FIRST LIGHT

04 November 2020

RESEARCH

BOB Economics Research | Trade

Domestic demand improves in Oct'20

TCI Express | Target: Rs 930 | +18% | BUY

Stellar operational performance amid weak externalities

Sun Pharma | Target: Rs 540 | +11% | ADD

Q2 beat led by specialty sales; margin beat not fully sustainable

Oil & Gas

Gas consumption from power sector hits record high

SUMMARY

India Economics: Trade

India's trade deficit expanded to a 7-month high of US$ 8.8bn in Oct'20 from US$ 2.7bn in Sep'20 led by higher gold and non-oil-non-gold imports. With domestic economic activity showing signs of pick-up (GST, electricity demand, electronic imports), imports are likely to show a much stronger rebound than exports in H2. Even so, trade deficit in FY21 is estimated at US$ 75bn versus US$ 158bn in FY20. Given a current account surplus of 1.5% of GDP in FY21, we expect INR to remain in range of 73.0-74.5/$.

Click here **for the full report.**

TCI Express

An effective asset-light model, price hikes and efficiency gains enabled TCI Express (TCIEXP) to deliver a strong EBITDA margin beat (15.3% vs. 11.5% est.), negating a 21% YoY topline fall (est. –15%). Though TCIEXP underperformed peer Blue Dart (topline +8% YoY) due to a different modal and client mix, we expect growth to rebound in H2 with sustained margin momentum. The strong operating performance and easing demand challenges prompt us to raise our target P/E to 27x (vs. 25x). Rolling over, we have a new Dec'21 TP of Rs 930 (vs. Rs 840).

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	850
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	135
Laurus Labs	Buy	410
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.84	(3bps)	14bps	(93bps)
India 10Y yield (%)	5.89	1bps	(11bps)	(58bps)
USD/INR	74.44	(0.4)	(1.8)	(5.2)
Brent Crude (US$/bbl)	38.97	4.0	(0.8)	(37.3)
Dow	26,925	1.6	(2.7)	(2.0)
Shanghai	3,225	0	0.2	8.4
Sensex	39,758	0.4	2.7	(1.4)
India FII (US$ mn)	**29 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	64.9	450.1	(14,229.7)	(4,470.2)
FII-E	(190.1)	2,506.4	6,546.5	13,149.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Sun Pharma

Sun Pharma (SUNP) reported a healthy Q2 beat: 6% on sales, 32% on EBITDA. Operating margin were higher at 26% on higher GPM (+100bps QoQ) and temporary lower SGA, despite higher R&D (7.1% of sales vs. 5.6% in Q1). US sales ex-Taro beat estimates led by specialty sales segment recovery; India was muted YoY. Q2 global specialty sales returned to pre-Covid levels (US$ 108mn, +38% QoQ). SGA spends should normalise from Q4. We raise FY22/FY23 EBITDA 5% with TP of Rs 540. Upgrade to 'Add' from Reduce on reasonable valuations.

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Oil & Gas

Natural gas consumption declined to 142.6mmscmd (–8% YoY, –4% MoM) in September as lockdowns across states hampered demand. Barring power (47.5mmscmd, +55% YoY) and refineries (21.3mmscmd, +14% YoY), offtake plunged across sectors, viz. fertiliser (26.9mmscmd, –41% YoY), CGD (26.1mmscmd, –13% YoY), petrochemicals (5.7mmscmd, –44% YoY) and others (15.1mmscmd, –23% YoY).

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TRADE

03 November 2020

Domestic demand improves in Oct'20

India's trade deficit expanded to a 7-month high of US$ 8.8bn in Oct'20 from US$ 2.7bn in Sep'20 led by higher gold and non-oil-non-gold imports. With domestic economic activity showing signs of pick-up (GST, electricity demand, electronic imports), imports are likely to show a much stronger rebound than exports in H2. Even so, trade deficit in FY21 is estimated at US$ 75bn versus US$ 158bn in FY20. Given a current account surplus of 1.5% of GDP in FY21, we expect INR to remain in range of 73.0-74.5/$.

