FIRST LIGHT

29 August 2019

RESEARCH

BOB Economics Research | India Economic Outlook

Lower rates, liquidity to drive cyclical recovery

Plastic Products

Anti-dumping duty on CPVC – Astral Poly a key beneficiary

SUMMARY

India Economics: India Economic Outlook

The downturn in global and domestic economy is mirrored in India's consumption, investment and export slowdown. A growth revival requires lower interest rates and liquidity. Transmission of RBI's rate cuts has started and PSB recap and liquidity for MSMEs and NBFCs will ensure a cyclical recovery in FY21. The global backdrop of lower oil prices favours dip in interest rates and inflation and a stable INR. Depreciation of Yuan remains a key risk. We see headroom for another 40bps rate cut by RBI in FY20 to support 7% GDP growth in FY21.

Click here **for the full report.**

Plastic Products

India's finance ministry has imposed provisional anti-dumping duty (ADD) on CPVC resin/compounds imported from China and Korea for a period of six months starting 26 August. All imports from these countries must now be within the notified range of US$ 2,031-2,849/MT. We believe this duty augurs well for larger, organised domestic pipe players such as ASTRA (~35% of revenues from CPVC), SI (~10-12%) and FNXP (~8%), by way of spurring potentially higher volumes and inventory gains in H2FY20.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.47	(6bps)	(60bps)	(141bps)
India 10Y yield (%)	6.53	5bps	1bps	(137bps)
USD/INR	71.48	0.7	(3.7)	(2.0)
Brent Crude (US$/bbl)	59.51	1.4	(6.2)	(21.6)
Dow	25,778	(0.5)	(5.2)	(1.1)
Shanghai	2,902	1.3	(1.4)	4.5
Sensex	37,641	0.4	(0.6)	(3.2)
India FII (US$ mn)	**26 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	45.0	1,034.2	3,688.2	3,143.5
FII-E	(97.9)	(1,867.6)	7,537.1	691.9

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

INDIA ECONOMIC OUTLOOK

28 August 2019

Lower rates, liquidity to drive cyclical recovery

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

The downturn in global and domestic economy is mirrored in India's consumption, investment and export slowdown. A growth revival requires lower interest rates and liquidity. Transmission of RBI's rate cuts has started and PSB recap and liquidity for MSMEs and NBFCs will ensure a cyclical recovery in FY21. The global backdrop of lower oil prices favours dip in interest rates and inflation and a stable INR. Depreciation of Yuan remains a key risk. We see headroom for another 40bps rate cut by RBI in FY20 to support 7% GDP growth in FY21.

Investment and consumption slowdown: Consumption demand, the driving force behind India's growth, has exhibited lukewarm growth since Q3FY19 following a drop in discretionary buying. Investment demand too has decelerated due to lower aggregate demand, global slowdown and scarce credit.

Reviving the growth engine: RBI has reduced the repo rate by 110bps to 5.4% in CYTD19 and now provided ample liquidity at Rs 1.5tn (Aug'19). But transmission has been slow. With external benchmarking of loans this will improve and reduce loan EMIs, leaving a greater portion of incomes for consumption or savings/investments. This apart, Rs 100tn of investment is planned in the five years by the Centre to revive growth.

Reforms to lift growth to 7%: The Centre's revenue receipts rose 6.4% in Q1FY20. Indirect tax revenues were up 4%. A slowdown implies limited upside for revenue receipts. While fiscal stimulus may revive consumption in the near term, reforms such as improving 'ease of doing business', changes in the IBC Act, liquidity provision for NBFCs/ MSMEs, privatisation and PSB recap (Rs 700bn), Jalan committee surplus and excess provision transfer (Rs 1.76tn) are enablers that will revive growth to 7% in FY21 in our view.

Global backdrop favourable: Low global interest rates and oil prices set a favourable backdrop for India. Digitisation of the global economy opens up opportunities for India's digital ecosystem. Services exports, though decelerating, are holding up much better as the global services economy is outperforming the manufacturing economy

INR stable, yields to fall: Lower oil prices are a boon for the INR. FPI outflows typically do not last for more than 3-6 months. Another 40bps rate cut by RBI and lower domestic yields could kickstart growth, as was the case in 2003/2009.

PLASTIC PRODUCTS

28 August 2019

Anti-dumping duty on CPVC – Astral Poly a key beneficiary

Arun Baid
research@bobcaps.in

India's finance ministry has imposed provisional anti-dumping duty (ADD) on CPVC resin/compounds imported from China and Korea for a period of six months starting 26 August. All imports from these countries must now be within the notified range of US$ 2,031-2,849/MT. We believe this duty augurs well for larger, organised domestic pipe players such as ASTRA (~35% of revenues from CPVC), SI (~10-12%) and FNXP (~8%), by way of spurring potentially higher volumes and inventory gains in H2FY20.

- Volumes in the Indian CPVC market total ~162,450MT (FY18), of which the domestic industry accounts for ~2.4% and the balance is sourced from imports. China and Korea account for ~30% of CPVC resin/compound volumes imported into the country – tripling from 10% in FY15, as per finance ministry data.

- Our industry interactions indicate that regional and smaller players form a bulk of the buyers for Chinese and Korean CPVC resin/compound. The imposition of ADD will compel these players to take price hikes, thus making them uncompetitive against bigger organised players (who import majorly from US and Japan), by substantially narrowing the price differential.

- The duty in turn could prompt major Japan and US-based suppliers to take some price hikes, albeit nominal as they will look to draw volume share away from Chinese and Korean suppliers.

- We believe larger, organised domestic pipe players who source their raw material from markets like Japan and USA will be key beneficiaries of the new duty, led by better volume growth in H2FY20 as demand shifts away from Chinese/Korean CPVC users. Among our coverage stocks, Astral Poly Technik (ASTRA) stands to gain the most with ~35% of consolidated revenues derived from CPVC, followed by Supreme Industries (SI: ~10-12% share) and Finolex Industries (FNXP: ~8%).

  Benefits beyond H2 will depend on continuation of the duty for more than six months. Some inventory gains may also accrue to CPVC players in near-term if their resin/compound suppliers take price hikes in the immediate future.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
SI IN	1,143	1,135	ADD
FNXP IN	517	560	ADD
ASTRA IN	1,285	1,195	REDUCE

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)

Rating distribution

As of 31 July 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 16 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. 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, wealth management and portfolio 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.