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FIRST LIGHT

28 July 2022

RESEARCH

BOB Economics Research | IMF World Economic Outlook

Uncertain and Gloomy

BOB Economics Research | Investment Scenario & Funding

Investment in FY23 started on a weaker note

Banking

Takeaways from BOB Banking Conference – Digitisation is key

Reliance Industries | Target: Rs 2,700 | +12% | HOLD

Refining upside capped; roadmap for new energy next catalyst

Dixon Technologies | Target: Rs 4,500 | +22% | BUY

Strong Q1 topline; remains the best PLI play

Daily macro indicators

Indicator	25-Jul	26-Jul	Chg (%)
US 10Y yield (%)	2.80	2.81	1bps
India 10Y yield (%)	7.39	7.37	(2bps)
USD/INR	79.74	79.78	(0.1)
Brent Crude (US$/bbl)	105.2	104.4	(0.7)
Dow	31,990	31,762	(0.7)
Hang Seng	20,563	20,906	1.7
Sensex	55,766	55,268	(0.9)
India FII (US$ mn)	**21-Jul**	**22-Jul**	**Chg ($ mn)**
FII-D	62.1	(103.9)	(166.0)
FII-E	234.4	(77.0)	(311.4)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: IMF World Economic Outlook

After recovering quickly in 2021 from the pandemic induced downturn in CY20, the global economy is on the path of uncertainty and a slowdown in CY22 and CY23. Sharp slowdown in US, China and Euro Area has prompted IMF to revise its global growth forecast downwards to 3.2% and 2.9% in CY22 and CY23, respectively. With risks further tilted to the downside, IMF believes we are 'getting close to global recession'. Inflation will remain a top priority; however tighter monetary policy will add to real economic cost. The report notes if there are further shocks that hit the global economy, economic outlook might even become worse.

Click here **for the full report.**

India Economics: Investment Scenario & Funding

Investment climate in India in Q1FY23 started on a weaker tone with data pointing towards sharp drop in new project announcements relative to Q4FY22. The decline was broad based but sharpest drop was visible in the manufacturing sector. However, compared with the other years, Q1FY23 announcements were higher than those in 2019, 2020 and 2021.

Click here **for the full report.**

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Banking

- Imported inflation a concern but India still better placed than global peers; nominal GDP growth equals credit growth
- NBFCs/fintechs should complement banks; digitisation/tech adoption holds key to growth
- Evolution from banking access to usage and then financial health crucial, with women empowerment a key factor

Click here for the full report.

Reliance Industries

- RIL captured upsides in refining margin and gas prices in Q1, but an increase in tax rate and Jio depreciation resulted in a miss on net income
- Refining upside is capped by ad hoc revisions; roadmap for new energy business and digital/retail listing are key upside triggers
- TP unchanged at Rs 2,700; retain HOLD given 12% upside potential

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Dixon Technologies

- Mobiles segment drove Q1 topline growth; calibrated pricing action and cost-saving initiatives helped improve margins sequentially
- Strong order book from Motorola guided to nearly triple revenue from mobiles business in FY23; exports could be next growth area
- Prime beneficiary of PLI scheme; maintain BUY with a revised TP of Rs 4,500 (vs. Rs 4,600) as we tweak estimates post Q1

Click here for the full report.

IMF WORLD ECONOMIC OUTLOOK

27 July 2022

Rupee slips to a record-low: What to make of it?

Jahnavi Prabhakar
Economist

After recovering quickly in 2021 from the pandemic induced downturn in CY20, the global economy is on the path of uncertainty and a slowdown in CY22 and CY23. Sharp slowdown in US, China and Euro Area has prompted IMF to revise its global growth forecast downwards to 3.2% and 2.9% in CY22 and CY23, respectively. With risks further tilted to the downside, IMF believes we are 'getting close to global recession'. Inflation will remain a top priority; however tighter monetary policy will add to real economic cost. The report notes if there are further shocks that hit the global economy, economic outlook might even become worse.

Global economic slowdown

In the World Economic Outlook, IMF stated the global economic slowdown has intensified led by gloomy developments in CY22. The downside risks are materializing and are of concern:

- Surge in global inflation especially in U.S and major European Economies, which has triggered sharp tightening in global financial conditions.
- Sharper than expected slowdown in China on the back of Covid-19 outbreak and lockdown restrictions.
- Spillover effect and negative cross-border impact of war in Ukraine.

