

RESEARCH

BOB Economics Research | Weekly Wrap

India steps up borrowing for stimulus

TCI Express | Target: Rs 750 | +24% | BUY

Solid fundamentals to help navigate turbulent waters

Oil & Gas

Petroleum consumption plunges in April

SUMMARY

India Economics: Weekly Wrap

Global yields steepened with US unemployment rate increasing to 14.7% and disappointing US factory and Germany's exports data. However, oil prices jumped 17% in the week as restrictions are being gradually eased. Global equity market markets (ex-Sensex) also responded positively. In India, yields increased after Centre announced 50% increase in its borrowing for FY21 which has pushed yields up. We expect state borrowings to also increase, leading to consolidated fiscal deficit of 10% of GDP in FY21.

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

TCI Express

TCI Express (TCIEXP) reported a weak Q4FY20 as the economic lockdown since mid-March disrupted operations. Revenue declined 11% YoY, dented by a 12% volume drop. EBITDA margin contracted 150bps YoY to 11.2%. EBITDA fell by a sharp 21% YoY, but the decline in PAT was restricted to 13% due to a lower tax rate. We pare FY21/FY22 EPS by 9%/2% and revise our Mar'21 TP to Rs 750 (Rs 770 earlier). Though the business climate is tumultuous, we remain positive on TCIEXP's long-term prospects due to its strong fundamentals.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.68	4bps	(9bps)	(176bps)
India 10Y yield (%)	5.97	(6bps)	(47bps)	(143bps)
USD/INR	75.55	0.3	1.0	(8.0)
Brent Crude (US\$/bbl)	30.97	5.1	(5.7)	(56.0)
Dow	24,331	1.9	3.8	(5.8)
Shanghai	2,895	0.8	2.8	1.6
Sensex	31,643	0.6	5.8	(15.8)
India FII (US\$ mn)	5 May	MTD	CYTD	FYTD
FII-D	(7.7)	(46.6)	(11,390.3)	(1,630.8)
FII-E	(42.9)	(166.1)	(6,799.6)	(196.7)

Source: Bank of Baroda Economics Research

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Oil & Gas

India's petroleum product consumption plunged 46% YoY (-38% MoM) to 10mmt in Apr'20, as all fuels except LPG saw severe demand erosion. Fuel consumption during Mar'20, when travel restrictions had begun across states, was at 16mmt. Given the recent hike in excise duties and slowdown in volume growth, the earnings outlook for OMCs' marketing business remains cloudy. We prefer IOCL, HPCL and BPCL, in that order, on valuations, and benefits from staggered easing of economic lockdown in phases across states. IOCL also offers one the best dividend yields (>13%).

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

WEEKLY WRAP

11 May 2020

India steps up borrowing for stimulus

Global yields steepened with US unemployment rate increasing to 14.7% and disappointing US factory and Germany's exports data. However, oil prices jumped 17% in the week as restrictions are being gradually eased. Global equity market markets (ex-Sensex) also responded positively. In India, yields increased after Centre announced 50% increase in its borrowing for FY21 which has pushed yields up. We expect state borrowings to also increase, leading to consolidated fiscal deficit of 10% of GDP in FY21.

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Markets

- **Bonds:** Global short-end yields closed lower as macro data print remained dismal in US, Eurozone and UK. Long-end yields were mixed amidst relaxation of lockdown restrictions. US 10Y yield rose by 7bps (0.68%). Oil prices also rose by 17% (US\$ 31/bbl). Despite this, India's 10Y yield fell by 14bps (5.97%) but is trading 20bps higher today due to 50% increase in centre's borrowing plan in FY21. System liquidity surplus was at Rs 5.4tn as on 8 May 2020 as against Rs 6tn in the previous week.
- **Currency:** Except AUD and JPY, other global currencies closed lower as economic data remained bleak. DXY and JPY rose by 0.7% and 0.2% respectively in the week. EUR depreciated by 1.3% as macro data prints (PMIs and retail sales) disappointed. AUD rose by 1.8% supported by easing economic restrictions. INR depreciated by 0.6% led by FII outflows.
- **Equity:** Barring Sensex, other global indices ended the week higher surrounded by optimism over improved US-China relations and graded reopening of global economies. FTSE (3%) surged the most followed by Nikkei (2.9%) and Dow (2.6%). However, Sensex (6.2%) ended in red as investors await announcement on second fiscal stimulus package. It was dragged down by consumer durables and banking stocks.
- **Upcoming key events:** In the data heavy week, markets will closely watch data from China (industrial production, FAI, PPI, CPI), US (CPI, jobless claims and retail sales) and Q1 GDP prints of Eurozone and UK. On the domestic front, CPI, IIP WPI, trade data and details of government's fiscal stimulus package are awaited.



