FIRST LIGHT

13 May 2020

RESEARCH

BOB Economics Research | Monthly Chartbook

Co-ordinated fiscal and monetary response

BOB Economics Research | FY21 GDP Update

Charting India's growth trajectory

BOB Economics Research | Inflation and IIP

Growth contracts, food inflation rises

Banking

Lending yields plummet in March

SUMMARY

India Economics: Monthly Chartbook

India's growth bottomed out in Apr'20 with 70% of the economy in lockdown. Manufacturing and Services PMI contracted. Services more than manufacturing. Activity will pick up as 73% of the economy is now open. Government revenues have been hit substantially and large increase in excise duty on petroleum products will mitigate only a part of it. Centre has increased its borrowing by 2% of GDP to make-up for its revenue loss. States are also expected to increase their borrowing. 10Y yield did jump by 20bps. RBI may have to do OMO purchases to bring yields lower. This may not lead to a rating downgrade as lower oil prices and calibrated fiscal response will give India room to navigate through this.

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 (%)	0.71	3bps	(1bps)	(169bps)
India 10Y yield (%)	6.17	20bps	(32bps)	(122bps)
USD/INR	75.73	(0.2)	0.7	(7.4)
Brent Crude (US$/bbl)	29.63	(4.3)	(5.9)	(57.8)
Dow	24,222	(0.4)	2.1	(4.4)
Shanghai	2,895	0	3.5	(0.3)
Sensex	31,561	(0.3)	1.3	(14.9)
India FII (US$ mn)	**8 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(323.7)	(395.2)	(11,739.0)	(1,979.5)
FII-E	285.5	2,381.5	(4,252.0)	2,351.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

India Economics: FY21 GDP Update

An estimated 73% of India's economy is open now compared with 30% in Apr'20. However, with 50% of urban population in red zone, discretionary consumption will be muted. A larger part of the economy will open up in Q2. Growth will bottom out in Q1FY21 and show gradual improvement. Fiscal stimulus from higher borrowings by centre at Rs 12tn (Rs 7.8tn FY21BE) and low oil prices will be key tailwinds for growth. We expect GDP growth at 0.5% (1.5% earlier) with a downside risk in FY21 and a recovery to 6.7% in FY22.

Click here for the full report.

India Economics: Inflation and IIP

Even with data capturing challenges, underlying trend of higher food prices and lower production (IIP contracted by 16.7%) has been captured. In case of core inflation, only two indices were reported. Health inflation has fallen by 140bps though housing is up by 20bps. Core inflation should moderate as demand shock will impact discretionary demand. The above backdrop calls for using the current policy space for reduction in interest rates as the economy gradually opens up. We see room for another 50bps reduction in policy rates.

Click here for the full report.

Banking

As per latest RBI data, fresh lending yields continued to decline, with a 40bps MoM drop in Mar'20 to 8.8%. Divergent trends were observed between private and public sector banks (PSB) as fresh yields for the former declined by ~98bps to 9.3% while that for PSBs was stable at ~8.7%. The lending rate on outstanding loans has fallen 11bps in Mar'20 and ~30bps since Oct'19. Banks have been reducing their MCLR over the past few months and this along with the 75bps repo rate cut by RBI in March may have translated into lower fresh yields, in our view.

Click here for the full report.

Co-ordinated fiscal and monetary response

India's growth bottomed out in Apr'20 with 70% of the economy in lockdown. Manufacturing and Services PMI contracted. Services more than manufacturing. Activity will pick up as 73% of the economy is now open. Government revenues have been hit substantially and large increase in excise duty on petroleum products will mitigate only a part of it. Centre has increased its borrowing by 2% of GDP to make-up for its revenue loss. States are also expected to increase their borrowing. 10Y yield did jump by 20bps. RBI may have to do OMO purchases to bring yields lower. This may not lead to a rating downgrade as lower oil prices and calibrated fiscal response will give India room to navigate through this.

Economic activity slumps in Apr'20: Manufacturing and Services PMI declined to 27.4 and 5.4 respectively in Apr'20 signalling a sharp downtick in economic activity. Electricity demand too is down 29% in Apr'20. Manufacturing activity is resuming as retail demand picks up in Green and Orange zones. Red zones will continue to see restrictions. With 50% of urban population in red zones, we expect discretionary demand to remain weak. Rural India is far better placed as most green zones are in rural India and a record rabi harvest.

Government revenues take a hit: The lockdown has resulted in sharp decline in revenue collections for states and centre. Centre is likely to report a higher than estimated fiscal deficit for FY20 and FY21. Centre has already increased its gross borrowing by 50% in FY21 to Rs 12tn from Rs 7.8tn estimated earlier. Even states are expected to increase their borrowings. Notably, states had already reduced capex in FY20. We now see extended decline in capex.

