# FIRST LIGHT

18 May 2020

## RESEARCH

### BOB Economics Research | Trade and Government Stimulus Measures

Exports plunge by 60.3%, FM announces agri stimulus

### BOB Economics Research | Government Stimulus Measures

Ushering in private investments

### BOB Economics Research | Government Stimulus Measures

PSE privatisation, state borrowing raised by 2% of GDP

### IT Services

Vertical deep dive: Retail vertical to bear the brunt – SELL Wipro

### Cipla | Target: Rs 690 | +21% | BUY

Adj. EBITDA in line; multiple stock catalysts – BUY

### Nippon Life India AMC | Target: Rs 210 | –14% | SELL

Levers for opex control have peaked

### Logistics | Monthly Tracker

Unprecedented slowdown in extraordinary times

## SUMMARY

### India Economics: Trade and Government Stimulus Measures

The FM today announced third tranche of 10% stimulus focused on agri sector. Agri infra got a big boost with an allocation of Rs 1tn. Notably, FM also announced reforms for kick-starting investments in agri supply chains. At the same time, exports and imports have plunged by 60.3% and 58.6%. Both are expected to remain muted as global and domestic demand have been impacted by lockdowns. Notably, lower oil prices are a big positive for India and make us believe that INR should revert back to 73/$ by Mar'21.

**Click here for the full report.**

## TOP PICKS

### LARGE-CAP IDEAS

| Company | Rating | Target |
|---|---|---|
| Bajaj Finance | Buy | 3,000 |
| Cipla | Buy | 690 |
| Eicher Motors | Buy | 18,100 |
| GAIL | Buy | 140 |
| Petronet LNG | Buy | 330 |

### MID-CAP IDEAS

| Company | Rating | Target |
|---|---|---|
| Alkem Labs | Buy | 2,870 |
| Greenply Industries | Buy | 145 |
| Laurus Labs | Buy | 630 |
| Muthoot Finance | Buy | 950 |
| Transport Corp | Buy | 255 |

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|---|---|---|---|---|
| US 10Y yield (%) | 0.62 | (3bps) | (15bps) | (177bps) |
| India 10Y yield (%) | 6.06 | (4bps) | (44bps) | (132bps) |
| USD/INR | 75.57 | (0.1) | 0.9 | (7.9) |
| Brent Crude (US$/bbl) | 31.13 | 6.6 | (1.9) | (57.1) |
| Dow | 23,625 | 1.6 | 1.0 | (8.7) |
| Shanghai | 2,870 | (1.0) | 3.1 | (2.9) |
| Sensex | 31,123 | (2.8) | 1.4 | (16.8) |
| **India FII (US$ mn)** | **13 May** | **MTD** | **CYTD** | **FYTD** |
| FII-D | (50.7) | (1,444.1) | (12,787.8) | (3,028.3) |
| FII-E | 17.4 | 2,242.0 | (4,391.5) | 2,211.5 |

Source: Bank of Baroda Economics Research

**BOBCAPS Research**
research@bobcaps.in

## India Economics: Government Stimulus Measures

The FM today announced measures to 1) Fast Track investments, 2) Open up coal and mining sector to private sector, 3) Privatisation of DISCOMs in UTs, and 4) Boost defence manufacturing and aviation sector. Additional investments of Rs 631bn announced out of which Rs 500bn is for building evacuation infra of coal sector. Overall, we believe today's announcements will boost private investments in capital intensive sectors such as mining and power distribution. These are much needed reforms to boost investments.

**Click here for the full report.**

## India Economics: Government Stimulus Measures

The FM today announced a 2% increase in states borrowing by Rs 4.28tn to Rs 10.69tn. Centre's gross borrowing is at Rs 12tn. While such large issuance calendar will put upward pressure on yields, it will take care of revenue loss from lockdown. The Rs 21tn stimulus announced by FM with focus on MSMEs, farm sector, agri and coal infra and power sector will provide liquidity. The reforms to usher in private sector participation in mining, power distribution and privatisation of PSEs will kickstart the investment cycle.

