

FIRST LIGHT

RESEARCH

Axis Bank | Target: Rs 525 | +21% | BUY

Capital raising to fortify balance sheet

Automobiles

Jun'20 Auto Sales: Tractors continue to outshine other segments

Oil & Gas

V-shaped recovery in LNG imports

SUMMARY

Axis Bank

Axis Bank's (AXSB) board today **approved a proposal to raise funds** not exceeding Rs 150bn – this is equivalent to 12.5% of current market capital and 17.6% of Mar'20 net worth. The capital raise could be via QIP/ADR/GDR, preferential allotment, or a combination thereof, and is subject to shareholder approval at the upcoming AGM on 31 July.

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

Automobiles

Auto sales improved on a sequential basis in June but remained weak versus last year. Indian PV sales plummeted ~55% YoY and 2Ws slumped 27-35% for the month. MHCV volumes continued to be the worst affected, declining 90% YoY for AL. Owing to the limited Covid-19 impact in rural regions and healthy outlook for the agriculture sector, tractor sales remained resilient and grew at 10% YoY for MM. Subpar inventory levels at dealers in the beginning of FY21 could lead to channel filling by OEMs in coming months.

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

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 (%)	0.68	2bps	2bps	(127bps)
India 10Y yield (%)	5.84	(5bps)	8bps	(99bps)
USD/INR	75.60	(0.1)	0	(9.7)
Brent Crude (US\$/bbl)	42.03	2.1	19.0	(34.1)
Dow	25,735	(0.3)	1.4	(4.6)
Shanghai	3,026	1.4	6.1	0.4
Sensex	35,414	1.4	9.2	(11.1)
India FII (US\$ mn)	30 Jun	MTD	CYTD	FYTD
FII-D	(3.1)	(226.7)	(14,282.0)	(4,522.5)
FII-E	(13.8)	2,473.1	(2,441.5)	4,161.5

Source: Bank of Baroda Economics Research

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Oil & Gas

Natural gas consumption in May increased to 157mmscmd (+7% YoY, +21% MoM). Barring CGD (18.7mmscmd, -27% YoY) and power (30mmscmd, -10% YoY), offtake surged across sectors, viz. fertiliser (50.7mmscmd, +27% YoY), refineries (27.7mmscmd, +37% YoY) and petrochemicals (12mmscmd, +22% YoY). This reflects a V-shaped recovery in the gas utilities segment as the government eases restrictions on businesses and industries. The trend is in line with expectations highlighted in our recent [Model Portfolio update](#).

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

BUY

TP: Rs 525 | ▲ 21%

AXIS BANK

Banking

02 July 2020

Capital raising to fortify balance sheet

Proposed fund raise amounts to ~13% dilution: Axis Bank's (AXSB) board today **approved a proposal to raise funds** not exceeding Rs 150bn – this is equivalent to 12.5% of current market capital and 17.6% of Mar'20 net worth. The capital raise could be via QIP/ADR/GDR, preferential allotment, or a combination thereof, and is subject to shareholder approval at the upcoming AGM on 31 July.

Capital infusion would increase tier-1 ratio by 185bps...: Should the bank raise capital up to the fully approved limit of Rs 150bn, it would imply dilution of 12.5%. At the current price, the fresh capital would increase our estimated FY21 proforma tier-1 ratio by 186bps. Also, proforma BVPS for FY21 would increase by 3%, per our calculations.

...and strengthen the balance sheet: A capital infusion would strengthen AXSB's balance sheet and increase its ability to absorb loan losses. At the same time, it would weigh on ROE progression, reducing our FY21 estimate by ~100bps to 11.5%.

FIG 1 – POTENTIAL IMPACT OF CAPITAL RAISE

Particulars	Pre-capital raise	Post-capital raise	Change (%)
Amount of equity capital raised (Rs bn)	-	150	-
Equity dilution (%)	-	12.5	-
FY21E			
Tier-1 ratio (%)	13.7	15.5	186bps
ROE (%)	12.5	11.5	(97bps)
EPS (Rs)	39.3	37.0	(5.9)
BVPS (Rs)	328	338	3.3
P/E (x)	10.8	11.5	-
FY22E			
Tier-1 ratio (%)	13.3	15.0	161bps
ROE (%)	15.8	13.7	(208bps)
EPS (Rs)	55.4	49.2	(11.1)
BVPS (Rs)	373	379	1.5
P/E (x)	7.7	8.6	-

Source: Company, BOBCAPS Research

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Ticker/Price	AXSB IN/Rs 433
Market cap	US\$ 15.0bn
Shares o/s	2,620mn
3M ADV	US\$ 235.7mn
52wk high/low	Rs 813/Rs 286
Promoter/FPI/DII	26%/50%/24%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Net interest income	252,062	278,340	330,760
NII growth (%)	16.1	10.4	18.8
Adj. net profit (Rs mn)	16,272	110,903	156,238
EPS (Rs)	6.0	39.3	55.4
P/E (x)	71.8	11.0	7.8
P/BV (x)	1.4	1.3	1.2
ROA (%)	0.2	1.1	1.4
ROE (%)	2.1	12.5	15.8

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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AUTOMOBILES

02 July 2020

Jun'20 Auto Sales: Tractors continue to outshine other segments

Auto sales improved on a sequential basis in June but remained weak versus last year. Indian PV sales plummeted ~55% YoY and 2Ws slumped 27-35% for the month. MHCV volumes continued to be the worst affected, declining 90% YoY for AL. Owing to the limited Covid-19 impact in rural regions and healthy outlook for the agriculture sector, tractor sales remained resilient and grew at 10% YoY for MM. Subpar inventory levels at dealers in the beginning of FY21 could lead to channel filling by OEMs in coming months.

