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FIRST LIGHT

04 December 2020

BOB Economics Research | Trade

Trade deficit expands as exports slip

Indraprastha Gas | Target: Rs 565 | +18% | BUY

Expect volume recovery from FY22

SUMMARY

India Economics: Trade

India's trade deficit expanded to US$ 10bn in Nov'20 from US$ 8.7bn in Oct'20 led by moderation in exports and stable non-oil-non-gold imports. Stable non-oil-non-gold imports indicate normalization of domestic economic activity. Capital goods imports continue to contract, albeit at a slower pace. Recent high frequency data point to some moderation in domestic economic activity which implies imports may remain muted. We expect trade deficit in FY21 at US$ 82bn versus US$ 158bn in FY20 which should support INR.

Click here for the full report.

Indraprastha Gas

Key takeaways from our recent interaction with the Indraprastha Gas (IGL) management: (a) volume recovery to pre-Covid levels expected by Q4FY21 as CNG volumes normalise, (b) PNGRB's clarification on third-party access at OMC outlets eases concerns over margin dilution, and (c) IGL is placing renewed emphasis on operating margin expansion to make up for earnings loss from pandemic-led volume disruptions. Our earnings estimates remain unchanged as does our Sep'21 TP of Rs 565. Volume acceleration in FY22 looks plausible.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

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 (%)	0.94	1bps	6bps	(84bps)
India 10Y yield (%)	5.92	(1bps)	4bps	(55bps)
USD/INR	73.80	(0.2)	0.4	(3.2)
Brent Crude (US$/bbl)	48.25	1.8	28.8	(23.4)
Dow	29,884	0.2	12.8	8.1
Shanghai	3,449	(0.1)	7.0	19.8
Sensex	44,618	(0.1)	12.6	9.2
India FII (US$ mn)	**1 Dec**	**MTD**	**CYTD**	**FYTD**
FII-D	(63.0)	(63.0)	(14,682.2)	(4,922.7)
FII-E	481.3	481.3	16,587.0	23,190.0

Source: Bank of Baroda Economics Research

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TRADE

03 December 2020

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India's trade deficit expanded to US$ 10bn in Nov'20 from US$ 8.7bn in Oct'20 led by moderation in exports and stable non-oil-non-gold imports. Stable non-oil-non-gold imports indicate normalization of domestic economic activity. Capital goods imports continue to contract, albeit at a slower pace. Recent high frequency data point to some moderation in domestic economic activity which implies imports may remain muted. We expect trade deficit in FY21 at US$ 82bn versus US$ 158bn in FY20 which should support INR.

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KEY HIGHLIGHTS

- Exports fell by 9.1% in Nov'20 compared with a decline of 5.1% in Oct'20.
- Imports contract by 13.3% in Nov'20 versus a decline of 11.5% in Oct'20.
- Trade deficit rises to US$ 10bn from US$ 8.7bn in Oct'20.

Exports fall again: Preliminary data shows that exports fell by 9.1% in Nov'20 after a 5.1% drop in Oct'20. Oil exports fell sharply by 63.8% in Nov'20 compared with a 52% decline in Oct'20. Non-oil export growth also eased marginally to 1.2% in Nov'20 from 1.9% in Oct'20. Within this, exports of plastics and linoleum fell the most at 23.3% compared with a 6.9% drop in Oct'20. This was followed by decline in engineering goods (8.3% versus 3.7% decline in Oct'20). Exports of drugs and pharmaceuticals also decelerated to 11.1% versus an increase of 21.9% in Oct'20. In FYTD21, exports are now down by 17.4% compared with a drop of 2.3% in FYTD20. Increase in global Covid-19 cases continues to pose risk to global growth and India's export recovery.

Non-oil-non-gold imports improve: India's imports contracted by 13.3% in Nov'20 compared with a decline of 11.5% in Oct'20. This was led by 43.4% decline in oil imports versus 38.5% dip in Oct'20. Sharp deceleration was also seen in gold imports as it slipped to 2.7% in Nov'20 compared with an increase of 35.9% in Oct'20. However, non-oil-non-gold imports rose by 3% in Nov'20 from 0.9% in Oct'20. Within this, import of vegetable oil and electronic goods rose the most, by 34% and 36.1% respectively. Imports of machinery and transport equipment also contracted less sharply at 13.4% and 19.6% respectively compared with 16% and 56.3% respectively in Oct'20.