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Non-oil exports increase at a slower pace: Preliminary data for Oct'20 shows a fall of 5.4% in India's exports from an increase of 6% in Sep'20. Oil exports were down by 53.3% in Oct'20 versus an increase of 5.2% in Sep'20. Non-oil exports rose at a relatively slower pace of 1.8% in Oct'20 versus an increase of 6.1% in Sep'20. Exports of drugs and pharmaceuticals showed slight deceleration to 21.8% versus 24.4% in Sep'20. Exports of chemicals however accelerated. In FYTD21, exports are down by 18.7% compared with 2.5% drop in FYTD20. Rising global Covid-19 cases and resultant lockdowns will impact India's exports, especially to America (22.5% share in India's exports in FY19) and Europe (19.5% share).

Imports improve: Imports continued to show a steady improvement and contracted by 11.6% in Oct'20 versus a dip of 19.6%. This was led by an increase in gold imports at 35.9% versus a dip of 52.8% supported by festive demand even as gold prices were lower (1.2% MoM). Non-oil-non-gold imports also contracted at a slower pace of 8.3% in Oct'20 versus 12.6% decline in Sep'20, signalling a pickup in domestic demand. Electronic imports rose by 16.1% in Oct'20 versus an increase of 3.5% in Sep'20. Oil imports contracted at a faster pace of 38.5% versus a decline of 35.9% in Sep'20.

Trade deficit to expand: India's trade deficit rose to a 7-month high of US$ 8.8bn from US$ 2.7bn in Sep'20 led by a pickup in imports. Economic activity is recovering as is visible in high frequency indicators such as manufacturing PMI (13-year high at 58.9 in Oct'20), improvement in electricity demand (5.3% in Oct'20 from 2.5% in Sep'20) and GST collections of Rs 1tn (10.2% higher over last year). This suggests imports are likely to increase further. Festive demand will also keep gold imports high. The outlook for exports is relatively muted due to second wave of Covid-19 hitting Europe and US. We expect trade deficit to increase to US$ 75bn in FY21 (US$ 32.5bn in FYTD21) compared with US$ 158bn in FY20.

KEY HIGHLIGHTS

- Exports fell by 5.4% in Oct'20 compared with an increase of 6% in Sep'20.
- Imports contract by 11.6% in Oct'20 versus a decline of 19.6% in Sep'20.
- Trade deficit rises to US$ 8.8bn from US$ 2.7bn in Sep'20.

RESULT REVIEW

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BUY
TP: Rs 930 | ⮝ 18%

TCI EXPRESS | Logistics | 03 November 2020

Stellar operational performance amid weak externalities

An effective asset-light model, price hikes and efficiency gains enabled TCI Express (TCIEXP) to deliver a strong EBITDA margin beat (15.3% vs. 11.5% est.), negating a 21% YoY topline fall (est. –15%). Though TCIEXP underperformed peer Blue Dart (topline +8% YoY) due to a different modal and client mix, we expect growth to rebound in H2 with sustained margin momentum. The strong operating performance and easing demand challenges prompt us to raise our target P/E to 27x (vs. 25x). Rolling over, we have a new Dec'21 TP of Rs 930 (vs. Rs 840).

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Topline disappoints, expect rebound in H2: TCIEXP's volumes fell 24% YoY as the lingering impact of lockdowns affected its clients in the early part of Q2. The company managed to eke out a 3% realisation gain, underscoring its pricing power. SME clients has grown faster than large corporates in Q2, but the latter are expected to rebound soon. Per management, economic activity continues to improve sequentially, aiding flat YoY revenue in Sep'20 and single digit growth in Oct'20. This gradual rebound coupled with positive festive demand trends and a benign base should drive our 13% YoY growth assumption in H2.

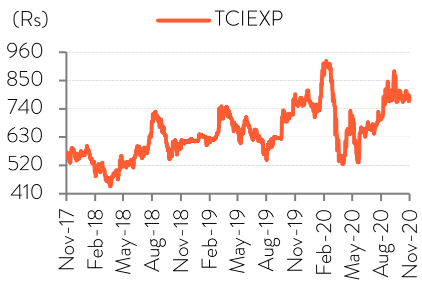
Margin juggernaut rolls on: Gross margins expanded 375bps YoY aided by higher realisation, route optimisation, operational efficiency, and an asset-light model. This together with a tight leash on overheads – staff/other expenses down 16%/29% YoY – drove a 6% YoY increase in EBITDA and a 390bps rise in margin to 15.3%. PAT declined 10% YoY due to higher tax rates. With growth returning, the company is confident of maintaining its margin profile as a higher topline absorbs the slight increase in salaries from Q3 onward.

