

# FIRST LIGHT

## RESEARCH

### Indian Oil Corp | Target: Rs 175 | +106% | BUY

Upbeat operating performance

### GAIL | Target: Rs 150 | +48% | BUY

Trading margins surprise

### Canara Bank | Target: Rs 120 | +10% | ADD

Core operating performance remains weak

## SUMMARY

### Indian Oil Corp

IOCL reported a loss in Q4 due to an inventory hit of Rs 184bn and a Rs 27bn exchange loss. Adjusted for these, earnings at Rs 62bn beat estimates. Q4 highlights: (a) adj. GRM outperformed at US\$ 9/bbl, (b) adj. marketing business EBITDA also beat estimates at Rs 63bn (Rs 2,833/mt), (c) pipeline/petchem EBITDA trends were mixed at Rs 15.4bn/Rs 4.8bn. We lower FY21/FY22 earnings by 12%/8% as we cut volume and petchem EBITDA estimates. Our Mar'21 TP moves to Rs 175 (vs. Rs 200) on reduced cyclical business multiples.

[Click here for the full report.](#)

### GAIL

GAIL's Q4FY20 PAT was well above estimates at Rs 29bn (+266% YoY). Gross margins outperformed across segments with EBITDA up 47% YoY. Q4 highlights: (a) gas trading EBITDA rose 7.3% YoY on higher margins, (b) gas transmission EBITDA outperformed at Rs 11.6bn (+13% YoY) on higher tariffs, (c) LPG profits beat estimates on lower gas prices. Volumes have retraced to pre- Covid levels. Concerns from the transmission-marketing business split look overdone. We raise our Mar'21 TP to Rs 150 (vs. Rs 140) on higher investment value.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	690
<a href="#">GAIL</a>	Buy	150
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Tech Mahindra</a>	Buy	690

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,950
<a href="#">Chola Investment</a>	Buy	200
<a href="#">Laurus Labs</a>	Buy	630
<a href="#">Transport Corp</a>	Buy	240
<a href="#">Mahanagar Gas</a>	Sell	710

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.68	(3bps)	2bps	(137bps)
India 10Y yield (%)	6.04	1bps	29bps	(89bps)
USD/INR	75.72	(0.1)	0.3	(9.5)
Brent Crude (US\$/bbl)	40.31	(5.4)	14.7	(39.4)
Dow	25,446	(2.7)	4.0	(4.1)
Shanghai	2,980	0.3	5.9	0.1
Sensex	34,869	(1.6)	13.7	(11.9)
India FII (US\$ mn)	23 Jun	MTD	CYTD	FYTD
FII-D	60.1	(378.1)	(14,433.4)	(4,673.9)
FII-E	17.1	2,795.8	(2,118.8)	4,484.2

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## Canara Bank

Canara Bank (CBK) reported a Rs 32.6bn loss as the bank consciously made higher wage and NPA-related provisions due to amalgamation. Operating performance remained weak as NII declined 5% YoY due to subdued loan growth while NIM dropped 8bps QoQ to 2.3%. The bank has 17% of its portfolio under moratorium. Headline NPAs continued to decline but the slippage ratio at 3.7% stayed high. We expect sustained weak profitability due to sticky credit cost. Recommend ADD with a Mar'21 TP of Rs 120.

[Click here](#) for the full report.

**BUY**

TP: Rs 175 | ▲ 106%

**INDIAN OIL CORP**

Oil & Gas

25 June 2020

## Upbeat operating performance

**IOCL reported a loss in Q4 due to an inventory hit of Rs 184bn and a Rs 27bn exchange loss. Adjusted for these, earnings at Rs 62bn beat estimates. Q4 highlights: (a) adj. GRM outperformed at US\$ 9/bbl, (b) adj. marketing business EBITDA also beat estimates at Rs 63bn (Rs 2,833/mt), (c) pipeline/petchem EBITDA trends were mixed at Rs 15.4bn/Rs 4.8bn. We lower FY21/FY22 earnings by 12%/8% as we cut volume and petchem EBITDA estimates. Our Mar'21 TP moves to Rs 175 (vs. Rs 200) on reduced cyclical business multiples.**

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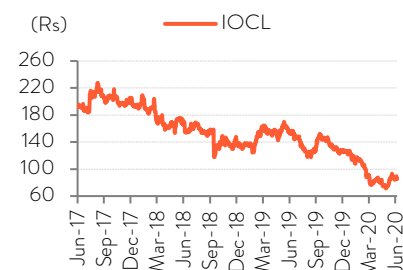
**GRMs outperform:** IOCL's GRMs at US\$ 9/bbl (ex-inventory loss of US\$ 17/bbl) outperformed the Singapore benchmark of US\$ 1.7/bbl in Q4FY20. Like OMC peers, IOCL was able to take advantage of high discounts for Middle East crude. This GRM advantage may sustain in Q1FY21, with additional impetus from inventory gains following the recent increase in crude prices. The company expects limited impact from Covid-19 disruptions as utilisation likely scales back to near-100% levels by Jul'20.

