BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

01 November 2019

RESEARCH

Indian Oil Corporation | Target: Rs 240 | +63% | BUY

GRMs remain a drag, other segments outperform

Container Corp of India | Target: Rs 655 | +11% | ADD

Decent operating performance in tough demand climate

SUMMARY

Indian Oil Corporation

IOCL's Q2FY20 EBITDA at Rs 36bn (–47% YoY) was well below estimates. Key Q2 highlights: (a) adj. GRM at US$ 3.55/bbl disappointed, (b) adj. EBITDA for the marketing business beat estimates at Rs 41bn (Rs 1,900/mt); (c) pipeline/petchem EBITDA outperformed at Rs 16bn/Rs 7.7bn. We trim FY20/FY21/FY22 earnings by 12%/7%/8% on reduction in GRM estimates (by ~US$ 1/bbl). Our Sep'20 TP stands revised to Rs 240 (from Rs 265). IOCL could gain the most from IMO 2020, which may fuel earnings upgrades.

Click here for the full report.

Container Corp of India

Container Corp (CCRI) reported an in-line operating performance in Q2FY20. Standalone revenue was up 1% YoY as realisation gains of 3% nullified a 2% volume dip. EBITDA margin (ex. Ind-AS 116, one-off) was flat YoY at 23.5%. Absence of SEIS income (Rs 1bn in Q2FY19) dragged PBT down 20% YoY. Management has cut FY20 guidance citing the subdued demand climate, which remains a near-term growth overhang though long-term prospects look healthy. We tweak estimates and roll over to a Mar'21 TP of Rs 655 (from Rs 575).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.77	(7bps)	11bps	(137bps)
India 10Y yield (%)*	6.67	(2bps)	(3bps)	(118bps)
USD/INR	70.90	(0.1)	0	4.1
Brent Crude (US$/bbl)	60.61	(1.6)	(0.3)	(19.7)
Dow	27,187	0.4	1.0	8.2
Shanghai	2,939	(0.5)	1.2	12.9
Sensex	40,052	0.6	3.6	16.3
India FII (US$ mn)	**29 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	285.3	496.9	4,470.3	3,925.6
FII-E	214.8	711.3	8,872.0	2,026.8

Source: Bank of Baroda Economics Research | *7.26% GS 2029

BOBCAPS Research
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RESULT REVIEW

BUY
TP: Rs 240 | ⮝ 63%

INDIAN OIL CORP | Oil & Gas | 01 November 2019

GRMs remain a drag, other segments outperform

IOCL's Q2FY20 EBITDA at Rs 36bn (–47% YoY) was well below estimates. Key Q2 highlights: (a) adj. GRM at US$ 3.55/bbl disappointed, (b) adj. EBITDA for the marketing business beat estimates at Rs 41bn (Rs 1,900/mt); (c) pipeline/petchem EBITDA outperformed at Rs 16bn/Rs 7.7bn. We trim FY20/FY21/FY22 earnings by 12%/7%/8% on reduction in GRM estimates (by ~US$ 1/bbl). Our Sep'20 TP stands revised to Rs 240 (from Rs 265). IOCL could gain the most from IMO 2020, which may fuel earnings upgrades.

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GRMs remain a drag; all hopes of recovery pinned on IMO: IOCL's GRMs (at US$ 3.55/bbl) remain a drag on its earnings, underperforming the Singapore benchmark (US$ 6.5/bbl). Low light-heavy crude spreads could be a major factor behind this underperformance. However, a relatively large diesel slate in IOCL's refining portfolio puts it in an advantageous position in the runup to IMO regulations (from Jan'20), which are expected to push diesel spreads above US$ 20/bbl (from ~US$ 14 currently).

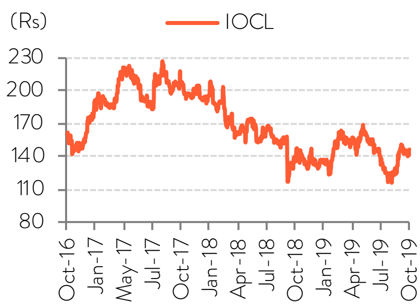
Paradip utilisation normalises: Paradip refinery utilisation has normalised to ~100% now. Commissioning of the 680ktpa polypropylene (PP) facility in Jul'19 could enhance GRMs at the refinery.

