

## COVID-19 PANDEMIC

23 March 2020

### Market bottom elusive – stick to select cash-rich stocks

Central banks globally are bracing for a worldwide economic shutdown which heightens the risk of a protracted downside in global markets. The Covid-19 pandemic continues to worsen, ratcheting up uncertainty over corporate earnings across the globe, and in India. On the other hand, crashing oil prices and the duty hike on fuel could hand the Indian government a potential US\$ 15bn tax windfall. Cash-rich companies in sectors such as downstream oil & consumption (auto, paints), chemicals and utilities remain preferred bets (see our [Market Strategy](#) note).

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

**Global central banks brace for recession:** Covid-19 has forced several global economies to a grinding halt, with initial supply concerns being overtaken by demand destruction. Central banks the world over have moved aggressively to buttress economies against the rapidly unraveling worldwide recession. The US Fed has slashed interest rates to near zero, pledged >US\$ 700bn in asset purchase and backstopped foreign authorities with the offer of cheap dollar financing. ECB followed with a US\$ 850bn stimulus plan to spur systemic liquidity. As the pandemic worsens, we can expect to see additional stimulus measures.

**Market bottom elusive:** The Nifty at 14x trailing EPS and 1.8x book value is well below fundamental lows of 15x and 2x respectively (going by the last few bear phases). Even so, the unprecedented global uncertainty over corporate earnings associated with the Covid-19 pandemic makes it difficult for us to identify a bottom. The only silver lining for India is the collapse in oil prices over the past two months to US\$ 25/bbl levels, given that the country currently imports 80% of its oil requirements.

**Potential windfall from oil collapse:** [Media reports](#) indicate the Indian government has raised excise duties on petrol and diesel by Rs 18/ltr and Rs 12/ltr respectively (in addition to Rs 3/ltr hikes a few days ago). Duty hikes coupled with savings on petroleum subsidies will provide a windfall of ~Rs 2.5tn for the exchequer in FY21. At the macro level, this would ease some pressure on India's fiscal health and help RBI take deeper rate cuts.

We cut oil price estimates across our energy universe from ~US\$ 65/US\$ 70 to US\$ 35/US\$ 40 per barrel for FY21/FY22 on demand concerns. We also raise USDINR forecasts to Rs 75/Rs 77, baking in risk-off sentiments in the wake of the global slowdown. Our earnings estimates stand reduced for upstream PSUs, RIL and GAIL, while we raise earnings for downstream oil and some gas utilities.

### BOBCAPS MODEL PORTFOLIO

Sector	Overweight	Underweight
Autos	Eicher Motors	Mahindra & Mahindra
	Maruti Suzuki	Tata Motors
Financials	Bajaj Finance	Yes Bank
	ICICI Bank	IndusInd Bank
	Kotak Mahindra Bank	
	HDFC Bank	
Oil & Gas	GAIL (India)	Bharat Petroleum
	Indian Oil	NTPC
	ONGC	Power Grid
	Petronet LNG	
Pharma	Cipla	Sun Pharma
	Laurus Labs	Dr. Reddy's
	Alembic Pharma	
IT	HCL Tech	Tech Mahindra
	L&T Infotech	Wipro
Infrastructure	PNC Infrastructure	Larsen & Toubro
	KNR Constructions	

Source: BOBCAPS Research



**FIG 1 – GLOBAL INTEREST RATE CUTS**

Country	Rate	Central Bank Rate (Today) (%)	CPI YoY (%)	Real Central Bank Rate (%)	Last Move	Last Move Date
US	Fed funds	0.13	2.30	(2.2)	↓	Mar-20
UK	Bank rate	0.25	1.80	(1.6)	↓	Mar-20
New Zealand	Cash rate	0.25	1.90	(1.7)	↓	Mar-20
Australia	Cash rate	0.50	1.80	(1.3)	↓	Mar-20
Canada	Overnight	0.75	2.40	(1.7)	↓	Mar-20
Thailand	Policy rate	1.00	0.70	0.3	↓	Feb-20
Norway	Deposit Rate	1.00	0.90	0.1	↓	Mar-20
Taiwan	Discount rate	1.50	(0.20)	1.7	↓	Mar-16
Hong Kong	Base rate	1.50	1.40	0.1	↓	Mar-20
Czech Republic	Repo rate	2.25	3.70	(1.5)	↑	Feb-20
Malaysia	Policy rate	2.50	1.60	0.9	↓	Mar-20
Philippines	Key policy rate	3.75	2.60	1.2	↓	Feb-20
China	Loan prime rate	4.05	5.20	(1.2)	↓	Feb-20
Brazil	Target Rate	4.25	4.00	0.2	↓	Feb-20
Indonesia	Repo rate	4.75	3.00	1.8	↓	Feb-20
India	Repo rate	5.15	6.60	(1.4)	↓	Oct-19
Russia	Key policy rate	6.00	2.30	3.7	↓	Feb-20
South Africa	Repo rate	6.25	4.50	1.8	↓	Jan-20
Mexico	Overnight rate	7.00	3.70	3.3	↓	Feb-20
Turkey	Repo rate	10.75	12.40	(1.6)	↓	Feb-20