Ticker/Price	IOCL IN/Rs 85
Market cap	US\$ 10.7bn
Shares o/s	9,479mn
3M ADV	US\$ 19.5mn
52wk high/low	Rs 158/Rs 71
Promoter/FPI/DII	51%/7%/41%

Source: NSE

**Marketing earnings improve:** Marketing business EBITDA at Rs 63bn (ex-inventory loss) was above estimates on the back of better margins. Management has delivered on its guidance of improving marketing margins, which bolsters the outlook on earnings over FY21-FY22. Pipeline business EBITDA was stable at Rs 15.4bn. Petchem margins at US\$ 97/mt were below estimates and caused a steep 53% YoY drop in segment EBITDA to Rs 4.8bn.

## STOCK PERFORMANCE



Source: NSE

**Remains our top pick:** Valuations at 3.7x FY22E EBITDA are at a significant discount to BPCL, offering a staggering >12% dividend yield potential. Like other PSUs, the stock has been under pressure owing to concerns over cash utilisation. We believe valuations price in most of these concerns. IOCL's GRMs could continue to outperform peers, in our view.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	4,214,918	5,281,489	5,522,411	3,819,405	4,750,389
EBITDA (Rs mn)	416,275	352,227	293,308	425,094	440,281
Adj. net profit (Rs mn)	221,911	173,837	140,969	214,120	220,755
Adj. EPS (Rs)	23.4	18.9	15.4	23.3	24.0
Adj. EPS growth (%)	11.7	(19.1)	(18.9)	51.9	3.1
Adj. ROAE (%)	20.6	15.4	12.5	18.4	17.8
Adj. P/E (x)	3.6	4.5	5.5	3.6	3.5
EV/EBITDA (x)	3.4	4.1	5.4	4.0	3.7

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 150 | ▲ 48%

**GAIL**

Oil &amp; Gas

25 June 2020

## Trading margins surprise

**GAIL's Q4FY20 PAT was well above estimates at Rs 29bn (+266% YoY). Gross margins outperformed across segments with EBITDA up 47% YoY. Q4 highlights: (a) gas trading EBITDA rose 7.3% YoY on higher margins, (b) gas transmission EBITDA outperformed at Rs 11.6bn (+13% YoY) on higher tariffs, (c) LPG profits beat estimates on lower gas prices. Volumes have retraced to pre- Covid levels. Concerns from the transmission-marketing business split look overdone. We raise our Mar'21 TP to Rs 150 (vs. Rs 140) on higher investment value.**

Rohit Ahuja | Harleen Manglani

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**Robust transmission volumes:** Gas transmission volumes at 109mmcmd were better than expected (flat YoY and QoQ). Tariffs were slightly above estimates at ~Rs 1.6/scm (+6.3% YoY). Our outlook on GAIL's volumes remains buoyant, supported by (a) low spot LNG prices that could accelerate demand recovery, with additional offtake from the power sector, (b) commissioning of new pipelines (such as Kochi-Mangaluru and Jagdishpur-Haldia by end-FY22), which could add ~15mmcmd to volumes from FY22 with consequent availability of LNG regasification capacity, and (c) incremental domestic gas production (ONGC/RIL: 20-30mmcmd by FY23/FY24).

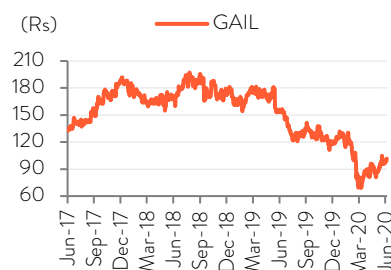
**Gas trading margins surprise:** Q4 gas trading EBITDA was at Rs 6.3bn (+7% YoY, +20% QoQ) as the company was able to circumvent the potential hit from a mismatch in US LNG price (vs. spot LNG). As the blended price across GAIL's LNG contracts has declined to ~US\$ 3/mmbtu, we see potential for volumes to accelerate backed by higher power and fertiliser demand.