**Click here for the full report.**

## IT Services

While concerns about the travel & transport vertical (<5% revenue share for tier-I India IT) are at the forefront, we believe retail – the second largest vertical with 14% share – will be the worst hit for India IT services. Retail tech spends could plummet given (1) 13 major US retailer bankruptcies & counting, (2) record store closure forecast, and (3) an unprecedented retail sales slump (-22% YoY in Apr-20). Street is under estimating the retail impact posing 2-14% FY21 EPS cut risk for the top-5 IT players. Wipro is our top SELL due to its high retail exposure (16%).

**Click here for the full report.**

## Cipla

Cipla reported in-line revenue but a 14% EBITDA miss in Q4. Adjusting for one-offs – Covid-19 impact on gross margin (200bps) and Goa unit remediation cost (1% of sales) – EBITDA broadly met estimates at Rs 7.3bn. India sales were a beat; the US was in line. Managing the supply chain, optimising costs and improving ROI are focus areas for FY21. Albuterol ramp-up, Advair filings and a strong branded franchise are key stock catalysts. We raise our TP to Rs 690 (vs. Rs 570) as Cipla's resilient model merits a higher 14x EV/EBITDA multiple (vs. 12x).

**Click here for the full report.**

## Nippon Life India AMC

Nippon Life Asset Management (NAM) reported a Rs 360bn sequential AUM decline in Q4FY20, largely due to the mark-to-market effect. Strong opex control aided EBITDA growth of 14% YoY. In our view, the levers for opex control have largely played out. We cut FY21-FY22 EPS estimates by 10% each as the high-yielding equity business is likely to clock muted growth. Our Mar'21 TP stands revised down to Rs 210 (vs. Rs 280 earlier) – maintain SELL.

**Click here for the full report.**

## Logistics: Monthly Tracker

Trade barometers registered unprecedented declines in Apr'20 as manufacturing activity came to a standstill amid the national lockdown. Major port cargo plunged 21% YoY, with container tonnage plummeting 34% YoY. Market share gains from road transport stemmed the fall in container rail cargo (–14% YoY). EXIM trade also fell by a record 59% YoY. With some relaxation in shutdown restrictions, the month of May is likely to be incrementally better. But trade, and hence logistics demand, could remain subdued till the outbreak is reasonably contained.

**Click here for the full report.**

## TRADE AND GOVERNMENT STIMULUS MEASURES

15 May 2020

# Exports plunge by 60.3%, FM announces agri stimulus

Sameer Narang
Aditi Gupta | Sonal Badhan
chief.economist@bankofbaroda.com

**The FM today announced third tranche of 10% stimulus focused on agri sector. Agri infra got a big boost with an allocation of Rs 1tn. Notably, FM also announced reforms for kick-starting investments in agri supply chains. At the same time, exports and imports have plunged by 60.3% and 58.6%. Both are expected to remain muted as global and domestic demand have been impacted by lockdowns. Notably, lower oil prices are a big positive for India and make us believe that INR should revert back to 73/$ by Mar'21.**

### KEY HIGHLIGHTS

- Exports and imports contract sharply in Apr'20 amidst lockdown restrictions.
- Trade deficit contracts, likely to remain subdued in FY21.
- Government announces third tranche of stimulus measures focussing on agriculture and allied activities.

**Exports plunge sharply:** Exports fell further in Apr'20 by 60.3% versus 34.6% decline in Mar'20. Apart from domestic lockdown, sharp reduction in global demand also contributed to the decline. The sharpest decline was seen in gems & jewellery (98.6%), textiles (87.5%) and engineering goods (64.8%). Pharma exports were flat. With global demand faltering and recession foreseen, exports will remain muted in the near-term.

**Imports too decline:** Imports fell to the lowest on record at US$ 17.1bn in Apr'20 (decline of 58.6%) versus US$ 31.2bn in Mar'20. Oil imports fell by 59.1% due to lower oil prices and decline in volumes. Non-oil-non-gold imports plummeted by 53.6% due to lockdown restrictions. The decline was led by pearls and precious stones (99.9%), electronics (62.7%) and capital goods (50.3%). Lower oil prices imply imports too are expected to remain subdued.

