

# FIRST LIGHT

## RESEARCH

### Aurobindo Pharma | Target: Rs 500 | +27% | BUY

Sandoz deal called off; upgrade to BUY

### ONGC | Target: Rs 110 | +67% | BUY

Riding the storm

### Automobiles

Mar'20 Auto Sales – BS-VI shift + Covid-19 drive sharp slump

### Oil & Gas

Feb'20 natural gas consumption surges

## SUMMARY

### Aurobindo Pharma

Aurobindo Pharma (ARBP) announced that the deal to buy Sandoz's US generic oral solids and dermatology business has been mutually called off. Management cited (1) delays in US FTC approval for the transaction, and (2) Covid-19-led macro challenges which could have prolonged integration synergies. To recap, in Sep'18, ARBP had entered a definitive agreement to acquire this business for US\$ 900mn, valued at ~1x CY18 sales. We cut FY21/FY22 EPS by 12%/4% but upgrade to BUY from ADD on easing leverage concerns and attractive valuations.

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

### ONGC

Key takeaways from our recent interaction with the ONGC management: (a) operating costs for the core business remain in the comfort zone of ~US\$ 17/bbl, (b) the company will revisit its FY21 capex plans (~Rs 300bn) in Jun'20, and (c) gas production cuts are temporary as demand should recovery sharply once the economic lockdown is lifted. We believe ONGC's valuations factor in <US\$ 30/bbl Brent oil prices, offering favourable risk-reward.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	5,200
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	25,000
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Reliance Industries</a>	Buy	1,500

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	205
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	355
<a href="#">Ashok Leyland</a>	Sell	64

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.67	(6bps)	(48bps)	(180bps)
India 10Y yield (%)	6.14	(7bps)	(23bps)	(114bps)
USD/INR	75.54	(0.2)	(4.7)	(9.9)
Brent Crude (US\$/bbl)	22.74	(0.1)	(55.0)	(67.2)
Dow	21,917	(1.8)	(13.7)	(16.3)
Shanghai	2,750	0.1	(4.5)	(13.4)
Sensex	29,468	3.6	(23.1)	(24.5)
India FII (US\$ mn)	30 Mar	MTD	CYTD	FYTD
FII-D	(239.0)	(7,817.8)	(9,384.9)	(6,440.8)
FII-E	(481.1)	(7,885.6)	(6,098.7)	1,290.5

Source: Bank of Baroda Economics Research

### BOBCAPS Research

research@bobcaps.in



## Automobiles

Mar'20 volume growth was weak for all automotive segments as the Covid-19 outbreak followed by plant shutdowns hit production and sales. BS-IV inventory liquidation efforts also led to calibrated dispatches in some segments. CV volumes were worst affected, plunging ~90% YoY. PV and 2W dispatches were also marred by plant shutdowns and BS-IV stock liquidation efforts. Tractors fell 31% YoY for MM. The outlook looks bleak for at least next couple of quarters until the outbreak is contained and demand normalises. MSIL and EIM are top picks.

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

## Oil & Gas

Natural gas consumption in Feb'20 increased 10% YoY to 160mmscmd as offtake climbed across sectors (except power) – fertiliser (47mmscmd, +9% YoY), CGD (30.4mmscmd, +17% YoY), and other industrials (52.9mmscmd, +13.7% YoY). Power sector consumption was flat YoY at 29mmscmd. CGD was the biggest swing factor, improving by 4.4mmscmd YoY (largely driven by small industrials in Gujarat). However, the Covid-19-led economic shutdown from Mar'20 could erode gas consumption significantly in Q1FY21 (depending on how long the shutdown stretches beyond April).

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

**BUY**

TP: Rs 500 | ▲ 27%

**AUROBINDO PHARMA**

Pharmaceuticals

02 April 2020

## Sandoz deal called off; upgrade to BUY

**Aurobindo Pharma (ARBP) announced that the deal to buy Sandoz's US generic oral solids and dermatology business has been mutually called off. Management cited (1) delays in US FTC approval for the transaction, and (2) Covid-19-led macro challenges which could have prolonged integration synergies. To recap, in Sep'18, ARBP had entered a definitive agreement to acquire this business for US\$ 900mn, valued at ~1x CY18 sales. We cut FY21/FY22 EPS by 12%/4% but upgrade to BUY from ADD on easing leverage concerns and attractive valuations.**

Vivek Kumar

research@bobcaps.in

**Deal termination alleviates leverage concerns:** The Sandoz deal was one of the key near-term stock triggers for ARBP and its termination impacts our FY21/FY22 earnings, besides potentially raising growth concerns for the US business in the medium term. Importantly, on the positive side, we view this event as a sentiment-booster in current uncertain times as (1) ARBP's net debt/EBITDA should now hold at comfortable levels of 0.4x in FY21E vs. our post-deal estimate of 1.8x, and (2) FCF could surge over the next two years to Rs 42bn from negative Rs 25bn, driving greater balance sheet comfort and stronger ROIC.