Under a baseline scenario, IMF has downgraded global growth forecast from 6.1% in CY21 to 3.2% in CY22 and to 2.9% in CY23. Growth revisions from Apr'22 have been largely negative for major advanced economies. Slower growth in U.S (2.3% in CY22 to 1.0% in CY23) has already been reflected by weaker than anticipated growth in first two quarters of CY22 along with lower momentum expected in private consumption, reflecting erosion of household purchasing power and the impact of steeper tightening in monetary policy. Growth moderation in in Euro Area is seen through the impact from war in Ukraine and the assumption of tighter financial conditions including ECB ending net asset purchases and hiking rates in Jul'22, first in over 10-years.

Growth in emerging market and developing economies is also expected to be lower on the back of sharp slowdown in China's economy along with moderation in India's economy. In China, severe Covid-19 outbreaks, lockdown restrictions and deepening of real estate crisis has impacted growth projections negatively. The slowdown in China has also added to the global supply chain disruption with strict lockdown restrictions pushing economic activity to a halt in Apr'22 for over 8-weeks. There also has been contraction in domestic spending, resulting in lower demand for goods and services from China's trade partners. A sustained slowdown in China will have global spillover impacting both demand and supply factors. Moreover, China's property sector is dragging down sales and real estate investment which has added to the concerns.

INVESTMENT SCENARIO & FUNDING

27 July 2022

Investment in FY23 started on a weaker note

Dipanwita Mazumdar
Economist

Investment climate in India in Q1FY23 started on a weaker tone with data pointing towards sharp drop in new project announcements relative to Q4FY22. The decline was broad based but sharpest drop was visible in the manufacturing sector. However, compared with the other years, Q1FY23 announcements were higher than those in 2019, 2020 and 2021.

We have juxtaposed this picture with the major sources of funding for investment, to see whether they are also showing the same trend. Importantly, bank credit has shown a considerable pickup in Q1FY23. However, if we look at the sectoral composition, industry credit is still lagging. The major accretion in Q1FY23 has happened in the personal loan segment. However, sectoral data is only for Apr'22 and May'22, and should be read with caution. Further, within industry only chemicals and infra (especially roads and power) have seen some accretion. So the increase is not broad based within industry.

Further, if we look at the borrowing data through the debt market, it is also reflective of the fact that issuance in the corporate debt market has slowed in Q1FY23. Also 66% of issuances were by companies in the financial services space. So funding for infra projects has been minimal.

Also, through the ECB channel as well, approvals been muted in Apr'22 and May'22 compared to Q4FY22. The share of new project financing through the ECB route has been only 29%.

On the positive side, FDI has remained stable. Going forward with tightening of global and domestic financial conditions against the backdrop of a rising interest rate environment, cost of capital will go up. Elevated growth concerns might dent investor sentiments. Thus favourable business friendly policies and reduced uncertainty in policy space can comfort the business climate. The central government has announced a larger capex programme for the year which will provide the initial impetus. However, for overall capital formation to increase, private investment has to pick up at a faster pace than is happening today. This will hinge on improvement in capacity utilization across all sectors as well as interest in infrastructure which is limited today.

Investment in FY23 started on a weaker note:

Investment scenario in India has been somber in Q1FY23 as visible in the CMIE capex data. It showed that new projects have fallen sharply from Rs 5.9tn in Q4FY22 to Rs 3.7tn in Q1FY23. The decline was broad based with most notable decline observed in the manufacturing segment where new project announcements inched down to Rs 1.4tn in Q1FY23 from Rs 2.3tn in Q4FY22.

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BANKING

27 July 2022

Takeaways from BOB Banking Conference: Digitisation is key

- **Imported inflation a concern but India still better placed than global peers; nominal GDP growth equals credit growth**
- **NBFCs/fintechs should complement banks; digitisation/tech adoption holds key to growth**
- **Evolution from banking access to usage and then financial health crucial, with women empowerment a key factor**

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Bank of Baroda's (BOB) 'Banking beyond Tomorrow' Conference 2022 saw insightful discussions by eminent experts on the banking architecture of the future, innovative technologies, new frontiers in financial inclusion & ESG finance. Key highlights:

India better placed but macro headwinds persist: RBI governor Shaktikanta Das, who inaugurated the conference, underscored concerns due to imported inflation (arising out of crude oil prices and currency depreciation), as India is a key importer of commodities. Although the currency has depreciated ~7% against the US dollar in CY22 YTD, it is still better placed than the Yen and Euro, among others. Moreover, the central bank can use its ample foreign reserves to deal with currency volatility. Separately, RBI expects banks to maintain capital buffers above mandated levels.

