

## RESEARCH

### BFSI & Midcaps

BOBCAPS BFSI & Midcaps Conference: Key takeaways

### BOB Economics Research | Wholesale Inflation

Food prices rise, oil and commodity prices fall

### BOB Economics Research | Weekly Wrap

Central Banks in focus

## SUMMARY

### BFSI & Midcaps

We hosted 23 corporates from the BFSI and midcap sectors for meetings with 50+ institutional clients at our conference in Mumbai on 13 September. Participants included listed and unlisted NBFCs, HFCs and SFBs, as well as large banks. A common theme of discussion across the BFSI space was the NBFC liquidity squeeze and banks' assurances of renewed credit to the segment. Many of the midcaps we hosted, spanning the building materials, logistics, utilities and infrastructure sectors, indicated signs of economic recovery in H2FY20.

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

### India Economics: Wholesale Inflation

WPI inflation remained unchanged at 1.1% in Aug'19. Food inflation rose to 5.8% in Aug'19 (4.5% in Jul'19), and its effect on headline WPI was offset by dip in fuel and power inflation at (-) 4% and lower manufactured products inflation. Within food, fruit and vegetable inflation rose by 15.7% in Aug'19. With recent pick-up in monsoon, food inflation is likely to ebb in the coming months. However, today's 10% jump in oil prices if sustains will pose a risk to inflation going ahead.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	595
<a href="#">GAIL</a>	Buy	175
<a href="#">ONGC</a>	Buy	175
<a href="#">TCS</a>	Add	2,360
<a href="#">HPCL</a>	Sell	200

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Balkrishna Ind</a>	Buy	1,290
<a href="#">Future Supply</a>	Buy	715
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	250

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.90	12bps	19bps	(110bps)
India 10Y yield (%)	6.64	(3bps)	11bps	(149bps)
USD/INR	70.93	0.3	0.7	1.3
Brent Crude (US\$/bbl)	60.22	(0.3)	(1.8)	(22.9)
Dow	27,220	0.1	3.6	4.1
Shanghai	3,031	0.7	8.4	13.0
Sensex	37,385	0.8	1.2	(1.9)
India FII (US\$ mn)	12 Sep	MTD	CYTD	FYTD
FII-D	13.5	455.6	4,702.8	4,158.1
FII-E	365.9	(357.3)	6,848.8	3.6

Source: Bank of Baroda Economics Research

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## India Economics: Weekly Wrap

Even as ECB lowered its deposit rate by 10bps and announced a bond buying program, global yields inched up as US-China trade tensions eased. Global equity markets went up and Yen and US\$ closed lower. INR appreciated and Indian equities and yields too went up. Government announced new measures to support exports and real estate sector. However, after 10% increase in oil prices today, markets have reversed the gains seen in the previous week. Central bank meetings (US, BoE, BoJ) will drive markets this week.

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

**BFSI & MIDCAPS**

16 September 2019

**BOBCAPS BFSI & Midcaps Conference: Key takeaways**

We hosted 23 corporates from the BFSI and midcap sectors for meetings with 50+ institutional clients at our conference in Mumbai on 13 September.

Participants included listed and unlisted NBFCs, HFCs and SFBs, as well as large banks. A common theme of discussion across the BFSI space was the NBFC liquidity squeeze and banks' assurances of renewed credit to the segment. Many of the midcaps we hosted, spanning the building materials, logistics, utilities and infrastructure sectors, indicated signs of economic recovery in H2FY20.

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**Last-mile funding vital for stranded residential projects:** With NBFCs and HFCs facing a severe liquidity crunch over the past year, several residential projects are stuck for want of last-mile funding; banks are also averse to lend in such instances – housing financiers view this as a potential solvency risk for developers in the near term, which could be alleviated only if the government provides some relief or a 1-2 year moratorium on loan repayment. That said, growth in housing loans of ticket size below Rs 2mn is strong and should see tailwinds from multiple government schemes and demand in tier-2 and 3 cities.

**Transmission of rate cuts to improve:** Banks are expected to pass on rate cuts more efficiently as they move to new external benchmarks after Oct'19. Any such transmission will have a lag effect as loans will be repriced only when they come up for renewal. NBFCs who attended our conference anticipate rate cuts in the range of 20-50bps by the RBI in the next 2-3 quarters. Systemic liquidity for NBFCs is expected to return in 3-6 months as revival in the capex cycle is likely to be delayed beyond 12 months, making NBFC funding the only source of big-ticket credit offtake for banks.

**Economic activity turning around in select pockets:** Logistics companies such as TCI Express pointed to a revival in volume growth during Q2FY20. Resilience in some end-user industries (pharma, retail and auto spares), more business from existing customers, and the addition of new clients are helping logistics players combat the economic slowdown.

In the building materials sector, the outlook remains challenging amid tepid demand conditions. The regulatory thrust on natural gas consumption will continue to benefit organised tile manufacturers (Cera Sanitaryware), while also ensuring sustained volume traction for gas utilities (Indraprastha Gas).

