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FIRST LIGHT

13 December 2022

RESEARCH

BOB ECONOMICS RESEARCH | CREDIT GROWTH

Is credit growth impacted by repo rate changes?

BOB ECONOMICS RESEARCH | CPI AND IIP

CPI cools, IIP growth falters

VOLTAS | TARGET: RS 950 | +14% | HOLD

Competition weighing on margins

Daily macro indicators

Indicator	08-Dec	09-Dec	Chg (%)
US 10Y yield (%)	3.48	3.58	10bps
India 10Y yield (%)	7.29	7.30	1bps
USD/INR	82.43	82.28	0.2
Brent Crude (US$/bbl)	76.2	76.1	(0.1)
Dow	33,781	33,476	(0.9)
Hang Seng	19,450	19,901	2.3
Sensex	62,571	62,182	(0.6)
India FII (US$ mn)	**07-Dec**	**08-Dec**	**Chg ($ mn)**
FII-D	21.4	50.3	28.9
FII-E	(167.5)	(94.7)	72.8

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CREDIT GROWTH

There is often discussion on whether or not monetary transmission percolates to the real sector of the economy through change in the pace of growth in credit. Literature suggests that transmission happens with a lag which varies depending upon various factors such as growth, inflation, liquidity and underlying macro structure of the economy.

Click here **for the full report.**

INDIA ECONOMICS: CPI AND IIP

India's headline inflation cooled off to an 11-month low of 5.9% in Nov'22 from 6.8% in Oct'22. This can be attributed to a sharp fall in vegetable prices as well as moderation in prices of fruits. Core inflation edged up marginally to 6% from 5.9%. We expect CPI inflation to inch upwards as the base effect wanes. Further, with a likely slowdown in the economy, core inflation too will remain stable though the pressure to pass on higher input cost will remain. Recent indicators too point towards a slowdown in demand. Notably, IIP growth plunged sharply by 4% in Oct'22 led by a sharp decline in manufacturing output. Output for both consumer durables and non-durables declined sharply. Given this backdrop and the fact that inflation will probably go below 6% in march, we expect that the RBI is likely to draw the curtains on its rate hike cycle with a 25bps rate hike in Feb'23, bringing the terminal repo rate to 6.5%.

Click here **for the full report.**

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VOLTAS

- Management does not anticipate return to double-digit RAC EBIT margins in medium term amid rising competition
- Demand remains tepid industry-wide with low scope for pricing action; VOLT aims to defend market share and margins
- Target P/E cut to 43x (vs. 45x) given lower visibility on RAC margin revival; retain HOLD with revised TP of Rs 950 (vs. Rs 1,000)

Click here **for the full report.**

CREDIT GROWTH

12 December 2022

Is credit growth impacted by repo rate changes?

Dipanwita Mazumdar
Economist

There is often discussion on whether or not monetary transmission percolates to the real sector of the economy through change in the pace of growth in credit. Literature suggests that transmission happens with a lag which varies depending upon various factors such as growth, inflation, liquidity and underlying macro structure of the economy.

With ceteris paribus assumption we have looked at movement in WALR on outstanding loans and the corresponding credit growth for the last 7 years (FY15-22). Ideally a lower interest rate regime should boost credit demand as it lowers borrowing cost. But does this mean that easy money makes every segment borrow more? Probably not, as borrowing is normally linked with state of demand in various segments and capacity utilization rates, which in turn are linked with the overall state of the economy.

Interestingly in this time period, the interest rate cycle has been in the downward direction with an about turn only in FY23 when RBI has started raising the repo rate since May 2022 (repo rate was also raised in 2018-19). There have, however been phases of volatility in credit demand which is explained by faltering growth conditions due to pandemic induced slowdown. In fact, data shows the credit cycle moved more closely with the corresponding growth cycle rather than WALR.

On sectoral basis, credit growth in industry largely remains unaffected by falling interest rates as the uptick in credit growth is not significant. In fact government schemes such as ECLGS have been more successful in boosting credit for these sectors than a lower interest rate regime. For other sectors such as services, NBFC credit demand has moved in tandem with WALR. Within the personal loan segment, credit off take has generally been high and stable over the period studied.

It should be mentioned here that there are limitations to our study as WALR cannot be taken to be the sole variable for credit transmission. This is so because loans are given on a multiple criteria of interest rates with corporates generally getting it at MCLR and retail and MSMEs at a rate linked with an external benchmark. But WALR can still be an indicative rate and suggestive of how transmission has fared across sectors. (Table 1)

- In the 7 years period ending FY22, WALR has fallen by 310 bps before increasing in Fy23 when the RBI started increasing the repo rate. On an average, the fall in WALR has been around 44bps in each year with FY19 being one where it remained virtually unchanged. FY21 was the pandemic period, where fall in WALR was the sharpest on record (by 82bps).

