FIRST LIGHT

11 November 2020

RESEARCH

Oil India | Target: Rs 103 | +18% | BUY

Concerns priced in – raise to BUY

VST Tillers Tractors | Target: Rs 2,100 | +20% | BUY

Strong Q2; price target revised upwards

Mahindra & Mahindra | Target: Rs 510 | –18% | SELL

Tractor sales upbeat; valuations expensive – maintain SELL

GAIL | Target: Rs 155 | +72% | BUY

Operating parameters return to normalcy

SUMMARY

Oil India

Oil India (OINL) reported Q2FY21 earnings of Rs 2.4bn, well above our estimates. Q2 highlights: (1) EBITDA improved to Rs 7.4bn (+3.7x QoQ) due to higher oil prices, and (2) sales volume continued to decline for both oil (0.73mmt, –8.3% YoY) and gas (0.55bcm, –16.3% YoY). We maintain our earnings forecast as we keep oil price assumptions unchanged. Our Sep'21 SOTP-based TP changes marginally to Rs 103 (vs. Rs 105). Upgrade to BUY (from REDUCE) as concerns over production ramp-up and low oil prices appear fully priced in.

Click here for the full report.

VST Tillers Tractors

VST Tillers' (VSTT) Q2FY21 results beat estimates – revenue surged 37% YoY to Rs 2.2bn and EBITDA margin came in at 17.1% (11.3% est.). We believe VSTT is poised for strong growth given market leadership in power tillers (~50% market share), ready capacity, focused growth in tractors and debt-free position. Considering the import ban on Chinese tillers, we model for a robust 18% volume CAGR over FY20-FY23. We raise FY21-FY23 EPS by 16-30% on stronger margin guidance and revise our Sep'21 TP to Rs 2,100 (vs. Rs 1,800). BUY.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.92	11bps	15bps	(102bps)
India 10Y yield (%)	5.88	1bps	(6bps)	(69bps)
USD/INR	74.15	0.1	(1.4)	(3.7)
Brent Crude (US$/bbl)	42.40	7.5	(1.1)	(31.8)
Dow	29,158	2.9	2.0	5.3
Shanghai	3,374	1.9	3.1	15.9
Sensex	42,597	1.7	5.2	5.6
India FII (US$ mn)	**6 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	35.6	85.7	(14,144.0)	(4,384.5)
FII-E	659.5	1,732.3	8,278.7	14,881.7

Source: Bank of Baroda Economics Research

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Mahindra & Mahindra

M&M's (MM) Q2FY21 revenue grew 6% YoY to Rs 115.9bn and EBITDA margin was above our estimate at 17.8%. EBITDA increased 33% to Rs 20.6bn but PAT fell 3% to Rs 13.1bn. Tractors performed well with EBIT margin at 24.4% (+510bps YoY); auto margins also improved 70bps. We expect MM's tractor/auto segments to log a volume CAGR of 5%/1% over FY20-FY23, with overall EBITDA margin reviving to 14% levels from FY22. We continue to value the core business at 13x Sep'22E EPS and maintain our TP of Rs 510. SELL.

Click here for the full report.

GAIL

GAIL's Q2FY21 PAT was in line at Rs 12.4bn (+17% YoY), driven by an improved operating performance across segments (except trading). Q2 highlights: (a) gas trading continued to report losses (Rs 3.4bn), stung by weakness in US LNG contracts; (b) gas transmission/petrochemical earnings outperformed at Rs 12.8bn (+26% YoY)/Rs 2.9bn (9x YoY) on higher volumes and margins. Operations have recovered to pre-Covid levels, reinforcing our investment argument of a speedy return to normalcy. We maintain our Sep'21 TP at Rs 155.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 103 | ⮝ 18%

OIL INDIA | Oil & Gas | 10 November 2020

Concerns priced in – raise to BUY

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

Oil India (OINL) reported Q2FY21 earnings of Rs 2.4bn, well above our estimates. Q2 highlights: (1) EBITDA improved to Rs 7.4bn (+3.7x QoQ) due to higher oil prices, and (2) sales volume continued to decline for both oil (0.73mmt, –8.3% YoY) and gas (0.55bcm, –16.3% YoY). We maintain our earnings forecast as we keep oil price assumptions unchanged. Our Sep'21 SOTP-based TP changes marginally to Rs 103 (vs. Rs 105). Upgrade to BUY (from REDUCE) as concerns over production ramp-up and low oil prices appear fully priced in.

