BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

14 May 2020

RESEARCH

BOB Economics Research | Government Stimulus Measures

Aatmanirbhar package for MSMEs, NBFCs and Power

Market Strategy | Covid-19 Stimulus

First instalment of mega stimulus – spotlight on MSMEs

Kotak Mahindra Bank | Target: Rs 1,450 | +22% | BUY

Liability franchise remains strong

Maruti Suzuki | Target: Rs 6,000 | +19% | BUY

Near-team outlook hazy; maintain faith on solid franchise

SUMMARY

India Economics: Government Stimulus Measures

Honourable PM announced a big bang Rs 20tn Aatmanirbhar Bharat Abhiyan package to stimulate the economy and give impetus to local manufacturing. As part of this, the FM today announced Rs 6tn package for MSMEs, NBFCs and Power sector. NBFCs are the biggest beneficiary with additional allocation of Rs 3.7tn. With this, the overall stimulus by fiscal and monetary measures stands at 6.4% of GDP. We believe these measures largely take care of the economic loss to the economy because of the pandemic.

Click here for the full report.

Market Strategy: Covid-19 Stimulus

As part of its Rs 20tn stimulus package, the Centre today unveiled ~Rs 6tn in liquidity-related support, primarily targeting MSMEs and NBFCs. By raising the total stimulus to >10% of GDP and focusing on MSMEs – the primary engines of job creation, the government is targeting a V-shaped economic recovery once the lockdown is lifted. Key measures include Rs 3tn in collateral-free loans for MSMEs, a 12-month moratorium and a 100% credit guarantee to banks/NBFCs. MSMEs in troubled sectors such as auto ancillaries and consumer durables would benefit.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
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 (%)	0.67	(4bps)	(5bps)	(175bps)
India 10Y yield (%)	6.17	0bps	(32bps)	(121bps)
USD/INR	75.51	0.3	1.0	(7.2)
Brent Crude (US$/bbl)	29.98	1.2	(4.8)	(57.9)
Dow	23,765	(1.9)	0.2	(6.9)
Shanghai	2,892	(0.1)	2.3	0.3
Sensex	31,371	(0.6)	0.7	(15.9)
India FII (US$ mn)	**11 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(433.0)	(828.2)	(12,171.9)	(2,412.4)
FII-E	85.8	2,467.3	(4,166.2)	2,436.7

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Kotak Mahindra Bank

Kotak Bank's (KMB) Q4FY20 PAT at Rs 12.7bn (–10% YoY) missed estimates as the bank made Covid-related general provisions of Rs 6.5bn. About 26% of the loan book is under moratorium, with a higher share of retail loans. Slippages were lower at Rs 4.9bn as the asset classification standstill benefit was offered to loans worth Rs 6.6bn. The liability franchise remains robust, marked by a CASA ratio of 56.2% and healthy account opening traction (~14k accounts per day in May thus far). Maintain BUY with a Mar'21 TP of Rs 1,450.

Click here for the full report.

Maruti Suzuki

Maruti's (MSIL) Q4FY20 operating performance missed estimates due to a sequential dip in ASP and negative operating leverage. Although near-term demand remains uncertain, the potential shift in preference towards personal mobility due to the pandemic should work in MSIL's favour, especially given its dominance in entry-to-mid segment PVs. We cut FY21/ FY22 earnings by 1-6% to factor in the impact from an extended lockdown, and revise our Mar'21 TP to Rs 6,000 (vs. Rs 6,100) based on 25x FY22E EPS.

Click here for the full report.

GOVERNMENT STIMULUS MEASURES

13 May 2020

Aatmanirbhar package for MSMEs, NBFCs and Power

Honourable PM announced a big bang Rs 20tn Aatmanirbhar Bharat Abhiyan package to stimulate the economy and give impetus to local manufacturing. As part of this, the FM today announced Rs 6tn package for MSMEs, NBFCs and Power sector. NBFCs are the biggest beneficiary with additional allocation of Rs 3.7tn. With this, the overall stimulus by fiscal and monetary measures stands at 6.4% of GDP. We believe these measures largely take care of the economic loss to the economy because of the pandemic.