TP raised: We trim our FY22/FY23 EPS estimates by ~1% each but raise our target P/E to 27x (vs. 25x) on reduced demand uncertainty. Rolling valuations forward to Dec'22, our TP stands revised to Rs 930 vs. Rs 840 earlier.

Ticker/Price	TCIEXP IN/Rs 787
Market cap	US$ 404.8mn
Shares o/s	38mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/2%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	8,716	10,899	12,685
EBITDA (Rs mn)	1,190	1,213	1,072	1,553	1,863
Adj. net profit (Rs mn)	728	891	777	1,150	1,380
Adj. EPS (Rs)	19.0	23.2	20.3	30.0	36.0
Adj. EPS growth (%)	24.7	22.3	(12.7)	47.9	20.0
Adj. ROAE (%)	30.7	29.5	21.1	25.8	25.2
Adj. P/E (x)	41.4	33.9	38.8	26.2	21.9
EV/EBITDA (x)	25.5	24.9	27.9	19.1	15.9

Source: Company, BOBCAPS Research

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ADD
TP: Rs 540 | ⮝ 11%

SUN PHARMA | Pharmaceuticals | 04 November 2020

Q2 beat led by specialty sales; margin beat not fully sustainable

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Sun Pharma (SUNP) reported a healthy Q2 beat: 6% on sales, 32% on EBITDA. Operating margin were higher at 26% on higher GPM (+100bps QoQ) and temporary lower SGA, despite higher R&D (7.1% of sales vs. 5.6% in Q1). US sales ex-Taro beat estimates led by specialty sales segment recovery; India was muted YoY. Q2 global specialty sales returned to pre-Covid levels (US$ 108mn, +38% QoQ). SGA spends should normalise from Q4. We raise FY22/FY23 EBITDA 5% with TP of Rs 540. Upgrade to 'Add' from Reduce on reasonable valuations.

Margin gains could be reversed; Upgrade to ADD: Q2 EBITDA stood at Rs 22.1bn, up 35% QoQ, with margins at 26% (est. 21%). SUNP's ex-Taro margins have increased 420bps QoQ to 26% due specialty sales recovery and lower SGA costs. SUNP is likely restart promo spends on the US specialty business in Q3 but the cost base will fully normalise from Q4. R&D should stay at 7% with progress on resumption of clinical trials for new indications (Ilumya, Odomzo). Post the recent fall, valuation gap vs large cap peers has expanded (from 15% to 25%) turning valuation reasonable, hence we upgrade to ADD.

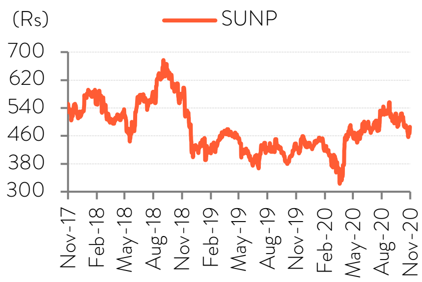
Revenues (ex-India) beat estimates: US sales ex-Taro increased 17% QoQ, mainly on specialty segment recovery even though patient flow remained low. Ilumya, Cequa and Odomzo have reverted to pre-Covid sales while Levulan is yet to fully recover. US generic sales have stabilised and grew YoY – expect 2-3 launches a quarter. EM sales grew 9% YoY/20% QoQ while India was muted YoY on depressed growth in the acute portfolio (chronic grew in high single digits). SUNP has launched 22 products in Q2 which should support a better Q3.

Other takeaways: (1) Q2 specialty R&D at US$ 30mn. (2) Good initial response for Ilumya Japan launch (US$ 500mn market growing at >20% p.a.). (3) Shifted 20% of market to Absorica LD. (5) Debt reduced by US$ 100mn QoQ.