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PV sales slide continues: Domestic sales for Maruti (MSIL) were down 54% YoY to 53.1k units in June while exports fell 56% YoY. The company's UV and mini segments performed marginally better (~45% drop) than other segments. PV sales for M&M (MM) were down 57% YoY in June while Tata Motors (TTMT) reported a 61% drop for Q1FY21.

2Ws decline across segments: Hero's (HMCL) wholesale volumes fell 27% YoY to 450.7k in June. As per the company, demand was mainly led by rural and semi-urban areas which have benefited from the government's stimulus packages. 2W sales for Bajaj Auto (BJAUT) declined 27% YoY to 255k, while TVS Motor (TVSL) saw a 32% YoY drop to 191.7k units with mopeds (-21% YoY) outperforming other segments. 3W sales for TVSL and BJAUT nosedived 46% and 57% respectively. Royal Enfield reported total 2W sales of 38k units (-35% YoY) with exports posting a sharper decline (-52%).

CV sales still in freefall: Unlike other segments which reported a relatively better performance in June, the YoY decline in CVs remains similar to that seen in May. Total CV sales for AL plunged 81% YoY to 2.4k units led by MHCVs which slumped 91%, while sales for VECV dropped 70% to 1.4k units in June. TTMT reported a Q1FY21 CV drop of 90% YoY to 10.5k units. Per the company, retail sales have lagged wholesale volumes by ~67% in Q1 as demand remained muted and dealers had negligible opening inventory for FY21.

Tractor sales resilient: With early relaxation of the lockdown in rural areas and for the agricultural sector, tractor demand continued to outperform other segments and posted positive growth YoY in June. MM sold 36.5k tractors (+10% YoY) while competitor Escorts sold 10.8k units (+21% YoY). Pent-up demand, better farmer sentiments and predictions of a normal monsoon should aid healthy tractor demand in coming months.



OIL & GAS

02 July 2020

V-shaped recovery in LNG imports

LNG imports rebound: Natural gas consumption in May increased to 157mmscmd (+7% YoY, +21% MoM). Barring CGD (18.7mmscmd, -27% YoY) and power (30mmscmd, -10% YoY), offtake surged across sectors, viz. fertiliser (50.7mmscmd, +27% YoY), refineries (27.7mmscmd, +37% YoY) and petrochemicals (12mmscmd, +22% YoY). This reflects a V-shaped recovery in the gas utilities segment as the government eases restrictions on businesses and industries. The trend is in line with expectations highlighted in our recent [Model Portfolio update](#).

Fertiliser and refinery segment consumption surges: Fertiliser, the largest consumer of R-LNG in India, clocked a 14% YoY rise in LNG imports to 26.4mmscmd. Although the power and refinery segments – the second and third largest consumers of natural gas in India – saw a decline in R-LNG consumption, their domestic gas offtake increased by 10% (24.9mmscmd) and 246% YoY (10.7mmscmd) respectively.

Domestic gas production declines: Gas production slipped 16% YoY to 74.2mmscmd during May, with the biggest decline of 38% YoY to 8.6mmscmd seen from private players. ONGC and Oil India also reduced production to 58.3mmscmd (-16% YoY) and 7.4mmscmd (-1% YoY) respectively. Despite recent optimistic management commentary from both companies on gas production in the next couple of years, we do not estimate any increase in domestic gas output due to unfavourable economics at current low gas prices.

FIG 1 – GAS CONSUMPTION

(mmscmd)	May'20	May'19	YoY (%)	Apr'20	MoM (%)	FY21YTD	FY20YTD	YoY (%)
Fertiliser	50.7	40.0	26.7	43.0	18.0	46.8	39.2	19.4
Power	30.1	33.4	(10.0)	25.3	19.0	27.7	33.0	(16.1)
CGD	18.7	25.6	(27.1)	12.7	47.1	15.7	25.5	(38.5)
Other industrials:	57.6	48.2	19.6	49.4	16.7	53.5	48.3	10.8
Refineries	27.7	20.2	36.8	24.4	13.6	26.0	20.3	28.4
Petrochemicals	12.0	9.9	21.6	7.0	70.6	9.5	10.0	(4.5)
Miscellaneous	18.0	18.1	(0.7)	18.0	(0.2)	18.0	18.1	(0.5)
Total	157.1	147.3	6.7	130.3	20.5	143.7	146.0	(1.6)

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
GAIL IN	104	150	BUY
PLNG IN	262	305	BUY
IGL IN	445	420	SELL
MAHGL IN	1,047	710	SELL
GUJS IN	225	310	BUY
GUJGA IN	324	335	BUY

Price & Target in Rupees

GAS CONSUMPTION

(mmscmd)	May'20	May'19	YoY (%)
Fertiliser			
Domestic	24.3	16.9	43.8
R-LNG	26.4	23.1	14.3
Total	50.7	40.0	26.7
Power			
Domestic	24.9	22.6	10.2
R-LNG	5.2	10.8	(51.9)
Total	30.1	33.4	(10.0)
CGD			
Domestic	6.3	15.2	(58.6)
R-LNG	12.4	10.4	19.2
Total	18.7	25.6	(27.1)
Other Industrials			
Domestic	23.8	14.1	68.8
R-LNG	33.8	34.1	(0.9)
Total	57.6	48.2	19.6
Total Consumption	157.1	147.3	6.7
Total R-LNG	77.8	78.4	(0.8)
Total Domestic	79.3	68.9	15.2

Source: PPAC, 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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