Sameer Narang
Jahnavi | Sonal Badhan
chief.economist@bankofbaroda.com

Booster for MSMEs: In a major relief to MSMEs, government announced Rs 3.7tn package for MSME sector. Out of this, Rs 3tn is in the form of collateral-free automatic loan with 100% credit guarantee which is 20% of outstanding credit of Rs 15tn to MSMEs. This will ensure availability of liquidity at external linked rate to MSMEs. Apart from this, government will be providing Rs 200bn as subordinate debt to stressed MSMEs for equity infusion. Another Rs 500bn has been earmarked as equity investment in MSMEs through fund of funds. Notably, definition of MSMEs also been revised which will enable a wider set of enterprises to avail of these benefits. MSMEs will be given priority in government tenders upto Rs 2bn and all dues will be cleared in 45 days.

NBFCs and Power sector too gain: In order to provide liquidity to NBFCs/HFCs/MFIs, a special liquidity scheme of Rs 300bn with 100% guarantee by Government has been launched. In addition to this, the existing Partial Credit Guarantee scheme has been extended by Rs 450bn to cover investment in NBFC paper through primary issuances as well. Government will bear 20% of first loss. For the distressed power sector, the Government has launched Rs 900bn liquidity injection scheme against DISCOM receivables. Loans to be given by REC/PFC against state guarantees.

Stimulus at 10% of GDP: RBI in its Mar'20 policy and subsequent announcements has announced liquidity measures of Rs 5.25tn (2.6% of GDP). In addition, government had announced a Rs 1.7tn stimulus package (0.9% of GDP). In addition to this, RBI had also announced moratorium on loans. Today's announcements are cumulatively worth ~Rs 6tn (3% of GDP). This takes the total stimulus announced so far to Rs 12.9tn (6.4% of GDP). We believe the next set of measures will be announced for migrant workers, rural/ farm sector and industries impacted the most by the pandemic.

KEY HIGHLIGHTS

- MSMEs get a boost of Rs3tn collateral free loan guaranteed by GoI.
- NBFCs and power sector too gain.
- Overall stimulus announced till date stands at 6.4% of GDP.

COVID-19 STIMULUS

13 May 2020

First instalment of mega stimulus – spotlight on MSMEs

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

As part of its Rs 20tn stimulus package, the Centre today unveiled ~Rs 6tn in liquidity-related support, primarily targeting MSMEs and NBFCs. By raising the total stimulus to >10% of GDP and focusing on MSMEs – the primary engines of job creation, the government is targeting a V-shaped economic recovery once the lockdown is lifted. Key measures include Rs 3tn in collateral-free loans for MSMEs, a 12-month moratorium and a 100% credit guarantee to banks/NBFCs. MSMEs in troubled sectors such as auto ancillaries and consumer durables would benefit.

Centre biting the mega stimulus bullet: The Indian government has joined the league of large global economies that have announced stimulus packages exceeding 10% of GDP. The Prime Minister's intent for the Rs 20tn package is clear – to target a V-shaped economic recovery as the nationwide lockdown is lifted. In addition, with the world looking to reduce dependence on China, reforms will be introduced centering around land, labour, liquidity and law, to ensure a thrust upon local manufacturing.

Liquidity support for MSMEs: The Finance Minister today followed up on the PM's announcement, unveiling details for the first tranche of stimulus amounting to ~Rs 6tn – mostly liquidity-related and targeted at MSMEs. Key features include Rs 3tn in collateral-free automatic loans for the sector, coupled with a 12-month moratorium and 100% credit guarantee cover to banks and NBFCs (principal and interest). These are expected to benefit ~4.5mn MSME units. Additionally, the government will provide Rs 200bn in subordinate debt for stressed MSMEs (~0.2mn units) in the form of direct debt by banks to promoters for direct equity infusion.

