FIRST LIGHT

12 June 2020

RESEARCH

Top picks

- **Mid-cap ideas**
  - Muthoot Finance replaced by **Cholamandalam Investment** (see **Vehicle Finance NBFCs: Recovery in H2FY22E, 10Jun20**)
  - Greenply Industries replaced by **Mahanagar Gas** (see **Margins expand but volume outlook weak – cut to SELL, 11Jun20**)

Mahanagar Gas | Target: Rs 710 | –31% | SELL

Margins expand but volume outlook weak – cut to SELL

DCB Bank | Target: Rs 65 | –13% | SELL

Potential capital raise entails high dilution – cut to SELL

SUMMARY

Mahanagar Gas

Mahanagar Gas's (MAHGL) Q4FY20 PAT underperformed at Rs 1.7bn (+25% YoY). Q4 highlights: (a) EBITDA margins improved to Rs 9.6/scm (+4% QoQ) on low spot LNG prices, and (b) volumes disappointed at 253mmscm (–6.3% YoY). Concerns over MAHGL's volume growth have been aggravated by the pandemic, and its high CNG dependence would delay revival. We raise margin estimates for FY21 but trim earnings by 7% on staggered volume recovery. Our Mar'21 TP changes to Rs 710 (vs. Rs 750). Downgrade from ADD to SELL.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

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 (%)	0.73	(10bps)	4bps	(139bps)
India 10Y yield (%)	5.98	(1bps)	1bps	(103bps)
USD/INR	75.60	0	(0.1)	(9.0)
Brent Crude (US$/bbl)	41.73	1.3	34.7	(30.4)
Dow	26,990	(1.0)	10.9	3.8
Shanghai	2,944	(0.4)	1.7	1.2
Sensex	34,247	0.9	8.2	(13.9)
India FII (US$ mn)	**9 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(66.2)	(296.5)	(14,351.8)	(4,592.3)
FII-E	63.2	2,800.5	(2,114.1)	4,488.9

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

DCB Bank

DCB Bank's (DCBB) board today passed a resolution to raise equity capital of up to Rs 5bn. If executed, this would imply high dilution of ~22%. The fund raising will bolster tier-1 capital by ~170bps and raise the bank's ability to absorb loan losses, but would also reduce our FY21E book value by ~5% and further dampen ROE. The stock has rallied ~25% in the last 13 trading sessions which we believe is unwarranted given persistent concerns over asset quality and profitability – cut from ADD to SELL with an unchanged Mar'21 TP of Rs 65.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 710 | ⮟ 31%

MAHANAGAR GAS | Oil & Gas | 11 June 2020

Margins expand but volume outlook weak – cut to SELL

Mahanagar Gas's (MAHGL) Q4FY20 PAT underperformed at Rs 1.7bn (+25% YoY). Q4 highlights: (a) EBITDA margins improved to Rs 9.6/scm (+4% QoQ) on low spot LNG prices, and (b) volumes disappointed at 253mmscm (–6.3% YoY). Concerns over MAHGL's volume growth have been aggravated by the pandemic, and its high CNG dependence would delay revival. We raise margin estimates for FY21 but trim earnings by 7% on staggered volume recovery. Our Mar'21 TP changes to Rs 710 (vs. Rs 750). Downgrade from ADD to SELL.

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

Volumes dip on lockdown: CNG volumes declined 9% YoY to 180mmscm as a fallout of the nationwide lockdown in Mar'20, translating into a ~1% decline for FY20. This aggravates concerns for MAHGL's overall volume trend in FY21 (CNG being 73% of the FY20 mix), implying recovery may be delayed well beyond H1FY21. In fact, sluggish CNG volume growth could continue over the longer term given rising infrastructure constraints and improving alternate travel options (metro) in Mumbai. We therefore prune volume growth estimates to 0.2% in FY21 (from 5% earlier).

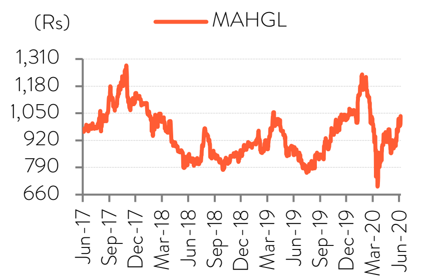
Margins improve but may remain muted on sluggish volumes: Q4 EBITDA was muted at Rs 2.4bn (–6% QoQ) despite higher margins of Rs 9.6/scm (+4.4% QoQ). Although gas prices have declined, margins may be under pressure considering the steep 60% YoY drop-off in volumes expected in Q1FY21 (especially for high-margin CNG). As volumes take longer to revive, MAHGL may not be able to cash in on lower gas costs.