BUY

TP: Rs 750 | ▲ 24%

TCI EXPRESS

Logistics

11 May 2020

Solid fundamentals to help navigate turbulent waters

TCI Express (TCIEXP) reported a weak Q4FY20 as the economic lockdown since mid-March disrupted operations. Revenue declined 11% YoY, dented by a 12% volume drop. EBITDA margin contracted 150bps YoY to 11.2%. EBITDA fell by a sharp 21% YoY, but the decline in PAT was restricted to 13% due to a lower tax rate. We pare FY21/FY22 EPS by 9%/2% and revise our Mar'21 TP to Rs 750 (Rs 770 earlier). Though the business climate is tumultuous, we remain positive on TCIEXP's long-term prospects due to its strong fundamentals.

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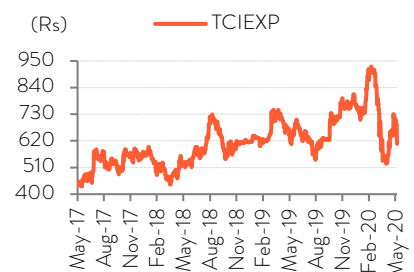
Turbulent times: Disruptions due to lockdown measures (~Rs 400mn revenue impact in March) negated decent Jan/Feb numbers (+3%/+5% YoY), driving an 11% YoY revenue decline in Q4. Though operations have resumed, volumes in Q1FY21 to date are down ~70% YoY, pointing to a depressed quarter. Per management, tonnage should inch up from June as manufacturing activity gradually revives, with sustained recovery from H2. We build in a 2% dip in FY21 topline vs. guidance of 10% growth, and expect strong recovery (+25%) in FY22.

Ticker/Price	TCIEXP IN/Rs 607
Market cap	US\$ 307.0mn
Shares o/s	38mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/3%/8%

Source: NSE

Cost rationalisation to protect margin: TCIEXP has taken several measures such as travelling & stationery cost reduction and a voluntary cut in MD's salary to protect FY21 operating margins. Management is targeting savings of Rs 200mn or ~10% of Rs 1.7bn in fixed cost in FY20. Confident of retaining gross margins, the company is aiming for 100bps EBITDA margin expansion in FY21. However, we build in an 80bps dip in FY21 due to our lower-than-guided revenue estimates.

STOCK PERFORMANCE



Source: NSE

Fundamentals intact: Despite a sombre quarter, TCIEXP reported a realisation uptick (+1% YoY), higher gross margin (+126bps), steady working capital, and a net cash position (Rs 410mn), which underpins its robust fundamentals. We expect it to emerge relatively unscathed from the turmoil, by dint of its asset-light model, strong balance sheet and established moats.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	10,320	10,126	12,653
EBITDA (Rs mn)	907	1,190	1,213	1,114	1,655
Adj. net profit (Rs mn)	584	728	891	800	1,198
Adj. EPS (Rs)	15.3	19.0	23.2	20.9	31.2
Adj. EPS growth (%)	55.8	24.7	22.3	(10.2)	49.8
Adj. ROAE (%)	31.8	30.7	29.5	21.6	26.6
Adj. P/E (x)	39.8	31.9	26.1	29.1	19.4
EV/EBITDA (x)	25.9	19.7	19.2	20.7	13.8