Source: Company, BOBCAPS Research

**FIG 2 – STIMULUS ANNOUNCED BY CENTRAL BANKS**

Country	Stimulus announced (US\$ bn)	2019 GDP (US\$ bn)	% of GDP
Thailand	3.2	520	0.6
Hong Kong	15.4	365	4.2
China	142	14,200	1.0
Singapore	60	382	15.7
South Korea	13.7	1,690	0.8
Malaysia	4.7	370	1.3
Taiwan	3.33	605	0.6
Indonesia	2,275	1,126	0.2
Australia	11.4	1,450	0.8
Japan	4.05	5,110	0.1
Italy	28	2,030	1.4
Germany	11	4,040	0.3
UK	266	2,910	9.1
European Commission	820	NA	NA
United States	1,000	21,200	4.7
Canada	82	1,740	4.7

Source: Industry, BOBCAPS Research

**FIG 3 – COUNTRIES UNDER LOCKDOWN**

Country	Lockdown particulars
China	Phased lockdown began on 23 Jan. Soon after imposing restrictions on Wuhan, China locked down 15 other cities. At its peak, China’s quarantine spanned at least 20 provinces
Italy	Nationwide lockdown from 10 Mar
France	Nationwide lockdown from 16 Mar
Spain	Nationwide quarantine from 21 Mar. All residents to stay home for at least 15 days
Canada	Borders closed to anyone who isn’t a citizen, a permanent resident, or a US citizen
United Kingdom	No entry restrictions but is advising against all but essential travel to some countries, cities and regions. Travel ban by the US on foreign nationals extended to the UK on 14 Mar.
India	Lockdown in certain states from 22 Mar, now extended to 16 states where Covid-19 cases have been reported.
Australia	Mandatory 14-day quarantine for incoming travellers. Foreign cruise ships banned from docking for 30 days. Schools remained open as of 22 Mar
Russia	Borders with China closed on 30Jan and with Poland and Norway on 21 Mar. Foreign nationals banned from entering the country from 18 Mar to 1 May
Belgium	Nationwide lockdown from 18 Mar through 5 Apr at least
Denmark	Closed its borders from 14 Mar until 13 Apr
Bolivia	Nationwide lockdown began 22 Mar
Jordan	Nationwide lockdown began 22 Mar
Ireland	Announced plans for country-wide lockdown last week
Colombia	Announcement to be made on 24 Mar
El Salvador	Nationwide lockdown; Salvadorans returning home from abroad must undergo 30-day quarantine
New Zealand	Anyone entering the country must isolate themselves for 14 days; no cruise ships to dock in the country until 30 Jun
Czech Republic	Most shops and restaurants closed for 10 days; foreign travel banned starting 23 Mar
Germany	Imposed border controls with France, Switzerland, Austria, Denmark, and Luxembourg from 23 Mar
Ukraine	Closed borders to foreign citizens for two weeks starting 20 Mar

