

Autos, Logistics, Aviation & Lubricants

2QFY20E Results Preview

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Auto sector: Earnings downgrade cycle is bottoming

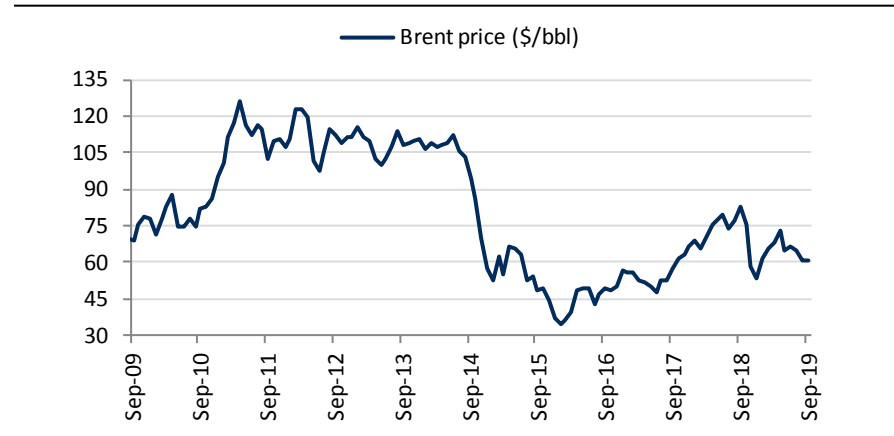
- Income tax cuts comes as a relief to auto OEMs ahead of the festive season. Amidst a weak demand environment, cos have either taken price cuts (eg: Royal Enfield) or have increased discounts (eg: Maruti Suzuki). The lowering of tax rates will partially offset revenue/margin pressures, particularly with the impending BSVI transition. Further, as benefits of the tax cuts reflect in higher spending/investments, demand for automobiles will benefit in the medium term.
- In our view, earnings downgrade cycle for the auto sector is bottoming. Fiscal stimulus announced by the government along with good monsoons, a benign base and range bound commodity prices will be supportive of earnings from here on.
- We have revised our earlier cautious stance on the sector. We believe that sector valuations will benefit from:
 - Government measures including the fiscal stimulus, extended timeline for introduction of electric vehicles and other related announcements
 - An expected bottoming out of earnings cycle
 - The auto sector volumes should revive over the year with the introduction of the stimulus measures.
- We have recently upgraded Eicher Motors to NEUTRAL as we believe the reduced tax outgo will offset the revenue/margin pressure from the reduction of 'Classic' and the 'Bullet' prices.

- We expect to see uptick in volumes due to higher discounts provided by the OEMs after the corporate tax cuts, good monsoons and the ongoing festive season.
- Retails have picked up in Sep-19, particularly for passenger cars and two wheelers. Sales for OEMs are up MoM (Maruti 15%, Hero 13%, Bajaj 3%, RE 13%). However, Ashok Leyland sales remain weak and are down 5% MoM.
- Our top picks are Bajaj Auto, Container Corporation of India (CONCOR) and Hero Motocorp.
- 2W stocks will benefit on the back of tax cut measures, festive season which will be aided by good monsoons and recent introduction of discounts by 2W OEMs. Bajaj is trading at reasonable valuation of 16/14x FY21EPS.
- We have been positive on CONCOR since our initiation in Jul-19. The co is well positioned to benefit from the commissioning of the DFC. The medium term growth opportunity post DFC will drive up valuations.

Company	Reco	Company	Reco
Ashok Leyland	NEU	RK Forgings	NEU
Bajaj Auto	BUY	Subros	BUY
Eicher	NEU	CONCOR	BUY
Hero Motocorp	BUY		
Maruti Suzuki	NEU		

Good rainfall and low crude price to aid demand

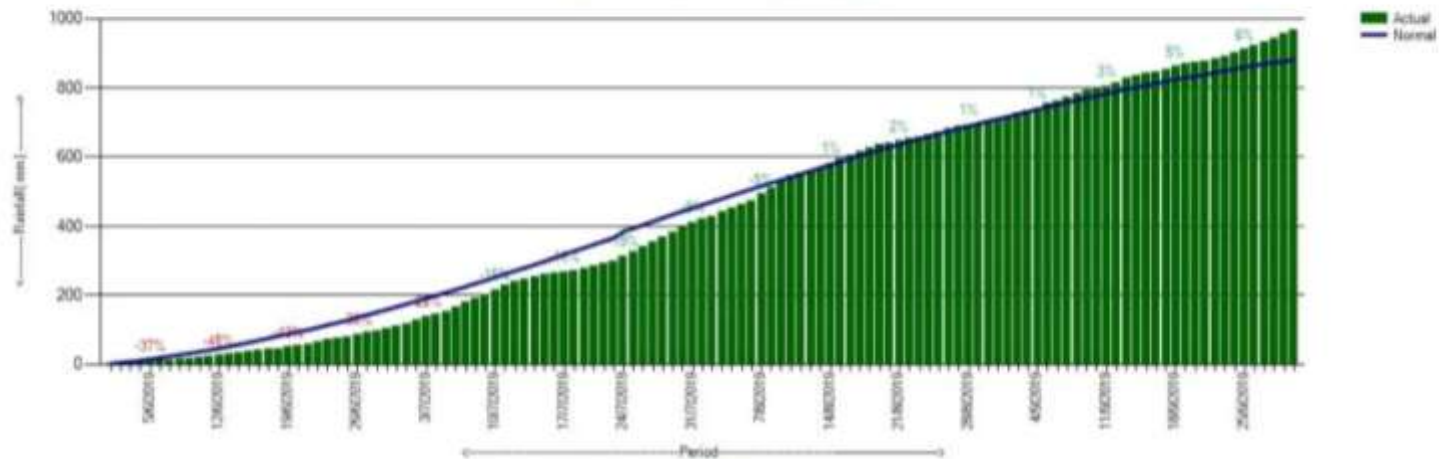
- The auto industry will benefit from healthy rainfall activity, which is at 110% of its long period average this season. The rainfall was well distributed with 31 out of 36 meteorological subdivisions receiving normal/excess rainfall. Thus, higher rural incomes will aid demand over 2HFY20.
- Further, crude prices remain benign. Lower fuel prices and easing of commodity inputs will also support demand/margins.
- These factors will partially offset the adverse impact from slowing economic growth/restricted availability of finance.



