BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

18 June 2020

RESEARCH

Indraprastha Gas | Target: Rs 420 | –11% | SELL
Volume concerns worsen – downgrade to SELL

Muthoot Finance | Target: Rs 1,250 | +25% | BUY
All that glitters is gold

Hindustan Petroleum Corp | Target: Rs 350 | +63% | BUY
Marketing advantage in challenging times

SUMMARY

Indraprastha Gas

Indraprastha Gas' (IGL) Q4FY20 EBITDA was in line at Rs 3.8bn (+13.7% YoY). Volumes at 6.3mmscmd (+0.7% YoY) were muted, dragged down by CNG (–1% YoY) while PNG continued to grow (+6% YoY). Healthy EBITDA margins at Rs 6.6/scm prompt us to raise margin estimates to ~Rs 7/scm from FY21 onwards as management intends to offset the impact from lower volumes. We maintain FY21 earnings, and raise FY22 earnings by 7% as we alter volume and margin forecasts. Downgrade to SELL (from BUY).

Click here for the full report.

Muthoot Finance

Muthoot Finance's (MUTH) gold AUM increased 22% YoY to Rs 416bn in Q4FY20 due to robust gold loan demand. Stoppage of low-yield products in Q4 and reset of liabilities kept spreads buoyant at 15.1%. PBT surged 38% YoY to ~Rs 11bn aided by benign credit cost. We increase FY21/FY22 earnings estimates by 15%/11% respectively to bake in better gold loan demand. Our Mar'21 TP stands revised to Rs 1,250 (vs. Rs 950 earlier).

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TOP PICKS

LARGE-CAP IDEAS

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

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 (%)	0.75	3bps	8bps	(137bps)
India 10Y yield (%)	6.03	6bps	19bps	(96bps)
USD/INR	76.21	(0.2)	(0.6)	(8.8)
Brent Crude (US$/bbl)	40.84	2.8	22.2	(34.8)
Dow	26,290	2.0	8.8	(1.3)
Shanghai	2,932	1.4	0.8	0.1
Sensex	33,605	1.1	6.9	(14.7)
India FII (US$ mn)	**15 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(21.7)	(304.9)	(14,360.2)	(4,600.7)
FII-E	(349.9)	2,579.8	(2,334.8)	4,268.2

Source: Bank of Baroda Economics Research

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Hindustan Petroleum Corp

HPCL's Q4FY20 PAT was battered by Rs 41bn in inventory losses. GRMs outperformed at US$ 9.5/bbl (ex-inventory loss of US$ 10.7/bbl), while marketing EBITDA at Rs 23.9bn (indicative, ex-inventory) was in line. Both business segments are close to 85% of normal operating levels in June. Q1FY21 could also see a reversal of most inventory losses. We maintain GRM and marketing margin estimates for HPCL as operating performance remains healthy. Our Mar'21 TP moves to Rs 350 (from Rs 340).

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SELL
TP: Rs 420 | ∀ 11%

INDRAPRASTHA GAS | Oil & Gas | 18 June 2020

Volume concerns worsen – downgrade to SELL

Indraprastha Gas' (IGL) Q4FY20 EBITDA was in line at Rs 3.8bn (+13.7% YoY). Volumes at 6.3mmscmd (+0.7% YoY) were muted, dragged down by CNG (–1% YoY) while PNG continued to grow (+6% YoY). Healthy EBITDA margins at Rs 6.6/scm prompt us to raise margin estimates to ~Rs 7/scm from FY21 onwards as management intends to offset the impact from lower volumes. We maintain FY21 earnings, and raise FY22 earnings by 7% as we alter volume and margin forecasts. Downgrade to SELL (from BUY).

Rohit Ahuja | Harleen Manglani
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CNG volumes muted: IGL's volume growth disappointed, with CNG falling into negative territory after more than five years. The extended lockdown in Delhi due to Covid-19 continues to threaten the FY21 volume outlook – we trim CNG volume estimates for the year by 20%. Management intends to continue with its CNG expansion plans and is looking to add ~70 stations in FY21 and more than 100 in FY22. This could imply a surge in volume growth to 28% YoY in FY22 on a low base in FY21. IGL expects CNG volume growth to revive earlier from Q3FY21 (after a likely 25% YoY decline in H1FY21).