Source: Industry, BOBCAPS Research

**FIG 4 – OIL PRICE CRASH AND COVID-19 IMPACT ON SECTORS**

Sector	Outlook	Decline in crude oil prices	Covid-19 impact
Auto	<b>Impact on industry</b>	Sentimentally positive for auto sector if lower crude results in reduction in fuel prices	Negative – as supply chain distortions can impact production in the near term, and demand-related issues will persist until customer walk-ins resume
	<b>Change in outlook</b>	No material change	Assuming Covid-19 impact plays out through Q1FY21, expect earnings cuts in FY21; FY22 outlook unchanged
Banks	<b>Impact on industry</b>	Inflation will likely moderate, creating room for RBI to cut rates further. Consequently, yields will soften, helping banks to book treasury gains  NIMs could expand initially as banks usually delay rate transmission. Steeper cuts in deposit rates may sustain margins	Consumption will take a knock, hurting retail loan growth. Overall credit growth, which is currently at a multi-decade low of 6%, will be eroded further  Lower consumption may lead to spike in delinquencies of small-ticket loans
	<b>Change in outlook</b>	None	None
Building materials	<b>Impact on industry</b>	Given tough market conditions, most oil-linked cost benefits for building material companies will be passed on to consumers/dealers to stimulate the tepid demand	Long-term Covid-19 disruptions in India/globally will dent earnings as demand will deteriorate in FY21  Earnings impact may be negligible if companies decide not to pass on entire benefit of lower RM cost to consumers
	<b>Change in outlook</b>	None	None
Logistics	<b>Impact on industry</b>	Largely neutral as fuel prices are generally passed through to customers and vendors/truckers  Companies with large corporate customer base will have to pass on benefits fully, whereas those with large SME clientele may benefit slightly	Negative. Companies with high reliance on global trade (container rail, MTO, CFS) likely to witness demand contraction due to global container trade disruption  Domestic-oriented companies (3PL, express) less vulnerable at this juncture but could be impacted if the domestic supply chain is disrupted further
	<b>Change in outlook</b>	None	None, remain negative on near-term demand prospects
IT	<b>Impact on industry</b>	Oil price crash in isolation to have insignificant impact on IT services sector	Demand risk for IT services has accelerated. Global economic impact across verticals (beyond travel and transport) poses risk of low volumes, delayed decision-making and lower discretionary spending  Supply-side disruption appears limited for now but could rise on worsening of virus outbreak
	<b>Change in outlook</b>	NA	Likely growth moderation
NBFCs	<b>Impact on industry</b>	Neutral effect on housing and vehicle finance as demand still tepid (HDFC, PNBHF, LICHF, MMFS, CIFC, SHTF)  Neutral effect on diversified financiers such as BAF and LTFH	Neutral effect on housing finance  Negative impact on loan growth and earnings for BAF and vehicle financiers
	<b>Change in outlook</b>	None	None

Sector	Outlook	Decline in crude oil prices	Covid-19 impact
Pharma	<b>Impact on industry</b>	Largely neutral	Large pharma companies import 30-40% of RM needs from China. Shipments are in with two weeks' delay and current inventory is sufficient for 4-6 weeks, with another 4-8 weeks of finished goods inventory in trade channels  Most of our coverage companies should see limited impact from Covid-19
	<b>Change in outlook</b>	None	Too early for a change in outlook
Oil & Gas	<b>Impact on industry</b>	Negative for upstream, positive for downstream	Sustained economic slowdown could impact outlook for cyclicals. Cash-rich upstream companies may have to start leveraging to fund capex. Gas utilities could see slowdown in volume growth
	<b>Change in outlook</b>	Earnings cut for upstream PSUs, RIL and GAIL. We raise earnings for OMCs and gas utilities	Earnings cut for cyclicals

Source: Company, BOBCAPS Research

**FIG 5 – OIL PRICE CRASH AND COVID-19 IMPACT ON COMPANIES**

Company	Decline in crude oil prices		Covid-19 impact	
	Earnings impact	Balance sheet impact	Earnings impact	Balance sheet impact
<b>Auto</b>				
<b>Ashok Leyland</b>	Marginally positive if fuel prices drop as this can lower fleet owners' opex cost	No impact	Negative as supply chain disruption can impact production	No impact
<b>Bajaj Auto</b>	Few key oil-dependent economies could witness contraction in demand which will hurt exports	No impact	Negative as supply chain disruption can impact production. Besides domestic volumes, exports too may be hit depending on spread of the virus	No impact
<b>Eicher Motors</b>	No impact	No impact	Negative as supply chain disruption can impact production	No impact
<b>Hero Motors</b>	No impact	No impact	Negative as supply chain disruption to impact production and weak demand in March could result in fire sale of BS-IV stock	No impact
<b>Mahindra &amp; Mahindra</b>	Sentimentally positive for UVs if fuel prices drop substantially	No impact	Negative as supply chain disruption to impact production	No impact
<b>Maruti Suzuki</b>	Mild positive if fall in crude price leads to meaningful reduction in fuel prices, thus triggering PV sales	No impact	Negative as supply chain disruption to impact production	No impact
<b>Tata Motors</b>	Marginally positive for India PV and CV business if fuel prices drop significantly	No impact	Strong negative. Major sales are to China and Europe which can witness slowdown. In addition, production facilities overseas can witness shutdowns	Persistent weak volumes can elevate debt levels
<b>TVS Motor</b>	Marginally negative, as key export markets can witness slowdown	No impact	Negative as supply chain disruption to impact production	No impact