Source: Bloomberg, HDFC Sec Inst Research

DISTRIBUTION OF CUMULATIVE RAINFALL - GRAPH
COUNTRY INDIA

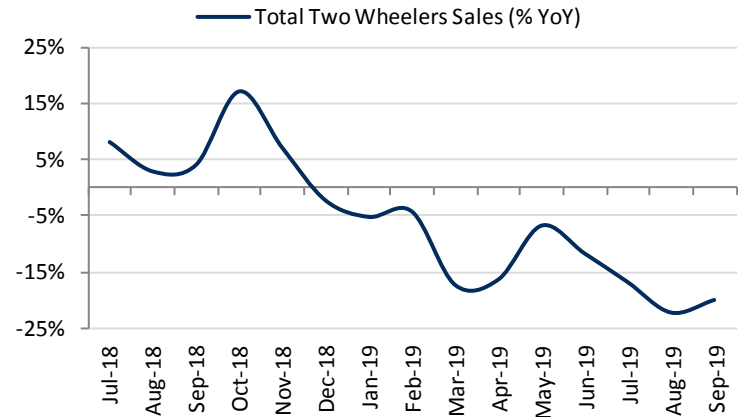
Actual & Normal for the Period: 01-06-2019 To 30-09-2019



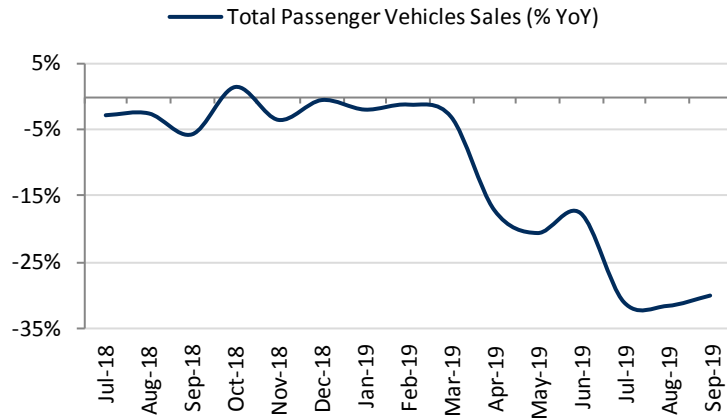
Source: IMD, MoES, HDFC Sec Inst Research

A benign base effect in 2HFY20

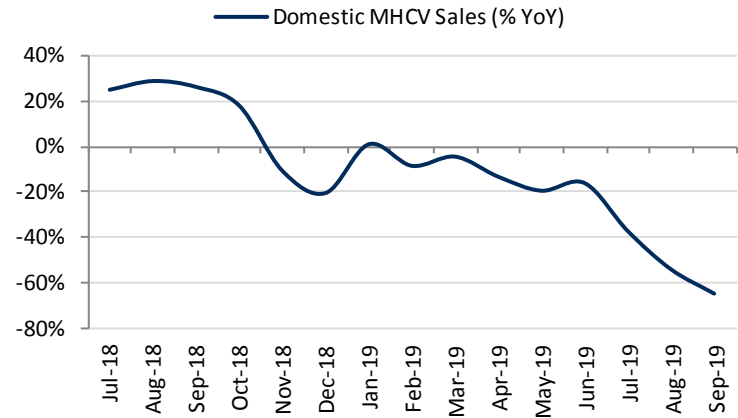
- The base effect will turn benign in 2HFY20. Sales had started declining from Dec-18 onwards.
- We expect growth of 6-8% across cars and two wheelers in FY21.
- The recovery in MHCV sales though could be back ended given that the industry is undergoing structural changes i.e. axle load norm changes, GST related efficiencies, DFC etc. The introduction of a scrappage scheme will aid demand for CVs.



Source: SIAM, Company, HDFC Sec Inst Research



Source: SIAM, Company, HDFC Sec Inst Research

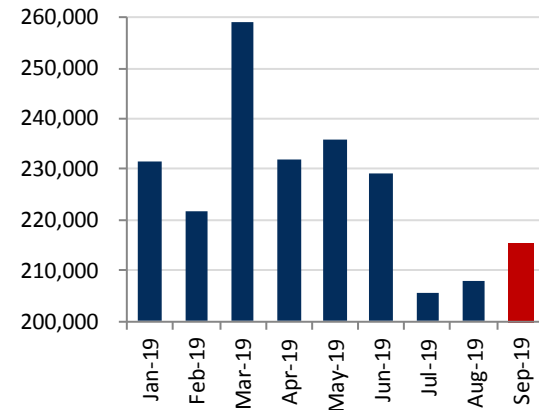


Source: SIAM, Company, HDFC Sec Inst Research

Pick up in volumes (MoM)

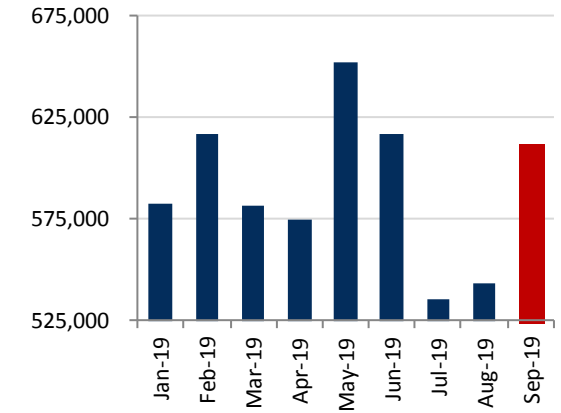
- Volumes have witnessed an uptick in Sep-19, particularly for cars and two wheelers. However, CV sales remain weak as demand is impacted due to structural reasons.
- The OEMs have increased discounts post the tax cut announcements by the government
- Sales for Maruti are up 15% MoM, -24% YoY; Hero +13% MoM, -20% YoY; Bajaj +3% MoM, -20% YoY; RE +13% MoM, -17% YoY. However, Ashok Leyland sales remain weak and are down 5% MoM and 55% YoY.