Operating costs decline: OINL's operating costs inline with estimates at US$ 6.3/bbl (including exceptional costs, -15% QoQ)). Recent disruptions in the Baghjan area of Assam had led to exceptional restoration costs (below EBITDA) of Rs 1.3bn in Q2 (~Rs 2.3bn in H1FY21). The recurring impact from this event has kept costs elevated while also disrupting production volumes.

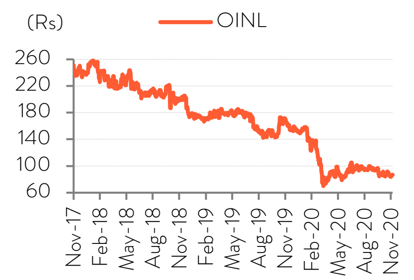
Volume disruptions continue: OINL's oil/gas production continued to decline, falling 8.5%/14.5% YoY to 0.75mmt/0.64bcm in Q2. With repeated disruptions afflicting its producing assets in the state of Assam (political turmoil, natural calamities), the company is struggling to scale up production (this could sustain through FY22). Recovery in oil prices could raise prospects of higher capex for a faster production ramp-up. OINL, along with ONGC, continues to lobby for a higher gas price for domestic fields, as it lines up major development plans for its gas discoveries in Assam.

Concerns priced in – raise to BUY: Current valuations at 6x FY22E EPS seem to be pricing in the worst. Recovery in oil prices could provide much-needed earnings recovery, while APM gas prices could be revised upwards from Apr'21. OINL's claims of strong reserve accretion (>1 reserve replacement over the last few years) raise prospects for strong long-term volume growth.

Ticker/Price	OINL IN/Rs 87
Market cap	US$ 1.3bn
Shares o/s	1,084mn
3M ADV	US$ 1.1mn
52wk high/low	Rs 170/Rs 64
Promoter/FPI/DII	57%/7%/36%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	137,350	121,285	86,693	100,959	113,476
EBITDA (Rs mn)	54,838	25,905	20,736	27,976	33,307
Adj. net profit (Rs mn)	36,169	21,662	12,875	15,882	18,066
Adj. EPS (Rs)	33.4	20.0	11.9	14.6	16.7
Adj. EPS growth (%)	35.6	(40.1)	(40.6)	23.4	13.8
Adj. ROAE (%)	13.0	8.3	5.2	6.3	6.9
Adj. P/E (x)	2.6	4.4	7.3	5.9	5.2
EV/EBITDA (x)	2.3	4.7	6.1	4.8	4.1

Source: Company, BOBCAPS Research

RESULT REVIEW

BUY
TP: Rs 2,100 | ⮝ 20%

VST TILLERS TRACTORS | Automobiles | 10 November 2020

Strong Q2; price target revised upwards

VST Tillers' (VSTT) Q2FY21 results beat estimates – revenue surged 37% YoY to Rs 2.2bn and EBITDA margin came in at 17.1% (11.3% est.). We believe VSTT is poised for strong growth given market leadership in power tillers (~50% market share), ready capacity, focused growth in tractors and debt-free position. Considering the import ban on Chinese tillers, we model for a robust 18% volume CAGR over FY20-FY23. We raise FY21-FY23 EPS by 16-30% on stronger margin guidance and revise our Sep'21 TP to Rs 2,100 (vs. Rs 1,800). BUY.

Mayur Milak | Nishant Chowhan, CFA
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Q2 better than estimates: Revenue increased 37% YoY to Rs 2.2bn and EBITDA was ahead of estimates at Rs 377mn. EBITDA margin at 17.4% was supported by better gross margins and operating efficiencies. Adj. PAT grew 4.7x YoY to Rs 299mn (Rs 205mn est.). Better operating efficiencies led by higher capacity utilization should aid healthy EBITDA margins ahead as well.