Company	Decline in crude oil prices		Covid-19 impact	
	Earnings impact	Balance sheet impact	Earnings impact	Balance sheet impact
<b>Banks</b>				
<b>Banks</b>	Banks with strong liability franchise, viz. KMB, ICICIBC, AXSB and HDFCB, will navigate the NIM impact relatively better. Treasury gains will be higher for PSBs, especially SBIN	No impact	Higher incremental market share gains for private banks (ICICIBC, HFDCB, AXSB). NPAs for PSBs may worsen due to economic slowdown. SFBs/ banks with higher exposure to microfinance, viz. Ujjivan (not rated), RBL (not rated) and IIB may see higher NPAs	No impact
<b>Building materials</b>				
<b>Building Materials</b>	No impact	No impact	No impact	Long-lasting epidemic would stretch debtor days for most companies (except VMART) to support dealers/distributors – this may be offset by lower cost of inventory holding (muted RM prices aiding lower inventory days) and higher credit period from suppliers
<b>IT Services</b>				
<b>IT companies</b>	Prolonged period of subdued oil prices may pose growth risk for select companies under coverage, viz. WPRO/ LTI with 12.9%/11.3% exposure to energy (utilities & process) industry as at end-Dec'19		Likely adverse impact on revenue and operating margins	
<b>Logistics</b>				
<b>Allcargo Logistics</b>	No impact	No impact	Negative as both multimodal transport operators and container freight stations depend on global container trade which is facing severe disruptions	No impact
<b>Container Corp</b>	Marginally negative, as road transport tends to gain market share when diesel prices trend sharply lower	No impact	Negative as EXIM container trade accounts for ~85% of volumes	No impact
<b>Future Supply Chain</b>	No impact	No impact	No impact yet as per company; difficult to predict future disruption as depends on spread of outbreak in India and supply chain disruption for Indian companies, which is yet to fully manifest	No impact yet; can be negative if virus spreads as corporate customers may delay payments amid further demand slowdown
<b>Mahindra Logistics</b>	No impact	No impact	Negative as disruption in auto supply chains will impact revenues. As per some OEMs, production can be hit by as much as 10%	No impact yet; can be negative if virus spreads as corporate customers may delay payments amid further demand slowdown
<b>TCI Express</b>	Mildly positive, as it does not pass on the full benefit to SME customers (~50% of revenue)	No impact	Mildly negative as production cut by auto and pharma companies to affect revenue. So far, business continues largely unscathed	No impact

Company	Decline in crude oil prices		Covid-19 impact	
	Earnings impact	Balance sheet impact	Earnings impact	Balance sheet impact
<b>Transport Corp</b>	No impact for road segment; mildly positive for shipping	No impact	Negative due to auto dependence in 3PL segment which forms ~30%+ of total revenue and derives ~80% of revenue from auto industry	No impact yet; can be negative if virus spreads further as corporate customers may delay payments amidst further demand slowdown
<b>VRL Logistics</b>	Positive as VRLL does not need to pass on full benefit to SME clients (~80% of revenue); also benefits from owned vehicle mix	No impact	Mildly negative if domestic supply chains are affected due to possible production cuts	No impact
<b>Pharma</b>				
<b>Alembic Pharma</b>	No impact	No impact	No material impact. ALPM has been absorbing RM price increases but will pass these along in case of escalation	No impact likely
<b>Alkem Labs</b>	No impact	No impact	Could see marginal impact on earnings in the near term due to lower volumes and also higher API prices	No impact likely
<b>Aurobindo Pharma</b>	No impact	No impact	No material impact	No impact likely
<b>Cipla</b>	No impact	No impact	No impact yet as per the company	No impact
<b>Divi's Labs</b>	No impact	No impact	Would pass on RM price increase	No impact
<b>Dr. Reddy's</b>	No impact	No impact	No material impact. DRRD has been absorbing RM price increases but will pass these along in case of escalation	No impact
<b>Laurus Labs</b>	No impact	No impact	No material impact. Laurus has been absorbing RM price increases but will pass these along in case of escalation	No impact likely
<b>Lupin</b>	No impact	No impact	No material impact. LPC has been absorbing RM price increases but will pass these along in case of escalation	No impact
<b>Sun Pharma</b>	No impact	No impact	Potential marginal near-term impact on EBITDA due to lower volumes and higher API prices (shortage-driven). If cost pressure continues, SUNP has leeway for pass-along to end customer	No impact
<b>Retail</b>				
<b>Mayur Uniquoters</b>	No impact	No impact	~25% of total sales exported to general markets/OEMs in developed markets such as US/Europe. Prolonged Covid-19 impact would hurt sales & margins in FY21, though rupee depreciation may offer respite	
<b>V-Mart</b>	Crude and currency movement have no major impact		Q3 accounts for 45-50% of EBITDA in normal years. Sustained Covid-19 restrictions in states like Uttar Pradesh, Uttarakhand, Bihar and Jharkhand where the company has significant presence will have material impact on sales, SSSg and earnings for FY21	

