FIRST LIGHT

01 July 2020

RESEARCH

BOB Economics Research | Balance of Payments

Current account turns surplus

Petronet LNG | Target: Rs 305 | +18% | BUY

Margins outperform ex. one-offs

Mayur Uniquoters | Target: Rs 250 | +21% | BUY

Margin expansion aided by exports

SUMMARY

India Economics: Balance of Payments

After a span of 13 years, India reported a current account surplus. Lower non-oil imports, steady services income and lower investment payments are the reasons behind a surplus. On the capital flows, FPI outflows were balanced by higher FDI and ECB inflows. We expect the trend of higher FDI inflows and current account surplus to continue in FY21 as well as trade deficit will shrink further from US$ 158bn in FY20. However, remittance and software inflows will be lower. With BoP surplus of ~US$ 50bn in FY21, we remain positive on INR.

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Petronet LNG

Petronet LNG's (PLNG) Q4FY20 EBITDA underperformed at Rs 7bn (+11% YoY) due to ~Rs 3bn in one-offs and low volumes (219tbtu, +7% YoY). Excluding one-offs, EBITDA/mmbtu at Rs 44 (–7% QoQ) was ahead of estimates. Disruptions in Q1FY21 could be transient as utilisation levels have now normalised to 100% levels. We lower FY21/FY22 EPS estimates by 26%/13% as we factor in near-term volume disruptions, reducing our Mar'21 TP to Rs 305 (from Rs 330). At 11.7x FY22E EPS, risk-reward looks favourable.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	330
Tech Mahindra	Buy	690

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 (%)	0.62	(2bps)	(3bps)	(140bps)
India 10Y yield (%)	5.90	(1bps)	14bps	(98bps)
USD/INR	75.58	0.1	0	(9.6)
Brent Crude (US$/bbl)	41.71	1.7	18.1	(35.9)
Dow	25,596	2.3	0.8	(4.2)
Shanghai	2,962	(0.6)	3.8	(2.7)
Sensex	34,962	(0.6)	7.8	(11.9)
India FII (US$ mn)	**26Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	27.0	(352.7)	(14,408.0)	(4,648.5)
FII-E	(126.9)	2,744.1	(2,170.5)	4,432.5

Source: Bank of Baroda Economics Research

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Mayur Uniquoters

Mayur Uniquoters' (MUNI) Q4FY20 standalone revenue increased 13% YoY, aided by 58% growth in exports. Standalone operating margins expanded 407bps YoY to 25.7% as gross margins swelled due to an increase in high-margin exports – this yielded EBITDA/PBT growth of 34%/31% YoY. Management stated that sales have improved in June but the demand environment remains uncertain. We cut FY21/FY22 earnings 63%/31% to bake in the Covid impact. Maintain BUY with a revised Mar'21 TP of Rs 250 (earlier Rs 355).

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BALANCE OF PAYMENTS

30 June 2020

Current account turns surplus

After a span of 13 years, India reported a current account surplus. Lower non-oil imports, steady services income and lower investment payments are the reasons behind a surplus. On the capital flows, FPI outflows were balanced by higher FDI and ECB inflows. We expect the trend of higher FDI inflows and current account surplus to continue in FY21 as well as trade deficit will shrink further from US$ 158bn in FY20. However, remittance and software inflows will be lower. With BoP surplus of ~US$ 50bn in FY21, we remain positive on INR.

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KEY HIGHLIGHTS

- Current account in surplus in Q4FY20 at US$ 0.6bn (0.1% of GDP).
- In FY20, CAD narrowed to 0.9% of GDP compared with 2.1% of GDP in FY19.
- BoP surplus also increased to US$ 59.5bn in FY20.

Current account in surplus in Q4: India's current account registered a surplus of US$ 0.6bn in Q4FY20 versus a deficit of US$ 2.6bn in Q3. Lower trade deficit as well as improvement in net invisibles contributed to the surplus. Goods trade deficit narrowed to US$ 35bn from US$ 36bn in Q3 as non-oil imports fell. Within invisibles, other invisibles comprising of investment income payments dropped the most to US$ 4.8bn in Q4 from US$ 7.4bn in Q3. Remittances inflows eased by US$ 0.5bn in Q4 from Q3 levels.

