

RESEARCH

BOB Economics Research | Weekly Wrap

Fed, RBI minutes expected to be dovish

Ashok Leyland | Target: Rs 64 | -20% | SELL

Weak Q3FY20; recovery still some time away

Logistics | Monthly Tracker

Rail container volumes steady, major port cargo sluggish

SUMMARY

India Economics: Weekly Wrap

While US macro data was mixed, Euro Area's Q4 GDP growth was at a 7-year low as German economy stagnated and France and Italy's contracted. Euro fell. However, as fears over COVID-19 receded global equities went up. Sensex rose and INR appreciated as inflows (US\$ 0.9bn) continue. Yields fell despite higher than estimated CPI and 5% jump in oil prices, as RBI is expected to ease later in the year. More clarity will come as RBI minutes are released in the week.

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Ashok Leyland

Ashok Leyland's (AL) Q3FY20 EBITDA missed estimates by 14% as weak demand and BS-IV inventory de-stocking hurt gross margins. This effect will continue to play out in Q4 as well. While AL hopes for H2FY21 CV demand recovery, it has begun to rationalise costs and prune recurring capex. We believe the CV upcycle, and hence a return to previous peaks, is some time away. At 21x FY22E EPS, current valuations are expensive. We cut FY20-FY22 EBITDA by 5-17% post the weak Q3 and revise our Mar'21 TP from Rs 68 to Rs 64.

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

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 | 2,870 |
| Greenply Industries | Buy | 205 |
| Laurus Labs | Buy | 510 |
| Transport Corp | Buy | 355 |
| Ashok Leyland | Sell | 64 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|---------|----------|
| US 10Y yield (%) | 1.62 | (2bps) | (23bps) | (104bps) |
| India 10Y yield (%) | 6.43 | (5bps) | (17bps) | (91bps) |
| USD/INR | 71.33 | 0 | (0.7) | (0.2) |
| Brent Crude (US\$/bbl) | 56.34 | 1.0 | (12.2) | (12.7) |
| Dow | 29,423 | (0.4) | 1.8 | 15.7 |
| Shanghai | 2,906 | (0.7) | (6.7) | 6.9 |
| Sensex | 41,460 | (0.3) | (1.0) | 15.6 |
| India FII (US\$ mn) | 12 Feb | MTD | CYTD | FYTD |
| FII-D | (104.3) | 1,336.1 | (232.7) | 2,711.4 |
| FII-E | (93.1) | 1,983.5 | 3,356.2 | 10,745.4 |

Source: Bank of Baroda Economics Research

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Logistics: Monthly Tracker

Trade indicators exhibited mixed trends in Jan'20. Container rail volumes (+6% YoY) continued to grow in mid-single digits, but lower lead distances (-3% YoY) weighed on NTKM growth (+0.3%). Major port cargo grew at a meagre 2.5% YoY despite a lower base. Container traffic at major ports, however, expanded 2% YoY (in TEUs) vs. a 2% dip in Dec'19. Merchandise exports fell 1.7% while imports contracted at a slower 0.8% YoY. The domestic slowdown, global trade headwinds and coronavirus epidemic will continue to weigh on demand for logistics services.

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WEEKLY WRAP

17 February 2020

Fed, RBI minutes expected to be dovish

While US macro data was mixed, Euro Area's Q4 GDP growth was at a 7-year low as German economy stagnated and France and Italy's contracted. Euro fell. However, as fears over COVID-19 receded global equities went up. Sensex rose and INR appreciated as inflows (US\$ 0.9bn) continue. Yields fell despite higher than estimated CPI and 5% jump in oil prices, as RBI is expected to ease later in the year. More clarity will come as RBI minutes are released in the week.