Source: Company, BOBCAPS Research

**FIG 6 – OIL PRICE CRASH AND COVID-19 IMPACT ON OIL AND GAS SECTOR**

Company	Decline in crude oil prices		Covid-19 impact	
	Impact on earnings	Balance sheet impact	Impact on earnings	Balance sheet impact
<b>Reliance Industries (RIL)</b>	<b>Negative</b> E&P business earnings to be hit on low oil and gas prices	<b>Negative</b> Deleveraging plans could be delayed as Saudi Aramco may rethink planned investments in cyclical business	<b>Negative</b> India economic slowdown could impact retail business earnings growth. Demand destruction negative for cyclicals. We cut consolidated FY20-FY22 earnings 10-18%	<b>Neutral</b> –
<b>Indian Oil (IOCL)</b>	<b>Positive</b> Marketing business earnings could expand. We raise FY21/FY22 earnings 13%/7.6%	<b>Positive</b> Leverage could decline on reduction in working capital requirements	<b>Negative</b> Demand destruction negative for cyclicals but USDINR appreciation a positive	<b>Neutral</b> –
<b>Bharat Petroleum (BPCL)</b>	<b>Positive</b> Marketing business earnings could expand. E&P business to be hit by low oil and gas prices. We raise FY21/FY22 earnings 16%/13%	<b>Positive</b> Leverage could decline on reduction in working capital requirements	<b>Negative</b> Demand destruction negative for cyclicals but USDINR appreciation a positive	<b>Neutral</b> –
<b>Hindustan Petroleum (HPCL)</b>	<b>Positive</b> Marketing business earnings could expand. We raise FY21/FY22 earnings 22%/17%	<b>Positive</b> Leverage could decline on reduction in working capital requirements	<b>Negative</b> Demand destruction negative for cyclicals but USDINR appreciation a positive	<b>Neutral</b> –
<b>ONGC</b>	<b>Negative</b> Low oil prices (consequently gas prices) directly impact earnings. We reduce oil price estimates to US\$ 35/US\$ 40 for FY21/FY22 and slash earnings by 88%/64%	<b>Negative</b> May have to borrow to fund capex as cash flows get eroded	<b>Negative</b> Oil and gas prices may stay low for longer given global economic freeze. If oil prices sustain below US\$ 30/bbl, ONGC would report losses	<b>Negative</b> Leverage would increase on low oil prices
<b>Oil India (OINL)</b>	<b>Negative</b> Low oil prices (consequently gas prices) directly impact earnings. We reduce oil price estimates to US\$ 35/US\$ 40 for FY21/FY22 and slash earnings by 82%/64%	<b>Negative</b> May have to borrow to fund capex as cash flows get eroded	<b>Negative</b> Oil and gas prices may stay low for longer given global economic freeze. If oil prices sustain below US\$ 30/bbl, OINL would report losses	<b>Negative</b> Leverage would increase on low oil prices