Downgrade to SELL: Muted FY20-FY22 earnings trends accompanied by recurring concerns over CNG volume growth are likely to induce a multiple derating. Expansion into new areas could also be delayed due to the pandemic impact. Downgrade from ADD to SELL.

Ticker/Price	MAHGL IN/Rs 1,036
Market cap	US$ 1.4bn
Shares o/s	99mn
3M ADV	US$ 10.5mn
52wk high/low	Rs 1,246/Rs 664
Promoter/FPI/DII	33%/31%/36%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	22,330	27,911	29,721	27,877	32,819
EBITDA (Rs mn)	7,801	8,855	10,528	10,626	12,112
Adj. net profit (Rs mn)	4,780	5,467	7,935	7,437	8,381
Adj. EPS (Rs)	48.4	55.3	80.3	75.3	84.8
Adj. EPS growth (%)	21.5	14.4	45.1	(6.3)	12.7
Adj. ROAE (%)	24.3	24.2	29.5	23.9	24.4
Adj. P/E (x)	21.4	18.7	12.9	13.8	12.2
EV/EBITDA (x)	12.9	11.4	9.5	9.4	8.1

Source: Company, BOBCAPS Research

SELL
TP: Rs 65 | ∀ 13%

DCB BANK | Banking | 11 June 2020

Potential capital raise entails high dilution – cut to SELL

Vikesh Mehta
research@bobcaps.in

DCB Bank's (DCBB) board today passed a resolution to raise equity capital of up to Rs 5bn. If executed, this would imply high dilution of ~22%. The fund raising will bolster tier-1 capital by ~170bps and raise the bank's ability to absorb loan losses, but would also reduce our FY21E book value by ~5% and further dampen ROE. The stock has rallied ~25% in the last 13 trading sessions which we believe is unwarranted given persistent concerns over asset quality and profitability – cut from ADD to SELL with an unchanged Mar'21 TP of Rs 65.

Approval to raise funds up to Rs 5bn: DCBB's board has approved an enabling resolution to raise funds up to Rs 5bn. This could be via issue of equity shares or other securities convertible into equity shares through QIP, subject to shareholder and other approvals.

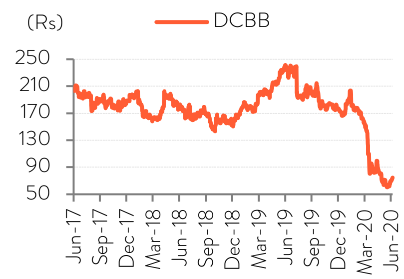
Fund raising to be highly dilutive: A capital raise up to the full approved limit of Rs 5bn would imply ~22% dilution at the current stock price, which is high in our view. Our FY21 BVPS estimate would decline by ~5% given that dilution will occur below book value, weighing further on already-muted ROE estimates. On the positive side, the tier-1 ratio would improve by ~170bps. DCBB's ability to absorb loan losses will also increase, thus strengthening its balance sheet.

Downgrade to SELL: The 25% rally in DCBB's stock price (vs. ~18% for Bank Nifty) in the last 13 trading sessions following its Q4FY20 results looks unwarranted as we believe the bank's exposure to the high-risk LAP/self-employed segment would call for high provisioning in FY21. This apart, the proposed capital raise would be book value dilutive and a drag on ROE. Downgrade to SELL with an unchanged Mar'21 TP of Rs 65.

Ticker/Price	DCBB IN/Rs 75
Market cap	US$ 305.2mn
Shares o/s	310mn
3M ADV	US$ 2.6mn
52wk high/low	Rs 245/Rs 58
Promoter/FPI/DII	15%/25%/61%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	9,954	11,493	12,649	12,594	13,658
NII growth (%)	24.9	15.5	10.1	(0.4)	8.4
Adj. net profit (Rs mn)	2,453	3,254	3,379	2,235	2,893
EPS (Rs)	8.2	10.5	10.9	6.5	7.6
P/E (x)	9.1	7.1	6.9	11.5	9.8
P/BV (x)	0.9	0.8	0.7	0.7	0.7
ROA (%)	0.9	1.0	0.9	0.6	0.7
ROE (%)	9.8	11.0	10.3	5.9	6.8

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)

Rating distribution

As of 31 May 2020, out of 92 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 55 have BUY ratings, 20 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.