**Current account surplus in FY21:** India's trade deficit narrowed to a 4-year low of US$ 6.8bn in Apr'20 versus US$ 9.8bn in Mar'20. We expect a current account surplus in FY21 because of which we believe INR should revert to 73/$ by the end of the financial year.

**Tranche 3 dedicated to agri sector:** Government today announced stimulus measures worth Rs 1.55tn focusing on agri sector. Total stimulus now stands at Rs 17.75tn (8.9% of GDP). Agri infra got a big boost today with an allocation of Rs 1tn. This will go a long way in improving agri productivity as we have seen in dairy sector. Apart from this, fisheries: Rs 200bn and animal husbandry: Rs 150bn have received additional amount to boost employment and exports. FM also announced a set of measures to remove structural rigidities such as change in Essential Commodities Act and inter-state barriers. This will allow more investment in supply chain in the farm sector.

**GOVERNMENT STIMULUS MEASURES**

16 May 2020

## Ushering in private investments

Sameer Narang
Dipanwita Mazumdar | Jahnavi
chief.economist@bankofbaroda.com

**The FM today announced measures to 1) Fast Track investments, 2) Open up coal and mining sector to private sector, 3) Privatisation of DISCOMs in UTs, and 4) Boost defence manufacturing and aviation sector. Additional investments of Rs 631bn announced out of which Rs 500bn is for building evacuation infra of coal sector. Overall, we believe today's announcements will boost private investments in capital intensive sectors such as mining and power distribution. These are much needed reforms to boost investments.**

### KEY HIGHLIGHTS

- Focus on commercial mining in the coal sector.
- Power DISCOMS to be privatise in UTs.
- Overall stimulus announced till date stands at above Rs 18.5tn (9.3% of GDP).

**Reforms to boost investments:** Mechanism introduced to Fast Track Investment Clearance through Empowered Group of Secretaries. Each Ministry will have Project Development Cell and each State to be ranked on attractiveness. Industrial parks to be upgraded and 3,376 parks to be ranked.

**Mining and Coal sector opened up:** Government has introduced commercial mining in coal sector. Even partially explored blocks to be auctioned. Earlier only captive consumers with end-use ownership could bid. As many as 50 blocks to be made available immediately. In addition to this, Liberalised Regime in Coal sector introduced and investments worth Rs 500bn planned in infra development to boost coal production to 1bn tons in FY24. In order to increase investments in minerals sector, 500 mining blocks to be offered with a seamless composite exploration-cum-mining-cum-production regime. Distinction between captive and non-captive mines removed.

**Power distribution privatisation:** Power DISCOMS in UTs to be privatised. This will set-up an example for other states to follow. This is a long pending reform and will lead to massive increase in efficiency in power sector.

**Defence and aviation sector get a thrust:** To enhance domestic production in defence, government has proposed 1) a list of items not to be imported each year, 2) budget for domestic procurement and 3) indigenisation of import wares. Ordinance factory boards will be corporatized and FDI limit for defence under automatic route has been raised to 74%. In the aviation sector, flight time to be reduced by optimal utilisation of air space (60% now) and proposed an auction of another 6 airports under PPP mode. To build social infrastructure, an outlay of Rs 81bn has been proposed for viability gap funding (30% from 20%). We believe the current announcements will boost domestic investments.

## GOVERNMENT STIMULUS MEASURES

17 May 2020

# PSE privatisation, state borrowing raised by 2% of GDP

Sameer Narang
Sonal Badhan | Aditi Gupta
chief.economist@bankofbaroda.com

**The FM today announced a 2% increase in states borrowing by Rs 4.28tn to Rs 10.69tn. Centre's gross borrowing is at Rs 12tn. While such large issuance calendar will put upward pressure on yields, it will take care of revenue loss from lockdown. The Rs 21tn stimulus announced by FM with focus on MSMEs, farm sector, agri and coal infra and power sector will provide liquidity. The reforms to usher in private sector participation in mining, power distribution and privatisation of PSEs will kickstart the investment cycle.**

**States borrowing limit at 5% from 3%:** The FM today announced a Rs 400bn increase in government's MNREGA public works program to Rs 1tn. Given the dip in revenue collection of states, the states borrowing limits have been increased from 3% to 5% (of GSDP). Aggregate net borrowing by states now can be higher by Rs 4.28tn from Rs 6.41tn contingent on reform linkage in One Nation One Ration Card (ONOR), Ease of Doing Business, Power Distribution and Urban Local Body Revenues.

