FIRST LIGHT

03 October 2022

RESEARCH

India Strategy: Monthly Wrap

India on a relatively better wicket

BOB Economics Research | Monetary Policy

No new surprise – Another 50bps rate hike

Diversified Financials: Q2FY23 Preview

Expect robust growth traction across segments

Diversified Financials

Credit card spends robust; new measures consumer friendly

Consumer Durables

Sep'22 Roundup – Demand indicators strong

Daily macro indicators

Indicator	27-Sep	28-Sep	Chg (%)
US 10Y yield (%)	3.95	3.73	(21bps)
India 10Y yield (%)	7.29	7.33	4bps
USD/INR	81.58	81.94	(0.4)
Brent Crude (US$/bbl)	86.3	89.3	3.5
Dow	29,135	29,684	1.9
Hang Seng	17,860	17,251	(3.4)
Sensex	57,108	56,598	(0.9)
India FII (US$ mn)	**26-Sep**	**27-Sep**	**Chg ($ mn)**
FII-D	53.4	(112.4)	(165.8)
FII-E	(570.3)	(373.6)	196.7

Source: Bank of Baroda Economics Research

SUMMARY

India Strategy: Monthly Wrap

- Nifty 50 fell 3.7% in Sep'22 against declines of 8.0% for the S&P 500 and 11.8% for the EM aggregate index amid rising recession fears
- India is relatively better placed given a robust domestic economy; softer commodity prices offer an added cushion
- We remain conservative in our near-term investment outlook while retaining a robust outlook over the longer term

Click here for the full report.

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India Economics: Monetary Policy

RBI's policy was in line with expectations. A rate hike of 50bps materialized, withdrawal of accommodation remained. Inflation forecast for FY23 was unchanged at 6.7%. Liquidity is likely to be in deficit in H2 as well and RBI would rely on fine tuning operations. Going forward we expect, inflation worries to continue from seasonal food price shock and demand conditions gathering momentum. We expect CPI to be in the range of 6.5-7%. Our terminal repo forecast stands at 6.5%, thus a rate hike of another 50-60bps in the current cycle seems feasible. With the current 50bps rate hike, transmission to MCLR could be another 20-30bps, 10Y GSec yield is likely to trade in the range of 7.3-7.4% in the near term. Our growth projections at 7.2% remain in line with RBI's forecast of 7% for FY23 (will be revisited once more real sector data is available).

Click here for the full report.

Diversified Financials: Q2FY23 Preview

- IIFL Wealth projected to post Q2 AUM/PAT growth of 15%/27% YoY on higher operating leverage, with stronger recurring flows
- SBI Card's spends expected to grow 55% YoY with 89% rise in PAT on higher income and lower credit costs
- SBI Life, our top pick, likely to post strong growth in premiums along with sustained margin gains

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Diversified Financials

- Credit card spends clocked in at Rs 1tn for each of the five months of FY23 – a positive surprise; outlook strong
- Brisk growth in cards outstanding over FY17-FY22; new consumer protection rules to provide better clarity on cards in circulation
- RBI rules such as tokenisation and card limit checks to come in from 1 October

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Consumer Durables

- Positive momentum in housing and jobs creation augurs well for long-term demand of consumer durables
- Vedanta-Foxconn semiconductor JV a structural positive for the durables sector as it marks the onset of local semiconductor supply
- We continue to prefer leaders in respective categories: HAVL, CROMPTON and POLYCAB

Click here for the full report.