Ticker/Price	SUNP IN/Rs 486
Market cap	US$ 15.7bn
Shares o/s	2,399mn
3M ADV	US$ 65.6mn
52wk high/low	Rs 565/Rs 312
Promoter/FPI/DII	54%/17%/16%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	286,906	323,880	339,330	387,082	434,390
EBITDA (Rs mn)	60,746	69,823	84,859	90,274	102,853
Adj. net profit (Rs mn)	36,484	40,453	58,273	61,247	71,435
Adj. EPS (Rs)	15.2	16.9	24.3	25.5	29.8
Adj. EPS growth (%)	8.4	10.9	44.1	5.1	16.6
Adj. ROAE (%)	8.4	8.7	11.5	11.0	11.7
Adj. P/E (x)	31.9	28.8	20.0	19.0	16.3
EV/EBITDA (x)	17.9	15.8	12.8	11.6	9.8

Source: Company, BOBCAPS Research

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OIL & GAS

03 November 2020

Gas consumption from power sector hits record high

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Third consecutive fall in overall gas demand this year…: Natural gas consumption declined to 142.6mmscmd (–8% YoY, –4% MoM) in September as lockdowns across states hampered demand. Barring power (47.5mmscmd, +55% YoY) and refineries (21.3mmscmd, +14% YoY), offtake plunged across sectors, viz. fertiliser (26.9mmscmd, –41% YoY), CGD (26.1mmscmd, –13% YoY), petrochemicals (5.7mmscmd, –44% YoY) and others (15.1mmscmd, –23% YoY).

…but power sector consumption hits record high: Power sector offtake has increased 54% MoM as record-low gas prices made the fuel more attractive than coal. We expect this trend to continue for the rest of the year. The change in demand pattern may give some relief to LNG gas importers who had otherwise witnessed a drop in consumption from other sectors as Covid-19 prompted a countrywide lockdown for several months.

LNG imports have remained largely stable for the third consecutive month whereas volatility in domestic consumption has continued with a 16% YoY decline in September.

Domestic gas production continues to fall: Gas production continued its declining trajectory to 76.5mmscmd (–11% YoY) in September. ONGC and Oil India's output declined to 59.4mmscmd (–7% YoY) and 6.7mmscmd (–13% YoY) respectively. ONGC's production ramp-up remains hampered by force majeure imposed by many of its consumers (mostly CGD). Exploration and production prospects look bleak as producers are likely to refrain from increasing output in the current low-price regime (aggravated by a 25% cut in domestic gas price from Oct'20).

GAS CONSUMPTION TREND

(mmscmd)	Sep'20	Sep'19	YoY (%)	Aug'20	MoM (%)	H1FY21	H1FY20	YoY (%)
Fertiliser	26.9	45.3	(40.6)	47.6	(43.5)	44.7	42.2	5.9
Power	47.5	30.6	55.1	30.9	53.9	33.5	33.4	0.3
CGD	26.1	30.0	(13.0)	20.8	25.6	18.6	28.0	(33.5)
Other Industrials:	42.1	48.6	(13.4)	49.5	(15.0)	52.2	50.6	3.1
Refineries	21.3	18.8	13.5	21.2	0.8	24.7	20.5	20.4
Petrochemicals	5.7	10.1	(44.1)	9.7	(41.6)	8.4	10.0	(15.6)
Miscellaneous	15.1	19.6	(23.3)	18.6	(19.2)	19.1	20.1	(5.2)
Total	**142.6**	**154.5**	**(7.7)**	**148.8**	**(4.2)**	**149.0**	**154.2**	**(3.4)**

Source: PPAC, BOBCAPS Research

KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG IN	310	BUY
IGL IN	440	REDUCE
GUJGA IN	335	ADD
GUJS IN	310	BUY
MAHGL IN	750	SELL
GAIL IN	155	BUY

Target in Rupees

GAS CONSUMPTION

(mmscmd)	Sep'20	Sep'19	YoY (%)
Fertiliser			
Domestic	17.0	19.1	(11.3)
R-LNG	9.9	26.1	(62.0)
Total	**26.9**	**45.3**	**(40.6)**
Power			
Domestic	19.9	19.9	(0.2)
R-LNG	27.6	10.7	157.9
Total	**47.5**	**30.6**	**55.1**
CGD			
Domestic	14.5	15.9	(9.2)
R-LNG	11.7	14.1	(17.3)
Total	**26.1**	**30.0**	**(13.0)**
Other Industrials			
Domestic	7.2	15.0	(51.7)
R-LNG	34.8	33.6	3.7
Total	**42.1**	**48.6**	**(13.4)**
Total Consumption	**142.6**	**154.5**	**(7.7)**
Total Domestic	**58.6**	**70.0**	**(16.3)**
Total R-LNG	**84.0**	**84.5**	**(0.6)**

Source: PPAC, 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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