Bajaj Auto Domestic Sales (in units)



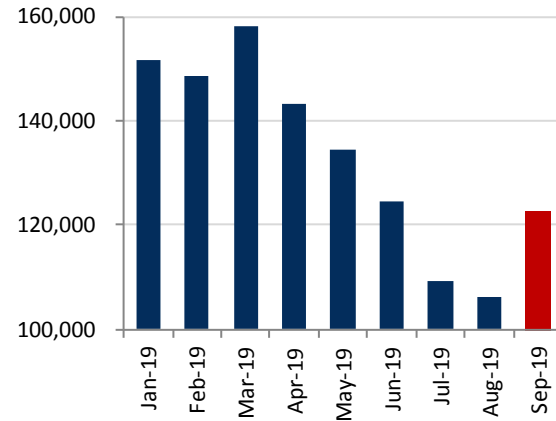
Source: SIAM, Company, HDFC Sec Inst Research

Hero Motocorp Total Sales (in units)



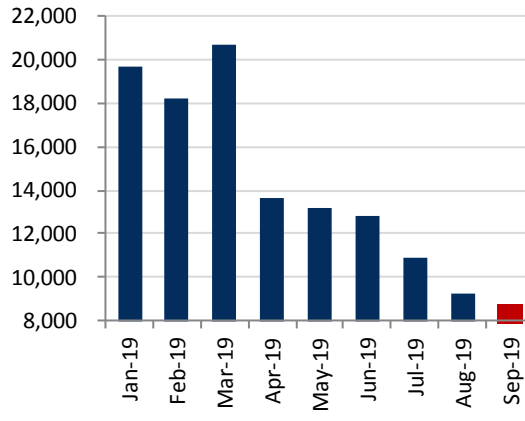
Source: SIAM, Company, HDFC Sec Inst Research

Maruti Suzuki Total Sales (in units)



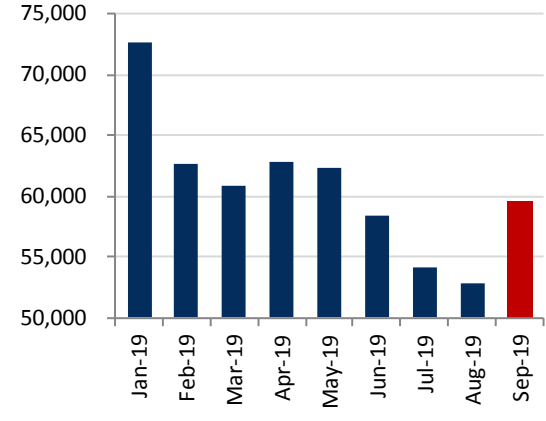
Source: SIAM, Company, HDFC Sec Inst Research

Ashok Leyland Total Sales (in units)



Source: SIAM, Company, HDFC Sec Inst Research

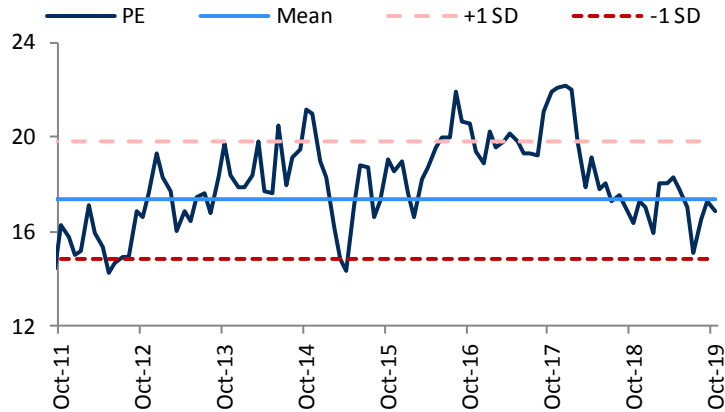
Royal Enfield Total Sales (in units)



Source: SIAM, Company, HDFC Sec Inst Research

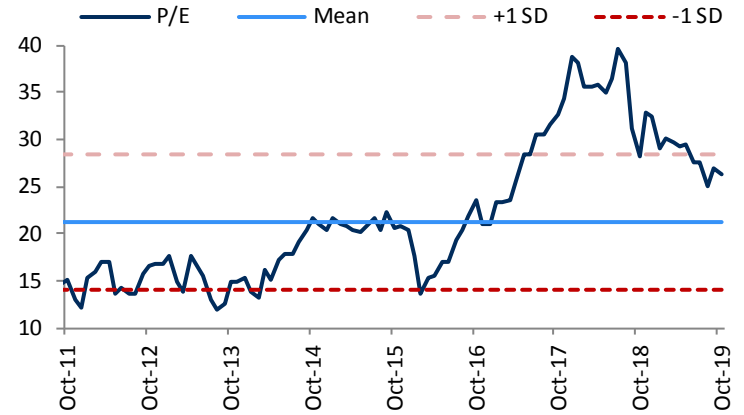
PE Multiples have risen

Bajaj Auto



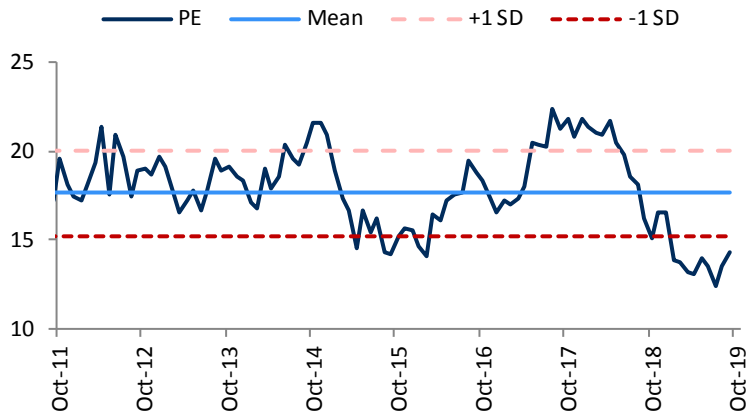
Source: Bloomberg, HDFC Sec Inst Research

Maruti Suzuki



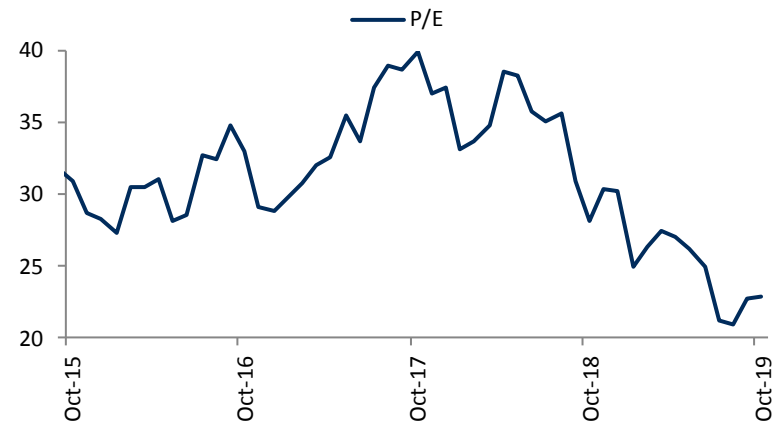
Source: Bloomberg, HDFC Sec Inst Research

