

RESEARCH

Gujarat Gas | Target: Rs 335 | +8% | ADD

Muted Q1 but volumes have normalised; cut to ADD on low upside

Indian Oil Corp | Target: Rs 195 | +124% | BUY

Improved outlook on marketing margins

HDFC Bank | Target: Rs 1,275 | +27% | BUY

Elevation of Sashi Jagdishan as MD & CEO a big positive

SUMMARY

Gujarat Gas

Gujarat Gas' (GUJGA) Q1FY21 earnings were well below estimates, plunging 75% YoY to Rs 0.5bn. Key Q1 highlights: (a) volumes much below forecasts at 4.1mmscmd (-55% YoY), but (b) EBITDA margins outperformed at Rs 4.9/scm (-12% YoY). We reduce FY21/FY22 earnings by 7%/1% to factor in lower volumes in FY21, neutralised by higher margins. Our TP remains unchanged at Rs 335 as we roll over to Sep'21. The stock has run up 24% in the past three months and offers limited upside – cut from BUY to ADD.

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

Indian Oil Corp

IOCL's Q1FY21 EBITDA at Rs 55bn (-34% YoY) was above estimates. Key Q1 highlights: (a) Marketing earnings surged with EBITDA at Rs 62bn (ex-inventory, +48% YoY), (b) refining business underperformed with GRMs at US\$ 4.4/bbl (ex-inventory), (c) pipeline/petrochemicals EBITDA beat estimates at Rs 11.5bn/Rs 7.3bn. We adjust FY21/FY22 earnings estimates by -3%/+8% and roll forward to a revised Sep'21 SOTP-based TP of Rs 195 (from Rs 175). Diversification renders IOCL a better bet among OMC peers.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.55	3	(12)	(115)
India 10Y yield (%)	5.84	0	(1)	(56)
USD/INR	75.01	(0.3)	(0.5)	(6.0)
Brent Crude (US\$/bbl)	44.15	2.0	3.2	(26.2)
Dow	26,664	0.9	3.2	3.7
Shanghai	3,368	1.8	6.8	19.4
Sensex	36,940	(1.8)	2.5	0.7
India FII (US\$ mn)	31 Jul	MTD	CYTD	FYTD
FII-D	82.9	(245.6)	(14,527.6)	(4,768.1)
FII-E	(122.4)	1,153.3	(1,288.2)	5,314.8

Source: Bank of Baroda Economics Research

BOBCAPS Research

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HDFC Bank

As per a [press release](#) on the exchanges, HDFC Bank (HDFCB) has received RBI approval to appoint Sashidhar Jagdishan as Managing Director and CEO for three years. He will take over the mantle from Aditya Puri whose term ends on 26 Oct 2020. We view Jagdishan's appointment to the new role as a key positive because it would ensure smooth leadership transition and continuity of business plans. Promoting an internal candidate for the top job also removes the management transition overhang on the stock. Maintain BUY with an unchanged Sep'21 TP of Rs 1,275.

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

ADD

TP: Rs 335 | ▲ 8%

GUJARAT GAS

Oil & Gas

04 August 2020

Muted Q1 but volumes have normalised; cut to ADD on low upside

Gujarat Gas' (GUJGA) Q1FY21 earnings were well below estimates, plunging 75% YoY to Rs 0.5bn. Key Q1 highlights: (a) volumes much below forecasts at 4.1mmscmd (-55% YoY), but (b) EBITDA margins outperformed at Rs 4.9/scm (-12% YoY). We reduce FY21/FY22 earnings by 7%/1% to factor in lower volumes in FY21, neutralised by higher margins. Our TP remains unchanged at Rs 335 as we roll over to Sep'21. The stock has run up 24% in the past three months and offers limited upside – cut from BUY to ADD.