Company	Decline in crude oil prices		Covid-19 impact	
	Impact on earnings	Balance sheet impact	Impact on earnings	Balance sheet impact
<b>GAIL</b>	<b>Negative</b> LPG and petchem earnings to suffer due to crash in prices (along with oil). Extent of impact on cyclicals limited as gas prices fall together with oil prices. We cut FY21/FY22 earnings by 2.3%/2.8%	Neutral –	<b>Negative</b> Oil and gas prices may stay low for longer given global economic freeze, denting cyclical business earnings. Gas demand may take a hit, hurting core earnings	Neutral –
<b>Petronet LNG (PLNG)</b>	<b>Positive</b> Low LNG prices may raise demand from power sector. We change earnings marginally	Neutral –	Neutral Long-term contracts provide strong hedge against potential demand destruction	Neutral –
<b>Indraprastha Gas (IGL)</b>	<b>Positive</b> Improvement in margins from crash in gas prices	Neutral –	<b>Negative</b> Volume growth could be hit by economic slowdown	Neutral –
<b>Mahanagar Gas (MAHGL)</b>	<b>Positive</b> Improvement in margins on crash in gas prices	Neutral –	<b>Negative</b> Volume growth could be hit by economic slowdown. We cut FY21/FY22 earnings by ~5% on low margins as volume uptick looks difficult	Neutral –
<b>Gujarat State Petronet (GUJS)</b>	<b>Positive</b> Volume growth may surge on demand from power sector post decline in LNG prices	Neutral –	Neutral Economic slowdown could neutralise improved demand from low gas prices	Neutral –
<b>Gujarat Gas (GUJGA)</b>	<b>Positive</b> Volume growth may surge on improved demand post decline in LNG prices	Neutral –	<b>Positive</b> Volumes could improve (with a lag, from FY22) on higher demand from ceramic units that gain market share from Chinese competitors. We raise FY22 earnings by 4% but cut FY21 by 10% on near-term economic slowdown	Neutral –

Source: Company, BOBCAPS Research

**FIG 7 – BOBCAPS OIL & GAS UNIVERSE: VALUATION SUMMARY**

Company	CMP (Rs)	Old Rating	New Rating	Old TP (Rs)	New TP (Rs)	Upside (%)	EPS CAGR (%) (FY20-FY22E)	PE (x)			Dividend yields (%)		
								FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
RIL	891	BUY	BUY	1,860	1,500	68.4	32.3	13.4	10.6	7.6	0.7	0.7	0.7
IOCL	81	BUY	BUY	200	200	146.9	25.1	5.3	3.5	3.4	12.3	18.7	19.3
BPCL	273	REDUCE	BUY	460	470	72.2	12.4	5.9	4.8	4.7	6.5	8.2	8.4
HPCL	184	BUY	BUY	325	340	84.8	24.0	4.7	3.6	3.1	8.7	10.9	13.0
ONGC	61	BUY	BUY	170	110	80.3	(34.6)	2.6	21.4	6.1	12.7	3.8	7.3
OINL	73	BUY	BUY	225	130	78.1	(28.3)	2.7	11.4	5.2	16.0	3.7	8.2
GAIL	79	BUY	BUY	160	140	77.2	3.8	6.4	5.9	5.9	7.8	8.5	8.4
PLNG	190	BUY	BUY	400	330	73.7	8.1	8.7	7.9	7.5	5.7	6.3	5.4
IGL	305	BUY	BUY	620	433	42.0	19.3	19.2	16.2	13.5	0.5	0.5	0.5
MAHGL	701	SELL	ADD	950	750	7.0	(0.4)	8.6	8.9	8.6	5.8	5.6	5.8
GUJS	158	BUY	BUY	375	275	74.1	7.0	8.6	8.8	7.5	2.3	2.3	2.7
GUJGA	204	BUY	BUY	360	265	29.9	0.2	11.2	14.1	11.1	2.7	2.1	2.7