Hero Motocorp



Source: Bloomberg, HDFC Sec Inst Research

Eicher Motors



Source: Bloomberg, HDFC Sec Inst Research

2QFY20E Preview: A Trough Quarter

- While auto volumes have been weak in 2QFY20, we believe that sales will revive from hereon as highlighted above. Over 2Q, two wheeler and passenger car volumes declined c.25% and MHCV volumes fell c.50%.
- Over the quarter, the auto index declined inline with broader markets. As highlighted earlier, we believe that the earnings downgrades are bottoming. We have revised our earlier cautious stance on the sector post the tax cuts by the government.
- We have a BUY on Container Corporation of India (CONCOR), Bajaj Auto and Hero Motocorp. CONCOR is well positioned to benefit from the upcoming Dedicated Freight Corridor. Bajaj Auto will benefit from an uptick in demand due to good monsoons as well as its diversified product mix. We remain NEUTRAL on Ashok Leyland, Eicher and Maruti. We upgrade Ramkrishna Forgings to NEUTRAL post the sharp price correction.
- While the aggregate profits for the OEM's under our coverage is expected to decline 40% YoY, we believe that this is a trough quarter with an improving outlook over FY21/22E.
- The auto industry will benefit from healthy rainfall activity, which is at 110% of its long period average. As crude prices remain benign, lower fuel prices and easing of commodity inputs will also support demand/margins. These factors will partially offset the adverse impact from slowing economic growth/restricted availability of finance.

2QFY20 Volume Summary

Company	2QFY20	% QoQ	% YoY
Ashok Leyland	28,938	(27)	(44)
- MHCV	16,815	(37)	(56)
- LCV	12,123	(6)	(11)
Bajaj Auto	1,173,591	(6)	(12)
- 2W	984,240	(9)	(13)
- 3W	189,351	15	(11)
Hero Motocorp	1,691,420	(8)	(21)
Maruti	338,317	(16)	(30)
M&M	191,390	(12)	(16)
- Auto	119,570	(9)	(21)
- Tractors	71,820	(17)	(8)
Tata Motors	105,031	(24)	(45)
- PV	26,429	(29)	(51)
- CV	78,602	(22)	(42)
TVS	885,832	(4)	(19)
- 2W	842,439	(5)	(20)
- 3W	43,393	10	9
Eicher	177,959	(10)	(22)
- 2W	166,589	(9)	(21)
- CV	11,370	(15)	(39)
CONCOR (in TEUs)	969,160	5	(2)

Source: SIAM, Company, HDFC Sec Inst Research

Auto Index Performance

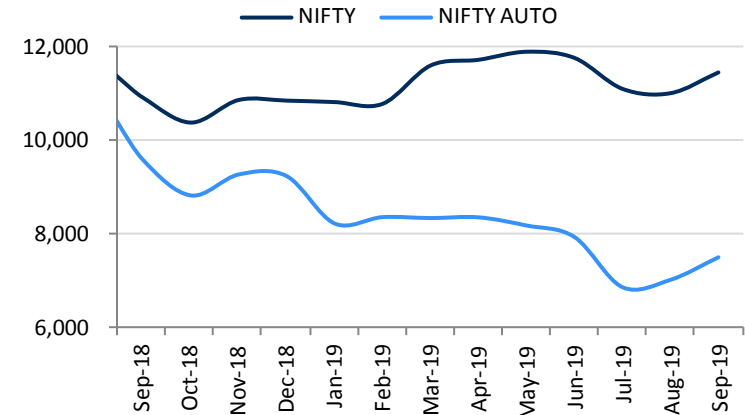
Over the quarter, the auto index has declined inline with the broader markets. The sector performance has improved (as compared to the prior year).

Stock performance (%)

	1M	3M	6M	1Y
Nifty	2.4	(2.4)	(2.5)	10.5
NSE AUTO	(0.4)	(3.3)	(14.9)	(15.4)
Ashok Leyland	7.8	(19.4)	(27.4)	(38.6)
Bajaj Auto	(0.3)	6.9	(3.2)	14.8
Eicher Motors	7.0	(4.4)	(13.3)	(18.6)
Hero Motocorp	(5.9)	3.6	(0.1)	(9.5)
M&M	2.6	(11.7)	(16.7)	(23.3)
Maruti	1.5	11.1	(6.8)	(2.6)
RK Forgings	(12.6)	(41.3)	(48.1)	(53.2)
Subros	1.9	(1.1)	(14.9)	(9.6)
Suprajit Engineering	9.1	(11.7)	(22.3)	(22.9)
Swaraj Engines	(4.6)	(14.1)	(15.8)	(16.5)
Tata Motors	(9.7)	(22.6)	(44.4)	(33.7)
TVS Motor	(2.2)	(8.5)	(18.6)	(23.0)

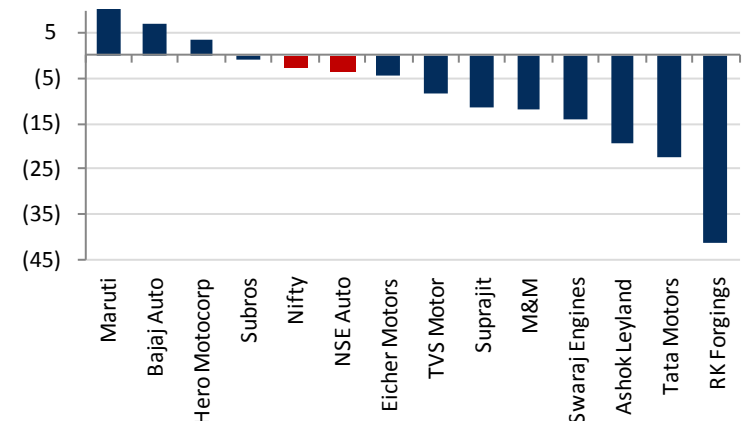
Source: Bloomberg, HDFC Sec Inst Research