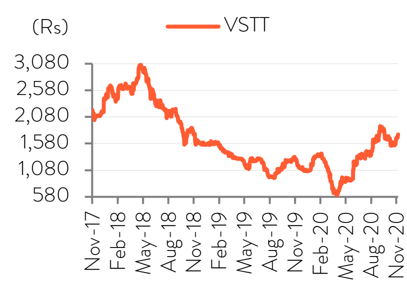
Import curbs to reinforce dominance in power tillers; strong tractor growth: The Indian government-imposed import restrictions on Chinese tillers (~30% market share) in Jul'20. VSTT – being the market leader with over 50% market share – stands to be the biggest beneficiary. We thus model for an 18% volume CAGR in the company's tiller segment for FY20-FY23 and a 13% CAGR in its tractor business led by new product launches and anticipated healthy rural income.

Earnings revised upwards; maintain BUY: We are positive on VSTT given its strong FCF, debt-free balance sheet, and demand impetus from power tiller import curbs. Post-Q2, we raise our FY21/FY22/FY23 earnings estimates by 30%/16%/16%. Revenue/EBITDA/PAT are forecast to log a robust CAGR of 18%/81%/67% (earlier 17%/72%/59%) over FY20-FY23. We continue to value the stock at 23x Sep'22E EPS, revising our TP to Rs 2,100 (earlier Rs 1,800).

Ticker/Price	VSTT IN/Rs 1,752
Market cap	US$ 205.3mn
Shares o/s	9mn
3M ADV	US$ 0.7mn
52wk high/low	Rs 1,951/Rs 588
Promoter/FPI/DII	55%/5%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	6,148	5,437	7,104	8,051	8,965
EBITDA (Rs mn)	461	174	770	899	1,022
Adj. net profit (Rs mn)	461	179	656	743	838
Adj. EPS (Rs)	53.3	20.7	76.0	86.0	97.0
Adj. EPS growth (%)	(58.9)	(61.1)	266.2	13.3	12.7
Adj. ROAE (%)	7.8	3.1	10.3	10.8	11.2
Adj. P/E (x)	32.9	84.5	23.1	20.4	18.1
EV/EBITDA (x)	32.7	87.6	19.5	16.7	14.7

Source: Company, BOBCAPS Research

SELL
TP: Rs 510 | ∀ 18%

MAHINDRA & MAHINDRA

| Automobiles | 10 November 2020

Tractor sales upbeat; valuations expensive – maintain SELL

M&M's (MM) Q2FY21 revenue grew 6% YoY to Rs 115.9bn and EBITDA margin was above our estimate at 17.8%. EBITDA increased 33% to Rs 20.6bn but PAT fell 3% to Rs 13.1bn. Tractors performed well with EBIT margin at 24.4% (+510bps YoY); auto margins also improved 70bps. We expect MM's tractor/auto segments to log a volume CAGR of 5%/1% over FY20-FY23, with overall EBITDA margin reviving to 14% levels from FY22. We continue to value the core business at 13x Sep'22E EPS and maintain our TP of Rs 510. SELL.

Mayur Milak | Nishant Chowhan, CFA
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Healthy operating performance: Revenues for MM+MVML grew 6% YoY to Rs 115.9bn, marginally above estimates. Above-expected RM cost/sales was more than offset by better operating efficiencies, resulting in EBITDA growth of 33% YoY to Rs 20.6bn (Rs 15.6bn est.) and an EBITDA margin of 17.8% (+370bps YoY). A significant jump in interest burden and fall in other income weighed on adj. PAT which declined 3% YoY to Rs 13.1bn. MM reported one-off impairment charges of Rs 11.5bn in Q2.

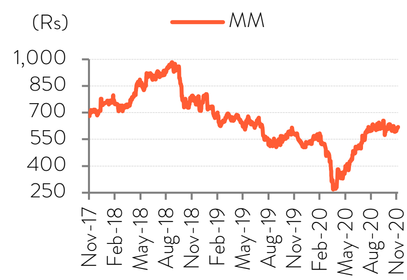
Strong tractor performance but auto remains a drag: We expect MM's tractor segment to witness 4% YoY volume growth in FY21 and post a 5% CAGR over FY20-FY23. However, the pain in its auto segments – UVs, CVs and 3Ws – will continue to mar the overall picture. We model for a mere 1% volume CAGR in the auto business through to FY23.

Maintain SELL: We estimate a 4% revenue CAGR for MM over FY20-FY23 coupled with expansion in operating margins, supporting higher 7% earnings growth. We continue to value the core business at 13x Sep'22E EPS and assign a 30% holding company discount for subsidiaries. Maintain SELL as we find current valuations rich at 24x FY22E core EPS (adj. for value of subsidiaries).

