

RESEARCH

BOB Economics Research | Weekly Wrap

Markets jittery as virus spreads

Balrampur Chini | NOT RATED

Higher ethanol sales to support profitability

Automobiles

Feb'20 Auto Sales – Weak for most segments; PVs, tractors ahead

SUMMARY

India Economics: Weekly Wrap

Global markets fell as COVID-19 outbreak spread beyond China to Italy, South Korea and Middle East. China's manufacturing and services PMI fell to an all-time low raising fresh concerns over global growth outlook. While bond yields fell, equity markets worldwide saw a sharp sell-off. US10Y yield fell by 32bps to an all-time low of 1.15% as investors expect Fed to intervene to support growth. JPY strengthened. Indian equity markets and INR fell due to FII outflows (US\$ 2.4bn). Indian 10Y yield fell 5bps as oil prices eased.

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

Balrampur Chini

We recently met the management of Balrampur Chini Mills (BRCM). Key takeaways: (1) BRCM expects to crush ~5% lower sugarcane (~100mn quintals) in SS19-20 and produce ~1.14bn kg of sugar. Output of the sweetener is likely to decline YoY due to diversion of cane to produce B-heavy molasses. (2) Management estimates sugar recovery at 11.4% for the season despite diversion of ~40% of cane for B-heavy molasses (~12% if no diversion). (3) The company expects its cost of sugar production to average at ~Rs 30/kg at the EBIT level. Current selling prices are at Rs 32-32.5/kg.

[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 (%)	1.15	(11bps)	(51bps)	(160bps)
India 10Y yield (%)	6.37	(1bps)	(21bps)	(101bps)
USD/INR	72.18	(0.9)	(1.2)	(1.8)
Brent Crude (US\$/bbl)	50.52	(3.2)	(15.1)	(22.4)
Dow	25,409	(1.4)	(11.5)	(2.4)
Shanghai	2,880	(3.7)	(3.2)	(3.8)
Sensex	38,297	(3.6)	(6.5)	6.2
India FII (US\$ mn)	27 Feb	MTD	CYTD	FYTD
FII-D	(270.9)	315.6	(1,253.3)	1,690.8
FII-E	(428.0)	877.1	2,249.7	9,638.9

Source: Bank of Baroda Economics Research

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Automobiles

Feb'20 volume growth remained negative for most key segments, barring tractors. In addition to wholesale volume pressures from soft demand and destocking ahead of BS-VI, a few players witnessed production constraints due to supply disruptions in China-sourced components. PV growth stayed negative but MSIL's performance was resilient. Stress on 2W and MHCV wholesale volumes continued led by BS-IV inventory correction efforts. We continue to prefer PVs over 2Ws and CVs; MSIL and EIM are top picks and AL is a SELL.

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WEEKLY WRAP

02 March 2020

Markets jittery as virus spreads

Global markets fell as COVID-19 outbreak spread beyond China to Italy, South Korea and Middle East. China's manufacturing and services PMI fell to an all-time low raising fresh concerns over global growth outlook. While bond yields fell, equity markets worldwide saw a sharp sell-off. US10Y yield fell by 32bps to an all-time low of 1.15% as investors expect Fed to intervene to support growth. JPY strengthened. Indian equity markets and INR fell due to FII outflows (US\$ 2.4bn). Indian 10Y yield fell 5bps as oil prices eased.

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Markets

- **Bonds:** Global yields closed lower as concerns linger over spread of COVID-19. China's manufacturing and services PMI also fell sharply raising further concerns over global growth outlook. US 10Y yield fell by 32bps to hit a record low of 1.15% as markets are pricing a rate cut by Fed in Mar'20. Oil prices fell by (-) 3.2% (US\$ 51/bbl) over muted demand outlook. India's 10Y yield fell by 5bps (6.37%). System liquidity surplus was at Rs 3tn as on 28 Feb 2020 vs Rs 2.3tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY weakened by (-) 1.1% in the week as Fed Chair hinted at rate cuts to combat the impact of COVID-19. JPY however, rose sharply by 3.3% on safe-haven demand. EUR also gained 1.7%. INR depreciated by (-) 0.7% on the back of FII outflows (US\$ 2.4bn) even as oil prices fell sharply.
- **Equity:** Barring Nikkei Global indices nosedived in the week, led by Dow, Dax (-12.4%) and FTSE (-11.1%). Renewed fears around spread of COVID-19 outside of China dragged global markets down. There is widespread risk to global growth from spread of coronavirus. Following global cues, Sensex also fell by (-) 7%, with metal, auto and oil & gas stocks falling the most.
- **Upcoming key events:** In the current week, markets will closely follow news flow on spread of COVID-19 as well as manufacturing and services PMI of major economies-US, Eurozone, Japan and China. Apart from this, US jobs data is also scheduled to be released. Domestic markets will move in-line with global markets.



**NOT
RATED**
BALRAMPUR CHINI

| Agriculture

| 02 March 2020

Higher ethanol sales to support profitability

We recently met the management of Balrampur Chini Mills (BRCM). Below are the key takeaways:

- Sugar production in India is expected to decline to ~26.5mn tonnes for sugar season 2019-20 (from ~33.2mt in SS18-19) mainly due to lower output in Maharashtra and Karnataka.
- Exports from India are projected at ~5mt this season aided by higher international sugar prices and government subsidy of ~Rs 10.44/kg.

