

# FIRST LIGHT

## RESEARCH

### PI Industries | Target: Rs 1,700 | +7% | ADD

Stable outlook; stretched valuation limits stock upside

### BOB Economics Research | Monthly Chartbook

Recovery has begun, normalcy will take time

### BOB Economics Research | Weekly Wrap

Equity markets gain as global economies recover

### Gujarat State Petronet | Target: Rs 310 | +40% | BUY

Volumes buoyant

## SUMMARY

### PI Industries

PI Industries' (PI) Q4FY20 results were disrupted by Covid-19 but we expect gradual recovery. Revenue/EBITDA grew 6%/8% YoY. Domestic sales fell 12% YoY (and the ~Rs 1bn pre-placement was deferred to Q1), while exports rose 12%. EBITDA margin at 22% was stable on a favourable mix and despite higher RM prices amid the initial Covid impact. Management has guided for >20% sales growth and sustained margins in FY21. We find valuations stretched at 33x FY22E EPS – assume coverage with ADD and a Mar'21 TP of Rs 1,700 (35x implied P/E).

[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="#">Eicher Motors</a>	Buy	18,100
<a href="#">GAIL</a>	Buy	140
<a href="#">Petronet LNG</a>	Buy	330

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,950
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	630
<a href="#">Muthoot Finance</a>	Buy	950
<a href="#">Transport Corp</a>	Buy	240

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.90	7bps	23bps	(119bps)
India 10Y yield (%)	6.02	1bps	(5bps)	(95bps)
USD/INR	75.58	0	0.1	(8.8)
Brent Crude (US\$/bbl)	42.30	5.8	36.6	(33.2)
Dow	27,111	3.2	13.5	4.3
Shanghai	2,931	0.4	1.8	3.6
Sensex	34,287	0.9	9.0	(13.5)
India FII (US\$ mn)	4 Jun	MTD	CYTD	FYTD
FII-D	(86.5)	(177.0)	(14,232.3)	(4,472.8)
FII-E	347.4	2,596.8	(2,317.7)	4,285.3

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## India Economics: Monthly Chartbook

India's economy is showing signs of recovery with E-way bills and electricity demand showing signs of improvement from Apr'20 levels. PMIs are showing upticks as well. However, port volumes are yet to pick-up. Consumption too is likely to remain muted with RBI's survey pointing to sharp slowdown. Rural consumption may improve with higher output and MSPs, migration and MNREGA spending. But government revenues are under stress and declined by 44% in Apr'20. Centre's fiscal deficit is estimated at 6.5%. While this prompted Moody's to downgrade India's ratings, yields were stable. We believe RBI and banks will emerge as dominant buyers of government securities to clear the supply in FY21.

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

## India Economics: Weekly Wrap

Global economic activity showed signs of improvement with PMIs gaining MoM traction led by China and US. US jobs report surprised positively. Global equity markets gained led by DAX which was up 10.9%. ECB's additional € 600bn stimulus was also positive. On the domestic front, Moody's downgraded India due to fiscal concerns. MPC minutes show members may reduce rates by another 25bps in next meeting. Even domestic economic activity is improving, and is likely to gain traction as most states removing lockdown from today.

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

## Gujarat State Petronet

Gujarat State Petronet's (GUJS) Q4FY20 EBITDA underperformed estimates at Rs 3.6bn (+8% YoY) due to higher expenses. Volumes outperformed at 36.8mmscmd (+13% YoY) on higher offtake from the CGD and power segments. Low LNG prices (especially spot) continue to drive gas demand and are ensuring a faster recovery in gas consumption (currently at ~38mmscmd in Jun'20) as lockdown restrictions are eased. We raise our FY21/FY22 EPS estimates by 12%/10%; our DCF-based TP increases to Rs 310 (from Rs 275).

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

**ADD**

TP: Rs 1,700 | ▲ 7%

**PI INDUSTRIES**

| Agrochemicals

| 08 June 2020

## Stable outlook; stretched valuation limits stock upside

PI Industries' (PI) Q4FY20 results were disrupted by Covid-19 but we expect gradual recovery. Revenue/EBITDA grew 6%/8% YoY. Domestic sales fell 12% YoY (and the ~Rs 1bn pre-placement was deferred to Q1), while exports rose 12%. EBITDA margin at 22% was stable on a favourable mix and despite higher RM prices amid the initial Covid impact. Management has guided for >20% sales growth and sustained margins in FY21. We find valuations stretched at 33x FY22E EPS – assume coverage with ADD and a Mar'21 TP of Rs 1,700 (35x implied P/E).

Vivek Kumar

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**FY21 outlook upbeat:** PI is confident of >20% sales growth and 22% EBITDA margins in FY21, backed by healthy demand across domestic and export markets. In India, the company has cut down on low-margin products and taken price increases on select portfolios. It expects minimal impact from generic risk in insecticide 'Osheen'. In exports, most of the custom synthesis (CSM) orders are intact despite Covid-19. Q4 saw first shipments for pharma intermediates; PI expects the CSM sales mix to rise to double digits in the next three years.

