

## RESEARCH

### India Market Strategy

Unlevered stocks best picks in tremulous market

## SUMMARY

### India Market Strategy

Recent market correction, driven by global turmoil, has put Nifty valuations (at 15.5x one-year forward) at an attractive level. While recent policy measures comprising the corporate tax cut and dividend tax exemption are unlikely to spur private capex in the near term, we see value in cash-rich PSUs (ONGC, IOCL, GAIL) that are likely to deploy tax savings toward higher dividends or buybacks. In the longer run, we expect financials, consumption (including autos), and oil & gas sector to fuel a 20% Nifty EPS CAGR (FY20-FY22), forming the bedrock of our new model portfolio.

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## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	5,200
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	25,000
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,860

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	205
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	355
<a href="#">Ashok Leyland</a>	Sell	64

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.80	26	(78)	(180)
India 10Y yield* (%)	6.07	(12)	(38)	(129)
USD/INR*	74.09	(0.4)	(3.7)	(6.0)
Brent Crude (US\$/bbl)	37.22	8.3	(31.7)	(44.2)
Dow	25,018	4.9	(14.0)	(2.1)
Shanghai	2,997	1.8	4.2	(2.1)
Sensex*	35,635	(5.2)	(13.4)	(3.8)
<b>India FII (US\$ mn)</b>	<b>6 Mar</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	5.8	(246.6)	(1,813.7)	1,130.4
FII-E	(472.5)	(1,246.4)	540.5	7,929.7

Source: Bank of Baroda Economics Research |

\*Markets in India were closed on 10.03.2020

## BOBCAPS Research

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## MARKET STRATEGY

11 March 2020

### Unlevered stocks best picks in tremulous market

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**Tax cuts unlikely to impel private capex in near term:** Private sector capex has nosedived 40% YoY to Rs 1.3tn in Q3 and 49% YoY in 9MFY20. Our analysis suggests that adoption of the new tax regime (NTR) offers little impetus to capex as only a handful of companies are looking to reinvest the savings amid a dull economic climate. Our case study of the 2017 Trump tax cut further shows only a transient positive impact on capex levels of S&P 500 companies (+18% YoY in 2018), soon disrupted by China trade tensions in 2019 (-13% YoY). That said, buybacks/dividends of these players touched all-time highs in 2018.

**Cash-rich companies best bets on NTR...:** In the initial phase of NTR adoption, we see value in cash-rich companies (mostly PSUs – some of them already offering >7% yields), as they look to pass on the tax benefits to shareholders via dividends and/or buybacks. Dividend distribution tax (DDT) exemption makes for an even stronger investment proposition. Based on our screen for high dividends, cheap valuations (<10x FY22E EPS) and strong profitability (>15% ROE), we find ONGC, IOCL, GAIL and Coal India attractive among PSUs.

**...as also select high P/E stocks:** Eicher Motors (EIM) and Bajaj Auto (BJAUT) also stand out despite high multiples (>15x P/E), given their robust return ratios (>25% ROCE), low leverage (<0.5x D/E) and cash flow edge from NTR migration. These themes form the core of our newly launched BOBCAPS Model Portfolio (Fig 20).

**Nifty valuations seem to be close to a bottom:** We appear to be passing through a protracted sluggish phase in the market (~5% annualised return since Jun'17), with Nifty P/E derating from 21x to 16x one-year forward earnings. Barring a major global crisis such as that seen in 2008, the Nifty has typically bottomed out at ~15x levels (~10,000 levels based on current earnings estimates). We believe earnings momentum from NTR adoption, followed by higher dividends or share buybacks could trigger a rise above 20x P/E by FY22 (>13000 levels).

#### BOBCAPS MODEL PORTFOLIO KEY PICKS

	Overweight	Underweight
Autos	Eicher Motors	Mahindra & Mahindra
	Maruti Suzuki	
Financials	Bajaj Finance	IndusInd Bank
	ICICI Bank	
	Kotak Mahindra Bank	
Energy	GAIL	Bharat Petroleum
	Indian Oil	NTPC
	Petronet LNG	
Pharma	Cipla	Sun Pharma
	Laurus Labs	Dr. Reddy's
	Alembic Pharma	
IT	HCL Tech	Tech Mahindra
	L&T Infotech	Wipro
Infra	PNC Infrastructure	Larsen & Toubro
	KNR Constructions	



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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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