**New public sector enterprise policy:** Government will soon announce a new policy whereby in list strategic sectors where PSEs are required. In such sectors, at least one PSE will remain, but private sector will be allowed. In other sectors, PSEs will be privatised. Number of PSEs in strategic sectors will be between one and four.

**Changes in IBC and Ease of Doing Business:** Government today announced several changes to IBC such as 1) increasing threshold for initiating insolvency proceedings to Rs 10mn from Rs 0.1mn, 2) exclusion of COVID related debt from "default" under IBC, 3) suspension of fresh insolvency proceedings for 1 year, 4) decriminalistaion of Companies Act and 5) allowing Indian companies to list their securities directly in foreign jurisdictions.

**Total stimulus at Rs 21tn:** The total stimulus stands at Rs 21tn (10.5% of GDP). This includes: 1) RBI measures of Rs 8tn (4% of GDP), 2) first economic package including PMGKP of Rs 1.92tn, 3) Part-1 of FM announcements for MSMEs, NBFCs and DISCOMs of Rs 5.9tn (3% of GDP), 4) Part-2 of FM announcement of Rs 3.1tn (1.6% of GDP) for migrant workers and farmers, 5) Part-3 focusing on agri infra of Rs 1.5tn (0.8% of GDP), and 6) Part-4 and 5 focusing on reforms of Rs 481bn (0.2% of GDP). We thus expect centre's fiscal deficit to rise to 6% of GDP in FY21.

## KEY HIGHLIGHTS

- Government announces last tranche of economic measures with focus on MNREGA and state finances.
- Measures also to support corporates and businesses and improve Ease of Doing Business.
- Stimulus measures announced by the government will be positive for growth.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

## IT SERVICES

18 May 2020

# Vertical deep dive: Retail vertical to bear the brunt – SELL Wipro

**While concerns about the travel & transport vertical (<5% revenue share for tier-I India IT) are at the forefront, we believe retail – the second largest vertical with 14% share – will be the worst hit for India IT services. Retail tech spends could plummet given (1) 13 major US retailer bankruptcies & counting, (2) record store closure forecast, and (3) an unprecedented retail sales slump (-22% YoY in Apr-20). Street is under estimating the retail impact posing 2-14% FY21 EPS cut risk for the top-5 IT players. Wipro is our top SELL due to its high retail exposure (16%).**

Ruchi Burde | Seema Nayak
research@bobcaps.in

**Retail vertical to be hardest hit:** The street appears most concerned about the impact of a slowdown in tech spends by travel and transportation clients, a relatively small vertical with sub-5% revenue share for top 5 Indian IT services players. Based on our analysis, we believe the retail vertical will bear the brunt of the Covid-19 pandemic. Retail is the second largest vertical accounting for 14% revenue share of the top-5 Indian IT companies. The pandemic has exacerbated challenges for offline retailers already grappling with online competition.

**Trouble for retailers to trigger tech spend cuts:** Covid-19 pandemic has brought in unprecedented issues for retail industry which will trigger significant tech spend cut in our view. As many as 13 retailers with 3,800+ stores have already filed for bankruptcy in 2020 YTD – large companies such as Victoria's Secret, Bath & Body Works and GNC are also potential candidates. Record store closures are predicted in CY20 (15k, up 60% YoY). Moreover, cues from China point to a slow recovery – after the lockdown there was lifted, footfalls at stores have plateaued at just 40-60% of previous levels.

**Expect 2-14% cut in street estimates – SELL Wipro:** Our scenario analysis shows that tier-I Indian IT players will see a 100-600bps drop-off in revenue growth from the retail vertical alone. In our view, the street is underestimating the impact for Indian IT players, putting consensus FY21 EPS for the top-5 companies at risk of 2-14% downgrades.