Marketing earnings improve: Marketing business EBITDA at Rs 41bn was in line with expectations, as IOCL gains traction in ATF and industrial product sales (while ceding bulk diesel market share to other players). Pipeline business EBITDA outperformed at Rs 16bn (flat YoY) on better volumes (21.8mmt, +2% YoY). Petchem margins beat estimates at US$ 209/mt (–38% YoY). Petchem volumes remained muted at 0.53mmt (–20% YoY), but could improve on commissioning of the new PP plant at Paradip.

Ticker/Price	IOCL IN/Rs 147
Market cap	US$ 20.1bn
Shares o/s	9,712mn
3M ADV	US$ 27.0mn
52wk high/low	Rs 171/Rs 116
Promoter/FPI/DII	51%/7%/41%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,214,918	5,281,489	5,650,641	6,717,679	7,332,399
EBITDA (Rs mn)	416,275	352,227	365,139	428,493	464,442
Adj. net profit (Rs mn)	221,911	173,837	187,412	218,281	237,128
Adj. EPS (Rs)	23.4	18.9	20.4	23.8	25.8
Adj. EPS growth (%)	11.7	(19.1)	7.8	16.5	8.6
Adj. ROAE (%)	20.6	15.4	16.5	18.4	18.8
Adj. P/E (x)	6.3	7.8	7.2	6.2	5.7
EV/EBITDA (x)	4.9	5.8	6.4	5.2	5.0

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 655 | ⮝ 11%

CONTAINER CORP OF INDIA | Logistics | 31 October 2019

Decent operating performance in tough demand climate

Container Corp (CCRI) reported an in-line operating performance in Q2FY20. Standalone revenue was up 1% YoY as realisation gains of 3% nullified a 2% volume dip. EBITDA margin (ex. Ind-AS 116, one-off) was flat YoY at 23.5%. Absence of SEIS income (Rs 1bn in Q2FY19) dragged PBT down 20% YoY. Management has cut FY20 guidance citing the subdued demand climate, which remains a near-term growth overhang though long-term prospects look healthy. We tweak estimates and roll over to a Mar'21 TP of Rs 655 (from Rs 575).

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Realisations supported by higher lead distance: Realisations increased 3% YoY/1.5% QoQ due to better lead distance (795km vs. 779km/777km in Q2FY19/Q1FY20). This negated the impact of lower handling/originating volumes (–2%/–2.5% YoY) and aided a 1% YoY increase in topline. CCRI's decision not to pursue short-haul, low-margin volumes aided better leads, albeit at the expense of a ~600bps moderation in market share to 67% in H1FY20.

Deep cut in FY20 guidance: Management lowered FY20 volume growth guidance to 0-2% from 10-12% earlier, citing the challenging demand climate. We have baked in 1% YoY growth in volumes, implying a 3.5% uptick in H2FY20. We see realisation growth ebbing to ~1.5% in H2 vs. 6% in H1.

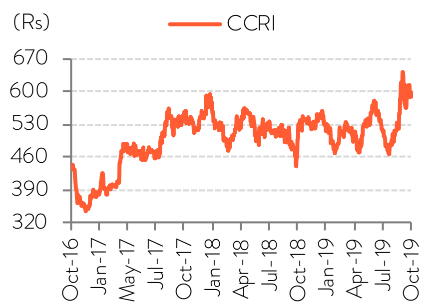
EBITDA margin stable: Lower rail freight expense (–3.3% YoY) supported a stable 23.5% EBITDA margin, despite weak volumes and lower double-stacked trains (674 vs. 809 in Q2FY19). A one-time provision of Rs 8.7bn for pending SEIS claims hurt reported PAT (impact of ~Rs 5.7bn net of deferred taxes).

Raise TP: We trim FY21/FY22 earnings by 1.5%/1.2% and move to a revised Mar'21 TP of Rs 655 (Rs 575 earlier). Maintain ADD.

Ticker/Price	CCRI IN/Rs 588
Market cap	US$ 5.1bn
Shares o/s	609mn
3M ADV	US$ 13.4mn
52wk high/low	Rs 666/Rs 460
Promoter/FPI/DII	55%/28%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,098	68,691	81,668	97,951
EBITDA (Rs mn)	12,067	14,078	16,409	20,513	25,171
Adj. net profit (Rs mn)	10,619	12,154	10,648	12,825	15,692
Adj. EPS (Rs)	17.4	19.9	17.5	21.0	25.8
Adj. EPS growth (%)	12.4	14.5	(12.4)	20.4	22.4
Adj. ROAE (%)	11.7	12.3	10.2	11.9	13.4
Adj. P/E (x)	33.8	29.5	33.7	28.0	22.8
EV/EBITDA (x)	28.3	24.1	22.2	17.3	14.1

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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