BoP surplus at US$ 18.8bn in Q4: Despite a current account surplus and higher FDI/ ECB inflows, BoP surplus in Q4 eased to US$ 18.8bn from US$ 21.6bn in Q3. This was due to FII outflows of US$ 13.7bn in Q4 compared with inflows of US$ 7.8bn in Q3. FDI and ECB inflows however improved to US$ 12bn and US$ 9.4bn respectively. Inflows under 'other capital' or in other words FPIs' outstanding balances with custodian banks and pending issuance of shares by FDI companies surged to US$ 13.8bn in Q4. Banking capital outflows increased to US$ 4.6bn in Q4 from US$ 2.3bn in Q3.

BoP surplus expands in FY20 as CAD narrows to 0.9% of GDP: Overall, CAD narrowed sharply from US$ 57bn in FY19 to US$ 25bn in FY20 led by lower trade deficit (US$ 180bn to US$ 158bn in FY20). Surplus in invisibles at US$ 132bn also was supportive. A surge in FDI (US$ 43bn) and ECB inflows (US$ 23bn) also contributed positively. As a result, BoP surplus increased to a 12-year high at US$ 59.5bn in FY20 versus a decline of US$ 3.3bn in FY19.

While merchandise and services exports are expected to remain muted in the near-term, we expect a current account surplus in FY21 on the back of lower oil prices and muted domestic demand. However lower remittances receipts aswell as FII outflows imply that BoP surplus will shrink marginally to ~US$ 50bn in FY21.

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BUY
TP: Rs 305 | ⮝ 18%

PETRONET LNG | Oil & Gas | 30 June 2020

Margins outperform ex. one-offs

Petronet LNG's (PLNG) Q4FY20 EBITDA underperformed at Rs 7bn (+11% YoY) due to ~Rs 3bn in one-offs and low volumes (219tbtu, +7% YoY). Excluding one-offs, EBITDA/mmbtu at Rs 44 (–7% QoQ) was ahead of estimates. Disruptions in Q1FY21 could be transient as utilisation levels have now normalised to 100% levels. We lower FY21/FY22 EPS estimates by 26%/ 13% as we factor in near-term volume disruptions, reducing our Mar'21 TP to Rs 305 (from Rs 330). At 11.7x FY22E EPS, risk-reward looks favourable.

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Quick recovery from Q2FY21: PLNG's Q4 volumes were below estimates due to sub-100% utilisation at Dahej. Long-term contract volumes at Dahej underperformed at 95tbtu (–5% YoY, –7% QoQ) due to lower offtake by take-or-pay customers. Spot and regas service volumes also disappointed despite the low LNG prices. Management expects Dahej terminal utilisation to return to >100% levels and the Kochi terminal to ramp up from Q1FY21 upon commissioning of the Kochi-Mangaluru pipeline by GAIL (expected by Jul'20).

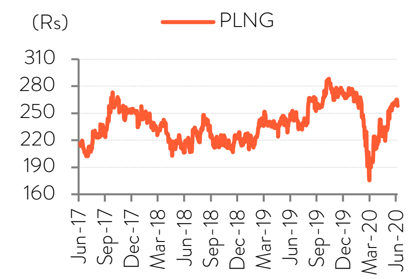
EBITDA margins sustain: EBITDA/mmbtu adjusted for one-offs came in 5% ahead of estimates at Rs 44/mmbtu (+44% YoY). PLNG has raised Dahej tariffs by 5% from Jan'20 in line with its annual contract arrangements, leading to higher margins. Uncertainty on Kochi terminal tariffs persists (could be revised down by ~25% from FY21 on higher offtake).

Maintain BUY: PLNG's earnings visibility remains buoyant backed by long-term contracts, and expected volume ramp-up at Kochi. Low LNG prices offer buoyant outlook on LNG demand, especially from power sector. Additionally, the company will continue to expand capacity (by ~2mmtpa) through the addition of storage tanks and a jetty at Dahej terminal by FY23.