Yields to remain in 5.5-6% range: India's 10Y yield fell by 3bps in Apr'20. This was on account of Rs 4.7tn liquidity surplus in the system. Upto 8 May 2020, 10Y yield fell further by 14bps in the month. However, post the announcement of centre's revised borrowing plan, 10Y yield has risen by 20bps. Now borrowing in H1 and H2 is split in half at Rs 6tn each compared with Rs 4.88tn and Rs 2.92tn earlier. The large liquidity surplus (Rs 5.4tn as on 11 May 2020) and OMOs by RBI along with muted credit demand can absorb higher supply. Thus we believe 10-year yield is likely to remain in 5.5-6% range in the near-term.

Pressure on INR abates: While INR touched a record low of 76.84/$ in Apr'20, it recovered to end the month higher by 0.6%. The gains in INR come at the back of receding FII outflows and an improvement in global risk sentiment as countries looked at restarting economic activities. We continue to remain positive on INR as lower oil prices will ensure that current account remains in surplus in FY21. This along with substantial FX reserves will ensure that INR reverts back to 73/$ in FY21.

FY21 GDP UPDATE

12 May 2020

Charting India's growth trajectory

An estimated 73% of India's economy is open now compared with 30% in Apr'20. However, with 50% of urban population in red zone, discretionary consumption will be muted. A larger part of the economy will open up in Q2. Growth will bottom out in Q1FY21 and show gradual improvement. Fiscal stimulus from higher borrowings by centre at Rs 12tn (Rs 7.8tn FY21BE) and low oil prices will be key tailwinds for growth. We expect GDP growth at 0.5% (1.5% earlier) with a downside risk in FY21 and a recovery to 6.7% in FY22.

Sameer Narang
Aditi Gupta | Sonal Badhan
Dipanwita Mazumdar | Jahnavi
chief.economist@bankofbaroda.com

KEY HIGHLIGHTS

- GDP to bottom-out in Q1FY21 as activity in green and orange zones picks-up.
- India's FY 21 GDP growth estimated to be lower at 0.5%.
- Fiscal stimulus and an expansionary monetary policy to drive recovery.

Red, orange and green zones: India's 733 districts have been divided into red (18%), orange (39%) and green (44%) zones. Red zones are largely urban areas with 50% of population concentrated in them. This implies supply side factors will ease for manufacturing. However, services sector will continue to see restrictions. Discretionary demand in urban areas will pick up with a lag.

What is allowed: Certain economic activities such as malls, gyms, religious gatherings, sports and cinema halls are not allowed in any zone. Apart from this, most economic activities are open in green and orange zones. In red zones essential services shops are operational. Other establishments, IT services and manufacturing is allowed with social distancing. But autonomy to decide is with local administration.

Gradual easing of restrictions: From a complete lockdown under which only essential activities and agriculture were allowed (~30% of the economy) from May 4, 2020, the new rules notified imply ~73% of the economy is now open. As more and more districts move from red to orange and then to green, a larger part of the economy will open up. We expect economic activity to normalise towards end of Q2 as most domestic and global restrictions will ease.

Growth projections revised: The lockdown in domestic and global economy implies in the month of April alone ~6% of the economic output was lost. This will come down to 3.3% in May'20 as a larger part of the economy opens up. Thus maximum impact on the economy will be felt in Q1FY21. The same is visible in dip in electricity demand by 29% in Apr'20. Thus, GDP growth is now estimated at 0.5% for FY21 (from 1.5% earlier) with a rebound to 6.7% in FY22.

INFLATION AND IIP

12 May 2020

Growth contracts, food inflation rises

Sameer Narang
Dipanwita Mazumdar | Jahnavi
chief.economist@bankofbaroda.com

Even with data capturing challenges, underlying trend of higher food prices and lower production (IIP contracted by 16.7%) has been captured. In case of core inflation, only two indices were reported. Health inflation has fallen by 140bps though housing is up by 20bps. Core inflation should moderate as demand shock will impact discretionary demand. The above backdrop calls for using the current policy space for reduction in interest rates as the economy gradually opens up. We see room for another 50bps reduction in policy rates.

KEY HIGHLIGHTS

- Industrial production fell by 16.7% in Mar'20 from an increase of 4.5% in Feb'20.
- CFPI rises to 10.5% in Apr'20 from 8.8% in Mar'20.
- RBI should use room available to cut rates by 50bps.

IIP growth slumps: Industrial output contracted by 16.7% in Mar'20 from an increase of 4.5% in Feb'20 largely owing to nationwide lockdown. The response rate of 73% is far lower than 94% for Dec'19. Thus revision in data is inevitable. The decline was led by manufacturing sector which contracted by 20.6% (increase of 3.1% in Feb'20) followed by electricity at 6.8% in Mar'20. Mining sector reported a flat growth. Within manufacturing, capital and consumer durables sectors were the worst hit, as their output contracted by 35.6% and 33.1% respectively. Production of even intermediate goods fell by 18.5% and infrastructure goods by 23.8%. Overall, industrial production slipped and declined by 0.7% in FY20 compared with an increase of 3.8% in FY19.

