

RESEARCH
BOB Economics Research | Rating Action

Moody's downgrades India

Automobiles

May'20 Auto Sales – Tractors robust, other segments weak

SUMMARY
India Economics: Rating Action

Moody's downgraded India's sovereign rating to Baa3 from Baa2 with negative outlook on the back of rising fiscal deficits, growth contraction and higher debt levels (30% more than Baa median). The agency believes that India's long-term growth is likely to be 6% instead of 8% earlier. This is on the back of subdued private sector capex cycle, stress in the financial sector and reforms not yielding results. Notably, Moody's had upgraded India in Nov'17. This raises the risk of other agencies revising outlook to negative from stable.

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

Automobiles

Auto sales in May remained muted owing to lockdown restrictions across major parts of the country. Indian PV sales plummeted ~85% YoY and 2W volumes also slumped 80-85% in May. CV sales were the worst affected, plunging 90% YoY for AL. Owing to strong rural income, tractor sales remained resilient and growth was flattish YoY. Our channel checks suggest that enquiries have gone up but conversion rates are poor. Dealers mentioned that customers are looking for higher discounts due to the stressed situation.

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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 (%)	0.66	1bps	5bps	(141bps)
India 10Y yield (%)	6.04	3bps	(7bps)	(94bps)
USD/INR	75.55	0.1	(0.6)	(9.1)
Brent Crude (US\$/bbl)	38.32	8.5	44.9	(37.5)
Dow	25,475	0.4	7.4	2.6
Shanghai	2,915	2.2	1.9	0.9
Sensex	33,304	2.7	(1.2)	(17.3)
India FII (US\$ mn)	29 May	MTD	CYTD	FYTD
FII-D	19.3	(2,711.6)	(14,055.3)	(4,295.8)
FII-E	159.3	1,719.0	(4,914.5)	1,688.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

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RATING ACTION

02 June 2020

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Moody's downgrades India: Moody's has downgraded India's credit rating to Baa3 from Baa2 earlier. Central government's fiscal deficit (% of GDP) in FY20 slipped to 4.6% from revised estimate of 3.8%. In addition, general government's public debt which is estimated at 72% in FY21, is expected to go up to 84% in FY22 as per Moody's estimates. Brazil and Argentina are the only ones with higher debt than India. However, India's general government fiscal deficit is estimated at 11% in FY21 is amongst the highest.

KEY HIGHLIGHTS

- Moody's downgrades India's credit rating to Baa3.
- Public debt-GDP ratio estimated to shoot up to 84% from 72%.
- Weaker revenue growth a cause of concern.

Outlook is negative: Moody's now expects India's real GDP to contract by 4%. Growth will rebound to 8.7% in FY22 after which it will revert to 6%. Thus, Moody's believes that growth in the future will be lower than earlier levels of 8% because of subdued private capex cycle. In addition, persistent stress in non-bank financials implies economy will be constrained for consumption and investment credit. Accordingly, Moody's has maintained negative outlook which reflects mutually reinforcing stress in the economy and financial sector.

Other agencies may revise outlook: While Moody's has aligned its rating with other rating agencies (Fitch and S&P), its outlook is negative. The other rating agencies have a stable outlook on India. This raises the risk of change in outlook by other agencies. Given India's low reliance on external debt, this will not in any way impinge on India's domestic borrowing market. In addition, India stands to benefit from low oil prices. We believe the lower growth and higher fiscal deficit outlook made the agency change its ratings. With growth bottoming out in Q1FY21 and given government's reform and privatisation agenda, outlook on India will improve from H2FY21.



AUTOMOBILES

02 June 2020

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PV sales slide: Continuing the sales washout seen in Apr'20, the Indian PV industry recorded a sharp fall of ~85% YoY in May'20. Domestic sales for Maruti (MSIL) declined 89% YoY to 13.9k units while exports fell 49%. Auto sales for M&M (MM) were down 79% while Tata Motors (TTMT) reported a 71% drop.

2W volumes nosedive: Hero's (HMCL) wholesale volumes slid 83% YoY to 112.7k in May while its retail sales remained ahead at 160k. The company stated that ~5,000 touchpoints forming 85% of sales were currently operational. 2W sales for Bajaj (BJAUT) were down 69% YoY to 112.8k while 3Ws clocked a 74% downslide to 14.3k units. Total sales for TVS Motor (TVSL) fell 81% YoY to 58.9k units. For both TVSL and BJAUT, exports contacted less than domestic sales. Royal Enfield reported total 2W sales of 19k units (-69% YoY) and said that close to two-thirds of its dealerships are now operational.

CV sales to remain under stress: CV sales for Ashok Leyland (AL) declined 89% YoY to 1.4k units led by MHCVs which crashed 97%, while sales for VECV slumped 87% to 686 units in May. MHCV sales which are closely linked to economic activity are expected to remain suppressed in the near term given the sluggish economic recovery coupled with excess freight capacity in the system and limited driver availability.

Tractor sales resilient: With early relaxation of the lockdown in rural areas and for the agricultural sector, tractor demand in May outperformed other segments and posted flattish growth YoY. MM sold 24k tractors (+2% YoY) in India while competitor Escorts sold 6.6k tractors (-3% YoY). Robust rabi crop production, anticipation of normal monsoons and better realisation for crops augur well for tractor demand going ahead.



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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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