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Markets

- **Bonds:** US 10Y yield closed flat (1.58%) as industrial production and CPI inflation was below estimates but jobs and retail sales were in-line or better. UK yields went up on hope of fiscal stimulus. Oil prices rose by 5.2% to US\$ 57/bbl as fear of COVID-19 slightly receded. India's 10Y yield fell by 7bps (6.37%), supported by RBI's liquidity infusion measures. System liquidity surplus was at Rs 2.9tn as on 14 Feb 2020 vs Rs 3.2tn in the previous week.
- **Currency:** Barring GBP and JPY, other global currencies closed higher this week as concerns over the COVID-19 outbreak eased. DXY rose by 0.4% in the week. GBP rose by 1.2% on expectations of a fiscal stimulus in the upcoming Budget. EUR depreciated by (-) 1.1% as Euro Area industrial production fell more than estimated. INR strengthened by 0.1% on the back of FII inflows (US\$ 895mn).
- **Equity:** Barring Nikkei and FTSE, global indices ended higher this week as investors continue to track corporate earnings. Amongst other indices, Dax (1.7%) rose the most despite weaker macro print (Germany's Q4 GDP). This was followed by Shanghai Comp (1.4%) and Dow (1%). Sensex too ended in green led by gains in tech stocks.
- **Upcoming key events:** In the current week, markets will await flash PMI print of US, Eurozone and Japan. Apart from this, US housing data and FOMC minutes will give some direction to future course of federal funds rate. Germany ZEW index is also due for release. On the domestic front, RBI's minutes will be closely watched on outlook about policy rate.



SELL

TP: Rs 64 | ▼ 20%

ASHOK LEYLAND

Automobiles

17 February 2020

Weak Q3FY20; recovery still some time away

Ashok Leyland's (AL) Q3FY20 EBITDA missed estimates by 14% as weak demand and BS-IV inventory de-stocking hurt gross margins. This effect will continue to play out in Q4 as well. While AL hopes for H2FY21 CV demand recovery, it has begun to rationalise costs and prune recurring capex. We believe the CV upcycle, and hence a return to previous peaks, is some time away. At 21x FY22E EPS, current valuations are expensive. We cut FY20-FY22 EBITDA by 5-17% post the weak Q3 and revise our Mar'21 TP from Rs 68 to Rs 64.

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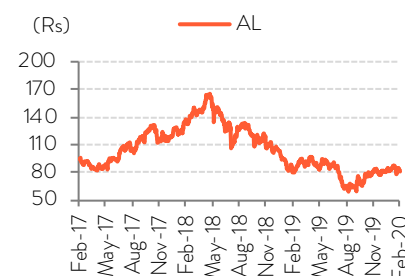
Weak Q3: AL's topline declined 37% YoY to Rs 40.2bn due to weak volumes and an 11% YoY drop in ASPs on inferior tonnage mix and elevated discounts. Gross margins fell 450bps QoQ which management attributed to the de-stocking impact (that includes overheads). EBITDA declined 65% YoY to Rs 2.25bn with EBITDA margin contracting 470bps YoY and 20bps QoQ to 5.6%. Margin decline was partly restricted by a 37% sequential reduction in employee expenses on account of a reversal in bonus provision for 9MFY20.

| | |
|------------------|-------------|
| Ticker/Price | AL IN/Rs 80 |
| Market cap | US\$ 3.3bn |
| Shares o/s | 2,935mn |
| 3M ADV | US\$ 19.9mn |
| 52wk high/low | Rs 98/Rs 57 |
| Promoter/FPI/DII | 51%/23%/10% |

Source: NSE

Aggressive cost and capex rationalisation plans: AL believes that demand could recover from Q3FY21 onwards, with hopes pegged on an economic recovery and a low base. Along with its de-risking strategy (aiming to grow LCVs, exports and defense), the company plans to restructure the organisation to remain profitable even with a lower revenue base (~Rs 180bn). AL has also pruned capex by Rs 7bn-8bn to Rs 12bn-13bn for FY20 and plans to reduce outlay to ~Rs 5bn/year (ex-new product development/investments) for ~3-4 years.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We cut FY20-FY22 EBITDA estimates by 5-17% to factor in the weak Q3 performance and below-expected volume push from pre-buying ahead of BS-VI transition. We remain negative on the CV cycle given the capacity overhang and potential impact from DFC commissioning.

