

RESEARCH
BOB Economics Research | Weekly Wrap

Indian 10Y yield falls, but oil prices may limit gains

Gujarat Gas | Target: Rs 280 | +25% | BUY

Improving outlook on volumes

SUMMARY
India Economics: Weekly Wrap

Global equity markets were higher and DXY weakened as risk-sentiment improved. Oil prices too rose by 3.1% in the week as US stockpiles were lower than estimated. While industrial profits in China improved, US durable goods orders, Japan's retail sales and industrial production fell thus implying continuing headwinds for global economy in CY20. India's 10Y yield fell further by 10bps as RBI announced another round of simultaneous OMO purchase/sale. Higher oil prices may limit gains for Indian markets.

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

Gujarat Gas

At our recent meeting, GUJGA's management assured robust outlook on volumes driven by (a) implementation of anti-pollution measures by the state government (new CNG state buses), and (b) relatively low LNG prices. Volumes continue to trend above 9 mmscmd, as Morbi units sustain >6 mmscmd offtake, and carry additional 1-2 mmscmd potential. We raise GUJGA's TP to Rs280 (from Rs270), as we roll forward valuation to Mar'21. At 12.7x FY22 EPS, GUJGA remains most attractively value among its peers.

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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	(2bps)	11bps	(89bps)
India 10Y yield (%)	6.51	(8bps)	3bps	(77bps)
USD/INR	71.35	(0.1)	0	(1.4)
Brent Crude (US\$/bbl)	68.16	0.4	6.4	30.7
Dow	28,645	0.1	1.7	23.8
Shanghai	3,005	(0.1)	3.5	21.0
Sensex	41,575	1.0	1.4	16.1
India FII (US\$ mn)	26 Dec	MTD	CYTD	FYTD
FII-D	346.3	(549.8)	3,694.9	3,150.3
FII-E	18.5	993.3	14,365.7	7,520.5

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

30 December 2019

Indian 10Y yield falls, but oil prices may limit gains

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Markets

- Bonds:** Global yields closed lower led by 4bps (1.88%) fall in US 10Y on account of robust demand for auctions. Crude prices rose by 3.1% (US\$ 68/bbl) over renewed trade deal optimism (US-China and NAFTA) and declining US stockpiles. India's 10Y yield fell by 10bps (6.51%) supported by RBI's special OMO operation. System liquidity surplus was at Rs 2.4tn as on 27 Dec 2019 vs Rs 2.0tn in the previous week.
- Currency:** Except INR, other global currencies closed higher this week against the dollar. DXY fell by (-) 0.8% in the week as risk sentiment improved due to easing US-China trade tensions. AUD rose by 1.2% on reduced likelihood of a rate cut by RBA in Feb'20. INR depreciated by (-) 0.3% in the week as oil prices rose by 3.1% to US\$ 68/bbl despite FII inflows (US\$ 778mn).
- Equity:** Apart from Sensex, other global indices ended higher in the truncated week led by optimism over US-China trade deal and improvement in China's industrial profits. FTSE (0.8%) surged the most followed by Dow (0.7%) as it advanced for the 5th straight week. However, Sensex ended the week in red (-0.3%) on account of muted domestic cues.
- Upcoming key events:** In the current week, markets await manufacturing PMIs of Eurozone, China and US and CPI prints of Indonesia, Thailand, France, Germany and South Korea. On the domestic front, manufacturing PMI, eight-core industry output, fiscal data and current account balance is scheduled for release.



BUY

TP: Rs 280 | ▲ 25%

GUJARAT GAS

Oil & Gas

30 December 2019

Improving outlook on volumes

At our recent meeting, GUJGA's management assured robust outlook on volumes driven by (a) implementation of anti-pollution measures by the state government (new CNG state buses), and (b) relatively low LNG prices.

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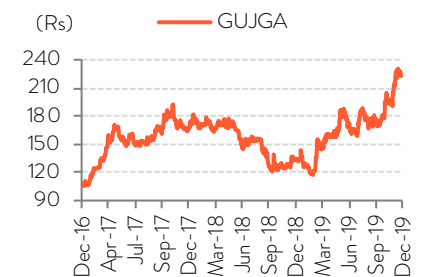
Buoyant volume outlook: Ceramic units in Morbi (Gujarat) continue to offtake >6 mmscmd volumes, and carry potential for another 1-2 mmscmd as new units get connected. Concerns on Morbi customers shifting to GAIL for sourcing gas seems to have alleviated, as GUJGA's pricing remains most attractive, along with its commitment to add incremental pipeline capacity to connect more units. CNG volume growth could improve as Gujarat state transportation (GSRTC) has approved induction of 1000 CNG buses (250 in Q4 FY20). Over the long-term, management expects most of the GSRTC's ~7000 fleet of buses to convert to CNG.

Ticker/Price	GUJGA IN/Rs 224
Market cap	US\$ 2.2bn
Shares o/s	688mn
3M ADV	US\$ 2.4mn
52wk high/low	Rs 237/Rs 115
Promoter/FPI/DII	61%/12%/27%

Source: NSE

Volume potential from new areas to fructify from FY21/22: GUJGA is aggressively pursuing expansion into newer areas, maintaining capex guidance of Rs6-7bn annually. Initial strategy is to tap potential from existing network from Rajasthan until rural Thane region near Mumbai. Simultaneously, this would help tapping volumes from new areas such as Dahej, Punjab (GUJGA has license for about 6 areas) and Rajasthan, that offer 4-5 mmscmd potential.

STOCK PERFORMANCE



Source: NSE

Undemanding valuations: At 12.7x FY22E EPS, GUJGA's valuations remain relatively attractive to CGD peers (~16x for IGL/MAHGL). This gap may get bridged gradually, given stability in volumes and margins.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	61,743	77,544	120,558	138,467	146,207
EBITDA (Rs mn)	8,951	9,836	15,593	18,407	19,326
Adj. net profit (Rs mn)	2,914	4,160	11,502	11,103	12,097
Adj. EPS (Rs)	4.2	6.0	16.7	16.1	17.6
Adj. EPS growth (%)	32.7	42.8	176.5	(3.5)	9.0
Adj. ROAE (%)	16.7	20.6	44.2	36.5	38.5
Adj. P/E (x)	52.9	37.0	13.4	13.9	12.7
EV/EBITDA (x)	19.4	17.9	11.1	9.2	8.6

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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