. GSPLs utility business of transmission of gas gives us comfort on steady revenue growth expectation in the backdrop of rising gas demand in the country and thereby increasing demand for transmission lines. Similarly, investments in CGD companies (Gujarat Gas and Sabarmati Gas) will enable GSPL to earn steady cash flow on the back of strong growth witnessed in this business. We believe, strong Free Cash flow generation capability, reducing debt profile, investments in high growth CGD companies coupled with strong ROCEs (17.5% in FY19) and ROE (13.8% in FY19) profile would drive profitability for the company going ahead. **We have a BUY rating on the stock with the target price of Rs.336 based on SoTP method where we assign a value of Rs.243/share for GSPL Transmission business using DCF valuation method and adding market value of Gujarat Gas Ltd (listed entity) having ~54.16% stake after giving 30% holding company discount of Rs.91/share and balance value accruing from Sabarmati Gas based on 4x book value as on FY19.** Any earning/target price revision would depend on the changes in volume growth trajectory and changes in tariff by PNGRB, improvement in market share and changes in general business momentum.

Key Details	
52 week H/L(Rs)	230/149
Market Cap (Rs. Bn)	122.8
Book Value (Rs) YTD	82.7
FV (Rs)	10
PE (X) (TTM)	8.1
Dividend Yield (%)	0.9



Source: Bloomberg

Earnings Summary - Standalone

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Mn	(%)	Rs Mn	(%)	Rs Mn	Rs	%	X	%
18A	13318	29.6	11478	86.2	6685	11.9	34.6	18.4	0.7
19A	18772	41.0	15426	82.2	7952	14.1	18.8	15.5	0.8
20E	20238	7.8	16595	82.0	10360	18.4	30.4	11.9	0.9
21E	21687	7.2	17783	82.0	11389	20.2	9.9	10.8	1.0

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	37.64
Institutions	38.46
Others	23.90
Total	100.00

Infosys

CMP: Rs.708

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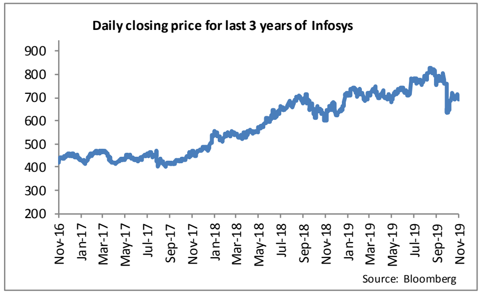
Background: Infosys Ltd. (Infosys) is an Information technology services company that provides business consulting, technology, engineering and outsourcing services. The Company also offers products, platforms and solutions to clients in different industries. Its business solutions include business IT services, consulting and systems integration services, products, business platforms and solutions, and cloud computing and enterprise mobility.

Key Triggers:

- Post the recent correction seen in Infosys after the whistleblower case, which were circulating in the media, stock is currently available at an attractive valuation of 19.7x on TTM EPS basis vs 23.9x on TTM EPS basis for TCS.
- Management has increased its revenue growth guidance for FY20 from 8.5-10% YoY earlier to 9-10% YoY post the Q2FY20 earnings. Also management has retained its EBIT margin guidance of 21-23%. This is likely to remain positive for the H2FY20 results.
- INR depreciation in the recent past may also help IT companies like Infosys to report higher revenue growth.
- Outlook for overall BFSI segment (~30-35% of total revenue) was also seen improving apart from capital market and few pockets in European region.
- Strong deal win momentum in the last few quarters led by large deal wins likely to help in sustaining revenue growth going ahead.

Key Details	
52 week H/L(Rs)	847/615
Market Cap (Rs. Bn)	3043
Book Value (Rs) YTD	170.8
FV (Rs)	5.0
PE (X) (TTM)	19.7
Dividend Yield (%)	4.8

View: The Q2FY20 numbers of Infosys saw broad-based revenue growth across most of its verticals, except Retail. While the Financial Services segment continued to witness growth aided by Stater acquisition, company is seeing some challenges in BFSI in capital market business in Europe. However, management guided that there are new opportunities in BFSI from consumer, corporate and commercial banking, payments and wealth management. The strong deal wins and additional revenue from the acquisition may lead to improvement in revenue growth in the medium term. Also, digital revenue has been growing at a steady pace for Infosys over the last many quarters and further traction seen in the Cloud related services with many large organizations moving towards public cloud, Infosys is expected to see sustained growth given its large scale of operation. **Currently, we have a Buy rating on the stock with a target price of Rs.854 at 19x FY21 EPS of Rs.42.9 and adding Rs.39 cash per share.** Any changes in the price target/valuation multiple would depend on the ability of the company to outperform its guidance, future margin profile, inorganic initiatives and general business momentum.