Index performance



Source: Bloomberg, HDFC Sec Inst Research

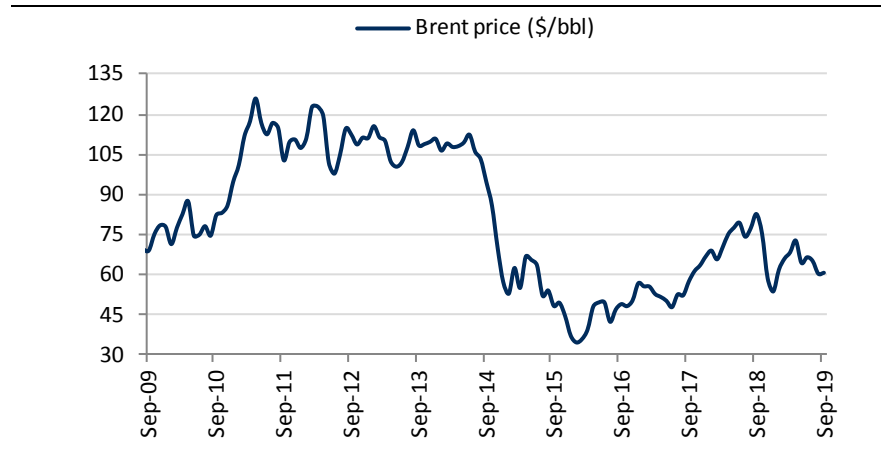
3 months stock performance



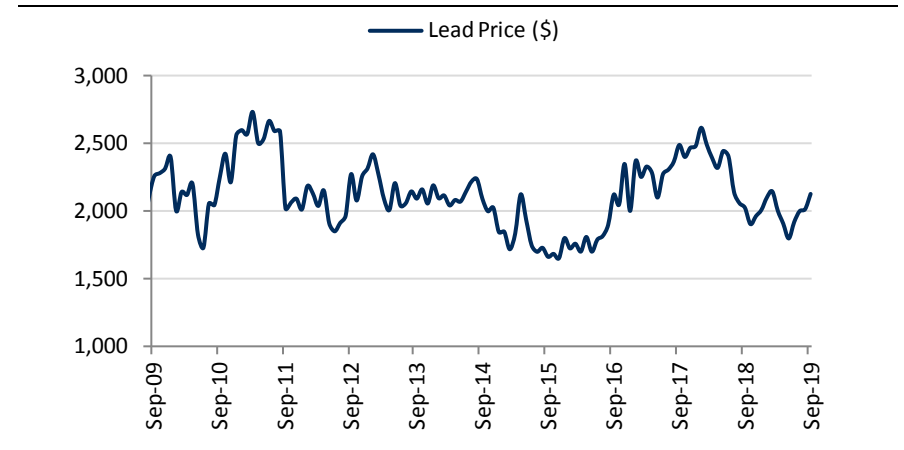
Source: Bloomberg, HDFC Sec Inst Research

2QFY20 preview: Moderating commodity prices

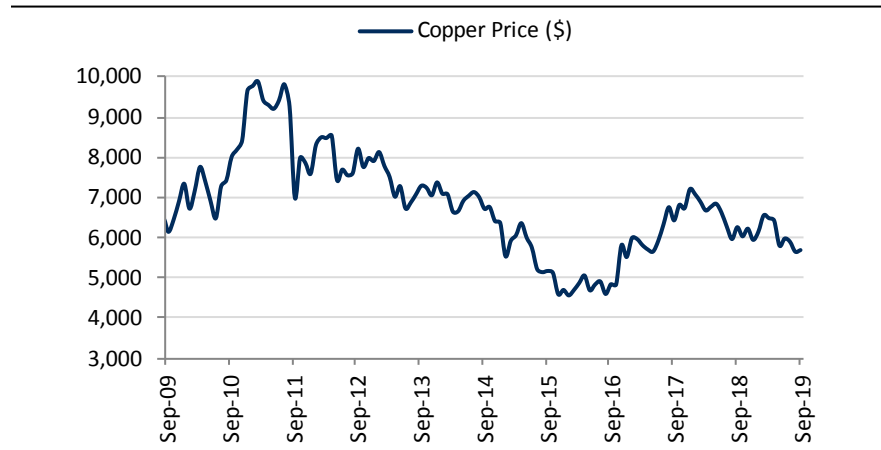
Over the quarter, crude/copper prices have declined by ~9/5% QoQ. This will partially cushion margins amidst weak demand trends.



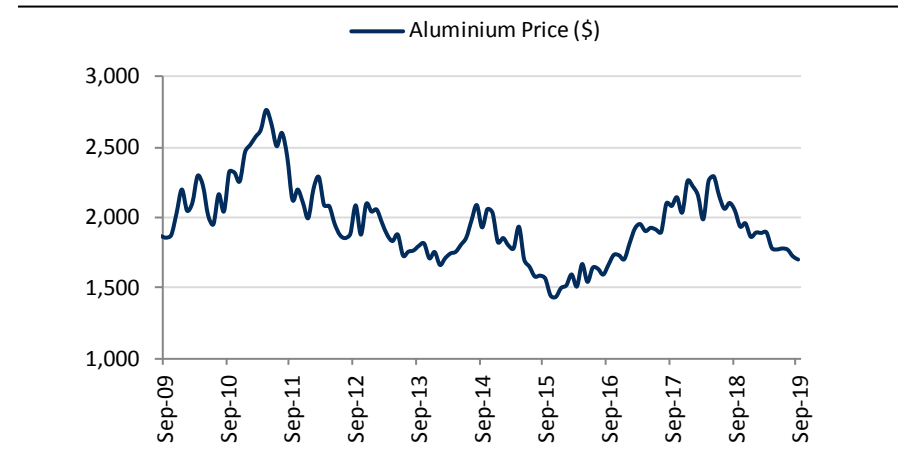
Source: Bloomberg, HDFC Sec Inst Research



Source: Bloomberg, HDFC Sec Inst Research



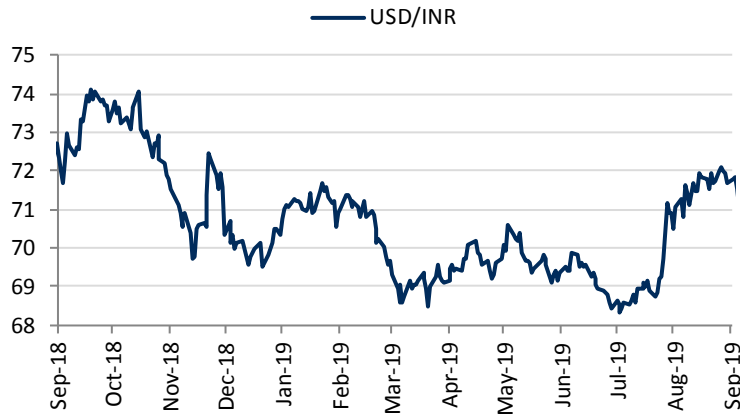
Source: Bloomberg, HDFC Sec Inst Research