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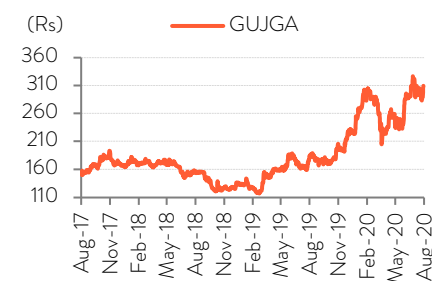
Robust volume outlook: Volumes at 4.1mmscmd (-55% YoY) were well below estimates, affected by below-expected industrial segment volumes at 2.9mmscmd (-60% YoY). CNG volumes (0.7mmscmd, -54% YoY) may take longer to recover post lockdown; domestic PNG (0.6mmscmd, +16 YoY) continued to grow. GUJGA's volumes have currently retraced to ~9.5mmscmd levels – ahead of our estimate of ~7mmscmd – validating our expectations of a steep recovery. The company outperformed our EBITDA margin estimate of Rs 3.8/scm, delivering Rs 4.9/scm in Q1 which implies strong pricing power.

Ticker/Price	GUJGA IN/Rs 310
Market cap	US\$ 2.8bn
Shares o/s	688mn
3M ADV	US\$ 3.7mn
52wk high/low	Rs 329/Rs 165
Promoter/FPI/DII	61%/9%/30%

Source: NSE

Volume potential from new areas to fructify from FY21: GUJGA's expansion plans are unlikely to be affected by the lockdown as a bulk of its capex usually occurs in H2 each year. The company plans to continue entering newer areas and has maintained capex guidance at Rs 6bn-7bn p.a. The initial strategy is to tap potential from existing networks (Rajasthan to rural Thane near Mumbai). It would simultaneously tap volumes from new areas such as Dahej, Punjab (licenced for six areas) and Rajasthan, that offer 4-5mmscmd of potential.

STOCK PERFORMANCE



Source: NSE

Downgrade to ADD post rally: At 15.7x FY22E EPS, valuations offer limited upsides, driving our rating cut. Sustained low LNG prices augur well for margins and represent an upside risk to earnings.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	77,544	103,003	72,475	94,548	103,562
EBITDA (Rs mn)	9,836	16,344	16,230	21,058	22,857
Adj. net profit (Rs mn)	4,159	9,061	9,753	13,597	15,222
Adj. EPS (Rs)	6.0	13.2	14.2	19.8	22.1
Adj. EPS growth (%)	42.7	117.9	7.6	39.4	11.9
Adj. ROAE (%)	20.6	32.9	25.3	28.8	28.5
Adj. P/E (x)	51.2	23.5	21.8	15.7	14.0
EV/EBITDA (x)	23.9	14.2	14.0	10.6	9.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 195 | ▲ 124%

INDIAN OIL CORP

Oil & Gas

04 August 2020

Improved outlook on marketing margins

IOCL's Q1FY21 EBITDA at Rs 55bn (-34% YoY) was above estimates. Key Q1 highlights: (a) Marketing earnings surged with EBITDA at Rs 62bn (ex-inventory, +48% YoY), (b) refining business underperformed with GRMs at US\$ 4.4/bbl (ex-inventory), (c) pipeline/petrochemicals EBITDA beat estimates at Rs 11.5bn/Rs 7.3bn. We adjust FY21/FY22 earnings estimates by -3%/+8% and roll forward to a revised Sep'21 SOTP-based TP of Rs 195 (from Rs 175). Diversification renders IOCL a better bet among OMC peers.

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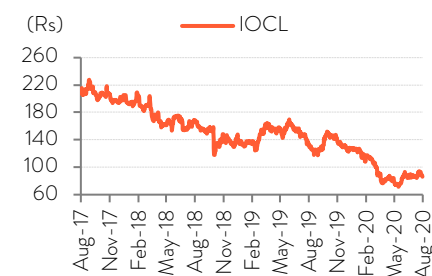
GRMs below estimates with surprise inventory loss: IOCL's GRMs underperformed at US\$ 4.4/bbl (ex-inventory loss of US\$ 6.4/bbl). We were surprised at the inventory loss which contrasts with gains reported by peers. Management clarified that expected inventory gains from Q1 would rather be realised in Q2FY21, considering the higher inventory days (~45 days). Adj. GRMs indicate that IOCL continued to gain from high discounts on Middle East crude.