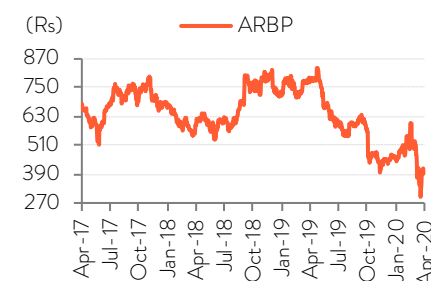
**Management call takeaways:** (1) Net debt-free status to be reached by FY22 – would repay Rs 10bn p.a. over two years. (2) Targeting US sales growth of 4-5% p.a., supported by >50 filings. (3) Inorganic assets not cheap at present and hence may be avoided. (4) Covid-19 lockdown has led to 20-25% lower utilisation across facilities.

**Upgrade to BUY:** Post the recent correction, the stock is trading at attractive valuations of 6x FY21E EV/EBITDA, 40%/25% below the 5Y/10Y mean, and 1.2x FY21E P/BV, close to historical lows. With comfort on leverage returning and resilient margins, risk of multiple downgrade subsides. We see 10% downside in the worst case (OAI at Unit-IV); upgrade to BUY, new TP Rs 500 (vs. Rs 560).

Ticker/Price	ARBP IN/Rs 392
Market cap	US\$ 3.1bn
Shares o/s	586mn
3M ADV	US\$ 33.3mn
52wk high/low	Rs 838/Rs 289
Promoter/FPI/DII	52%/19%/15%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	164,630	195,634	230,854	238,449	248,127
EBITDA (Rs mn)	37,718	39,519	47,118	46,663	48,548
Adj. net profit (Rs mn)	24,227	24,126	27,331	25,602	28,059
Adj. EPS (Rs)	41.3	41.2	46.6	43.7	47.9
Adj. EPS growth (%)	5.3	(0.4)	13.3	(6.3)	9.6
Adj. ROAE (%)	23.1	18.8	18.0	14.6	14.1
Adj. P/E (x)	9.5	9.5	8.4	9.0	8.2
EV/EBITDA (x)	7.0	6.6	5.8	5.9	5.4

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 110 | ▲ 67%

**ONGC**

Oil &amp; Gas

01 April 2020

## Riding the storm

**Key takeaways from our recent interaction with the ONGC management:**

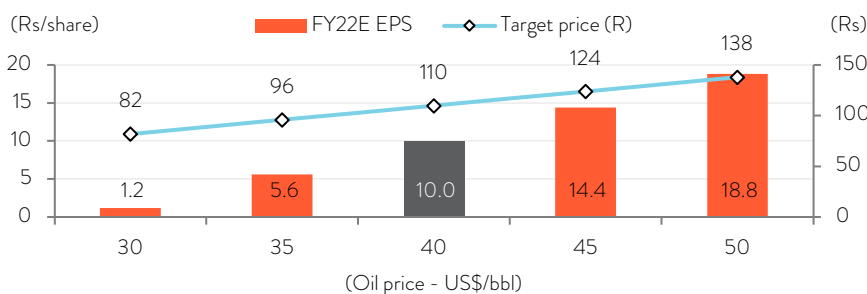
(a) operating costs for the core business remain in the comfort zone of ~US\$ 17/bbl, (b) the company will revisit its FY21 capex plans (~Rs 300bn) in Jun'20, and (c) gas production cuts are temporary as demand should recovery sharply once the economic lockdown is lifted. We believe ONGC's valuations factor in <US\$ 30/bbl Brent oil prices, offering favourable risk-reward.

**Cash profits for core business look sustainable:** ONGC's India business is likely to remain in the black at ~US\$ 6/boe EBITDA, as its operating costs decline to ~US\$ 17/boe on reduction in cess/royalty levies (~30% of oil revenues) at current oil prices. This implies the company will be able to sustain operating activities without major disruptions. OVL's operations may take a hit as costs for international assets average >US\$ 20/bbl.

**Capex outlook could be revised in Jun'20:** Management has guided for stable capex at Rs 300bn for FY21, but may revise this figure down if oil prices remain depressed until Jun'20. The company sees a strong case for oil to revert to normalised levels of >US\$ 50/bbl in H2FY21, once the world economy likely emerges from the Covid-19-induced shutdown.