Food inflation rises: Even with data related challenges, CPI inflation seems to have captured the underlying trend of rising food prices. Consumer food inflation inched up by 170bps to 10.5% in Apr'20 from 8.8% in Mar'20. This was led by 5% increase in vegetable inflation (23.6% in Apr'20 as against 18.6% in Mar'20). Cereal inflation rose to 7.8% as against 5.3% in Mar'20, in line with international prices. Pulses prices rose by 22.8% as against 15.8% in Mar'20. Milk prices also rose sharply by 9.4% compared to 6.5% in Mar'20. Within core, only housing (10% weight) and health (5.9% weight) indices were reported. While housing inflation did inch up to 3.9% (3.7% in Mar'20), health care moderated to 2.8% (from 4.2% in Mar'20).

RBI to ease again: Even with data reporting challenges, the underlying trend of lower core inflation and higher food inflation captures the demand and supply challenges. Food inflation should ease once agri supply chain is working. Core inflation will continue to ease due to lower demand as consumer sentiment has been impacted adversely. Large dip in industrial output shows the magnitude of supply side shock. In our opinion, this calls for RBI to ease further by 50bps.

BANKING

12 May 2020

Lending yields plummet in March

Vikesh Mehta
research@bobcaps.in

Fresh lending yields down 40bps MoM: As per latest RBI data, fresh lending yields continued to decline, with a 40bps MoM drop in Mar'20 to 8.8%. Divergent trends were observed between private and public sector banks (PSB) as fresh yields for the former declined by ~98bps to 9.3% while that for PSBs was stable at ~8.7%. The lending rate on outstanding loans has fallen 11bps in Mar'20 and ~30bps since Oct'19. Banks have been reducing their MCLR over the past few months and this along with the 75bps repo rate cut by RBI in March may have translated into lower fresh yields, in our view.

Term deposit rates dip 7bps: The weighted average domestic term deposit rate (WADTDR) of scheduled commercial banks (SCB) declined by 7bps to ~6.4% in Mar'20. A large part of the decline was driven by private banks which lowered their WADTDR by 15bps to ~6.5% (and by 56bps since Oc'19 vs. a 46bps reduction by SCBs).

Spreads increase further for private banks: High lending rates and a sharper reduction in term deposit rates have raised the spread (outstanding loan yields less outstanding term deposit costs) for private banks to the highest level in over six years. As of Mar'20, the lending spread stood at 4.4% for private players vs. 3.1% for PSBs.

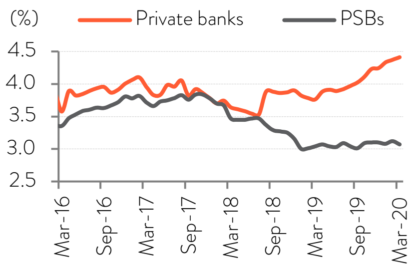
Likely pressure on NIMs ahead: The median MCLR of SCBs has dipped 20bps MoM to 8% in Apr'20. A bulk of the banking sector's loan portfolio is currently linked to MCLR where both large private banks and PSBs have cut rates by 30-65bps in the last six months. We believe it won't be long before surplus liquidity and weak credit growth start translating the policy rate cuts into lower lending yields for banks. This apart, banks would also start to register the impact of repo-linked loans. At the same time, some margin pressure is likely to be mitigated by the reduction in deposit rates by banks.

FIG 1 – MCLR OF BANKS DOWN >30BPS IN THE LAST SIX MONTHS

Banks	1 year MCLR (%)							Change (bps)
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	Apr-20 over Oct-19
AXSB IN	8.4	8.3	8.2	8.2	8.2	8.1	8.0	(40)
HDFCB IN	8.4	8.3	8.2	8.2	8.2	8.2	8.0	(40)
ICICIBC IN	8.5	8.4	8.3	8.2	8.2	8.2	8.0	(45)
KMB IN	8.6	8.5	8.4	8.4	8.4	8.4	8.1	(50)
RBK IN	9.9	9.8	9.7	9.6	9.6	9.5	9.4	(50)
CBK IN	8.4	8.4	8.4	8.4	8.2	8.2	7.9	(55)
SBIN IN	8.1	8.0	7.9	7.9	7.9	7.8	7.4	(65)

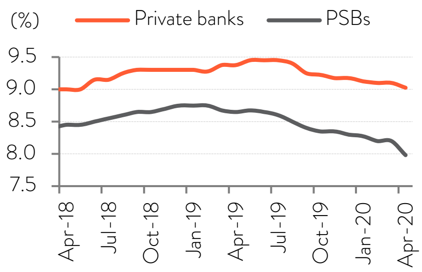
Source: RBI, BOBCAPS Research

LENDING SPREADS OF PRIVATE BANKS CONTINUE TO INCH UP



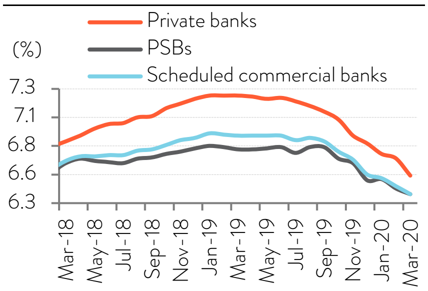
Source: RBI, BOBCAPS Research

MEDIAN MCLR



Source: RBI, BOBCAPS Research

TERM DEPOSIT RATES HAVE BEGUN TO COME OFF



Source: RBI, 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.