Ticker/Price	IOCL IN/Rs 87
Market cap	US\$ 11.0bn
Shares o/s	9,479mn
3M ADV	US\$ 26.5mn
52wk high/low	Rs 156/Rs 71
Promoter/FPI/DII	52%/6%/42%

Source: NSE

Marketing earnings surge: Marketing business EBITDA at Rs 62bn (ex-inventory gain) was well above estimates on the back of better margins (Rs 3,763/mt). Management has more than delivered on its guidance of improving marketing margins, which bolsters the earnings outlook over FY21-FY23. Pipeline business EBITDA declined to Rs 11.5bn (-29% YoY) due to lower capacity utilisation of ~63.5% during the quarter. Petchem margins at US\$ 200/mt (+6.5% YoY, +105% QoQ) offset the drop in volumes and led to petchem EBITDA outperformance.

STOCK PERFORMANCE



Source: NSE

Remains our top pick: Valuations at 3.3x FY22E EBITDA are at a significant discount to BPCL, offering a staggering >12% dividend yield potential. Like other PSUs, the stock has been under pressure owing to concerns over cash utilisation. We believe valuations price in most of these concerns. Retain BUY.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,281,489	4,843,623	3,471,995	4,361,902	5,033,901
EBITDA (Rs mn)	352,227	164,049	405,082	462,542	469,986
Adj. net profit (Rs mn)	173,837	104,114	206,635	238,608	243,193
Adj. EPS (Rs)	18.9	11.3	22.5	26.0	26.5
Adj. EPS growth (%)	(19.1)	(40.1)	98.5	15.5	1.9
Adj. ROAE (%)	15.4	10.2	21.7	23.5	22.2
Adj. P/E (x)	4.6	7.7	3.9	3.3	3.3
EV/EBITDA (x)	4.1	9.7	4.6	4.0	3.8

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,275 | ▲ 27%

HDFC BANK

| Banking

| 04 August 2020

Elevation of Sashi Jagdishan as MD & CEO a big positive

RBI approves new MD & CEO: As per a [press release](#) on the exchanges, HDFC Bank (HDFCB) has received RBI approval to appoint Sashidhar Jagdishan as Managing Director and CEO for three years. He will take over the mantle from Aditya Puri whose term ends on 26 Oct 2020.

About Sashi Jagdishan: Jagdishan has 30 years of experience. He moved from Deutsche Bank to HDFCB back in 1996 as a manager in the finance function. He became Business Head – Finance in 1999 and was later elevated to CFO in 2008. He is currently the Group Head – Finance, Human Resources, Legal & Secretarial, Administration, Infrastructure, Corporate Communications, Corporate Social Responsibility, and the Strategic Change Agent of HDFCB.

Selection ensures smooth transition: Puri headed HDFCB for nearly three decades, moulding the bank's long-term vision. Jagdishan being one of his close aides has played a critical role in supporting the growth trajectory and aligning the organisation toward achieving strategic objectives over the years. We view Jagdishan's appointment to the new role as a key positive as it would ensure a smooth leadership transition and continuity of business plans.

Maintain BUY: We like HDFCB for its strong processes, risk management practices and stable asset quality. In our view, promoting an internal candidate for the top job removes the management transition overhang on the stock. Maintain BUY with an unchanged Sep'21 TP of Rs 1,275.

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Ticker/Price	HDFCB IN/Rs 1,002
Market cap	US\$ 73.2bn
Shares o/s	5,490mn
3M ADV	US\$ 249.7mn
52wk high/low	Rs 1,306/Rs 739
Promoter/FPI/DII	26%/37%/37%

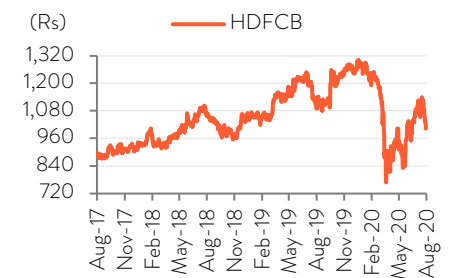
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Net interest income	664,364	765,687	886,619
NII growth (%)	18.2	15.3	15.8
Adj. net profit (Rs mn)	292,091	318,795	370,239
EPS (Rs)	53.3	58.1	67.5
P/E (x)	18.8	17.2	14.8
P/BV (x)	2.7	2.4	2.2
ROA (%)	1.8	1.7	1.7
ROE (%)	15.7	15.0	15.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


Disclaimer

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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