Trade deficit to expand: India's trade deficit in Nov'20 rose to US$ 10bn from US$ 8.7bn in Oct'20. This is the highest monthly deficit in FYTD21 so far. However, some moderation in domestic demand is likely as seen in high frequency data such as manufacturing PMI (56.3 in Nov'20 versus 58.9 in Oct'20), diesel demand (-7% versus 7.4% in Oct'20), electricity demand (4.4% versus 5.3%) and GST collections (1.4% versus 10.2%). The outlook for exports is relatively muted due to second wave of Covid-19. We expect trade deficit to increase to US$ 82bn in FY21 (US$ 42.8bn in FYTD21).

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BUY
TP: Rs 565 | ⮝ 18%

INDRAPRASTHA GAS | Oil & Gas | 03 December 2020

Expect volume recovery from FY22

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Key takeaways from our recent interaction with the Indraprastha Gas (IGL) management: (a) volume recovery to pre-Covid levels expected by Q4FY21 as CNG volumes normalise, (b) PNGRB's clarification on third-party access at OMC outlets eases concerns over margin dilution, and (c) IGL is placing renewed emphasis on operating margin expansion to make up for earnings loss from pandemic-led volume disruptions. Our earnings estimates remain unchanged as does our Sep'21 TP of Rs 565. Volume acceleration in FY22 looks plausible.

Competition never a concern – as underscored by PNGRB clarification: IGL's well-entrenched network of 560 CNG stations (of which 320 are in OMC outlets) gives it a strong first-mover advantage. The recent PNGRB notification pertaining to third-party access clarified that OMC- and dealer-owned/operated (DODO) outlets do not classify as third party. We believe this was inevitable in light of the complexities surrounding the use of compressor stations (usually owned by the CGD operator) that would have opened up multiple disputes.

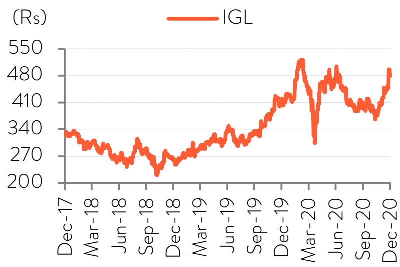
Rising dealer commissions negate need for own CGD network: The fact that CGD players pay a steep dealer commission to OMCs (~Rs 6/scm by IGL for CNG) is being lost in the noise around competition from open access. This commission – almost at par with IGL's FY20 EBITDA – negates any need for OMCs to invest in a greenfield CGD entity, which would carry infrastructure costs (retail outlets, CNG dispensers, approvals, manpower). Also, the commission is revised every three years irrespective of margin trends for IGL. We have always believed that competition would be the least of the concerns for IGL's margins.

Reiterate BUY: At 17x FY23E EPS, valuations look a bit demanding but do not factor in the margin expansion potential – in our view, this makes up for the near-term uncertainty surrounding CNG volume ramp-up.

Ticker/Price	IGL IN/Rs 479
Market cap	US$ 4.5bn
Shares o/s	700mn
3M ADV	US$ 20.3mn
52wk high/low	Rs 534/Rs 284
Promoter/FPI/DII	45%/21%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	57,648	64,853	46,897	73,114	83,091
EBITDA (Rs mn)	12,570	15,196	13,618	20,853	22,464
Adj. net profit (Rs mn)	8,421	12,490	11,690	17,562	19,894
Adj. EPS (Rs)	12.0	17.8	16.7	25.1	28.4
Adj. EPS growth (%)	16.7	48.3	(6.4)	50.2	13.3
Adj. ROAE (%)	21.0	25.4	19.5	24.0	21.9
Adj. P/E (x)	39.8	26.9	28.7	19.1	16.9
EV/EBITDA (x)	26.2	21.8	23.6	14.9	13.5

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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