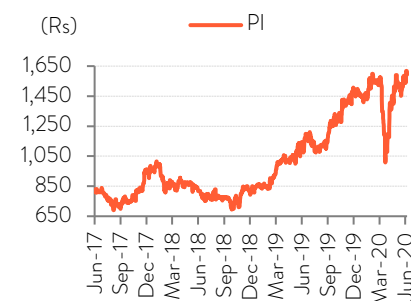
**Clarity on Rs 20bn QIP raise likely in near term:** Growth capex for FY21 will total Rs 6bn. Management expects more clarity on the QIP in 1-1.5 months.

**ADD with TP of Rs 1,700:** With a strong US\$ 1.5bn order book, management remains optimistic on the CSM business. PI is seeking inorganic opportunities in pharma and fine chemicals (via board-approved Rs 20bn QIP). We believe this can set up strong growth momentum in coming years given targeted acquisitions in high-chemistry capability and strong margins in the specialty and pharma CSM businesses. We expect >20% EPS growth and >30% ROIC over the next two years. Current valuations at 33x FY22E EPS price in most of these positives. ADD with an SOTP-based TP of Rs 1,700 (35x implied P/E).

Ticker/Price	PI IN/Rs 1,594
Market cap	US\$ 2.9bn
Shares o/s	138mn
3M ADV	US\$ 3.9mn
52wk high/low	Rs 1,650/Rs 1,370
Promoter/FPI/DII	51%/14%/17%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	22,771	28,409	33,075	39,465	48,979
EBITDA (Rs mn)	4,935	5,764	7,150	8,700	11,114
Adj. net profit (Rs mn)	3,675	4,102	4,537	5,263	6,800
Adj. EPS (Rs)	26.6	29.7	32.9	38.1	49.3
Adj. EPS growth (%)	(16.6)	11.6	10.6	16.0	29.2
Adj. ROAE (%)	21.2	19.7	18.6	18.6	20.4
Adj. P/E (x)	59.9	53.6	48.5	41.8	32.3
EV/EBITDA (x)	44.3	37.7	30.4	25.0	19.6

Source: Company, BOBCAPS Research



## Recovery has begun, normalcy will take time

India's economy is showing signs of recovery with E-way bills and electricity demand showing signs of improvement from Apr'20 levels. PMIs are showing upticks as well. However, port volumes are yet to pick-up. Consumption too is likely to remain muted with RBI's survey pointing to sharp slowdown. Rural consumption may improve with higher output and MSPs, migration and MNREGA spending. But government revenues are under stress and declined by 44% in Apr'20. Centre's fiscal deficit is estimated at 6.5%. While this prompted Moody's to downgrade India's ratings, yields were stable. We believe RBI and banks will emerge as dominant buyers of government securities to clear the supply in FY21.

**Consumption demand weak, rural outlook better:** India's GDP growth slipped to 3.1% in Q4FY21 driven by slowdown in consumption demand (2.7% from 6.6% in Q3FY20). RBI's consumer confidence gauge dropped to historic low (63.7 in May'20). Beacon of hope is rural India with agriculture growth at 6% in Q4FY20 (from 3.6% in Q3FY20). Higher MSPs, reverse migration, increase in MNREGA spending and a normal monsoon point to better rural demand for now. Medium-term growth potential has also improved after reform announcements such as changes in Essential Commodities Act and model APMC Act.

**Government's fiscal health weak:** Centre's fiscal deficit (% of GDP) increased to 4.6% in FY20 from revised target of 3.8%. Centre maintained its spending target even as revenues slipped on account of

COVID-19. Tax revenues have dipped by 44.3% in Apr'20 versus an increase of 6.9% in Apr'19. The decline is led by 69.5% contraction in indirect taxes (3.3% decline in Apr'19). In Apr'20, capex has taken a back seat with decline of 7.5%, while revenue spending remains robust at 24.4%. We estimate FY21 fiscal deficit at 6.5% of GDP.

**Long end yields likely to fall:** India's 10Y yield fell by 10bps in May'20 following RBI's rate cut of 40bps. The quantum of cut in the current cycle stands at 250bps. Spread of state government bonds over Gsec has also narrowed in recent auctions. Credit spreads (AAA over Gsec 5Y) have expanded showing risk-aversion in the lending markets. Banks have been reducing deposit rates in-line with lukewarm demand for credit because of which MCLR's have fallen further. Yield curve has been steepening as short-end yields have corrected far more than long-end. That is to do with surplus liquidity. We expect 10Y yield in 5.5-6% range as CPI moderates and RBI steps up its purchases of government bonds.

**Pressure on INR abates:** INR depreciated by 0.7% in May'20 in line with EM currencies (down by 0.2%). In Jun'20 so far, FII inflows have picked up to US\$ 2.4bn. We expect INR to appreciate in FY21 on the back of lower oil prices and continuous FDI inflows. The risk to our outlook is a sustained decline in Chinese Yuan which will force INR to depreciate as well in order to maintain its competitive value.



