

Event Update

Market correction due to Corona Virus offers an opportunity...

Markets have corrected sharply over last couple of weeks on account of the outbreak of nCov- 19 in China and its spread outside China esp. to the US and European nations. India too has witnessed few cases though the number is small compared to China and other countries. The outbreak, if not contained at current levels, could lead a blow to global economy threatening consumption and tourism thereby risking business sentiments, globally.

The virus belongs to the family of viruses which cause illness like common cold to more severe ones like influenza, SARS, MERS etc. and happen to be prevalent in cold weather and the impact subsides/ virus becomes ineffective with rising temperature; nCov-19 is no different. As we approach summers, the effect of virus would recede and so will the negativity in the markets. Historical data proves that during previous virus outbreaks, the markets had reacted on the similar lines as now but recovered swiftly as normalcy returned (Please refer next slide for the data). We feel that this time it would be no different unless the virus spreads fast and causes large scale human life destruction (on lines of Spanish Flu in 1918-19).

Looking at the situation as 'glass half full' (instead of glass-half-empty), we are of the opinion that Indian economy has higher benefits from the outbreak as it would force the global multinationals to look at redrawing their sourcing strategies / supply chains away from China; atleast they would look at tier 2 sources to ensure that any future supply side disruption (from China) does not impact their business prospects. India would be a big beneficiary of the change in business strategy as India offers low cost, educated labour force and good trade practices in form of regulation and IP rights to fill the vacuum created in the global supply chain, though the shift would happen over next couple of years. In short term, the correction in crude would lead to low inflation, thus improving chances of lower interest rates in near future. Surplus supply in crude oil market is expected to keep prices low unless any supply disruption in form of production cuts by OPEC plus nations or geo-political tensions disrupt the supplies. Low crude prices would also help the companies using crude and crude derivatives as raw material for their products reduce their product prices leading to higher demand or improve margins.

Coordinated easing undertaken by central banks, to prevent conversion of the supply side shock created by the corona outbreak in China into a financial shock for various economies, has opened up opportunity for RBI to look at easing policy rates in India. RBI had been forced to 'pause' last time due to hardening inflation; correction in crude prices would help RBI MPC to look through the transient inflationary forces. We expect RBI to ease in forthcoming MPC meet in Apr.'20 which would augur well for interest rate sensitive sectors viz., banking, auto and auto ancillaries, real estate and housing finance etc.

We present few stocks which would be either beneficiaries of the developments due to corona virus outbreak or thereafter or those which have been corrected to reasonable valuations due to the concomitant market correction without any change in the underlying business or future prospects.

Market Volatility is an Investment Opportunity

Virus Outbreak	Estimated Period of outbreak	Returns During Outbreak (%)	1 year Return Post Outbreak (%)
SARS	Jan to Mar 2003	-10.1 	 83.4
Avian Influenza	Jan to Aug 2004	-12.2 	 50.3
EBOLA	Dec 2013 to Feb 2014	1.1 	 39.0
Zika	Nov 2015 to Feb 2016	-13.4 	 25.0
Covid 19	Jan 2020 to -----	-7.0 	

Source: Capitaline, Reuters.

Investment Opportunity

Company	Comments	CMP	Target	% Upside
ICICI Bank	Amongst the largest private banks in the country with strengthening liability franchise, declining credit costs and improving asset quality to sustain strong performance	507	621	23%
Bajaj Auto	Bajaj Auto is the second largest motorcycle manufacturer in India with a share of ~20%. It is the largest exporter of motorcycles in India with 59% share in FY19. It is also the leader in three-wheeler commercial good carrier ~87% market share.	2,701	3,200	18%
Tech Mahindra	Higher revenue growth momentum with diversified business structure makes Tech M more robust.	758	910	20%
Ashok Leyland	Ashok Leyland being the second largest CV player with strong balance sheet and leaner P&L, tailwinds of industry cycle and focused new product launch will drive share price returns going forward	71	82	15%
Aarti Industries	Specialty Chemical division to benefit owing to Coronavirus outbreak in China as it could accelerate the shift of supply chain to India from China	992	1,082	9%
Manappuram Finance	Gold financing business moat with strong AUM and earnings growth, supported by stable funding profile and benign asset quality	157	204	30%
Symphony	Innovative new launches of higher margin products to drive top-line growth; low dependence on supplies from China and already procured components for upcoming season & available alternative sources, co will not be impacted by any potential supply chain disruption from China.	1,290	1,482	15%
RITES	RITES- a proxy play to Railway capex, presents value for investors due to its strong and diversified order book, association with MoR, healthy financials, high dividend payout and attractive valuations	289	329	14%
Navin Fluorine International	Multi-year deal win gives strong earnings growth visibility	1,420	1,705	20%
Minda Corporation	Minda Corporation is one of the largest suppliers of Electronic & Mechanical Security System, Wiring Harness solution and interiors and plastics components to 2/3W, PV and CV OEMs in India. It is poised to benefit from BSVI transition significantly	100	115	15%