Source: Company, BOBCAPS Research



OIL & GAS

11 May 2020

Petroleum consumption plunges in April

Signs of economic slowdown

- India's petroleum product consumption plunged 46% YoY (-38% MoM) to 10mmt in Apr'20, as all fuels except LPG saw severe demand erosion. Fuel consumption during Mar'20, when travel restrictions had begun across states, was at 16mmt.
- Diesel consumption at 3.2mmt (-56% YoY, -42% MoM) was less affected than petrol at 1mmt (-60% YoY, -55% MoM), perhaps due to the government easing restrictions on economic activity in a few states and the fact that diesel sees the largest consumption among fuels in the country.
- LPG was the only fuel at 2.1mmt (+12% YoY, -8% MoM) to witness double-digit consumption growth YoY – possibly due to the oil minister's announcement last month about giving free LPG cylinders to the poor.
- ATF was worst hit at 0.056mmt (-91% YoY, -88% QoQ) given the travel ban on both domestic and international fronts.
- Offtake of other fuels slipped as well – petcoke (-50% YoY), bitumen (-72% YoY), fuel oil (-40% YoY) and lubricants (-17% YoY).

Implications

- Given the recent hike in excise duties and slowdown in volume growth, the earnings outlook for OMCs' marketing business remains cloudy.
- We prefer IOCL, HPCL and BPCL, in that order, on valuations, and benefits from staggered easing of economic lockdown in phases across states. IOCL also offers one the best dividend yields (>13%).

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
IOCL IN	75	200	BUY
BPCL IN	315	470	BUY
HPCL IN	192	340	BUY

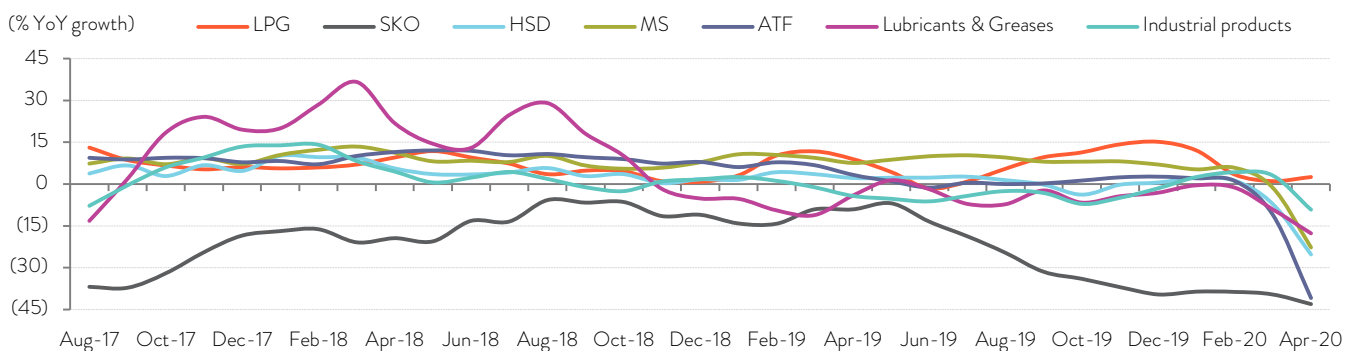
Price & Target in Rupees

PETRO PRODUCT CONSUMPTION

('000 mt)	Apr'20	YoY (%)	FY20	YoY (%)
LPG	2,132	12.2	26,366	5.9
SKO	129	(49.3)	2,397	(30.7)
HSD	3,250	(55.6)	82,579	(1.0)
MS	973	(60.4)	29,976	6.0
Naphtha	859	(9.4)	14,436	0.7
ATF	56	(91.3)	8,000	(3.8)
LDO	28	(38.6)	596	5.3
Lubes & Greases	212	(16.9)	3,959	(8.1)
FO & LSHS	297	(40.3)	6,512	(6.4)
Bitumen	196	(71.7)	6,747	(5.5)
Petcoke	1,135	(49.6)	22,086	(1.9)
Others	662	(36.6)	10,189	13.2
Total	9,929	(45.8)	212,788	0.4

Source: PPAC

FIG 1 – MONTHLY CONSUMPTION GROWTH



Source: PPAC, 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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