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 263,564 | 290,550 | 196,713 | 224,900 | 250,497 |
| EBITDA (Rs mn) | 29,635 | 31,357 | 14,482 | 17,227 | 22,163 |
| Adj. net profit (Rs mn) | 17,405 | 20,292 | 6,054 | 7,555 | 10,957 |
| Adj. EPS (Rs) | 5.9 | 6.9 | 2.1 | 2.6 | 3.7 |
| Adj. EPS growth (%) | 41.1 | 16.6 | (70.2) | 24.8 | 45.0 |
| Adj. ROAE (%) | 24.0 | 24.4 | 7.1 | 8.5 | 11.8 |
| Adj. P/E (x) | 13.5 | 11.6 | 38.9 | 31.2 | 21.5 |
| EV/EBITDA (x) | 8.2 | 7.1 | 15.0 | 13.9 | 11.2 |

Source: Company, BOBCAPS Research



Rail container volumes steady, major port cargo sluggish

Trade indicators exhibited mixed trends in Jan'20. Container rail volumes (+6% YoY) continued to grow in mid-single digits, but lower lead distances (-3% YoY) weighed on NTKM growth (+0.3%). Major port cargo grew at a meagre 2.5% YoY despite a lower base. Container traffic at major ports, however, expanded 2% YoY (in TEUs) vs. a 2% dip in Dec'19. Merchandise exports fell 1.7% while imports contracted at a slower 0.8% YoY. The domestic slowdown, global trade headwinds and coronavirus epidemic will continue to weigh on demand for logistics services.

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Stable container rail volume growth: Container rail volumes rose 6% YoY in Jan'20, led by uptick in both the EXIM (+6% YoY) and domestic (+7%) segments. Rail EXIM grew faster than the 3% YoY increase seen in container tonnage volumes at major ports, signaling possible market share gains for rail from road in container traffic for the fifth consecutive month. Industry sources also suggest that some manufacturers are shifting from road to rail (e.g. PV OEMs) in a quest for lower transport cost amid the demand slowdown. NTKM growth was a paltry 0.3% YoY as lead distances (-3% YoY) remained a drag.

Insipid growth in major port cargo...: Total cargo traffic at major ports decelerated to 2.5% YoY in Jan'20 (vs. 6% in Dec'19), underwhelming given the benign base (-2.3% in Jan'19). Among ports, Vizag (+32% YoY), Ennore (+10%), and Mumbai (+7%) led growth, while JNPT (-3%) and Chennai (-13.5%) remained weak. Among commodities, iron ore cargo (+121%) more than doubled. POL (-5%) and miscellaneous cargo (-14.5%) were the key laggards.

...but container traffic rises: Container traffic at major ports ticked up 2%/3% YoY in TEU/tonnage terms, from -2%/-1% in Dec'19. Kandla (+79%), Vizag (+18%) and Tuticorin (+8%) were leaders, while JNPT (-2%) and Chennai (-9%) dragged down overall growth. At JNPT, the share of direct port delivery in total laden containers rose marginally to 47.7% (46.5% in Dec'19).

Exports slip, imports contract at slower pace: EXIM merchandise trade (in US\$ terms) declined 1% YoY in Jan'20, vs. -6% in Dec'19. Exports dipped 1.7% YoY, but imports fell at a slower pace of 0.8% YoY in Jan'20. Non-oil, non-gold exports/imports contracted by 0.8%/4.7% YoY.

Dec IIP contracts: Dec'19 IIP contracted 0.3% YoY vs. 1.8% growth in Nov'19, with manufacturing IIP declining 1.2% YoY vs. 2.7% growth in the prior month.

RECOMMENDATION SNAPSHOT

| Ticker | Price | Target | Rating |
|-----------|-------|--------|--------|
| AGLL IN | 111 | 117 | ADD |
| CCRI IN | 560 | 630 | ADD |
| FSCS IN | 428 | 450 | REDUCE |
| MAHLOG IN | 398 | 460 | BUY |
| TCIEXP IN | 913 | 895 | ADD |
| TRPC IN | 260 | 355 | BUY |
| VRL IN | 253 | 325 | BUY |

Price & Target in Rupees



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)

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