FIRST LIGHT

01 January 2020

RESEARCH

BOB Economics Research | Balance of Payments

Lower CAD and higher inflows to support INR

Gujarat State Petronet | Target: Rs 350 | +60% | BUY

Power demand could be a dark horse

SUMMARY

India Economics: Balance of Payments

Led by a sharp dip in trade deficit, India's CAD narrowed to US$ 6.3bn (0.9% of GDP) in Q2 from US$ 14.2bn (2% of GDP) in Q1. However, BoP surplus shrunk to US$ 5.1bn from US$ 14bn in Q1 due to lower foreign investments. We expect BoP surplus to increase in H2 as foreign inflows have been higher in Q3 and are likely to sustain. At the same time, imports are likely to remain tepid. A combination of lower CAD in FY20 (1.3% of GDP from 2.1% in FY19) and resumption in foreign inflows will ensure steady INR despite higher oil prices.

Click here for the full report.

Gujarat State Petronet

Our interaction with the Gujarat State Petronet (GSPL) management reinforces our core investment thesis. Key takeaways: a) Power demand could pick up substantially (from FY21) on improved power demand outlook, coupled with low LNG prices; b) RIL offtake could still average at ~6 mmscmd in the worst case (on start-up of petcoke gasifiers); and c) improved gas supply options from upcoming LNG terminals at Mundra and Pipavav. We raise TP to Rs350 on roll over to Mar'21, and higher value for GUJGA investment.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.88	0bps	10bps	(81bps)
India 10Y yield (%)	6.55	4bps	8bps	(82bps)
USD/INR	71.31	0.1	0.6	(2.2)
Brent Crude (US$/bbl)	68.44	0.4	9.6	27.2
Dow	28,462	(0.6)	1.5	22.0
Shanghai	3,040	1.2	5.9	21.9
Sensex	41,558	0	1.9	15.2
India FII (US$ mn)	**27 Dec**	**MTD**	**CYTD**	**FYTD**
FII-D	27.0	(522.9)	3,721.9	3,177.2
FII-E	106.4	1,099.7	14,472.1	7,626.9

Source: Bank of Baroda Economics Research

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BALANCE OF PAYMENTS

31 December 2019

Lower CAD and higher inflows to support INR

Led by a sharp dip in trade deficit, India's CAD narrowed to US$ 6.3bn (0.9% of GDP) in Q2 from US$ 14.2bn (2% of GDP) in Q1. However, BoP surplus shrunk to US$ 5.1bn from US$ 14bn in Q1 due to lower foreign investments. We expect BoP surplus to increase in H2 as foreign inflows have been higher in Q3 and are likely to sustain. At the same time, imports are likely to remain tepid. A combination of lower CAD in FY20 (1.3% of GDP from 2.1% in FY19) and resumption in foreign inflows will ensure steady INR despite higher oil prices.

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CAD narrowed sharply in Q2: Driven by lower trade deficit, India's CAD narrowed to US$ 6.3bn in Q2FY20 (0.9% of GDP) from US$ 14.2bn in Q1FY20 (2% of GDP). Trade deficit in Q2FY20 fell to US$ 38.1bn from US$ 46.2bn in Q1, led by lower oil and gold imports. While merchandise exports eased marginally, services (net) receipts increased a tad bit to US$ 20.4bn in Q2FY20 from US$ 20.1bn in Q1FY20. However, remittances maintained momentum and are now at US$ 20bn compared with US$ 18bn in Q1.

BoP surplus at US$ 5.1bn in Q2FY20: BoP surplus narrowed to US$ 5.1bn in Q2FY20 versus US$ 14bn in Q1FY20 despite a sharp contraction in trade deficit by US$ 8.1bn on a QoQ basis. This is due to a deceleration in FDI inflows from an 11-quarter high of US$ 13.8bn in Q1 to US$ 7.4bn. FII inflows and ECB inflows too were subdued at US$ 2.5bn (US$ 4.8bn in Q1) and US$ 3.4bn (US$ 6.1bn in Q1) respectively. Banking capital outflows too contributed to the decline at US$ 1.8bn in Q2 versus an inflow of US$ 3.4bn in Q1FY20.