CPI AND IIP

12 December 2022

CPI cools, IIP growth falters

Aditi Gupta
Economist

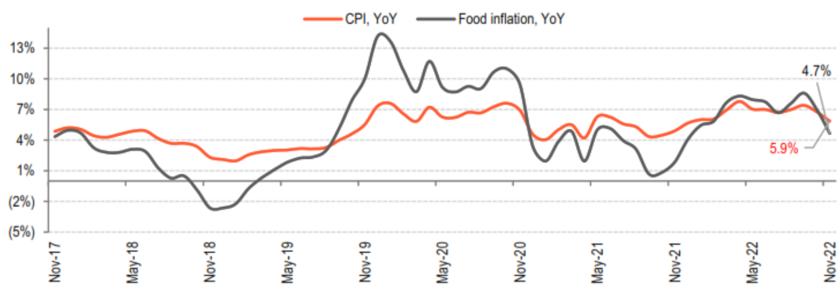
India's headline inflation cooled off to an 11-month low of 5.9% in Nov'22 from 6.8% in Oct'22. This can be attributed to a sharp fall in vegetable prices as well as moderation in prices of fruits. Core inflation edged up marginally to 6% from 5.9%. We expect CPI inflation to inch upwards as the base effect wanes. Further, with a likely slowdown in the economy, core inflation too will remain stable though the pressure to pass on higher input cost will remain. Recent indicators too point towards a slowdown in demand. Notably, IIP growth plunged sharply by 4% in Oct'22 led by a sharp decline in manufacturing output. Output for both consumer durables and non-durables declined sharply. Given this backdrop and the fact that inflation will probably go below 6% in march, we expect that the RBI is likely to draw the curtains on its rate hike cycle with a 25bps rate hike in Feb'23, bringing the terminal repo rate to 6.5%.

CPI inflation moderates

CPI inflation eased:

CPI inflation eased much more than expected to 5.9% in Nov'22 (12-month low), (our estimate 6%) from 6.8% in Oct'22. This is the first time in FY23 that inflation was below RBI's upper threshold of 6%. Food inflation moderated to an 11-month low at 4.7% in Nov'22 compared with 7% in Oct'22. This can almost entirely be explained by a decline in vegetable inflation (decline of 8.1% in Nov'22 compared with an increase of 7.8% in Oct'22), due to seasonal factors. Some moderation was also visible in fruits (2.6% versus 5.2% in Oct'22). Other items in the food basket however continued to show underlying price pressures. Cereals inflation inched up by 13% to its highest since Sep'13, from an already elevated level of 12.1%. Prices of eggs which had been declining since Apr'22, inched up sharply by 4.9% in Nov'22. Other commodities such as meat and fish and milk and milk products showed upward momentum. Fuel and light inflation inched up sharply to 10.6% in Nov'22 from 9.9% in Oct'22. This is even though global oil prices are now below US$ 80/bbl, as prices have not been lowered at the consumer end.

Figure 1: CPI cools down; led by food



Source: CEIC, Bank of Baroda Research

COMPANY UPDATE

BOBCAPS
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HOLD
TP: Rs 950 | ⮝ 14%

VOLTAS | Consumer Durables | 12 December 2022

Competition weighing on margins

- **Management does not anticipate return to double-digit RAC EBIT margins in medium term amid rising competition**
- **Demand remains tepid industry-wide with low scope for pricing action; VOLT aims to defend market share and margins**
- **Target P/E cut to 43x (vs. 45x) given lower visibility on RAC margin revival; retain HOLD with revised TP of Rs 950 (vs. Rs 1,000)**

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We interacted with the management of VOLT. Key takeaways:

RAC margin revival ruled out in medium term: VOLT anticipates continued stiff competition in the room air conditioner (RAC) segment over the near term as peers appear to be aggressively chasing market share at the cost of margins. Consequently, management has ruled out a revival to double-digit EBIT margins in the near-to-medium term. VOLT's response to the current difficult climate is to maintain market share and protect margins via concerted efforts to lower costs.

Demand still tepid with no price hikes: Following a weak Q2FY23, demand has remained sluggish across the industry, with no positive trigger after the start of the festive season. None of the industry players have opted for price hikes in the third quarter thus far. Management remains optimistic of a better Q4 ahead of the summer season, with early demand indicators by January ideal to determine pricing action.

Commodity prices inching up again: After witnessing deflation in Q2FY23, prices of core raw materials such as copper and aluminum are reversing. The effect of softer costs wasn't visible in Q2 due to expensive inventory in the system. While H2FY23 will see the benefits of lower costs, the recent reversal can play spoilsport.

Capex and PLI: VOLT believes component makers are currently on a capex drive to avail of production-linked incentives (PLI), whereas RAC players are incurring capex for captive consumption. VOLT is in the midst of a Rs 3bn-3.5bn phased capex programme aimed at backward integration (along with productive capex) to partly insulate itself against supply chain disruptions.

Maintain HOLD: At 38x, the stock is currently trading around its 10Y average P/E multiple on a 2Y forward basis. Given the reduced visibility on margin recovery, we cut our target Sep'24E P/E to 43x (vs. 45x) while retaining our estimates. This leads to a lower TP of Rs 950 (vs. Rs 1,000) – maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VOLT IN/Rs 834
Market cap	US$ 3.4bn
Free float	70%
3M ADV	US$ 13.7mn
52wk high/low	Rs 1,348/Rs 804
Promoter/FPI/DII	30%/24%/30%

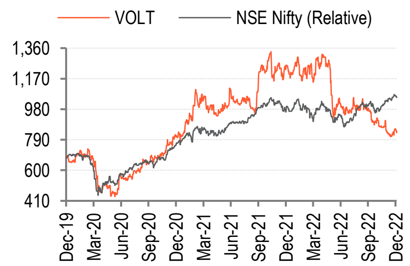
Source: NSE | Price as of 9 Dec 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	79,345	88,613	107,669
EBITDA (Rs mn)	6,816	6,591	9,143
Adj. net profit (Rs mn)	5,060	4,649	6,415
Adj. EPS (Rs)	15.3	14.1	19.4
Consensus EPS (Rs)	15.3	16.0	22.7
Adj. ROAE (%)	9.6	8.3	10.9
Adj. P/E (x)	54.5	59.3	43.0
EV/EBITDA (x)	40.5	41.8	30.2
Adj. EPS growth (%)	(4.3)	(8.1)	38.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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