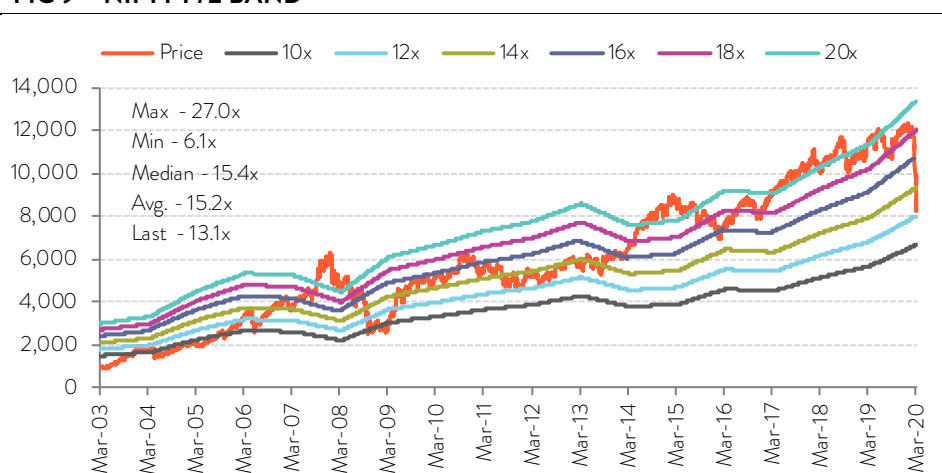
Source: Company, BOBCAPS Research

**FIG 8 – BOBCAPS OIL & GAS UNIVERSE**

Company	Old EPS (Rs)			New EPS (Rs)			% change in EPS		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
RIL	73.6	102.3	135.0	66.6	84.1	116.6	(9.6)	(17.7)	(13.7)
IOCL	15.8	20.6	22.3	15.4	23.3	24.0	(2.5)	13.1	7.6
BPCL	49.2	48.7	51.7	46.2	56.6	58.4	(6.0)	16.3	12.9
HPCL	43.6	41.9	50.9	38.8	51.1	59.6	(11.1)	21.9	17.2
ONGC	21.9	24.1	28.2	23.4	2.8	10.0	7.1	(88.2)	(64.5)
OINL	32.5	37.4	39.9	27.5	6.4	14.2	(15.4)	(82.8)	(64.5)
GAIL	12.5	13.8	13.7	12.4	13.4	13.3	(0.9)	(2.3)	(2.8)
PLNG	21.7	23.8	25.3	21.8	24.0	25.5	0.2	1.1	0.6
IGL	16.3	19.0	23.2	15.9	18.9	22.6	(2.3)	(0.6)	(2.3)
MAHGL	79.3	82.5	85.5	81.8	78.5	81.1	3.2	(4.8)	(5.1)
GUJS	18.4	18.0	21.1	18.4	18.0	21.1	0.0	0.0	0.0
GUJGA	16.7	16.1	17.6	18.2	14.5	18.3	9.2	(10.0)	4.2

