

RESEARCH
BOB Economics Research | Weekly Wrap

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Automobiles

Jan'20 Auto Sales – PVs ahead of 2W and CVs

SUMMARY
India Economics: Weekly Wrap

Global yields fell led by US over concerns of economic impact of coronavirus. US consumer confidence remains buoyant. Equity markets and oil prices too fell in the week. Both US Fed and BoE started the year by keeping rates on hold. India's FM presented a counter cyclical budget to stem an investment and consumption led slowdown. Fiscal deficit was expanded to 3.8% of GDP in FY20 and 3.5% in FY21. Gross borrowing was unchanged in FY20 and increased by only Rs700bn in FY21 which cheered bond markets.

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Automobiles

Jan'20 volume trends were mixed across segments and players based on stock levels and differing timelines for BS-VI production ramp-up. PV growth stayed negative but MSIL and MM posted above-expected volumes. 2W wholesale volumes were weak as system inventory continued to trend higher. MHCVs saw another month of sharp wholesale volume cuts on BS-IV inventory correction. Restocking is likely to pick up towards the tail end of Q4FY20. We continue to prefer PVs over 2W and CVs; MSIL and EIM are top picks and AL is a SELL.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.51	(8bps)	(41bps)	(118bps)
India 10Y yield (%)	6.60	4bps	5bps	(77bps)
USD/INR	71.35	0.2	0	(0.1)
Brent Crude (US\$/bbl)	58.16	(0.2)	(11.9)	(7.3)
Dow	28,256	(2.1)	(1.0)	12.7
Shanghai	2,977	(2.8)	(2.4)	13.7
Sensex	39,736	(2.4)	(3.7)	9.0
India FII (US\$ mn)	30 Jan	MTD	CYTD	FYTD
FII-D	43.2	(1,553.5)	(1,553.5)	1,390.6
FII-E	87.6	1,984.5	1,984.5	9,373.7

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

03 February 2020

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Markets

- **Bonds:** Except India, global yields closed lower as concerns over spread of coronavirus escalated. US 10Y yield fell the most by 18bps (1.5%) in the week. Oil prices fell by (-) 4.2% to US\$ 58/bbl. India's 10Y yield rose by 2bps (6.6%). However it opened 10bps lower today as gross borrowing for FY20 was unchanged at Rs 7.1tn and increased by only Rs 700bn in FY21. System liquidity surplus rose to Rs 3.4tn as on 31 Jan 2020 vs Rs 2.8tn in the previous week.
- **Currency:** Global currencies closed mixed this week as fears over the spread of coronavirus outbreak in China and its economic impact remained in focus. AUD fell by (-) 2% and CNY fell by (-) 0.9%. DXY also fell by (-) 0.5% in the week as US GDP grew at its weakest pace in 3-years in CY19. GBP rose by 1% after BoE kept its policy rate steady. INR closed stable even as oil prices fell. FII outflows were US\$ 361mn.
- **Equity:** Global indices ended lower this week as concerns over spread of coronavirus continued to weigh-in. European indices ended in red led by lower than expected GDP estimate for Q4CY19 and dovish tone of BoE as it trimmed growth forecast for CY20. Amongst other indices, Sensex (-4.5%) had the biggest fall as the budget failed to cheer investors. Chinese markets were closed and opened today (-) 9%.
- **Upcoming key events:** In the current week, markets will await manufacturing and services PMI of Eurozone, China and US. Apart from this, RBI, RBA, Philippines and BoT policy is also scheduled. Additionally, China's and Germany's exports data is also awaited.



AUTOMOBILES

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Passenger vehicles slightly ahead of estimates: We estimate aggregate PV sales declined 5-7% YoY in Jan'20. Maruti Suzuki's (MSIL) domestic PV sales grew 2% YoY, while exports were up 1%. Its SUV volumes declined a sharp 27% YoY given destocking ahead of the 'Brezza' petrol launch in Feb'20. M&M's (MM) PV sales declined by 17% YoY, whereas Tata Motors (TTMT) saw a 35% YoY drop to 13,894 units. Per the company, 'Altroz' has garnered a good response and has a strong order backlog. Among other major PV OEMs, domestic volumes for Hyundai/Toyota/Honda were down 8%/48%/71% YoY.

Two-wheelers remain in slow lane: 2W wholesale volumes remained under pressure given continued BS-IV inventory rationalisation. Hero MotoCorp's (HMCL) sales fell 14% YoY led by a sharp drop in scooter volumes (-87% YoY), while the decline in motorcycle volumes was moderate at 6% YoY. Royal Enfield sales slipped 13% YoY. TVS Motors' (TVSL) total sales fell 17% YoY led by a domestic decline of 9% while exports grew 34% on a low base. Weak domestic volumes were partially on account of early transition to BS-VI.

Commercial vehicles see continued weakness: MHCV volumes are still to reflect any volume uptick from pre-buying. TTMT's domestic CV sales dropped 16% YoY as MHCV sales plunged 41% due to the weak macro climate. Ashok Leyland's (AL) domestic sales nosedived 41% YoY due to a 49% fall in MHCVs. VECV domestic volumes slipped 6% YoY with a 15% drop in domestic heavy truck sales.

Tractor sales recover: MM's tractors sales rose 4% YoY while sales for competitor Escorts (ESC) grew 1%. Good 'rabi' output and government's increased focus on the rural sector would drive positive momentum for tractors.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AL IN	78	68	SELL
BJAUT IN	3,282	3,560	ADD
EIM IN	20,000	25,000	BUY
HMCL IN	2,392	2,575	REDUCE
MM IN	560	625	ADD
MSIL IN	7,010	8,825	BUY
TTMT IN	164	212	ADD
TVSL IN	470	465	REDUCE

Price & Target in Rupees

SALES SNAPSHOT

Ticker	Volume	YoY (%)	MoM (%)
AL IN	11,850	(40.0)	6.1
EIM IN*	69,064	(12.1)	24.6
HMCL IN	501,622	(13.9)	18.1
MM IN	75,662	(2.9)	32.2
MSIL IN	154,123	1.6	15.6
TVSL IN	234,920	(16.9)	1.4
TTMT IN	47,932	(17.6)	2.1

Source: Company | *RE & VECV combined

[Click here for our Sector Report](#)
 'Mixed signals – prefer PVs, 2Ws'



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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