Sugar

- BRCM expects to crush ~5% lower sugarcane (~100mn quintals) in SS19-20 and produce ~1.14bn kg of sugar. Output of the sweetener is likely to decline YoY due to diversion of cane to produce B-heavy molasses.
- Management estimates sugar recovery at 11.4% for the season despite diversion of ~40% of cane for B-heavy molasses (~12% if no diversion).
- BRCM will fulfill its export entitlement by Q4FY20 and has got an additional export quota allotment of 85,000t in Feb'20. The company had sold the earlier export quota of 229,000 quintals at ~Rs 30/kg (incl. subsidies) and has also contracted the recently allocated quota at ~Rs 34/kg (incl. subsidies).
- Management expects its cost of sugar production to average at ~Rs 30/kg at the EBIT level. Current selling prices are at Rs 32-32.5/kg.

Ethanol

- BRCM plans to sell 120-125mn litres of ethanol in FY20 and ~150mn litres in FY21 (vs. ~111mn litres in FY19). About 60% of sales are planned via the B-heavy molasses route.
- The Gularia plant commenced production from Jan'20 and full benefits of this capacity should be seen in FY21, which should aid higher profitability.

Cogeneration

- Management expects to sell 570mn units of power in FY20/FY21 (664mn units in FY19) at an average price of ~Rs 3.1/unit (-38% YoY). Realisation will decline due to change in pricing by the government from Apr'19. Volumes will be lower owing to higher internal consumption of bagasse at enhanced distillery capacities and sale of more bagasse outside post the reduction in power tariff (case on tariff cut pending in Allahabad High Court).

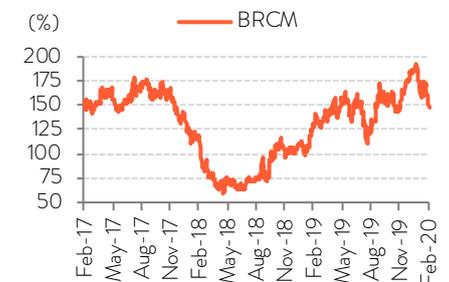
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Ticker/Price	BRCM IN/Rs 143
Market cap	US\$ 435mn
Shares o/s	228mn
3M ADV	US\$ 2.5mn
52wk high/low	Rs 195/Rs 110
Promoter/FPI/DII	41%/25%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE



AUTOMOBILES

02 March 2020

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MSIL resilient in PV segment: Domestic PV sales declined by an estimated 5-7% YoY in Feb'20. Maruti Suzuki's (MSIL) domestic PV sales dipped 2% YoY (vs. double-digit declines for several peers), while exports rose 7%. Its compact segment volumes (-4% YoY) were likely hit by the discontinuation of diesel wholesale volumes. UV sales (+4% YoY) saw a healthy 37% MoM rise led by 'Vitaro Brezza' (petrol) stocking. M&M's (MM) PV sales dropped 58% YoY with management citing challenges in parts supply from China due to Covid-19. Tata Motors' (TTMT) PV volumes fell 31% YoY. Among other major PV OEMs, domestic sales for Hyundai/Toyota/Honda slid 7%/12%/47% YoY.

Domestic 2W sales remain tepid: Domestic 2W sales continue to flounder due to (1) weak underlying demand, (2) ongoing BS-IV destocking effect, and (3) production constraints for BS-VI vehicles given supply disruptions from China. Domestic 2W volumes for Bajaj Auto (BJUAT) and TVS Motor (TVSL) declined 21% and 27% YoY respectively, partly offset by healthy export volume growth. Royal Enfield (RE) volumes rose 1% YoY led by a good response to its BS-VI motorcycles.

CV volumes still under pressure: MHCV volumes continue to falter with a lack of notable pre-buying. TTMT's domestic CV sales dropped 35% YoY as MHCV sales plunged 46% due to the weak macro climate. Ashok Leyland's (AL) domestic sales also fell 39% YoY led by a 47% fall in MHCVs. VECV volumes dropped 29% YoY.

Tractor sales strong: MM's tractors sales rose 19% YoY with domestic volume growth of 21% while sales for Escorts (ESC) also grew 19%. YTD tractor sales for MM/ESC are down 7%/5% YoY. Healthy monsoons and the rabi sowing trend should support volume growth in FY21.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AL IN	75	64	SELL
BJAUT IN	2,792	3,560	ADD
EIM IN	17,013	25,000	BUY
HMCL IN	1,975	2,360	REDUCE
MM IN	462	600	ADD
MSIL IN	6,300	8,825	BUY
TTMT IN	125	212	ADD
TVSL IN	419	475	REDUCE

Price & Target in Rupees

SALES SNAPSHOT

Ticker	Volume	YoY (%)	MoM (%)
AL IN	11,475	(37)	(3)
BJAUT IN	354,913	(10)	(10)
EIM IN*	68,122	(1)	(1)
MM IN	55,037	(27)	(27)
MSIL IN	147,110	(1)	(5)
TVSL IN	253,261	(15)	8
TTMT IN	40,516	(33)	(15)

Source: Company | *RE & VECV combined



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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