Nominal GDP growth of 12-13% plausible: Economists at the conference forecast nominal GDP growth of 12-13% (medium term) with real GDP growing 6-7% coupled with inflation of 5-6%. Banking credit growth should move in line with nominal GDP as infrastructure-related industries look for loans to bolster capacity utilisation. Further, for India to achieve its target of becoming a US$ 5tn economy by 2027, it will need a robust secondary bond market in contrast to the current low-volume market.

NBFC/fintech should complement banks; digitisation vital: Per expert panelists, new-age fintechs and NBFCs should provide innovative solutions, be asset-light and closer to the customer, thus complementing the banking sector rather than competing with it. Banks' collaboration with IT companies is important as technology is a key enabler. Digitisation has stabilised currency in circulation as a percentage of GDP and should be positive for the payments industry. UPI has seen mass adoption across India.

Financial health paramount: India's financial access is nearly saturated and the focus is now on usage which is seeing difficulties. About 53% of PMJDY accountholders are women and digital financial literacy is the next challenge to improve financial health.

ESG gaining traction. ESG-based green lending is being encouraged by banks and the renewables space offers ample opportunity for corporate lending. At the same time, banks should adopt an orchestrated approach.

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HOLD
TP: Rs 2,700 | ⮝ 12%

RELIANCE INDUSTRIES | Oil & Gas | 27 July 2022

Refining upside capped; roadmap for new energy next catalyst

- **RIL captured upsides in refining margin and gas prices in Q1, but an increase in tax rate and Jio depreciation resulted in a miss on net income**
- **Refining upside is capped by ad hoc revisions; roadmap for new energy business and digital/retail listing are key upside triggers**
- **TP unchanged at Rs 2,700; retain HOLD given 12% upside potential**

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EBITDA in line but miss on net income: While Q1FY23 EBITDA at Rs 380bn was broadly in line with consensus, net income at Rs 180bn was 17% below. EBITDA increased by Rs 65bn QoQ as RIL captured upsides from refining margin and higher gas prices. The miss on net income was largely due to an increase in depreciation charge for Jio and a higher tax rate on lower availability of tax credits and incentives.

Export duty limits refining upside: While exemption of the SEZ refinery has substantially lowered exposure to windfall tax to ~20% of refining yield, ad hoc adjustments to export duty are likely to cap any material upside. Although our proxy GRM indicator has seen a sharp pullback to US$ 11/bbl from US$ 25/bbl ahead of shoulder season, we believe refining tightness will resurface in winter. We retain our GRM forecast at US$ 12/US$ 9.5 for FY23/FY24 given the tight market balance.

Estimates revised down: We lower our FY23/FY24/FY25 net income forecasts by 3.4%/4%/2.8% factoring in the Q1 results. We now expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR for the cyclical business and a 26% CAGR for the consumer business.

Key catalysts: Announcement of a clear roadmap with business targets for the green energy giga complex will be a key catalyst for the stock. For retail business, delivery on retail revenue growth in the upcoming festive season offers a near-term milestone. For digital services, rollout of the 5G network is the next key milestone. For oil & gas, increase in gas realisation and ramp-up of MJ field are key triggers. Listing of the digital and retail businesses is another medium-term catalyst for the stock with three years of the company's targeted five-year timeline behind us.

Maintain HOLD: We maintain our TP of Rs 2,700 for RIL based on an SOTP valuation for the refining (7.5x FY24E EV/EBITDA), petrochemicals (8.5x), telecom (Jio Infocomm: 10x) and retail (32x) businesses. Our TP includes Rs 141 for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division. Retain HOLD given mere 12% upside potential. TP unchanged as increase in value of energy business offsets decrease in consumer business.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	RIL IN/Rs 2,419
Market cap	US$ 204.8bn
Free float	49%
3M ADV	US$ 275.9mn
52wk high/low	Rs 2,856/Rs 2,016
Promoter/FPI/DII	51%/24%/15%