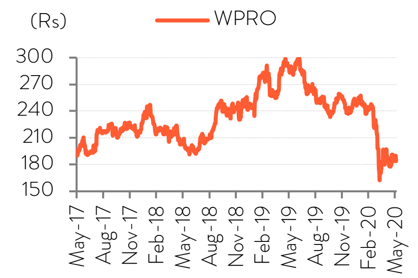
Among large-caps, Wipro (WPRO) has the highest retail exposure (16.3% of FY20 revenue), followed by Infosys (INFO: 15.4%) and TCS (15.1%). Among mid-caps, Mindtree (MTCL) leads at 20.3%. We cut FY21/FY22 EPS for WPRO by 7%/5% (taking us 13-14% below consensus) and reiterate SELL with a revised Mar'21 TP of Rs 160 (vs. Rs 170). At 13.8x, while the stock trades at 13% discount to its 5Y average, it is at 120%+ premium to the GFC lows.

### RECOMMENDATION SNAPSHOT

| Ticker | Price | Target | Rating |
|---|---|---|---|
| TCS | 1,903 | 1,860 | ADD |
| INFO | 652 | 730 | ADD |
| WPRO | 184 | 160 | SELL |
| HCLT | 512 | 650 | BUY |
| TECHM | 512 | 570 | REDUCE |
| LTI | 1,657 | 2,230 | BUY |
| MPHL | 840 | 740 | SELL |
| MTCL | 855 | 810 | REDUCE |
| HEXW | 246 | 320 | ADD |
| PSYS | 521 | 530 | REDUCE |
| NITEC | 1,359 | 1,330 | ADD |
| ECLX | 426 | 490 | SELL |

Price & Target in Rupees

### STOCK PERFORMANCE




Source: NSE

**BUY**
TP: Rs 690 | ⮝ 21%

**CIPLA** | Pharmaceuticals | 16 May 2020

## Adj. EBITDA in line; multiple stock catalysts – BUY

**Cipla reported in-line revenue but a 14% EBITDA miss in Q4. Adjusting for one-offs – Covid-19 impact on gross margin (200bps) and Goa unit remediation cost (1% of sales) – EBITDA broadly met estimates at Rs 7.3bn. India sales were a beat; the US was in line. Managing the supply chain, optimising costs and improving ROI are focus areas for FY21. Albuterol ramp-up, Advair filings and a strong branded franchise are key stock catalysts. We raise our TP to Rs 690 (vs. Rs 570) as Cipla's resilient model merits a higher 14x EV/EBITDA multiple (vs. 12x).**

**Vivek Kumar**
research@bobcaps.in

**India continues to outperform, US in line; utilisation back to pre-Covid levels:** Cipla's strategy of fusing brands (CH+Rx+Gx) led to strong India growth at 15% YoY in Q4 (branded +12% YoY, trade generics +15%). Growth could have been higher but for Covid-19 which hit ~Rs 2bn worth of high-margin India sales. Demand within India is intact and stockist channels have a fair amount of inventory. US sales at US$ 118mn fell 11% QoQ due to higher chargebacks; base sales are likely to remain in the US$ 120mn-130mn range. Cipla continues to expect calibrated R&D spends in the generic and US specialty segments. Roughly, 85% capacity utilisation is back to pre-Covid-19 levels across locations.

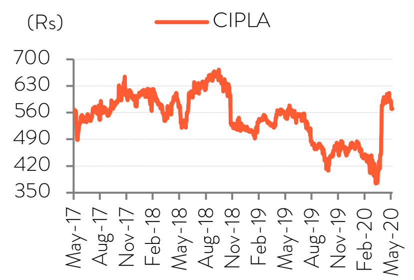
**Earnings call takeaways:** (1) Albuterol market grew 15% amidst Covid (~65mn units) and pricing is fairly attractive. Proair/Proventil markets are interchangeable; production capacities suffice to garner adequate market share with staggered launch. (2) Reply on Goa unit (warning letter) submitted in Apr'20. (3) Repaid US$ 275mn debt in FY20; Q4 depreciation has Rs 323mn impairment charge.