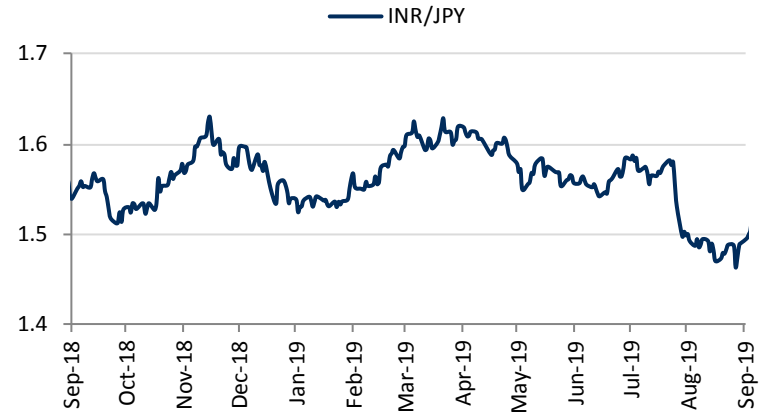
Source: Bloomberg, HDFC Sec Inst Research

Cross currency trends: Weakening INR

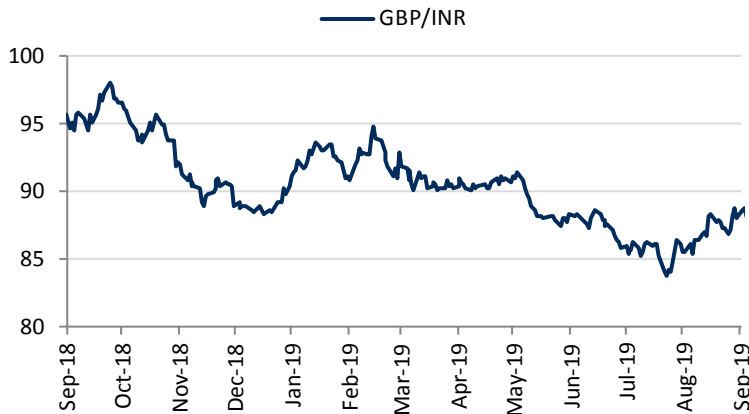
Over the quarter, the INR has depreciated by 2% against the USD and 3% against JPY.



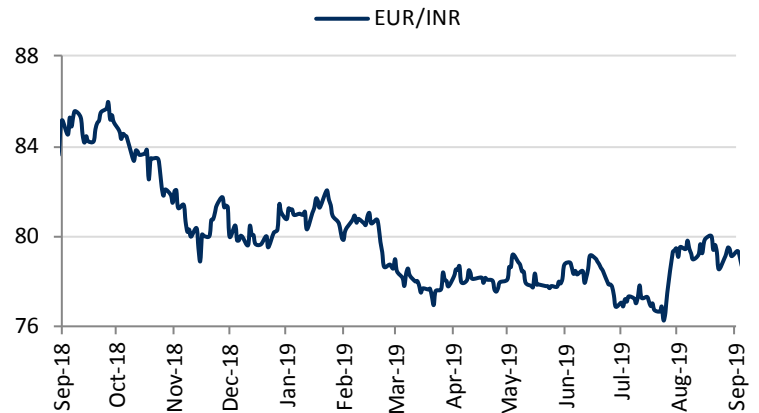
Source: Bloomberg, HDFC Sec Inst Research



Source: Bloomberg, HDFC Sec Inst Research



Source: Bloomberg, HDFC Sec Inst Research



Source: Bloomberg, HDFC Sec Inst Research

2QFY20E: A trough quarter

COMPANY	2QFY20 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Ashok Leyland	WEAK	<ul style="list-style-type: none"> With volumes down ~45%, we expect a similar decline in revenues EBITDA margin is expected at 8.9% (-200bps YoY, -55bps QoQ) PAT decline of ~70% YoY and 33% QoQ 	<ul style="list-style-type: none"> Trends in discounting as OEMs have been offering incentives due to the weak demand environment Expected pre-buy trends in 2HFY20 ahead of BSVI roll over
Bajaj Auto	AVG	<ul style="list-style-type: none"> We expect revenues to decline by 8% YoY driven by 12% YoY fall in volumes. Operating margins to contract by 170bps YoY (-35bp QoQ) to 15.1%, due to a weaker product mix We expect PAT to decline by 5% YoY 	<ul style="list-style-type: none"> Outlook on exports over 2HFY20 (volume growth in 1HFY20 has been driven by overseas sales) Growth outlook for the domestic market for the festive season
Eicher Motors	WEAK	<ul style="list-style-type: none"> We expect a revenue decline of 11% led by 22% decline in the volumes. EBITDA margin of 24.9% (-540bps YoY, -95bps QoQ) PAT decline of 27% YoY (-9% QoQ) 	<ul style="list-style-type: none"> Impact of price cuts (launch of entry variants) on demand Margin outlook on the back of the above Demand environment in overseas markets
Hero MotoCorp	WEAK	<ul style="list-style-type: none"> We expect a decline in revenue by 20% YoY, due to a similar drop in volumes We expect the margin to contract by 160bps YoY, 80 bps QoQ to 13.6% PAT to decline by 24% YoY 	<ul style="list-style-type: none"> Strategy on BSVI roll out as new models will have to be introduced from Jan-20 onwards Margins outlook on the back of recent tax cuts and upcoming cost pressures due to the BSVI introduction Demand outlook in 2HFY20
Maruti Suzuki	WEAK	<ul style="list-style-type: none"> We except revenues to decline by 28% YoY due to lower sales (-30% YoY) EBITDA margin to contract by 640bps YoY, 150bps QoQ to 8.9% due to the adverse impact of operating deleverage PAT decline by 61% YoY (-40% QoQ) 	<ul style="list-style-type: none"> Strategy on phase out of diesel models and replacing the same with petrol variants Demand outlook in the backdrop of the recent tax cuts

