

RESEARCH
BOB Economics Research | RBI Annual Report

RBI dividend to boost growth

SUMMARY
India Economics: RBI Annual Report

RBI will be transferring a record amount of Rs 1.76tn to government (Rs 500bn last year). The increase is led by 1) 55% rise in interest income from domestic securities (24% of balance sheet), 2) 33% increase in interest from foreign securities. The remaining increase can be attributed to implementation of Jalan Committee report (Rs 526bn) and Malegam Report (Rs 291bn). Government's recently announced reforms along with front loading of this spending will aid in a cyclical recovery in H2.

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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 (%) | 1.48 | 1bps | (59bps) | (140bps) |
| India 10Y yield (%) | 6.57 | 4bps | 16bps | (135bps) |
| USD/INR | 71.77 | (0.4) | (4.4) | (1.7) |
| Brent Crude (US\$/bbl) | 60.49 | 1.6 | (5.1) | (21.6) |
| Dow | 26,036 | 1.0 | (4.4) | (0.3) |
| Shanghai | 2,894 | (0.3) | (1.6) | 4.5 |
| Sensex | 37,452 | (0.5) | (0.6) | (3.3) |
| India FII (US\$ mn) | 27 Aug | MTD | CYTD | FYTD |
| FII-D | 358.4 | 1,392.6 | 4,046.5 | 3,501.9 |
| FII-E | (147.6) | (2,015.2) | 7,389.4 | 544.2 |

Source: Bank of Baroda Economics Research

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RBI ANNUAL REPORT

29 August 2019

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RBI's surplus at record high: RBI's surplus increased significantly in FY19 to Rs 1.76tn from Rs 500bn in FY18 on the back of 1) 44.6% increase in interest income, 2) provision write-back of Rs 526.2bn and 3) exchange gain from forex transactions of Rs 291.4bn. Interest income from domestic securities increased by 55% on the back of 21.6% increase in holding of domestic securities (OMOs). Interest income from international sources rose by 33% led by higher global interest rates (170bps). Provision write-back is due to implementation of Jalan Committee Report on ECF and exchange gain is on account of implementation of Malegam Committee Report.

OMO and currency drove balance sheet: RBI's balance sheet increased by 13.4% (Rs 41tn) in FY19 compared with 9.5% (Rs 36tn) in FY18. On the asset side, expansion was led by Rs 3.6tn (57% YoY) of OMO purchases. Foreign investments also rose by Rs 1.5tn in FY19 (6% YoY vs 11% in FY18). On the liabilities side, CIC rose by Rs 2.6tn vs Rs 4tn in FY18. Notably, deposits also increased by 17% in FY19 vs decline of (-) 27% in FY18, driven by RBI's frequent conduct of short term reverse repos. Other liabilities and provisions also increased by 11% in FY19 compared to 17% in FY18, driven by increase in balance in investment revaluation account-rupee securities.

Higher surplus to boost economy: The surplus of Rs 1.76tn includes interim dividend of Rs 280bn. The net transfer this year excluding any interim dividend is Rs 1.48tn (0.8% of GDP). This will give government room to front load expenditure and provide positive fiscal impulse. However, global growth conditions are not conducive given uncertainty over US-China trade war and inversion of US yield curve indicating an impending recession.



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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