Additional measures for NBFCs, discoms and contractors: The FM also announced: (a) a Rs 300bn special liquidity scheme and a Rs 450bn partial credit guarantee scheme for NBFCs, (b) Rs 900bn liquidity injection for power distribution companies (discoms) to fund their ~Rs 940bn in payables to power generation companies (loans to PFC/REC would be given against state guarantees), (c) a six-month extension to all contractors for construction activities for central agencies, (d) a six-month extension in RERA timelines for real estate projects, and (e) tax-relates incentives such as a Rs 500bn cut in TDS/TCS, and extension in income tax filing timelines.

STIMULUS BREAKDOWN

Stimulus	(Rs tn)
Overall (announced by PM)	**20.0**
RBI	5.74
Garib Kalyan	1.7
Balance	**12.56**
Atmanirbhar tranche 1	
MSMEs	3.7
NBFCs	0.75
Discom	0.9
TDS/TCS	0.5
PFs	0.09
Total	**6.62**

Source: RBI, government data

BUY
TP: Rs 1,450 | ⮝ 22%

KOTAK MAHINDRA BANK

| Banking | 13 May 2020

Liability franchise remains strong

Kotak Bank's (KMB) Q4FY20 PAT at Rs 12.7bn (–10% YoY) missed estimates as the bank made Covid-related general provisions of Rs 6.5bn. About 26% of the loan book is under moratorium, with a higher share of retail loans. Slippages were lower at Rs 4.9bn as the asset classification standstill benefit was offered to loans worth Rs 6.6bn. The liability franchise remains robust, marked by a CASA ratio of 56.2% and healthy account opening traction (~14k accounts per day in May thus far). Maintain BUY with a Mar'21 TP of Rs 1,450.

Vikesh Mehta
research@bobcaps.in

One-fourth of portfolio under moratorium: According to management, ~26% of borrowers by value have availed of the RBI's moratorium up to 30 April. The retail segment has the largest share of such loans followed by SME and corporate accounts. KMB made Covid-19-related general provisions worth Rs 6.5bn on overdue accounts under moratorium.

Slippages decline on regulatory forbearance: KMB's headline GNPA/NNPA ratio declined by ~20bps QoQ each to 2.3%/0.7% in Q4. Slippages at Rs 4.9bn (vs. Rs 10.6bn in Q3) would have been Rs 6.6bn higher if we exclude the impact of regulatory forbearance on overdue loans. The SMA-2 book declined sharply to ~Rs 1bn (vs. Rs 2.7bn in Q3). Management believes unsecured lending, credit cards, MFI and CV loans will see pandemic-related stress.

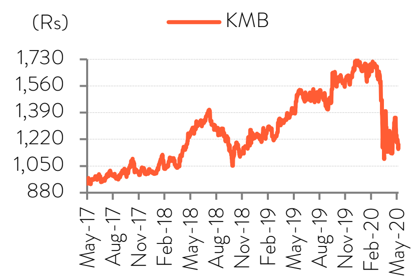
Liability franchise continues to improve: KMB's CASA ratio expanded 250bps QoQ, spurred by a sharp 30% YoY growth in savings deposits. This month as well, the bank continues to acquire ~14k customers/day via the digital route.

Maintain BUY: We like KMB for its proven and stable leadership, substantially improved liability franchise, best-in-class margins and prudent underwriting standards. Maintain BUY with an unchanged Mar'21 TP of Rs 1,450.