Ticker/Price	PLNG IN/Rs 258
Market cap	US$ 5.1bn
Shares o/s	1,500mn
3M ADV	US$ 10.2mn
52wk high/low	Rs 299/Rs 170
Promoter/FPI/DII	50%/29%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	305,986	383,954	354,520	219,933	267,595
EBITDA (Rs mn)	33,124	32,935	39,895	42,843	51,383
Adj. net profit (Rs mn)	20,779	21,554	27,697	26,596	33,144
Adj. EPS (Rs)	13.9	14.4	18.5	17.7	22.1
Adj. EPS growth (%)	21.8	3.7	28.5	(4.0)	24.6
Adj. ROAE (%)	23.3	21.6	26.5	24.3	28.9
Adj. P/E (x)	18.6	18.0	14.0	14.6	11.7
EV/EBITDA (x)	12.0	12.1	9.6	8.4	6.8

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 250 | ⮝ 21%

MAYUR UNIQUOTERS | Textiles | 30 June 2020

Margin expansion aided by exports

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Mayur Uniquoters' (MUNI) Q4FY20 standalone revenue increased 13% YoY, aided by 58% growth in exports. Standalone operating margins expanded 407bps YoY to 25.7% as gross margins swelled due to an increase in high-margin exports – this yielded EBITDA/PBT growth of 34%/31% YoY. Management stated that sales have improved in June but the demand environment remains uncertain. We cut FY21/FY22 earnings 63%/31% to bake in the Covid impact. Maintain BUY with a revised Mar'21 TP of Rs 250 (earlier Rs 355).

Ticker/Price	MUNI IN/Rs 206
Market cap	US$ 123.3mn
Shares o/s	45mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 305/Rs 119
Promoter/FPI/DII	61%/8%/31%

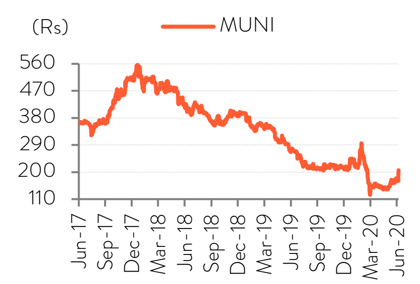
Source: NSE

Revenue growth led by exports: MUNI reported standalone revenue growth of 13% YoY to Rs 1.4bn, with volumes increasing ~1%. Revenue growth for the quarter was aided by exports (+58% YoY, wherein automotive OEM exports grew 76%) and the footwear segment (+4% YoY). As per management, sales improved in June over May, and July could be stronger based on customer feedback. The new PU plant began commercial production from Jan'20 and is likely to see demand pick up from Q3FY20.

Healthy operating margins: MUNI reported standalone operating margin expansion of 407bps aided by higher gross margins (+620bps), which offset a rise in employee cost (+200bps). EBITDA/PBT thus grew 34%/31% YoY. Gross margins expanded due to higher sales of value-added items and also high-margin exports. Employee cost increased as a percentage of sales on account of negative operating leverage. As per the company, recent cost control initiatives should help shield margins in this tough demand environment.

Maintain BUY: MUNI's operational results have been better than estimates, but given near-term demand headwinds due to the pandemic, we cut PAT forecasts for FY21/FY22 by 63%31%. Maintain BUY with a revised Mar'21 TP of Rs 250 (earlier Rs 355), set at an unchanged 15x one-year forward P/E.

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	5,700	5,913	5,280	3,685	5,617
EBITDA (Rs mn)	1,500	1,292	1,039	551	1,107
Adj. net profit (Rs mn)	905	727	798	328	744
Adj. EPS (Rs)	20.0	16.0	17.6	7.2	16.4
Adj. EPS growth (%)	21.9	(19.7)	9.8	(58.9)	127.2
Adj. ROAE (%)	21.7	15.0	14.6	5.6	11.9
Adj. P/E (x)	10.3	12.8	11.7	28.5	12.5
EV/EBITDA (x)	5.5	6.0	7.2	13.4	6.4

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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