**Retain BUY:** Earnings stability with ~70% of EBITDA arising from branded generics (India, S. Africa, ROW), US generic tailwinds amidst Covid-19 (price + drug shortages), and product catalysts (Albuterol, Adavir) are stock drivers. We raise our Mar'21 TP to Rs 690 (vs. Rs 570), set at 14x EV/EBITDA (12x earlier).

| | |
|---|---|
| Ticker/Price | CIPLA IN/Rs 570 |
| Market cap | US$ 6.1bn |
| Shares o/s | 806mn |
| 3M ADV | US$ 55.8mn |
| 52wk high/low | Rs 633/Rs 355 |
| Promoter/FPI/DII | 37%/26%/13% |

Source: NSE

### STOCK PERFORMANCE




Source: NSE

### KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|---|---|---|---|---|---|
| Total revenue (Rs mn) | 152,181 | 163,621 | 171,243 | 178,060 | 191,896 |
| EBITDA (Rs mn) | 28,254 | 30,973 | 32,574 | 34,388 | 38,265 |
| Adj. net profit (Rs mn) | 12,340 | 13,426 | 15,858 | 17,424 | 19,896 |
| Adj. EPS (Rs) | 15.3 | 16.7 | 19.7 | 21.6 | 24.7 |
| Adj. EPS growth (%) | (0.2) | 8.8 | 18.1 | 9.9 | 14.2 |
| Adj. ROAE (%) | 8.9 | 9.0 | 10.0 | 10.1 | 10.5 |
| Adj. P/E (x) | 37.2 | 34.2 | 29.0 | 26.4 | 23.1 |
| EV/EBITDA (x) | 17.4 | 15.6 | 14.7 | 13.6 | 11.7 |

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

**SELL**
TP: Rs 210 | ∀ 14%

**NIPPON LIFE INDIA ASSET MANAGEMENT** | Diversified Financials | 15 May 2020

# Levers for opex control have peaked

**Nippon Life Asset Management (NAM) reported a Rs 360bn sequential AUM decline in Q4FY20, largely due to the mark-to-market effect. Strong opex control aided EBITDA growth of 14% YoY. In our view, the levers for opex control have largely played out. We cut FY21-FY22 EPS estimates by 10% each as the high-yielding equity business is likely to clock muted growth. Our Mar'21 TP stands revised down to Rs 210 (vs. Rs 280 earlier) – maintain SELL.**

**Shubhranshu Mishra**
research@bobcaps.in

**Gaining debt market share looks difficult:** AUM (end of period) saw a rundown of ~Rs 360bn on a sequential basis in Q4 – primarily due to the MTM effect, and not redemptions. Though SIP flows were steady at Rs 8.1bn, we expect the high-yielding equity business to slow down in the wake of Covid-19. We also argue that gaining market share in debt looks difficult for NAM given FY19-FY20 debt write-offs.

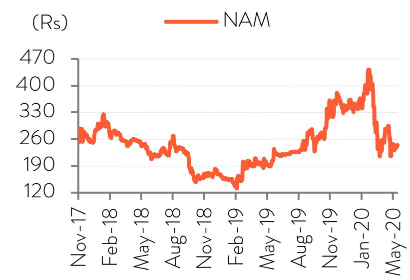
**Levers for opex control largely played out:** EBITDA grew 14% YoY to Rs 1.6bn as the company maintained a tight leash on expenses. We believe NAM has largely exhausted its levers in terms of limiting marketing and discretionary spends. EBITDA margin at 59% expanded ~1,800bps YoY due to cost control and looks to have peaked, in our view. Other income was negative due to a Rs 1.5bn MTM effect on investments in own schemes. Adjusted for this one-off, PAT grew 3% YoY in Q4 to Rs 1.6bn and 17% in FY20 to Rs 5.7bn.