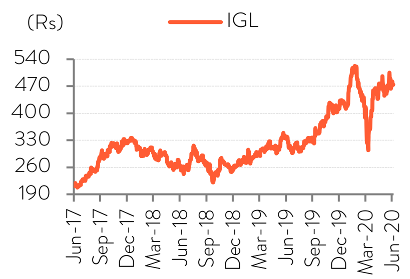
Margin expansion looks sustainable: Q4 EBITDA margins beat estimates at Rs 6.6/scm, but still trend below CGD peer Mahanagar Gas (Rs 9.6/scm in Q4). Continued low spot LNG prices and the cut in domestic gas prices from Apr'20 could help IGL grow margins further. We raise our long-term margin estimates to Rs 7/scm from Rs 6/scm as management aims to recoup the impact of lower volumes on earnings (~11% decline).

Downgrade to SELL: At 19.2x FY22E EPS, valuations seem to be running ahead of fundamentals and not factoring in near-term volume concerns. We revise earnings, lower our DCF-based Mar'21 TP to Rs 420 (from Rs 433), and downgrade to SELL. Earnings risk may be further aggravated on volumes.

Ticker/Price	IGL IN/Rs 474
Market cap	US$ 4.4bn
Shares o/s	700mn
3M ADV	US$ 22.8mn
52wk high/low	Rs 534/Rs 284
Promoter/FPI/DII	45%/23%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	64,853	58,426	78,659
EBITDA (Rs mn)	11,144	12,570	15,196	15,532	20,266
Adj. net profit (Rs mn)	7,217	8,421	12,490	13,208	17,286
Adj. EPS (Rs)	10.3	12.0	17.8	18.9	24.7
Adj. EPS growth (%)	19.0	16.7	48.3	5.8	30.9
Adj. ROAE (%)	21.7	21.0	25.4	21.8	23.2
Adj. P/E (x)	46.0	39.4	26.6	25.1	19.2
EV/EBITDA (x)	29.3	25.9	21.5	20.5	15.1

Source: Company, BOBCAPS Research

BUY
TP: Rs 1,250 | ⮝ 25%

MUTHOOT FINANCE | NBFC | 18 June 2020

All that glitters is gold

Muthoot Finance's (MUTH) gold AUM increased 22% YoY to Rs 416bn in Q4FY20 due to robust gold loan demand. Stoppage of low-yield products in Q4 and reset of liabilities kept spreads buoyant at 15.1%. PBT surged 38% YoY to ~Rs 11bn aided by benign credit cost. We increase FY21/FY22 earnings estimates by 15%/11% respectively to bake in better gold loan demand. Our Mar'21 TP stands revised to Rs 1,250 (vs. Rs 950 earlier).

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Gold AUM up 22%: Gold loan AUM increased 22% YoY to Rs 416bn in Q4 due to buoyant gold loan demand. Gold tonnage was flat QoQ at 176t as customers pledged lower amounts of collateral due to higher gold prices. Aided by the stoppage of low-yield products, yields (calc.) spiked ~150bps YoY to 24.0%.

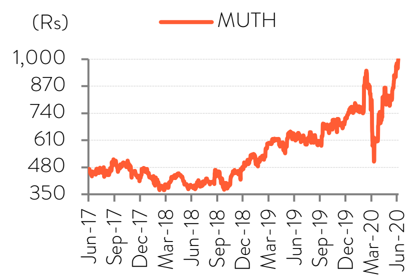
Diversified borrowing mix aids healthy spreads: MUTH reduced liability raising from banks and instead accessed foreign debt markets and retail NCDs. Calculated spreads increased ~200bps YoY to 15.1%. We believe better treasury management and repricing of CPs and NCDs will lower the cost of funds, thus keeping spreads stable.

PBT surges due to benign credit cost: The expense ratio decreased ~20bps YoY to 5.1% driven by higher loan growth. Credit cost was at a five-quarter low of ~5bps, leading to 38% YoY growth in PBT to Rs 11bn. A lower tax rate of 25.7% supported PAT growth of 59% YoY to Rs 8.2bn.