2QFY20E: A trough quarter

COMPANY	2QFY20 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Subros	WEAK	<ul style="list-style-type: none"> Net sales to decline by 16% YoY. A decline in passenger vehicle sales will be partially offset by Subros' expansion into new products/segments EBITDA margin contraction by 100bps YoY to 9.5% PAT decline by 52% YoY, 19% QoQ 	<ul style="list-style-type: none"> Ramp up in the home AC business Market share gains in the passenger car AC segment Recovery prospects for passenger car segment from hereon
Ramkrishna Forgings	WEAK	<ul style="list-style-type: none"> We expect a decline in revenues by ~30% due to the challenging demand environment in the domestic market EBITDA margin is expected at 18.8% (-240bps YoY) PAT decline of 78% YoY and 46% QoQ 	<ul style="list-style-type: none"> Update on acquisition of Amtek's crankshaft subsidiary Class 8 trucks demand outlook for CY20 as order inflow remains weak EBITDA margin outlook as utilisation levels are weak
Container Corporation	WEAK	<ul style="list-style-type: none"> Revenues to decline by 6% YoY led by 2% decline in volumes Margins expected at 24% (-60bps QoQ) PAT of Rs 2.5bn +11% QoQ, -42% YoY (not comparable due to non receipt of SEIS income) 	<ul style="list-style-type: none"> Update on SEIS income post DGFT denying claims pending over FY16-19 Timelines for commissioning of Phase I of the DFC

2QFY20E: Financial Summary

COMPANY	Volume (in units '000)			NET SALES (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	2Q FY20E	QoQ (%)	YoY (%)	2Q FY20E	QoQ (%)	YoY (%)	2Q FY20E	QoQ (bps)	YoY (bps)	2Q FY20E	QoQ (%)	YoY (%)	2Q FY20E	1Q FY20	2Q FY19
AUTOS															
Ashok Leyland	29	(27)	(44)	41.2	(28)	(46)	8.9	(55)	(198)	1.7	(33)	(69)	0.6	0.9	1.9
Bajaj Auto	1,174	(6)	(12)	73.5	(5)	(8)	15.1	(35)	(171)	11.0	(3)	(5)	37.9	38.9	39.8
Eicher	178	(10)	(22)	21.5	(10)	(11)	24.9	(94)	(543)	4.1	(9)	(27)	151.8	166.7	208.9
Hero Motocorp	1,691	(8)	(21)	73.1	(9)	(20)	13.6	(82)	(157)	7.5	(2)	(24)	37.4	38.2	48.9
Maruti Suzuki	338	(16)	(30)	162.1	(18)	(28)	8.9	(148)	(640)	8.6	(40)	(61)	28.6	47.5	74.2
Aggregate				371.4	(15)	(25)	12.0	(77)	(359)	32.9	(18)	(40)			
LOGISTICS															
CONCOR*	969	5	(2)	17.2	5	(6)	24.0	(61)	(915)	2.5	11	(42)	4.2	3.7	7.2

* Volume in TEUs

COMPANIES	NET SALES (Rs mn)			EBITDA Margin (%)			APAT (Rs mn)			Adj. EPS		
	2Q FY20E	QoQ (%)	YoY (%)	2Q FY20E	QoQ (bps)	YoY (bps)	2Q FY20E	QoQ (%)	YoY (%)	2Q FY20E	1Q FY20	2Q FY19
AUTO ANCILLARIES												
Ramkrishna Forgings	3,179	(16)	(31)	18.8	(24)	(241)	72.8	(46)	(78)	2.2	4.1	10.1
Subros	4,738	(17)	(16)	9.5	(13)	(102)	115.4	(19)	(52)	1.8	2.2	3.7
Swaraj Engines	2,345	14	(5)	14.0	68	(224)	231.5	37	(9)	19.1	14.0	20.9
Aggregate	10,262	(11)	(19)	13.4	3.7	(209.7)	420	(6)	(49)			

Source: Company, HDFC Sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AUTOS																
Ashok Leyland	202	69	NEU	76	4.9	5.4	6.3	14.1	12.8	10.9	16.4	16.7	18.0	7.4	6.3	5.2
Bajaj Auto	839	2,899	BUY	3,400	161.5	178.3	199.3	17.9	16.3	14.5	20.3	20.0	19.9	12.9	11.2	9.5
Eicher	496	18,201	NEU	16,280	749.0	815.5	922.3	24.3	22.3	19.7	20.9	19.4	18.7	17.2	15.0	12.7
Hero Motocorp	519	2,598	BUY	3,560	167.6	185.2	210.5	15.5	14.0	12.3	24.1	23.2	23.2	10.4	9.3	7.8
Maruti Suzuki	2,023	6,699	NEU	6,430	224.4	272.5	312.1	29.9	24.6	21.5	14.0	15.3	15.7	16.3	13.1	10.8
LOGISTICS																
CONCOR	344	564	BUY	630	19.1	23.4	28.8	29.5	24.1	19.6	11.6	13.6	15.6	20.9	17.6	14.2

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AUTO ANCS																
RK Forgings	9	270	NEU	280	14.8	19.5	26.8	18.2	13.8	10.1	5.4	6.7	8.6	5.7	4.8	4.0
Subros	15	237	BUY	280	10.3	14.0	18.7	23.1	17.0	12.7	9.3	11.3	13.6	7.6	6.4	5.0
Swaraj Engines	14	1,144	NR	1,380	69.3	80.1	91.8	16.5	14.3	12.5	33.5	34.5	34.5	10.8	9.2	7.6

Source: Company, HDFC Sec Inst Research *NR= Not Rated

Change in estimates

CONCOR

We are lowering estimates to factor in the uncertainty around the SEIS income as well as the weaker volume growth in 1HFY20. This will be partially offset by the reduced corporate tax rates. Maintain BUY with a revised TP of Rs 630 (at 24x Sep-21EPS).

	NEW			OLD			% chg		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Revenue	71,865	82,746	99,671	75,022	86,380	104,057	(4)	(4)	(4)
Adj. EBITDA	16,737	19,826	24,191	16,964	20,333	24,794	(1)	(2)	(2)
Adj. EBITDA margin (%)	23.9	24.4	24.5	23.8	24.4	24.4	5 bps	-4 bps	14 bps
PAT	11,652	14,255	17,559	13,048	15,158	18,227	(11)	(6)	(4)
EPS	19.1	23.4	28.8	21.4	24.9	29.9	(11)	(6)	(4)

Change in estimates

Subros

We roll forward our estimates and set a revised TP of Rs 280 @ 17x Sep-21 EPS vs 15x earlier to factor in the improved sector outlook post the recent fiscal measures by the government.