Earnings Summary

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Bn	(%)	Rs Bn	(%)	Rs Bn	Rs	%	X	%
18A	705	3.0	190	27.0	160	36.9	11.7	19.2	6.1
19A	827	17.2	209	25.3	155	35.7	-3.1	19.8	4.4
20E	909	9.9	218	24.0	164	37.7	5.5	18.8	4.8
21E	1,014	11.6	248	24.5	187	42.9	13.8	16.5	5.5

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	13.15
Institutions	56.30
Public	30.55
Total	100.00

Petronet LNG

CMP: Rs.276

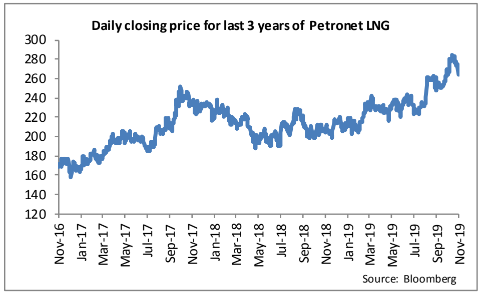
Background: Petronet LNG Ltd (PLNG) is engaged in sale of re-gasified liquefied natural gas (RLNG). The company is engaged in the import and re-gasification of liquefied natural gas (LNG). The Company's terminals include Dahej LNG terminal, Kochi LNG terminal and solid cargo port. The company's Dahej LNG terminal is LNG receiving and regasification terminal with a nameplate capacity of approximately 17.5 mn metric tons per annum (MMTPA) located in Dahej, Gujarat and Kochi LNG terminal has nameplate capacity of approximately 5 MMTPA, located at Kochi, Kerala.

Key Triggers:

- India's LNG import has seen a sharp growth of 8.4% YoY during April-October period of FY20. This is likely to drive the volumes for PLNG in near term.
- The recent decline in LNG prices is further likely to drive demand from key user segment like Fertilizer and power companies. This is likely to boost tolling (or service) revenue for PLNG in near to medium term.
- The recent capacity expansion at Dahej Terminal of PLNG from 15 MTPA to 17.5 MTPA is also likely to boost volumes for the company. This was visible in Q2FY20 Dahej volume which were up by 13.7% YoY and 10.6% QoQ.
- Completion of construction work of the Kochi-Mangalore pipeline by Q4FY20 may further result in volume growth for its 5 MTPA Kochi terminal in near to medium term, which is currently operating at ~10-12% utilization levels.

View: PLNG remains a structural story of India's increasing gas demand from key users like power stations, fertilizers companies, refineries and petrochemical companies, city gas distribution for compressed natural gas (CNG), domestic purpose usage and steel manufacturers. While the Kochi terminal is currently underutilized, a slight uptick in the utilization levels for Kochi terminal post commissioning of Kochi-Mangalore pipeline by Mar 2020, would result in sharp rise in the earnings for the company in FY21 and beyond. Moreover, international expansion plans given the higher free cash flow generation capability of the company is also likely to work in favour of PLNG with incremental growth coming from international operations in the long term. Currently, we maintain our Buy rating on the stock with a target price of Rs.347 at 16x FY21E EPS of Rs.21.7. Any earnings/target price revision would depend upon the fluctuation in LNG prices, any disruption from the upcoming competition; scale up of existing terminal, any decision by government on re-gas tariffs and general changes in the business scenario.

Key Details	
52 week H/L(Rs)	302/203
Market Cap (Rs. Bn)	413
Book Value (Rs) YTD	79.2
FV (Rs)	10.0
PE (X) (TTM)	14.8
Dividend Yield (%)	3.8



Earnings Summary

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Bn	(%)	Rs Bn	(%)	Rs Bn	Rs	%	X	%
18A	306	24.3	33	10.8	20.8	13.9	21.8	19.9	0.9
19A	384	25.5	33	8.6	21.6	14.4	3.7	19.2	3.6
20E	349	-9.0	43	12.3	27.2	18.1	26.1	15.2	3.6
21E	390	11.6	49	12.7	32.5	21.7	19.7	12.7	3.6

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	50.00
Institutions	37.25
Public	12.75
Total	100.00

Phoenix Mills

CMP: Rs.771

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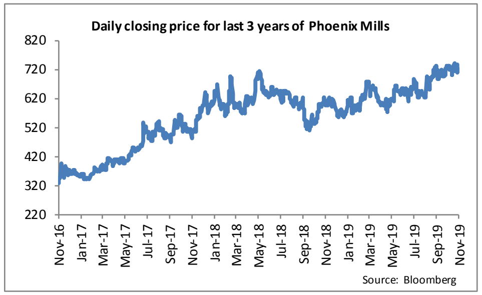
Background: The Phoenix Mills Limited (PML) is an India-based company engaged in the construction of buildings carried out on own-account basis or on a fee or contract basis. Its core business includes Retail, Hospitality, Commercial and Residential. Under the Retail segment, it operates eight malls in six cities. Under Commercial and Hospitality segments, it operates four commercial centers in two cities and two completed hotel projects.