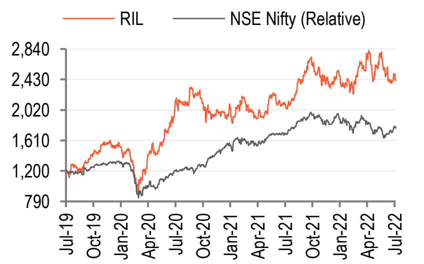
Source: NSE | Price as of 27 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	9,271,255	9,784,856
EBITDA (Rs mn)	1,104,600	1,511,727	1,614,411
Adj. net profit (Rs mn)	584,201	784,196	889,882
Adj. EPS (Rs)	86.4	115.9	131.5
Consensus EPS (Rs)	86.4	119.5	137.0
Adj. ROAE (%)	7.9	9.6	10.0
Adj. P/E (x)	28.0	20.9	18.4
EV/EBITDA (x)	17.2	12.5	11.4
Adj. EPS growth (%)	33.8	34.2	13.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

BUY

TP: Rs 4,500 | ⮝ 22%

DIXON TECHNOLOGIES | Consumer Durables | 27 July 2022

Strong Q1 topline; remains the best PLI play

- **Mobiles segment drove Q1 topline growth; calibrated pricing action and cost-saving initiatives helped improve margins sequentially**
- **Strong order book from Motorola guided to nearly triple revenue from mobiles business in FY23; exports could be next growth area**
- **Prime beneficiary of PLI scheme; maintain BUY with a revised TP of Rs 4,500 (vs. Rs 4,600) as we tweak estimates post Q1**

Vinod Chari | Tanay Rasal
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Strong topline in a difficult environment: DIXON's Q1FY23 revenue increased 53% YoY to Rs 28.6bn on the back of strong sales from the mobiles/home appliances segments which grew 327%/262% YoY. Gross margin expanded by 170bps YoY to 9.1% (flat QoQ) due to calibrated pricing action and cost saving initiatives. EBITDA margin at 3.5% was down by 49bps QoQ owing to a forex loss of Rs 120mn. Adj. PAT increased 151% YoY to Rs 455mn.

Mobiles business to lead growth: DIXON recently added Motorola to its customer roster and expects business to ramp up this year, likely driving growth in FY23. The company expects the mobiles segment (excluding set top boxes and medical equipment) to generate revenue of Rs 65bn-70bn in FY23 as against Rs 27bn in FY22, with annual volumes from Motorola anticipated at 5-5.5mn.

Remains the best PLI play: DIXON is likely to be a prime beneficiary of the government's production-linked incentive (PLI) scheme and of India's evolution into a major manufacturing hub for consumer electronics and durables. It has applied for five PLI schemes and, despite the current raw material shortage, was successful in meeting the threshold for two PLIs in the first year itself. It became the first company to meet the investment and ceiling revenue requirements for mobile phones. In laptops, it met the investment and minimum revenue threshold.

Maintain BUY, TP Rs 4,500: DIXON is a major player in contract manufacturing for consumer electronics and durable goods. Recent product additions and customer acquisitions are likely to sustain its growth prospects. Additionally, we expect the PLI scheme to benefit the company due to its ability to scale up manufacturing. We retain BUY and continue to value the stock at 55x FY24E EPS, a 20% premium over its 4Y average, while revising our TP to Rs 4,500 (vs 4,600) as we tweak estimates post Q1. Key risks include slower growth and inability to meet PLI targets.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	DIXON IN/Rs 3,700
Market cap	US$ 2.7bn
Free float	66%
3M ADV	US$ 18.1mn
52wk high/low	Rs 6,244/Rs 3,181
Promoter/FPI/DII	34%/15%/8%

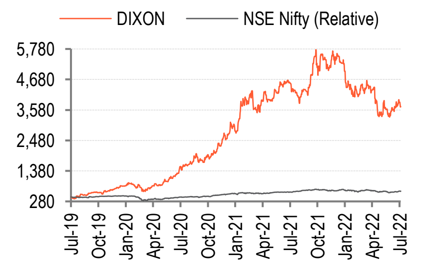
Source: NSE | Price as of 27 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,06,971	1,71,280	2,20,502
EBITDA (Rs mn)	3,791	6,507	8,473
Adj. net profit (Rs mn)	1,903	3,396	4,779
Adj. EPS (Rs)	32.1	57.2	80.5
Consensus EPS (Rs)	32.1	62.7	92.0
Adj. ROAE (%)	22.0	29.1	30.3
Adj. P/E (x)	115.4	64.7	45.9
EV/EBITDA (x)	57.9	33.7	25.9
Adj. EPS growth (%)	19.1	78.4	40.7

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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