Ticker/Price	MUTH IN/Rs 1,000
Market cap	US$ 5.2bn
Shares o/s	400mn
3M ADV	US$ 23.4mn
52wk high/low	Rs 1,012/Rs 477
Promoter/FPI/DII	73%/14%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

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KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	42,707	45,202	57,735	65,655	72,870
NII growth (%)	27.7	5.8	27.7	13.7	11.0
Adj. net profit (Rs mn)	17,776	19,721	30,183	34,660	38,423
EPS (Rs)	44.4	49.2	75.3	86.4	95.8
P/E (x)	22.5	20.3	13.3	11.6	10.4
P/BV (x)	5.1	4.1	3.5	2.9	2.4
ROA (%)	5.8	5.7	6.8	6.2	5.8
ROE (%)	24.8	22.4	28.3	27.1	25.0

Source: Company, BOBCAPS Research

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BUY
TP: Rs 350 | ⮝ 63%

HINDUSTAN PETROLEUM CORP | Oil & Gas | 17 June 2020

Marketing advantage in challenging times

HPCL's Q4FY20 PAT was battered by Rs 41bn in inventory losses. GRMs outperformed at US$ 9.5/bbl (ex-inventory loss of US$ 10.7/bbl), while marketing EBITDA at Rs 23.9bn (indicative, ex-inventory) was in line. Both business segments are close to 85% of normal operating levels in June. Q1FY21 could also see a reversal of most inventory losses. We maintain GRM and marketing margin estimates for HPCL as operating performance remains healthy. Our Mar'21 TP moves to Rs 350 (from Rs 340).

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Resilient GRMs and marketing margins: Like BPCL, HPCL too has been able to gain from discounts in Middle East crude that translated into higher normalised GRMs (beating the Singapore benchmark). This GRM advantage could sustain in Q1FY21. While HPCL seemingly lost market share across most petroleum products, it gained share in LPG and industrial products. Marketing margins at ~Rs 2,500/MT (ex-inventory) were in line (Rs 1,800/MT for FY20). Resumption of daily price hikes on petrol/diesel in Jun'20 has enabled the company to pass on most of the recent excise and state VAT increases.

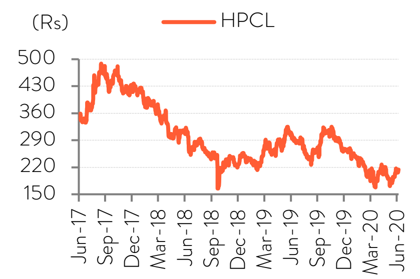
Sharp recovery in operating parameters: Refinery utilisation levels have sprung back to near-normalcy in Jun'20 (~90% levels), while marketing volumes too are averaging at ~80%. As oil prices stabilise at US$ 35-40/bbl, marketing margins could remain resilient as daily price changes in petrol/diesel have resumed. Over FY20, marketing EBITDA at Rs 50bn has saved the day for HPCL as its refining segment reported a loss (of Rs 18bn. High marketing segment exposure is a key advantage for OMCs, making overall earnings more robust.

Maintain BUY: At 4.1x FY22E EBITDA, valuations seem to be pricing in the worst case of low GRMs and benign marketing margins.

Ticker/Price	HPCL IN/Rs 214
Market cap	US$ 4.3bn
Shares o/s	1,524mn
3M ADV	US$ 18.9mn
52wk high/low	Rs 329/Rs 150
Promoter/FPI/DII	51%/19%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	2,186,469	2,742,552	2,679,238	1,879,500	2,449,272
EBITDA (Rs mn)	98,502	103,490	44,947	111,025	128,480
Adj. net profit (Rs mn)	72,183	66,900	36,417	68,645	79,839
Adj. EPS (Rs)	47.4	43.9	23.9	45.0	52.4
Adj. EPS growth (%)	(12.4)	(7.3)	(45.6)	88.5	16.3
Adj. ROAE (%)	31.0	23.9	13.1	25.3	25.7
Adj. P/E (x)	4.5	4.9	9.0	4.8	4.1
EV/EBITDA (x)	4.5	4.0	9.4	4.6	4.1

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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