Change in Estimates	NEW			OLD			CHANGE (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Net Revenue	21,007	22,771	25,496	22,162	24,066	-	(5.2)	(5.4)	-
EBITDA	2,080	2,300	2,703	2,260	2,479	-	(8.0)	(7.2)	-
EBITDA margin (%)	9.9	10.1	10.6	10.2	10.3	-	-30 bps	-20 bps	-
PAT	670	911	1,223	800	991	-	(16.2)	(8.1)	-
EPS	10.3	14.0	18.7	12.3	15.2	-	(16.4)	(8.1)	-

Ramkrishna Forgings

We are lowering our estimates over FY20/21 to factor in the challenging demand outlook. RK Forgings has corrected by ~40% post our downgrade in 1QFY20. At this price, the stock is factoring in the near term negatives. We upgrade our rating to NEUTRAL with a revised TP of Rs 280 @12x Sep-21 EPS.

Change in Estimates	NEW			OLD			CHANGE (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Net Revenue	15,307	16,676	18,689	17,368	19,012	-	(12)	(12)	-
EBITDA	2,939	3,285	3,719	3,456	3,859	-	(15)	(15)	-
EBITDA margin (%)	19.2	19.7	19.9	19.9	20.3	-	-70 bps	-60 bps	-
PAT	484	636	872	841	1,025	-	(42)	(38)	-
EPS	14.8	19.5	26.8	25.8	31.4	-	(42)	(38)	-

Aviation 2QFY20: Seasonally weak quarter

- Industry growth has been impacted due to the closure of Jet Airways. However, the incumbent airlines are witnessing healthy growth of c.25%. Both Indigo and Spice are growing at 20%+ levels.
- The sector will witness pressure on yields due to the seasonally weak monsoon quarter. We expect yields for Indigo and Spice Jet to decline ~12% QoQ.
- We are enthused by the governments initiative to divest their stake in Air India. This will lead to more supply discipline in the medium term.
- Benign crude prices will also aid industry profitability.

COMPANY	2QFY20 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Interglobe Aviation	AVG	<ul style="list-style-type: none"> ▪ Expect ASKM growth of 26% YoY and PLF of 85% ▪ Yield to improve by 9% YoY to Rs 3.65 (-11% QoQ) ▪ Expect EBITDAR margin to be at 22.4% (vs.28.2% QoQ) ▪ Net profit for the quarter is expected at Rs 4.7bn. 	<ul style="list-style-type: none"> ▪ Update on A320 neo additions ▪ Incremental slot allocations ▪ Guidance on yields and pricing power ▪ View on industry capacity
SpiceJet	AVG	<ul style="list-style-type: none"> ▪ Expect ASKM growth of 32.8% YoY and PLF of 93% ▪ Yield to improve by 7% YoY to Rs 3.68 (-12% QoQ) ▪ EBITDAR margin to be at 16.8% (vs.21.9% QoQ) 	<ul style="list-style-type: none"> ▪ Update on Max 737 resolution ▪ Guidance on capacity addition ▪ View on yields ▪ Plans for international expansion

Aviation 2QFY20: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDAR Margin (%)			APAT (Rs bn)			Adj. EPS		
	2QFY20E	QoQ (%)	YoY (%)	2QFY20E	QoQ (bps)	YoY (bps)	2QFY20E	QoQ (%)	YoY (%)	2QFY20E	1QFY20	2QFY19
Interglobe Aviation	84.0	(11)	36	22.4	(578)	NA	4.8	(60)	(173)	12.4	31.3	NA
SpiceJet	27.0	(10)	44	16.8	(511)	NA	(0.9)	NA	NA	(1.5)	2.5	NA

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP*	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDAR (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AVIATION																
Interglobe Aviation	673	1,750	BUY	1,960	75.3	116.3	136.0	23.2	15.0	12.9	35.2	39.0	33.2	7.9	5.7	4.8
SpiceJet	73	121	BUY	195	0.7	5.7	6.6	181.8	21.2	18.5	N.A.	N.A.	N.A.	8.3	6.3	5.3

* TP based on 6x EV/EBITDAR Sep-21E for Indigo & 7x EV/EBITDAR Sep-21E for SpiceJet

Lubricants 2QFY20

COMPANY	2QFY20 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Gulf Oil	AVG	<ul style="list-style-type: none"> We expect Gulf's volumes to decline by ~2% YoY to 28.7mn KL. Due to the weak demand environment. Revenues to remain flat YoY (-5% QoQ). EBITDA margin to contract by ~70bps QoQ to 17%. PAT to grow by 18.9% YoY to ~Rs 480mn. 	<ul style="list-style-type: none"> Outlook on demand environment due to the ongoing slow down in auto industry Competitive intensity and RM price trends

COMPANY	NET SALES (Rs mn)			EBITDA Margin (%)			APAT (Rs mn)			Adj. EPS		
	2QFY20E	QoQ (%)	YoY (%)	2QFY20E	QoQ (bps)	YoY (bps)	2QFY20E	QoQ (%)	YoY (%)	2QFY20E	1QFY20	2QFY19
Gulf Oil	4,172.1	(5.3)	-	17.0	(67.3)	(11.6)	479.0	(1.7)	18.9	9.6	9.8	8.1

Lubricants 2QFY20

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
LUBRICANTS																
Gulf Oil Lubricants	42	850	BUY	1,145	44.4	49.3	54.8	19.1	17.2	15.5	33.8	30.5	27.8	11.7	10.3	8.8

Gulf Oil

We increase our EPS estimates for FY20/21 by ~9/3% to factor in the benefits from the corporate tax cuts. Maintain BUY with a revised TP of Rs 1,145 (@22x Sep-21 EPS).

	NEW			OLD			% Change		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Revenue	18,624	20,127	21,954	19,049	21,190	-	(2)	(5)	-
EBITDA	3,197	3,455	3,812	3,236	3,658	-	(1)	(6)	-
EBITDA margin (%)	17.2	17.2	17.4	17.0	17.3	-	18 bps	-10 bps	-
PAT	2,213	2,456	2,729	2,020	2,391	-	10	3	-
EPS	44.4	49.3	54.8	40.6	48.0	-	9	3	-

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- NEUTRAL** : Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
- SELL** : Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

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