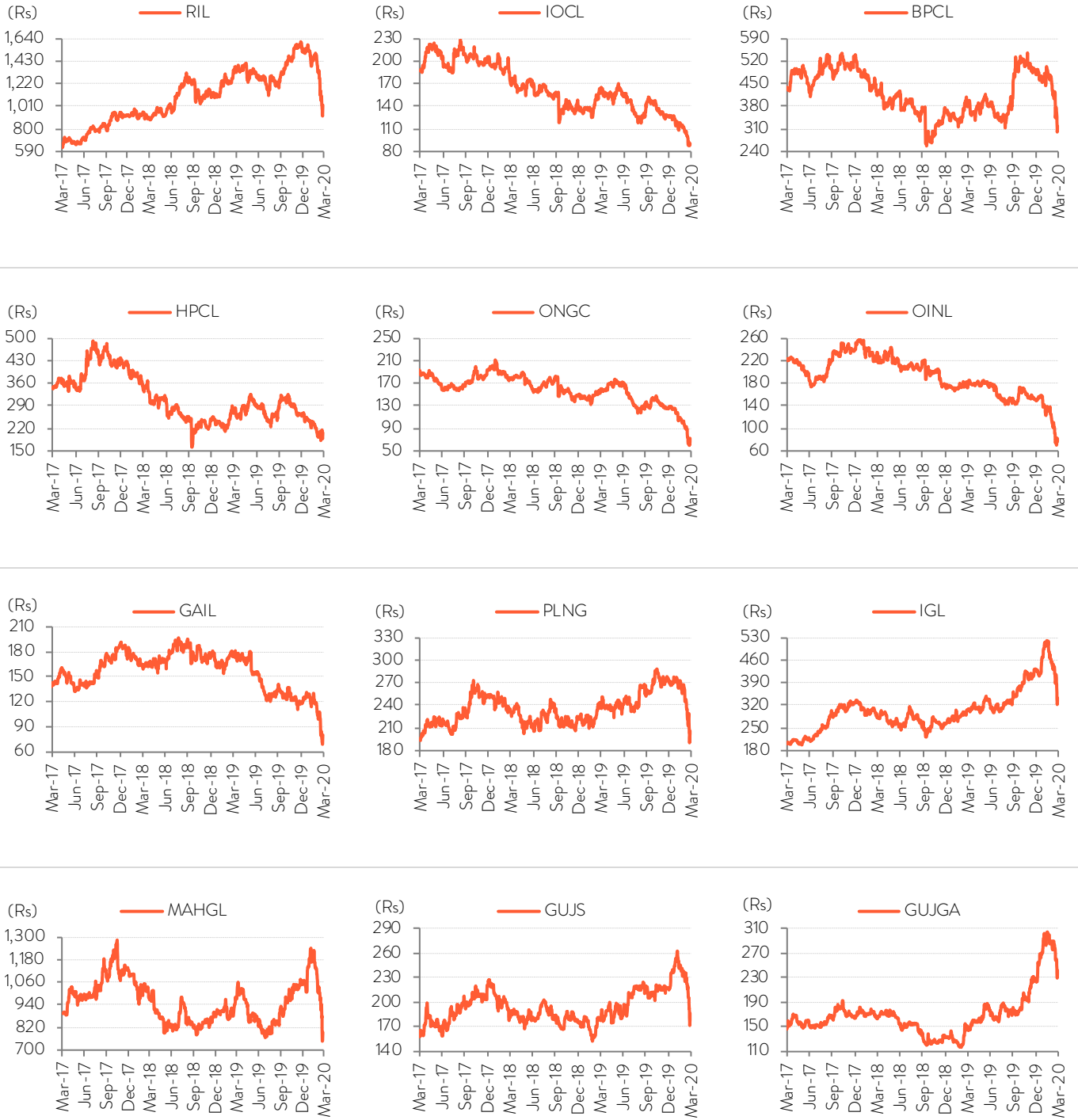
Source: Company, BOBCAPS Research

**FIG 9 – NIFTY P/E BAND**



Source: Bloomberg, BOBCAPS Research

**FIG 10 – BOBCAPS OIL & GAS UNIVERSE: STOCK PERFORMANCE**



Source: NSE

## BOBCAPS model portfolio

- We reiterate our **model portfolio** first launched on 11 March 2020 wherein we have assigned a higher preference for low-levered companies that offer value either through undemanding valuations or high profitability that could potentially expand multiples.
- The portfolio is benchmarked to the Nifty 50 and its constituents determined based on stocks identified by our BOBCAPS Research team.

### Top picks

- In our view, select cash-rich PSUs offer deep value and provide multiple levers for returns, the most critical being (1) high dividend yields (>7%) and (2) the normalisation of P/Es as investor concerns recede (20-50% potential returns).
- Among private companies, our key picks among **large-caps** are Reliance Industries, Bajaj Finance, ICICI Bank, Eicher Motors, Maruti Suzuki, HCL Tech and Cipla (heavy overweight ideas vs. Nifty 50).
- Key **mid-cap** picks in our model portfolio are Petronet LNG, Laurus Labs, L&T Infotech, PNC Infrastructure and KNR Constructions.

FIG 11 – KEY SECTORAL PICKS | ■ : SECTOR/STOCK OVERWEIGHT; ■ SECTOR/STOCK UNDERWEIGHT

Autos	Financials	Oil & Gas	Pharma	IT	Infrastructure
<ul style="list-style-type: none"> <li>▪ Eicher Motors</li> <li>▪ Maruti Suzuki</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bajaj Finance</li> <li>▪ ICICI Bank</li> <li>▪ Kotak Mahindra Bank</li> <li>▪ HDFC Bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ GAIL (India)</li> <li>▪ Indian Oil</li> <li>▪ ONGC</li> <li>▪ Petronet LNG</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cipla</li> <li>▪ Laurus Labs</li> <li>▪ Alembic Pharma</li> </ul>	<ul style="list-style-type: none"> <li>▪ HCL Tech</li> <li>▪ L&amp;T Infotech</li> </ul>	<ul style="list-style-type: none"> <li>▪ PNC Infrastructure</li> <li>▪ KNR Constructions</li> </ul>
<ul style="list-style-type: none"> <li>▪ Mahindra &amp; Mahindra</li> <li>▪ Tata Motors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Yes Bank</li> <li>▪ IndusInd Bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bharat Petroleum</li> <li>▪ NTPC</li> <li>▪ Power Grid</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sun Pharma</li> <li>▪ Dr. Reddy's</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tech Mahindra</li> <li>▪ Wipro</li> </ul>	<ul style="list-style-type: none"> <li>▪ Larsen &amp; Toubro</li> </ul>

Source: 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 29 February 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 17 are rated ADD, 9 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research 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.

### 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.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do 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.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of 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.