**Reiterate BUY:** At 7.5x FY22E EPS, GAIL offers attractive risk-reward, pricing in most of the concerns. The government's move to separate the transmission and marketing businesses may further help unlock value. Our SOTP target price of Rs 150 builds in worst-case assumptions across segments.

Ticker/Price	GAIL IN/Rs 101
Market cap	US\$ 6.0bn
Shares o/s	4,510mn
3M ADV	US\$ 20.9mn
52wk high/low	Rs 157/Rs 65
Promoter/FPI/DII	52%/16%/32%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	574,866	802,836	718,710	462,382	536,546
EBITDA (Rs mn)	76,339	95,556	84,710	90,626	95,378
Adj. net profit (Rs mn)	46,000	63,525	49,658	58,123	61,167
Adj. EPS (Rs)	10.2	14.1	11.0	12.9	13.6
Adj. EPS growth (%)	43.1	38.1	(21.8)	17.0	5.2
Adj. ROAE (%)	11.7	15.1	11.3	12.9	12.8
Adj. P/E (x)	9.9	7.2	9.2	7.9	7.5
EV/EBITDA (x)	6.4	4.8	5.3	5.3	5.2

Source: Company, BOBCAPS Research



**ADD**

TP: Rs 120 | ▲ 10%

**CANARA BANK**

| Banking

| 25 June 2020

## Core operating performance remains weak

Canara Bank (CBK) reported a Rs 32.6bn loss as the bank consciously made higher wage and NPA-related provisions due to amalgamation. Operating performance remained weak as NII declined 5% YoY due to subdued loan growth while NIM dropped 8bps QoQ to 2.3%. The bank has 17% of its portfolio under moratorium. Headline NPAs continued to decline but the slippage ratio at 3.7% stayed high. We expect sustained weak profitability due to sticky credit cost. Recommend ADD with a Mar'21 TP of Rs 120.

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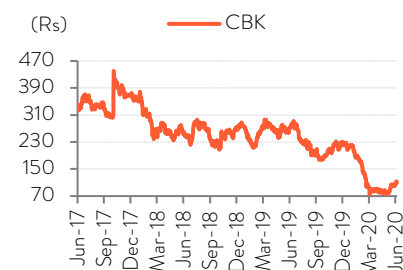
**Headline NPAs still elevated:** CBK highlighted that 17% of its customers have availed of the moratorium and have not paid three installments. Segment-wise, ~22%/8%/3% of the bank's MSME/corporate/retail portfolio is under moratorium. Asset classification benefit was extended to accounts worth ~Rs 19bn but the slippage ratio remained high at 3.7%. CBK's headline GNPA/NNPA ratios continue to show a declining trend but still remain elevated at ~8%/4%. The bank has ~Rs 18bn of exposure to Bhushan Power and Steel which it expects to be resolved in Q2/Q3.

Ticker/Price	CBK IN/Rs 110
Market cap	US\$ 1.5bn
Shares o/s	1,030mn
3M ADV	US\$ 18.4mn
52wk high/low	Rs 297/Rs 74
Promoter/FPI/DII	79%/3%/18%

Source: NSE

**Retail growth remains strong:** Overall loan growth was muted at 1% YoY as MSME loans declined by 7.5% while the corporate/other loan book was flat. Retail loan growth was better at 12% YoY aided by an 18%/11% uptick in home/vehicle loans. The bank participated in TLTRO-1/2 and extended funds worth Rs 15bn/Rs 8.5bn mostly to NBFCs. CASA ratio improved to 32.6% and management aims to shore this up to ~35% by Q4.

## STOCK PERFORMANCE



Source: NSE

**Recommend ADD:** We believe Covid-19 and merger-related challenges will weigh heavy on CBK's profitability. We introduce post-merger financials and recommend ADD with a Mar'21 TP of Rs 120, valuing the stock at 0.4x FY22E P/BV.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	121,633	144,781	131,239	210,969	225,968
NII growth (%)	23.2	19.0	(9.4)	60.8	7.1
Adj. net profit (Rs mn)	(42,222)	3,470	(22,356)	1,129	8,393
EPS (Rs)	(63.5)	4.7	(25.1)	0.9	5.8
P/E (x)	(1.7)	23.5	(4.4)	120.4	19.0
P/BV (x)	0.2	0.2	0.3	0.3	0.3
ROA (%)	(0.7)	0.1	(0.3)	0.0	0.1
ROE (%)	(12.2)	1.0	(5.9)	0.2	1.6

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)

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