**KEY CORPORATE PARTICIPANTS**

Company	Ticker
Aavas Financiers	AAVAS IN
Adarin Engineering Tech	Not listed
Alembic Pharma	ALPM IN
CEAT	CEAT IN
Cera Sanitaryware	CRS IN
Greenply Industries	MTLM IN
HDFC Ltd	HDFC IN
Hinduja Leyland Finance	Not listed
Indraprastha Gas	IGL IN
Inox Leisure	INOL IN
ITD Cementation	ITCE IN
Jana Small Finance Bank	Not listed
Kotak Mahindra Bank	KMB IN
Mahindra Finance	MMFS IN
Manappuram Finance	MGFL IN
Sadbhav Engineering	SADE
Satin Creditcare Network	SATIN IN
Shriram City Union Finance	SCUF IN
TCI Express	TCIEXP IN
Zinka Logistics (Blackbuck)	Not listed



## WHOLESALE INFLATION

16 September 2019

### Food prices rise, oil and commodity prices fall

WPI inflation remained unchanged at 1.1% in Aug'19. Food inflation rose to 5.8% in Aug'19 (4.5% in Jul'19), and its effect on headline WPI was offset by dip in fuel and power inflation at (-) 4% and lower manufactured products inflation. Within food, fruit and vegetable inflation rose by 15.7% in Aug'19. With recent pick-up in monsoon, food inflation is likely to ebb in the coming months. However, today's 10% jump in oil prices if sustains will pose a risk to inflation going ahead.

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**Food prices surge:** WPI inflation at 1.1% in Aug'19 remained unchanged on YoY basis. Food inflation increased by 5.8% in Aug'19 compared with 4.5% in Jul'19 led by uptick in fruit and vegetable prices rising to a 3-month high of 15.7% in Aug'19 (12.5% in Jul'19) partly owing to base effect. Fruit prices rose to a 5-year high to 19.7% in Aug'19 from 15.4% in Jul'19. Prices of onion skyrocketed to 33% in Aug'19 from 7.6% in Jul'19. However, food grain prices moderated to 9.7% in Aug'19 with prices of both pulses and wheat easing to 16.4% and 5.3% in Aug'19. Going ahead, outlook on food inflation remains benign on the back of normal monsoon and pick up in sowing.

**Deflation continues in fuel & power inflation:** Fuel and power inflation was at a 3-year low of (-) 4% in Aug'19 vs (-) 3.6% in Jul'19. This was driven by steep decline in mineral oil index (-6.9% vs -6.3% in Jul'19) on account of (-) 19.4% fall in average international crude oil prices in Aug'19. On the other hand, coal prices remain steady (0.8%). The trend of benign oil prices might reverse in this month in the wake of attack on Saudi oil refinery as visible in a 10% jump in oil prices today.

**Core inflation falls steeply:** Both core and manufactured product inflation eased further in Aug'19. While core inflation entered deflationary zone for the first time in almost 3 years (-0.5% in Aug'19 from 0.2% in Jul'19), manufactured product inflation remained flat (0%) vs 0.3% increase in Jul'19. With the exception of leather, other non-metallic minerals, furniture and other transport equipment, prices of all other commodities fell. The decline was most visible in computer/electronic products, base metals and textiles. International commodity prices too declined by (-) 5.9% in Aug'19 on a YoY basis. In Sep'19 the trend is again downward at (-) 6.1%.



## WEEKLY WRAP

16 September 2019

**Central Banks in focus**

Even as ECB lowered its deposit rate by 10bps and announced a bond buying program, global yields inched up as US-China trade tensions eased. Global equity markets went up and Yen and US\$ closed lower. INR appreciated and Indian equities and yields too went up. Government announced new measures to support exports and real estate sector. However, after 10% increase in oil prices today, markets have reversed the gains seen in the previous week. Central bank meetings (US, BoE, BoJ) will drive markets this week.

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**Markets**

- **Bonds:** Global yields closed higher amidst progress in US-China trade deal and better than expected US retail sales and core CPI. US 10Y yield rose by 34bps (1.9%). Despite rate cut by ECB and restart of QE program, European yields too went up. Crude prices which fell by (-) 2.1% (US\$ 60/bbl) are trading 10% higher today (US\$ 66/bbl) on account of attack on Saudi Arabia's oil field. India's 10Y yield rose by 4bps (6.64%), taking global cues. System liquidity is in surplus of Rs 1.5tn as on 13 Sep 2019 vs Rs 1.6tn in the previous week.
- **Currency:** Barring JPY (down by 1.1%), other global currencies closed higher in the week as US-China trade tensions eased. EUR rose by 0.4% even as ECB announced stimulus measures to revive growth. INR appreciated by 1.1% in the week as oil prices fell by (-) 2.1%. Positive FII inflows at US\$ 520mn also helped. However, it has started the week with a gap down of 0.8% after crude oil prices jumped by 10%.
- **Equity:** Led by ongoing progress over the US-China trade deal and announcement of the stimulus programme by ECB, global equity markers went up in the week. Nikkei surged by 3.7% followed by Dax (2.3%) and Dow (1.6%). Sensex rebounded (1.1%) from last week and ended in green led by auto and banking stocks.
- **Upcoming key events:** In the current week, US Fed's, BoE's, BoJ's and Taiwan's policy rate decision will be closely watched. In addition, Euro Area CPI, Japan CPI, Germany PPI and India's WPI, along with US industrial production and current account balance will also be released.



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### 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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