Ticker/Price	KMB IN/Rs 1,187
Market cap	US$ 30.1bn
Shares o/s	1,910mn
3M ADV	US$ 107.8mn
52wk high/low	Rs 1,740/Rs 1,001
Promoter/FPI/DII	30%/40%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	95,317	112,590	135,118	148,015	168,721
NII growth (%)	1729.6	1812.1	2000.9	954.5	1398.9
Adj. net profit (Rs mn)	40,619	36,116	59,472	65,575	76,565
EPS (Rs)	21.8	25.5	31.1	33.7	38.7
P/E (x)	54.4	46.5	38.1	35.2	30.7
P/BV (x)	6.0	5.3	4.7	3.8	3.4
ROA (%)	1.7	1.7	1.8	1.7	1.8
ROE (%)	12.5	12.2	13.1	11.9	11.7

Source: Company, BOBCAPS Research

BUY
TP: Rs 6,000 | ⮝ 19%

MARUTI SUZUKI | Automobiles | 13 May 2020

Near-team outlook hazy; maintain faith on solid franchise

Maruti's (MSIL) Q4FY20 operating performance missed estimates due to a sequential dip in ASP and negative operating leverage. Although near-term demand remains uncertain, the potential shift in preference towards personal mobility due to the pandemic should work in MSIL's favour, especially given its dominance in entry-to-mid segment PVs. We cut FY21/ FY22 earnings by 1-6% to factor in the impact from an extended lockdown, and revise our Mar'21 TP to Rs 6,000 (vs. Rs 6,100) based on 25x FY22E EPS.

Navin Matta | Nishant Chowhan, CFA
research@bobcaps.in

Q4 operating performance misses estimates: Revenues for MSIL fell 15% YoY to Rs 182bn, slightly below our estimates led by a dip in ASP due to a lower mix of diesel vehicles. Adjusted for BS-IV discontinuation cost (Rs 1.25bn), EBITDA at Rs 16.7bn saw a 26% YoY drop. EBITDA margin declined by 130bps YoY and 100bps QoQ to 9.2%. While discount per vehicle at Rs 19k fell sharply QoQ, management cited reduced utilisation and higher A&P spends as key factors behind margin pressure. A lower tax rate limited the fall in adj. PAT to 21% YoY at Rs 14.2bn.

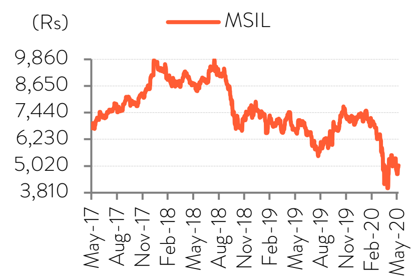
Covid-19 effect – downtrading and shift to personal mobility: Management refrained from giving out any guidance on demand outlook for FY21. But MSIL believes the economic dislocation caused by Covid-19 could have an adverse impact on affordability and hence induce downtrading in the PV segment. On the other hand, the potential shift away from shared mobility could have a positive impact on demand for PVs, especially in the entry-to-mid segments.

Maintain BUY: While the near-term outlook appears challenging, we maintain our positive view on MSIL given its solid franchise and dominant market share in passenger cars, along with a healthy balance sheet (cash/Mcap at ~25%). MSIL trades at 21x FY22E EPS which is 20% below its five-year mean. BUY.

Ticker/Price	MSIL IN/Rs 5,036
Market cap	US$ 20.2bn
Shares o/s	302mn
3M ADV	US$ 111.1mn
52wk high/low	Rs 7,759/Rs 4,001
Promoter/FPI/DII	56%/23%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	797,627	860,203	756,106	702,174	828,967
EBITDA (Rs mn)	120,615	110,473	74,276	67,162	98,056
Adj. net profit (Rs mn)	79,002	75,342	57,756	49,044	72,330
Adj. EPS (Rs)	261.6	249.5	191.2	162.4	239.5
Adj. EPS growth (%)	7.5	(4.6)	(23.3)	(15.1)	47.5
Adj. ROAE (%)	19.8	16.9	12.0	9.7	13.4
Adj. P/E (x)	19.3	20.2	26.3	31.0	21.0
EV/EBITDA (x)	10.7	11.0	15.8	17.4	11.8

Source: Company, BOBCAPS Research

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.