Key Triggers:

- Sharp growth seen in organized retail during the festive season in the last few months is expected to benefit mall operators like Phoenix Mills. Management has highlighted that Oct'19 consumption growth across its 8 malls was up by ~30% YoY and ~20% higher as compared to Nov'18.
- Lucknow mall is expected to be commissioned in H2FY20 which may drive the rental revenue for the company.
- Apart from Lucknow, new mall expansion plans in 4 more locations (Bangalore, Pune, Ahmedabad and Indore) by Phoenix Mils over FY21-23 is likely to drive the overall revenue growth in the long term. Additionally, strong internal cash generation capability and equity infusion by Canada Pension Plan Investment Board (CPPIB) is likely to keep balance sheet under check.
- Recent minority stake bought across subsidiaries is likely to increase the attributable rental revenue across malls for Phoenix Mills and thereby earnings for the company.

Key Details	
52 week H/L(Rs)	797/549
Market Cap (Rs. Bn)	115.8
Book Value (Rs) YTD	240.3
FV (Rs)	2.0
PE (X) (TTM)	22.1
Dividend Yield (%)	1.3

View: PML continued to deliver steady rental growth during H1FY20 as more malls mature with rental income growing steadily in the last few quarters. With the next leg of growth being partly funded via CPPIB deal and near completion of minority buyouts in existing malls, PML is expected to generate strong free cash flows. With increasing household incomes, we believe that India stands at an inflection point from where the retail consumption pie in the country is set to grow at a much higher growth rate for the next decade. Key growth drivers for PML in the form of i) doubling its mall portfolio to ~10-11 msf over the next few years, ii) focus on building retail mixed led commercial portfolio, iii) bottoming of real-estate sector and (iv) improving dynamics for hospitality sector augurs well for the company. Given the healthy cash flow generating assets, reasonable valuations and positive long term outlook on the organized retail segment, **we are positive on the company and maintain a Buy rating on the stock with a target price of Rs.971 at 30x FY21E EPS of Rs.32.4.** Any earnings/target price revision would depend upon a slowdown in retail business; slowdown in real estate, any new policy announcement by Government on the real estate policy frame work, change in the interest rate and changes in general business momentum.



Earnings Summary - Consolidated

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Mn	(%)	Rs Mn	(%)	Rs Mn	Rs	%	X	%
18A	16198	(11.2)	7774	48.0	2421	15.8	41.9	48.7	0.3
19A	20518	26.7	9162	44.7	2954	19.3	22.0	31.7	0.3
20E	19735	(3.8)	10632	53.9	4095	26.7	38.4	28.9	0.3
21E	21907	11.0	12194	55.7	4963	32.4	21.2	23.8	0.3

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	59.16
Institutions	33.31
Others	7.53
Total	100.00

State Bank of India

CMP: Rs.342

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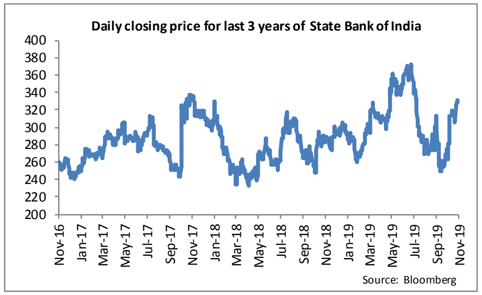
Background: State Bank of India (SBI) is India's largest commercial bank in terms of assets, deposits, profits, branches, number of customers and employees, enjoying the continuing faith of millions of customers across the social spectrum. Its banking activities include Personal Banking, Agricultural/Rural, NRI Services, International Banking, Corporate Banking and Services.

Key Triggers:

- SBI is witnessing steady growth in deposit, especially in CASA despite having lower interest rate compared to peer.
- Lower incremental provisioning for NPAs coupled with resolution of some of the cases in NCLT, which would enable write back of earlier provision would result in higher profitability in coming quarters
- Monetization of subsidiary companies would be helpful for capitalization and also allows to make provision for any potential NPA.
- With Pan India presence, it would be one of the major beneficiaries of the expected pick up in credit growth once the overall economy starts revive.

Key Details	
52 week H/L(Rs)	373 /244
Market Cap (Rs. Bn)	3047
Book Value (Rs) YTD	242.8
FV (Rs)	1.0
PE (X) (TTM)	29.5
Dividend Yield (%)	0



View: We have a Buy rating on the stock with the target of Rs.392 based on PBV multiple of 2x on FY21E core adjusted book value of Rs.179 adding Rs.34 per share value from Subsidiaries. Any revision in book value/rating would depend on changes in the NPA profile, Capital dilution and momentum in the NPA resolution process.

PE (X)		
FY19	FY20E	FY21E
352.5	30.5	25.0

Adjusted BV (X)		
FY19	FY20E	FY21E
174	177	179

Shareholding Pattern (%) on 30 Sept 2019	
Promoter	57.88
Institutions	35.26
Others	6.74
Total	100.00

Rating Interpretation	
Rating	**Expected to**
Buy	Appreciate more than 10% over 12-18 month period
Hold	Appreciate below 10% over 12-18 months period
Under Review	Rating under Review
Exit	Exited out of model portfolio

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