

RESEARCH

India Strategy | Covid-19 Pandemic

Market bottom elusive – stick to select cash-rich stocks

BOB Economics Research | Weekly Wrap

COVID-19 cases jump, so does volatility

SUMMARY

India Strategy: Covid-19 Pandemic

Central banks globally are bracing for a worldwide economic shutdown which heightens the risk of a protracted downside in global markets. The Covid-19 pandemic continues to worsen, ratcheting up uncertainty over corporate earnings across the globe, and in India. On the other hand, crashing oil prices and the duty hike on fuel could hand the Indian government a potential US\$ 15bn tax windfall. Cash-rich companies in sectors such as downstream oil & consumption (auto, paints), chemicals and utilities remain preferred bets (see our [Market Strategy](#) note).

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

India Economics: Weekly Wrap

A 3 times increase in confirmed COVID-19 cases to 152,366, drove Dow down by 17.1%. Other equity markets such as Dax and Sensex followed. DXY rose to a 3-year high with AUD and GBP falling to multi-year lows. INR too fell to lifetime low of 75.2/\$ with FII outflows of US\$ 6.3bn. India's 10Y yield fell by 6bps as RBI announced multiple liquidity infusion measures. We expect RBI to cut rates by 50bps in Apr'20 policy or earlier. Apart from this, Centre's borrowing calendar for H1FY21 is scheduled to be released.

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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	2,870
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 (%)	1.19	11bps	(39bps)	(133bps)
India 10Y yield (%)	6.30	3bps	(9bps)	(107bps)
USD/INR	74.27	(0.1)	(4.2)	(7.9)
Brent Crude (US\$/bbl)	24.88	(13.4)	(56.9)	(63.7)
Dow	19,899	(6.3)	(31.9)	(22.7)
Shanghai	2,729	(1.8)	(8.5)	(11.7)
Sensex	28,870	(5.6)	(29.7)	(24.8)
India FII (US\$ mn)	17Mar	MTD	CYTD	FYTD
FII-D	(1,103.8)	(5,123.1)	(6,690.2)	(3,746.1)
FII-E	(494.8)	(4,947.2)	(3,160.3)	4,229.0

Source: Bank of Baroda Economics Research

BOBCAPS Research

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COVID-19 PANDEMIC

23 March 2020

Market bottom elusive – stick to select cash-rich stocks

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Global central banks brace for recession: Covid-19 has forced several global economies to a grinding halt, with initial supply concerns being overtaken by demand destruction. Central banks the world over have moved aggressively to buttress economies against the rapidly unraveling worldwide recession. The US Fed has slashed interest rates to near zero, pledged >US\$ 700bn in asset purchase and backstopped foreign authorities with the offer of cheap dollar financing. ECB followed with a US\$ 850bn stimulus plan to spur systemic liquidity. As the pandemic worsens, we can expect to see additional stimulus measures.

Market bottom elusive: The Nifty at 14x trailing EPS and 1.8x book value is well below fundamental lows of 15x and 2x respectively (going by the last few bear phases). Even so, the unprecedented global uncertainty over corporate earnings associated with the Covid-19 pandemic makes it difficult for us to identify a bottom. The only silver lining for India is the collapse in oil prices over the past two months to US\$ 25/bbl levels, given that the country currently imports 80% of its oil requirements.

Potential windfall from oil collapse: [Media reports](#) indicate the Indian government has raised excise duties on petrol and diesel by Rs 18/ltr and Rs 12/ltr respectively (in addition to Rs 3/ltr hikes a few days ago). Duty hikes coupled with savings on petroleum subsidies will provide a windfall of ~Rs 2.5tn for the exchequer in FY21. At the macro level, this would ease some pressure on India's fiscal health and help RBI take deeper rate cuts.

We cut oil price estimates across our energy universe from ~US\$ 65/US\$ 70 to US\$ 35/US\$ 40 per barrel for FY21/FY22 on demand concerns. We also raise USDINR forecasts to Rs 75/Rs 77, baking in risk-off sentiments in the wake of the global slowdown. Our earnings estimates stand reduced for upstream PSUs, RIL and GAIL, while we raise earnings for downstream oil and some gas utilities.

BOBCAPS MODEL PORTFOLIO

Sector	Overweight	Underweight
Autos	Eicher Motors	Mahindra & Mahindra
	Maruti Suzuki	Tata Motors
Financials	Bajaj Finance	Yes Bank
	ICICI Bank	IndusInd Bank
	Kotak Mahindra Bank	
	HDFC Bank	
Oil & Gas	GAIL (India)	Bharat Petroleum
	Indian Oil	NTPC
	ONGC	Power Grid
	Petronet LNG	
Pharma	Cipla	Sun Pharma
	Laurus Labs	Dr. Reddy's
	Alembic Pharma	
IT	HCL Tech	Tech Mahindra
	L&T Infotech	Wipro
Infrastructure	PNC Infrastructure	Larsen & Toubro
	KNR Constructions	

Source: BOBCAPS Research



WEEKLY WRAP

23 March 2020

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Markets

- **Bonds:** Global yields closed mixed even as monetary easing continued. Fed's emergency rate cut and liquidity infusion measures kept its 10Y yield lower by 11bps (0.85%). Oil prices fell sharply by (-) 20% (US\$ 27/bbl) due to muted demand. India's 10Y yield fell by 6bps (6.26%) as RBI said it will buy bonds worth Rs 400bn in Mar'20 apart from injecting Rs 1tn through LTRO and US\$ 2bn through US\$ swap. System liquidity surplus was at Rs 2.2tn as on 20 Mar 2020 vs Rs 2.7tn in the previous week.
- **Currency:** Global currencies trailed near multi-year lows as dollar strengthened due to a global risk-off. DXY registered its biggest weekly gain since the financial crisis and rose by 4.1% (index is now at a 3-year high). AUD fell to its lowest level in 17-years (down by 6.7%). GBP is at lowest level since Mar'85 (down by 5.3%). INR too depreciated to a lifetime low at 75.2/\$ as FII outflows continued (US\$ 6.3bn in the week).
- **Equity:** Global indices closed lower as fears of a possible economic slowdown on the back of spread of COVID-19 continued to rattle markets. Dow (-17.3%) slumped the most followed by Sensex (-12.3%) and Nikkei (-10.8%). The domestic market registered its biggest weekly loss in over 10 years with banking and real estate stocks being the worst hit.
- **Upcoming key events:** In the current week, markets will monitor daily increase in COVID-19 confirmed cases which increased by 152,366 in the previous week. Flash PMIs of major economies (US, Eurozone and Japan) and US durable goods orders will shed light on the extent of slowdown. On the domestic front, H1FY21 borrowing calendar will be closely watched.



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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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