## WEEKLY WRAP

08 June 2020

## Equity markets gain as global economies recover

Global economic activity showed signs of improvement with PMIs gaining MoM traction led by China and US. US jobs report surprised positively. Global equity markets gained led by DAX which was up 10.9%. ECB's additional € 600bn stimulus was also positive. On the domestic front, Moody's downgraded India due to fiscal concerns. MPC minutes show members may reduce rates by another 25bps in next meeting. Even domestic economic activity is improving, and is likely to gain traction as most states removing lockdown from today.

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## Markets

- Bonds:** Global long-end yields on account of improved PMIs which show revival in global manufacturing and services activity. US 10Y yield rose by 24bps (0.9%) supported by positive employment report. Oil prices too rose by 19.7% (US\$ 42/bbl) amidst expectation of economic revival and anticipation of output cuts by Saudi Arabia and Russia. India's 10Y yield rose by 1bps (6.02%). System liquidity surplus was at Rs 3.8tn as on 5 Jun 2020 versus Rs 3.7tn in previous week.
- Currency:** Global currencies closed higher as manufacturing and services PMIs rose in May'20. JPY and DXY fell by 1.6% and 1.4% respectively as risk sentiment improved. AUD rose by 4.5% as RBA suggested that the impact of COVID-19 on GDP growth may be lower than estimated. EUR rose by 1.7% with ECB ramping up its stimulus program by € 600bn. INR closed flat even as FII inflows picked up to US\$ 2.5bn in the week.
- Equity:** Led by renewed hopes of global economic recovery, additional stimulus by ECB and strong US Jobs report, global indices ended the week higher. Dax (10.9%) surged the most followed by Dow (6.8%) and FTSE (6.7%). Sensex (5.7%) too ended in green on the back of global cues and reopening of domestic economy.
- Upcoming key events:** Markets will track Japan and Euro Area's GDP in the current week. Apart from this, FOMC's rate decision as well as PPI and CPI reading of Japan, China and US are also scheduled for release. On the domestic front, markets will track industrial output and inflation prints.



**BUY**

TP: Rs 310 | ▲ 40%

**GUJARAT STATE  
PETRONET**

Oil &amp; Gas

08 June 2020

**Volumes buoyant**

**Gujarat State Petronet's (GUJS) Q4FY20 EBITDA underperformed estimates at Rs 3.6bn (+8% YoY) due to higher expenses. Volumes outperformed at 36.8mmscmd (+13% YoY) on higher offtake from the CGD and power segments. Low LNG prices (especially spot) continue to drive gas demand and are ensuring a faster recovery in gas consumption (currently at ~38mmscmd in Jun'20) as lockdown restrictions are eased. We raise our FY21/FY22 EPS estimates by 12%/10%; our DCF-based TP increases to Rs 310 (from Rs 275).**

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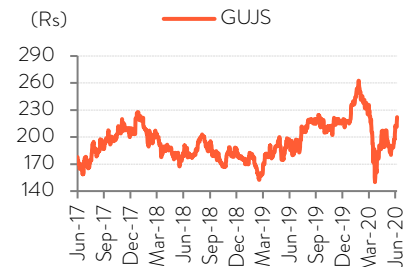
**Volumes sustain as demand from power sector picks up:** Q4 volumes improved to 36.8mmscmd (+13% YoY) as demand from the CGD (11mmscmd, +36% YoY) and power (5.5mmscmd, +89% YoY) segments increased. Offtake from the refinery (10.7mmscmd, -11% YoY) and fertiliser (3.7mmscmd, -13% YoY) sectors was hit by maintenance shutdowns. Volumes to the power segment have surged to ~10mmscmd in June so far, and management sees even higher offtake potential as spot LNG prices remain low (<US\$ 3/mmbtu).

**CGD, power volumes to offset lower RIL offtake:** RIL continues to absorb ~9mmscmd (stable QoQ), mostly for its petchem units. While GUJS could see volume loss (4-6mmscmd) once RIL's petcoke gasification plant comes online, this could be made up by incremental power or CGD demand in FY20-FY21.

**Maintain BUY:** GUJS has healthy volumes levers in place – planned connectivity to all the five LNG regasification terminals in Gujarat and an improving demand outlook from CGD and power. Commissioning of the Mundra LNG terminal is expected to add volumes from Q4FY20. At 9.6x FY22E EPS, valuations look attractive considering stronger volume visibility. We raise FY21/FY22 earnings estimates by 12%/10% on higher volume assumptions as the macro climate remains conducive for a surge in gas consumption.

Ticker/Price	GUJS IN/Rs 222
Market cap	US\$ 1.7bn
Shares o/s	564mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 264/Rs 146
Promoter/FPI/DII	38%/16%/47%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	13,317	18,773	23,692	25,579	29,340
EBITDA (Rs mn)	11,478	15,426	15,749	18,185	20,651
Adj. net profit (Rs mn)	6,684	7,947	11,087	11,356	13,071
Adj. EPS (Rs)	11.9	14.1	19.7	20.1	23.2
Adj. EPS growth (%)	34.5	18.9	39.5	2.4	15.1
Adj. ROAE (%)	14.2	15.2	18.1	15.9	16.1
Adj. P/E (x)	18.7	15.8	11.3	11.0	9.6
EV/EBITDA (x)	11.1	9.0	9.6	8.0	6.9

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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