BoP surplus to expand in H2: CAD narrowed to 1.5% of GDP in H1FY20 from 2.6% of GDP in H1FY19. This decline is attributed to lower trade deficit led by dip in both oil and non-oil imports. BoP surplus in H1FY20 is at US$ 19.1bn versus depletion of US$ 15.2bn in H1FY19. The biggest change in BoP is pick-up in FPI inflows from outflows last year. While oil prices have risen recently, non-oil imports are likely to remain lacklustre. In addition, FDI inflows have maintained their momentum at US$ 3.3bn in Oct'19. So have FPI inflows at US$ 6.1bn in Q3FY20. As a result, we expect BoP surplus at US$ 43.4bn in FY20 and CAD at 1.3% of GDP (2.1% in FY19). While INR depreciated by (-) 2.3% in CY19 (-8.5% in CY18), higher foreign inflows should lend support to INR even as oil prices inch up in CY20.

KEY HIGHLIGHTS

- CAD narrows to 0.9% of GDP in Q2FY20 from 2% of GDP in Q1FY20.
- BoP surplus at US$ 5.1bn from US$14bn in Q1FY20.
- CAD to narrow to 1.3% of GDP in FY20. BoP surplus at US$ 43.4bn.

COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 350 | ⮝ 60%

GUJARAT STATE PETRONET | Oil & Gas | 31 December 2019

Power demand could be a dark horse

Our interaction with the Gujarat State Petronet (GSPL) management reinforces our core investment thesis. Key takeaways: a) Power demand could pick up substantially (from FY21) on improved power demand outlook, coupled with low LNG prices; b) RIL offtake could still average at ~6 mmscmd in the worst case (on start-up of petcoke gasifiers); and c) improved gas supply options from upcoming LNG terminals at Mundra and Pipavav. We raise TP to Rs350 on roll over to Mar'21, and higher value for GUJGA investment.

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Improving volume outlook: As per GUJS management, concerns on decline in RIL's offtake seems unrealistic as it would still continue to offtake atleast 6 mmscmd of gas (if all the petcoke gasifiers operate at full capacity). However, GSPL recently lost some volumes (~2 mmscmd) to GAIL as the latter's tariffs on HVJ pipeline were set lower. Management is strongly rooting for power demand to pick up for its volume growth story to play out in the long run, supported by expectations of lower spot LNG prices in CY20.

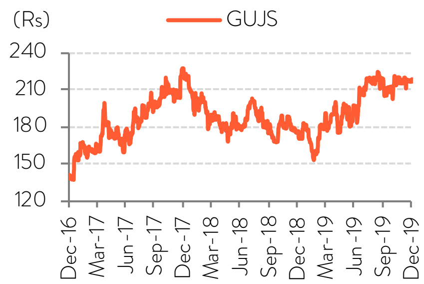
More LNG supply options are needed for supporting power demand: Gas demand from power sectors is usually sporadic, and requires continuous availability of spare LNG capacity. Start-up of LNG terminals at Mundra (from Feb'2020) and Pipavav (from FY22), coupled with incremental domestic gas production from ONGC/RIL, would aid power sector consumption by 15-20 mmscmd (subject to spot LNG prices remaining <US$5/mmbtu).

GST for natural gas – neutral for gas demand in Gujarat: As industrial customers in Gujarat pay 6% VAT, impact on demand from inclusion of natural gas in GST would more or less be neutral for the state. However, it would make a huge difference for LNG volumes (imported at Dahej and Hazira) being sold outside Gujarat, as it currently attracts ~30% indirect tax.

Ticker/Price	GUJS IN/Rs 219
Market cap	US$ 1.7bn
Shares o/s	564mn
3M ADV	US$ 1.8mn
52wk high/low	Rs 230/Rs 149
Promoter/FPI/DII	38%/16%/47%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,317	18,773	22,760	22,779	26,241
EBITDA (Rs mn)	11,478	15,426	17,073	16,770	19,090
Adj. net profit (Rs mn)	6,684	7,947	10,395	10,165	11,912
Adj. EPS (Rs)	11.9	14.1	18.4	18.0	21.1
Adj. EPS growth (%)	34.5	18.9	30.8	(2.2)	17.2
Adj. ROAE (%)	14.2	15.2	17.3	14.8	15.5
Adj. P/E (x)	18.4	15.5	11.9	12.1	10.4
EV/EBITDA (x)	10.9	8.9	8.8	8.6	7.4

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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