**No case for oil production cuts; gas demand to revive as soon as lockdown ends:** India's domestic oil production constitutes <20% of its consumption; hence, the company sees no reason to cut output for now. However, gas production at Mumbai High was recently reduced by 5mmscmd owing to lower requirements from GAIL's customers amid reduced economic activity. With the 21% reduction in domestic gas prices to all-time lows of US\$ 2.3/mmbtu (GCV basis) for the Apr-Sept'20 period, ONGC anticipates a V-shaped recovery in gas consumption once the nationwide lockdown ends.

### FIG 1 – VALUATION AND EARNINGS SENSITIVITY



Source: Company, BOBCAPS Research

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Ticker/Price	ONGC IN/Rs 66
Market cap	US\$ 11.0bn
Shares o/s	12,580mn
3M ADV	US\$ 34.6mn
52wk high/low	Rs 179/Rs 50
Promoter/FPI/DII	63%/9%/29%

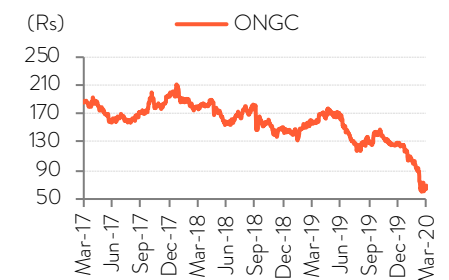
Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,097,122	4,513,862	5,149,784
EBITDA (Rs mn)	638,284	314,511	477,618
Adj. net profit (Rs mn)	294,989	35,815	125,999
Adj. EPS (Rs)	23.4	2.8	10.0
Adj. EPS growth (%)	(15.3)	(87.9)	251.8
Adj. ROAE (%)	12.9	1.5	5.2
Adj. P/E (x)	2.8	23.1	6.6
EV/EBITDA (x)	2.8	5.7	4.0

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


## AUTOMOBILES

02 April 2020

### Mar'20 Auto Sales – BS-VI shift + Covid-19 drive sharp slump

Mar'20 volume growth was weak for all automotive segments as the Covid-19 outbreak followed by plant shutdowns hit production and sales. BS-IV inventory liquidation efforts also led to calibrated dispatches in some segments. CV volumes were worst affected, plunging ~90% YoY. PV and 2W dispatches were also marred by plant shutdowns and BS-IV stock liquidation efforts. Tractors fell 31% YoY for MM. The outlook looks bleak for at least next couple of quarters until the outbreak is contained and demand normalises. MSIL and EIM are top picks.

Navin Matta | Nishant Chowhan, CFA  
 research@bobcaps.in

**PVs – hopes of recovery stalled:** Domestic PV sales fell an estimated 50-52% YoY in Mar'20. Maruti Suzuki's (MSIL) domestic PV volumes dropped 47% YoY while exports fell 55%. M&M's (MM) PV sales nosedived 88% YoY; management cited disruption in BS-VI ramp-up owing to discontinuation of supply from China. Tata Motors' (TTMT) PV volumes fell 68% YoY. Among other major PV OEMs, domestic sales for Hyundai/Toyota/Honda slid 41%/45%/79% YoY. Most major PV players have exhausted their BS-IV inventory within the deadline for changeover.

**2Ws – steep decline and uphill climb:** Domestic 2W volumes for Hero Moto (HMCL) fell 43% YoY. HMCL had ~150k units of unsold BS-IV inventory prior to the nationwide lockdown. TVS Motor's (TVSL) domestic 2W sales plummeted 62% YoY while its exports dropped 37% YoY. TVSL has liquidated most of its BS-IV inventory. Royal Enfield (RE) volumes fell sharply by 41% YoY; however, the company says it has cleared all BS-IV inventory. The steep cost rise due to BS-VI transition, especially in lower-priced 2W segments, is likely to act as a demand headwind even once the Covid-19 impact plays out.

**CVs – the worst hit:** MHCV volumes continued to falter with TTMT's domestic CV sales dropping 90% YoY, while exports were down 68%. However, the company mentioned that retail sales remained ahead of wholesale volumes by 3x and almost all BS-IV vehicles in the ecosystem had been retailed. Ashok Leyland's (AL) domestic sales also plunged 91%, while VECV reported an 83% YoY decline.

**Tractors – tepid sales:** Positive momentum in tractor demand on the back of a healthy rabi crop has been disrupted by the lockdown. Sales for MM fell 31% YoY with domestic volumes declining 27% in Mar'20 while Escorts (ESC) reported a 54% drop. Tractor sales for MM/ESC were down 9%/11% in FY20.