**Maintain SELL:** Not only will gaining market share in debt prove challenging, but we believe NAM also faces a tough balancing act to add equity market share and maintain profitability. We retain our SELL rating with a revised Mar'21 TP of Rs 210 (earlier Rs 280) as we cut our FY21-FY22 earnings estimates by 10% each to bake in the pandemic impact.

| | |
|---|---|
| Ticker/Price | NAM IN/Rs 244 |
| Market cap | US$ 2.0bn |
| Shares o/s | 612mn |
| 3M ADV | US$ 10.4mn |
| 52wk high/low | Rs 453/Rs 208 |
| Promoter/FPI/DII | 76%/5%/7% |

Source: NSE

## STOCK PERFORMANCE




Source: NSE

## KEY FINANCIALS

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20P | FY21E | FY22E |
|---|---|---|---|---|---|
| Core PBT (Rs mn) | 4,987 | 5,290 | 5,696 | 5,811 | 7,040 |
| Core PBT (YoY) | 10.1 | 6.1 | 7.7 | 2.0 | 21.2 |
| Adj. net profit (Rs mn) | 4,572 | 4,871 | 4,158 | 5,827 | 6,820 |
| EPS (Rs) | 7.5 | 8.0 | 6.8 | 9.5 | 11.1 |
| P/E (x) | 32.6 | 30.6 | 35.9 | 25.6 | 21.9 |
| MCap/AAAUM (%) | 6.3 | 6.3 | 7.2 | 6.3 | 5.5 |
| RoAAAUM (in bp) | 19.4 | 20.4 | 19.9 | 24.7 | 25.3 |
| ROE (%) | 21.0 | 19.7 | 16.1 | 22.1 | 24.9 |

Source: Company, BOBCAPS Research

LOGISTICS | Monthly Tracker | 15 May 2020

# Unprecedented slowdown in extraordinary times

Sayan Das Sharma
research@bobcaps.in

**Trade barometers registered unprecedented declines in Apr'20 as manufacturing activity came to a standstill amid the national lockdown. Major port cargo plunged 21% YoY, with container tonnage plummeting 34% YoY. Market share gains from road transport stemmed the fall in container rail cargo (–14% YoY). EXIM trade also fell by a record 59% YoY. With some relaxation in shutdown restrictions, the month of May is likely to be incrementally better. But trade, and hence logistics demand, could remain subdued till the outbreak is reasonably contained.**

**Container rail traffic declines…:** Container rail volumes plunged by a sharp 14% YoY in Apr'20 as manufacturing operations across India remained in limbo amidst the national lockdown. Domestic volumes crashed 42% YoY, whereas EXIM rail container volumes fell by a lower 8%. NTKM declined 23% YoY following lower volumes and a drop in lead distances (–10% YoY).

**…but EXIM share gains stand out:** The single-digit fall in rail EXIM container traffic was a decent showing given the weak trade backdrop. In comparison, container volumes at major ports saw a far steeper 34% YoY drop in tonnage, implying market share gains for rail in port container evacuation. With road transporters reeling under obstacles (driver shortage and movement disruptions), rail emerged as a more reliable mode of transport, triggering substantial gains. This may mitigate the impact of the pandemic on volumes for container train operators – Container Corp and Gateway Distriparks – at least in the short run.

**Major port volumes plummet:** Cargo traffic at major ports nosedived by an unprecedented 21% YoY. All ports barring Mormugao (+5% YoY) posted steep volume declines, led by Chennai (–38%), JNPT (–34%), and Cochin (–34%). Among commodities, only fertilisers witnessed an uptick (+18% YoY) in volumes. Container volume shrank by a steep 37% YoY (in TEU terms) as major ports – JNPT (–37%) and Chennai (–42%) – reported a slump in traffic.

**Sharp contraction in EXIM trade:** Global and domestic supply chain disruptions and lower demand translated into a 59% YoY decline in merchandise EXIM trade. Core exports/imports (non-oil, non-gold) plunged 54%/52% YoY.

**May to be a better month:** Easing of restrictions in India and many countries globally would aid trade in May. Truck utilisation is also improving. We could see a broad-based recovery in Q4FY21 if the pandemic is reasonably contained.

## RECOMMENDATION SNAPSHOT

| Ticker | Rating |
|---|---|
| AGLL IN | ADD |
| CCRI IN | ADD |
| MAHLOG IN | BUY |
| TCIEXP IN | BUY |
| TRPC IN | BUY |
| VRLL IN | BUY |

# 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 30 April 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 17 have ADD ratings, 9 are rated REDUCE, 7 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.