Bajaj Auto

Target: Rs 3,200

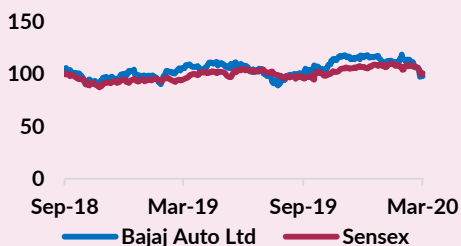


Reco Price: 2,701

MARKET DATA

No. of Shares (Cr)	: 28.9
Market Cap (Rs Cr)	: 2,709
52-week High / Low	: 3,315/2,400
Avg. daily vol. (6 mths)	: 155,191
BSE Code	: BJAUT IN
NSE Code	: BAJAJ NS

Price Performance



Bajaj Auto (BAL) is the second largest motorcycle manufacturer in India with a share of ~20%. It is the largest exporter of motorcycles in India with 59% share in FY19. It is also the leader in three-wheeler commercial good carrier ~87% market share.

Investment Rationale

- ❑ **Exports to provide hedge and drive growth:** Bajaj Auto's exports contributes to nearly 40% to revenue and is expected to grow at a healthy CAGR of 7-8% for next 5-7 years supported by low penetration in African and ASEAN regions where Bajaj has strong distribution channel. This provides an edge to BAL over other 2W manufacturers in India especially in a subdued demand scenario and mature 2W market of India. We expect Bajaj to continue its superior performance in a down phase.
- ❑ **Likely increase in domestic market share:** Its product innovations (ex; electronic Fuel injection technology) on entry level BSVI bikes of CT100 and Platina places it on a strong footing for BSVI transition and domestic market share gain. Also, its offering of Pulsar and Avenger bikes along with KTM makes it the preferred bet for riding the premiumization trend witnessed in two wheeler industry for the last 3 years. These factors will likely increase its domestic market share in the next two years. Further, its recent foray in electric scooter with its iconic 'Chetak' brand, launch of QUTE quadricycles and partnership with Triumph could provide an edge over competitors in the medium term.
- ❑ **3W business to grow on govt. support:** BAL is the leader in 3W segment with a market share of ~59% and this business is expected to grow significantly with help from government schemes and incentives in some states and government decision of no permit requirement for 3 wheelers running on alternate fuels.
- ❑ **9MFY20 performance:** Bajaj Auto reported a strong set of results in 9MFY20, comfortably outperforming the industry, in a challenging industry scenario led by strong growth in exports. Its 2W volume was down 5.3% YoY at 3,623,251 unit v/s an industry decline of 12.8%. Exports 2W volume has shown a growth of 9% till 9MFY20 with Q3FY20 registering highest ever quarterly sales for the company led by strong sale of its 'Boxer' and 'CT' models. Its revenue in 9MFY20 was Rs 22,500.6 cr (up 0.7% YoY) when the overall 2W industry has de grown. It PAT came in at Rs 3789.7 cr up 12.5% YoY due to lower corporate tax rate.

Financial Summary

Y/E	Sales	PAT	EPS	Change	P/E	RoE	RoCE	EV/EBITDA
March	(Rs Cr)	(Rs Cr)	(Rs.)	(YoY %)	(x)	(%)	(%)	(x)
FY19	30,250	4,333	150	28%	17.1	21.2	21.0	15.8
FY20E	31,030	4,947	171	14%	15.8	21.2	23.1	14.7
FY21E	34,264	5,325	184	7%	14.7	20.4	22.4	13.5
FY22E	37,481	5,920	205	11%	13.2	20.5	22.6	12.1

Source: Consensus Estimates, Axis Securities

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