

FIRST LIGHT

RESEARCH

ONGC | Target: Rs 92 | +14% | ADD

Concerns abound – cut to ADD

Cera Sanitaryware | Target: Rs 2,315 | +6% | ADD

Lockdown blues – downgrade to ADD

SUMMARY

ONGC

ONGC posted a surprising Q4 loss of Rs 31bn (Rs 66bn on consolidated basis) owing to impairment charges derived from low oil price expectations. Q4 highlights: (a) oil/gas production was in line at 5.8mmt/6.0bcm (-1.4%/-8% YoY), (b) operating costs stood at US\$ 10.7/bbl vs. US\$ 10/bbl estimated, and (c) oil price realisation was at US\$ 49/bbl (-21% YoY). We reduce FY21/FY22 earnings by 45%/36% to factor in higher operating costs and lower gas volumes. Downgrade to ADD (from BUY) with a revised Mar'21 TP of Rs 92 (vs. Rs 110).

[Click here for the full report.](#)

Cera Sanitaryware

Cera Sanitaryware (CRS) reported below-expected Q4FY20 results as the lockdown derailed standalone revenue growth (-29% YoY). Operating margins contracted 98bps YoY to 14.5%, driving EBITDA/PBT declines of 34%/41% YoY. Management did not guide on demand trends but expects cost-cutting initiatives to mitigate the impact on margins. We lower FY21/FY22 earnings by 37%/9% and reduce our Mar'21 TP to Rs 2,315 (from Rs 2,550). Current valuations of 24.6x FY22E EPS offer limited upside – cut to ADD from BUY.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.66	3bps	0bps	(132bps)
India 10Y yield (%)	5.89	(2bps)	12bps	(96bps)
USD/INR	75.51	0.1	0.1	(9.5)
Brent Crude (US\$/bbl)	41.15	(1.3)	16.5	(34.1)
Dow	25,813	0.8	1.7	(3.6)
Shanghai	2,985	0.8	4.6	(1.9)
Sensex	34,916	(0.1)	7.7	(12.3)
India FII (US\$ mn)	29 Jun	MTD	CYTD	FYTD
FII-D	129.1	(223.6)	(14,278.9)	(4,519.4)
FII-E	(13.8)	2,730.3	(2,184.2)	4,418.7

Source: Bank of Baroda Economics Research

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ADD

TP: Rs 92 | ▲ 14%

ONGC

Oil & Gas

01 July 2020

Concerns abound – cut to ADD

ONGC posted a surprising Q4 loss of Rs 31bn (Rs 66bn on consolidated basis) owing to impairment charges derived from low oil price expectations. Q4 highlights: (a) oil/gas production was in line at 5.8mmt/6.0bcm (-1.4%/-8% YoY), (b) operating costs stood at US\$ 10.7/bbl vs. US\$ 10/bbl estimated, and (c) oil price realisation was at US\$ 49/bbl (-21% YoY). We reduce FY21/FY22 earnings by 45%/36% to factor in higher operating costs and lower gas volumes. Downgrade to ADD (from BUY) with a revised Mar'21 TP of Rs 92 (vs. Rs 110).

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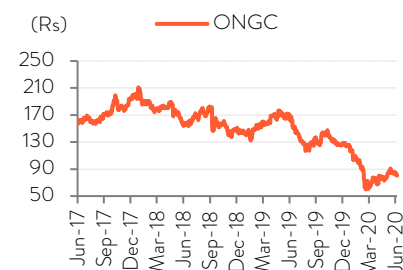
Production remains a drag, costs rise: Q4FY20 oil and gas production fell to 5.8mmt (-1.4% YoY) and 6bcm (-7.9%) respectively. Gas production reduced 10% in March as the lockdown disrupted demand, which has been restored to normal levels in June. Operating cost was above our estimate at US\$ 10.7/bbl.

Ticker/Price	ONGC IN/Rs 80
Market cap	US\$ 13.4bn
Shares o/s	12,580mn
3M ADV	US\$ 25.9mn
52wk high/low	Rs 169/Rs 50
Promoter/FPI/DII	60%/8%/32%

Source: NSE

Low realisations, impairment charges drive losses: Crude oil realisation fell to US\$ 49/bbl in Q4 (-21% YoY), causing revenues to drop 20% YoY to Rs 215bn. We expect crude prices to hover at around US\$ 35-40 and hence cut revenue estimates. Impairment expense of Rs 48bn (Rs 90bn at consolidated level) saw ONGC reporting a net loss of Rs 31bn. Though upstream companies may get some relief on cess and royalty payments, this will have transient benefits given sustained low oil prices. Low spot LNG prices (<US\$ 2.5/mmbtu) limit optimism if APM gas prices are freed – the outlook ultimately boils down to oil levels.