### SALES SNAPSHOT

Ticker	Volume	YoY (%)	MoM (%)
AL IN	2.2	(90)	(81)
EIM IN*	37.3	(54)	(37)
HMCL IN	334.6	(42)	(33)
MM IN	21	(75)	(62)
MSIL IN	83.8	(47)	(43)
TVSL IN	144.8	(55)	(43)
TTMT IN	12.9	(83)	(68)

Source: Company | \*RE & VECV combined  
 Volumes in '000



## OIL &amp; GAS

02 April 2020

## Feb'20 natural gas consumption surges

**Low prices lead to surge in consumption:** Natural gas consumption in Feb'20 increased 10% YoY to 160mmscmd as offtake climbed across sectors (except power) – fertiliser (47mmscmd, +9% YoY), CGD (30.4mmscmd, +17% YoY), and other industrials (52.9mmscmd, +13.7% YoY). Power sector consumption was flat YoY at 29mmscmd.

CGD was the biggest swing factor, improving by 4.4mmscmd YoY (largely driven by small industrials in Gujarat). However, the Covid-19-led economic shutdown from Mar'20 could erode gas consumption significantly in Q1FY21 (depending on how long the shutdown stretches beyond April).

**LNG prices across contracts to align with spot:** Given current Brent oil prices of US\$ 25/bbl, long-term LNG contract rates from Qatar and Australia are expected to crash by May'20, aligning closer than they have in a long time to the already-depressed spot LNG rate (<US\$ 3/mmbtu currently). The availability of new R-LNG capacities at Dahej (+2.5mmtpa) and Mundra (+5mmtpa) offers more flexibility to LNG buyers for spot imports. Low prices could lead to better consumption from the power sector in Q2FY21.

**Domestic gas production declines:** Gas production dropped 12% YoY to 81mmscmd during Feb'20, affected by the decline in output from ONGC and private players to 64.5mmscmd (-5.4mmscmd YoY) and 9.3mmscmd (-5mmscmd YoY) respectively. This trend would worsen in Q1FY21 as demand disruption due to the economic shutdown deepens.

**FIG 1 – GAS CONSUMPTION BREAKDOWN**

(mmscmd)	Feb'20	Feb'19	YoY (%)	Jan'20	MoM (%)
Fertiliser	47.3	43.4	8.9	47.0	0.6
Power	29.0	29.0	(0.0)	26.1	11.1
CGD	30.4	26.0	16.9	30.2	0.8
Other Industrials:	52.9	46.6	13.7	49.5	7.0
Refineries	24.2	18.8	29.1	20.9	15.6
Petrochemicals	10.0	9.5	5.6	9.5	5.4
Miscellaneous	18.7	18.3	2.0	19.0	(1.8)
<b>Total</b>	<b>159.7</b>	<b>145.0</b>	<b>10.1</b>	<b>152.8</b>	<b>4.5</b>

Source: PPAC, BOBCAPS Research

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

## KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
GAIL IN	76	140	BUY
PLNG IN	200	330	BUY
IGL IN	393	433	BUY
MAHGL IN	815	750	ADD
GUJS IN	181	275	BUY
GUJGA IN	228	265	BUY

Price & Target in Rupees

## GAS CONSUMPTION

(mmscmd)	Feb'20	Feb'19	YoY (%)
<b>Fertiliser</b>			
Domestic	16.5	16.9	(2.0)
R-LNG	30.8	26.6	15.9
<b>Total</b>	<b>47.3</b>	<b>43.4</b>	<b>8.9</b>
<b>Power</b>			
Domestic	19.6	24.8	(20.8)
R-LNG	9.4	4.2	122.0
<b>Total</b>	<b>29.0</b>	<b>29.0</b>	<b>(0.0)</b>
<b>CGD</b>			
Domestic	16.9	15.5	8.8
R-LNG	13.6	10.5	29.0
<b>Total</b>	<b>30.4</b>	<b>26.0</b>	<b>16.9</b>
<b>Other Industrials</b>			
Domestic	11.5	14.4	(20.2)
R-LNG	41.4	32.1	28.8
<b>Total</b>	<b>52.9</b>	<b>46.6</b>	<b>13.7</b>
<b>Total Consumption</b>	<b>159.7</b>	<b>145.0</b>	<b>10.1</b>
<b>Total R-LNG</b>	<b>95.2</b>	<b>73.5</b>	<b>29.5</b>
<b>Total Domestic</b>	<b>64.5</b>	<b>71.6</b>	<b>(9.9)</b>

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)

### Rating distribution

As of 31 March 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 20 have ADD ratings, 7 are rated REDUCE, 9 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

#### **Other disclosures**

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.