Ticker/Price	MM IN/Rs 620
Market cap	US$ 10.4bn
Shares o/s	1,242mn
3M ADV	US$ 46.9mn
52wk high/low	Rs 667/Rs 245
Promoter/FPI/DII	20%/34%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	528,482	448,655	379,868	463,238	511,660
EBITDA (Rs mn)	75,301	63,506	49,466	65,415	73,572
Adj. net profit (Rs mn)	54,239	35,509	29,918	40,535	45,525
Adj. EPS (Rs)	43.7	28.6	24.1	32.6	36.7
Adj. EPS growth (%)	29.5	(34.5)	(15.7)	35.5	12.3
Adj. ROAE (%)	16.6	10.2	8.4	10.6	11.1
Adj. P/E (x)	14.2	21.7	25.7	19.0	16.9
EV/EBITDA (x)	9.9	11.5	14.8	11.4	10.1

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 155 | ⮝ 72%

GAIL | Oil & Gas | 10 November 2020

Operating parameters return to normalcy

GAIL's Q2FY21 PAT was in line at Rs 12.4bn (+17% YoY), driven by an improved operating performance across segments (except trading). Q2 highlights: (a) gas trading continued to report losses (Rs 3.4bn), stung by weakness in US LNG contracts; (b) gas transmission/petrochemical earnings outperformed at Rs 12.8bn (+26% YoY)/Rs 2.9bn (9x YoY) on higher volumes and margins. Operations have recovered to pre-Covid levels, reinforcing our investment argument of a speedy return to normalcy. We maintain our Sep'21 TP at Rs 155.

Rohit Ahuja | Harleen Manglani
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V-shaped recovery in volumes: Gas transmission volumes at 106.4mmscmd (+18% QoQ) were above our estimates. The outlook on GAIL's volumes remains buoyant, supported by (a) low spot LNG prices that could accelerate demand recovery (visible from a surge in offtake from the power sector), (b) commissioning of new pipelines (Kochi-Mangaluru and Jagdishpur-Haldia by end-FY22) which carry ~15mmscmd volume potential, and (c) ample gas supply options emerging across India from incremental LNG regasification capacities (~50mmscmd) and domestic gas production (ONGC/RIL: 20-30mmscmd) over 3-5 years that could help create incremental demand.

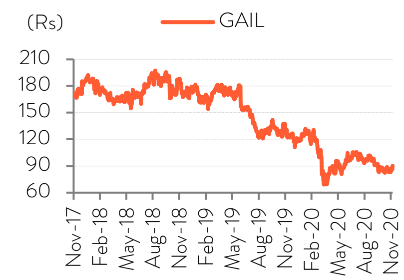
Petchem turns around; trading margins remain negative: Petchem returned to profitability in Q2 owing to better margins from low LNG prices and >90% utilisation of crackers. On the other hand, gas trading sustained losses on low spot LNG prices. LPG/LHC segment earnings were in line at Rs 3bn (+11% YoY). The recent rise in oil prices could bolster these segment's earnings in H2.

Reiterate BUY: At 6.9x FY22E EPS, risk-reward remains attractive (akin to other PSUs). Our SOTP target price of Rs 155 builds in worst-case assumptions across segments, especially gas trading and petrochemicals (which form just ~10% of our valuation for GAIL).

Ticker/Price	GAIL IN/Rs 90
Market cap	US$ 5.5bn
Shares o/s	4,510mn
3M ADV	US$ 16.4mn
52wk high/low	Rs 133/Rs 65
Promoter/FPI/DII	52%/15%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	802,836	718,710	392,246	521,799	596,284
EBITDA (Rs mn)	95,556	84,710	77,833	92,687	106,713
Adj. net profit (Rs mn)	63,525	49,658	48,430	59,678	67,698
Adj. EPS (Rs)	14.1	11.0	10.7	13.2	15.0
Adj. EPS growth (%)	38.1	(21.8)	(2.5)	23.2	13.4
Adj. ROAE (%)	15.0	11.3	10.8	12.6	13.3
Adj. P/E (x)	6.4	8.2	8.4	6.8	6.0
EV/EBITDA (x)	4.3	4.7	5.6	4.8	4.0

Source: Company, BOBCAPS Research

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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