STOCK PERFORMANCE



Source: NSE

Trading at distressed valuations: At 12.5x FY22E EPS, ONGC is trading at distressed valuations. We cut earnings estimates for FY21/FY22 by 45%/36% to bake in higher operating costs and a cut in production estimates (~5%). While the stock remains depressed, higher operating costs assuming oil prices at US\$ 35-40/bbl limit scope for earnings revival. Downgrade to ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	3,622,462	4,534,606	4,250,014	3,084,240	3,820,726
EBITDA (Rs mn)	658,350	838,648	611,687	336,482	421,533
Adj. net profit (Rs mn)	234,323	348,309	168,256	19,559	80,654
Adj. EPS (Rs)	18.3	27.7	13.4	1.6	6.4
Adj. EPS growth (%)	(3.5)	51.6	(51.7)	(88.4)	312.4
Adj. ROAE (%)	11.8	16.4	7.9	0.9	3.8
Adj. P/E (x)	4.4	2.9	6.0	51.7	12.5
EV/EBITDA (x)	2.2	2.1	3.2	6.1	5.1

Source: Company, BOBCAPS Research



ADD

TP: Rs 2,315 | ▲ 6%

CERA SANITARYWARE

Construction Materials

01 July 2020

Lockdown blues – downgrade to ADD

Cera Sanitaryware (CRS) reported below-expected Q4FY20 results as the lockdown derailed standalone revenue growth (-29% YoY). Operating margins contracted 98bps YoY to 14.5%, driving EBITDA/PBT declines of 34%/41% YoY. Management did not guide on demand trends but expects cost-cutting initiatives to mitigate the impact on margins. We lower FY21/FY22 earnings by 37%/9% and reduce our Mar'21 TP to Rs 2,315 (from Rs 2,550). Current valuations of 24.6x FY22E EPS offer limited upside – cut to ADD from BUY.

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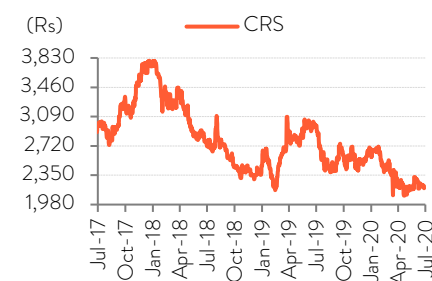
Lockdown dampens topline growth: CRS reported a 29% YoY decline in Q4 standalone revenue to Rs 2.9bn. The sanitaryware segment plunged 31% YoY whereas faucets/tiles fell 24%/30% YoY. As per management, the nationwide lockdown imposed during the seasonally busy period of March dented Q4 performance. The company believes clarity on demand trends post Covid-19 will emerge only after several quarters. Management highlighted the continued thrust on working capital discipline in these tough times.

Ticker/Price	CRS IN/Rs 2,185
Market cap	US\$ 376.2mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 3,040/Rs 1,986
Promoter/FPI/DII	54%/14%/31%

Source: NSE

EBITDA/PBT slump: Gross margins expanded 275bps YoY, but CRS's standalone operating margins contracted 98bps YoY to 14.5% as employee expenses increased (+380bps YoY) on account of negative operating leverage. EBITDA/PBT slumped 34%/41% YoY. Gross margins improved due to a better product mix and lower raw material cost. Management expects various cost-cutting measures and benign commodity prices to somewhat cushion margins in a challenging demand environment.

STOCK PERFORMANCE



Source: NSE

Downgrade to ADD: Q4 was below estimates and given persistent demand sluggishness, we cut FY21/FY22 earnings estimates by 37%/9%. Our Mar'21 TP moves to Rs 2,315 (from Rs 2,550), set at an unchanged 26x one-year forward P/E. Downgrade from BUY to ADD on limited upside potential.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	11,776	13,444	12,237	9,925	12,368
EBITDA (Rs mn)	1,699	1,917	1,655	1,093	1,766
Adj. net profit (Rs mn)	970	1,010	1,133	596	1,157
Adj. EPS (Rs)	74.6	77.7	87.1	45.8	89.0
Adj. EPS growth (%)	0.9	4.1	12.1	(47.4)	94.1
Adj. ROAE (%)	17.2	15.5	15.4	7.5	13.4
Adj. P/E (x)	29.3	28.1	25.1	47.7	24.6
EV/EBITDA (x)	16.6	14.6	16.8	25.3	15.7

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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