MONTHLY WRAP | Volume #8 | 30 September 2022

India on a relatively better wicket

- **Nifty 50 fell 3.7% in Sep'22 against declines of 8.0% for the S&P 500 and 11.8% for the EM aggregate index amid rising recession fears**
- **India is relatively better placed given a robust domestic economy; softer commodity prices offer an added cushion**
- **We remain conservative in our near-term investment outlook while retaining a robust outlook over the longer term**

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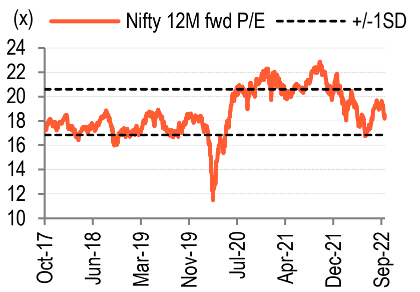
Nifty 50 in the red but outperformed peers in September: Most of the negative market returns were concentrated in the second half of the month after the US Fed hiked rates by another 75bps and indicated an aggressive stance. Despite INR weakness, the Nifty 50 managed to largely outperform its peers in emerging markets (EM), the US, EU and Japan. Amongst sectoral indices, Energy (-9.0%) and Realty (-8.5%) were underperformers, while FMCG (1.3%) and Pharma (2.1%) outperformed.

Global growth outlook has worsened: Rate hikes continued across the globe in September, ranging from 0.25% to 1.25%. Policy rates in many countries are now higher than previous peaks. The Chicago Fed's latest National Financial Conditions Index is at its highest level since May'20, indicating financial conditions across the US continue to tighten. As many as 73% of respondents to the World Economic Forum's chief economist outlook survey predict a recession in 2023. The deteriorating global outlook is weighing on commodity prices, which plunged in September. Most commodities are now trading at levels below those prior to the Russian-Ukraine conflict.

Moderating commodity trends offer near-term succour for India: While a recession in the West will have a material adverse impact on the Indian market, moderating commodity prices offer immediate respite. Note India's stock market structure is largely similar to that in developed markets, whereas other EMs (ex-China) are largely commodity-led. Thus, moderating commodity prices/inflation will be a significant near-term positive for India while being adverse for most EMs.

Investment view: Economic activity in India remains strong. Capacity utilisation, PMI, credit growth, and car sales continue to improve. GST collection remains above Rs 1.4 Rs tn. Market valuations have also moderated – the Nifty 50's 12M forward P/E ratio is now below its 5Y average. However, we continue to believe the index will be under pressure given strong global headwinds and, therefore, prefer a conservative near-term investment approach. Our note of 13 Sep concluded that a set of 13 market leaders (Fig 53) outperformed most bear market events (20% correction) since 2000. Amongst sectors, we continue to like retail-focused lenders, consumption and IT. We remain cautious on energy and utilities, and largely neutral on the others.

Valuations now below the 5Y mean



Source: Bloomberg, BOBCAPS Research

MONETARY POLICY

30 September 2022

No new surprise – Another 50bps rate hike

Dipanwita Mazumdar
Economist

RBI's policy was in line with expectations. A rate hike of 50bps materialized, withdrawal of accommodation remained. Inflation forecast for FY23 was unchanged at 6.7%. Liquidity is likely to be in deficit in H2 as well and RBI would rely on fine tuning operations. Going forward we expect, inflation worries to continue from seasonal food price shock and demand conditions gathering momentum. We expect CPI to be in the range of 6.5-7%. Our terminal repo forecast stands at 6.5%, thus a rate hike of another 50-60bps in the current cycle seems feasible. With the current 50bps rate hike, transmission to MCLR could be another 20-30bps, 10Y GSec yield is likely to trade in the range of 7.3-7.4% in the near term. Our growth projections at 7.2% remain in line with RBI's forecast of 7% for FY23 (will be revisited once more real sector data is available).

Key Highlights:

- As per our expectation and in line with market consensus, RBI raised policy repo rate by 50bps. However, stance continued to be 'withdrawal of accommodation'.
- Inflation forecast for FY23, retained at 6.7% for FY23 and growth projection revised slightly lower to 7% from 7.2% earlier.
- Fine tuning with respect to liquidity operations continued by replacing 28-day VRRR with 14-day based on the evolving liquidity scenario. This will ensure that excess liquidity does not get locked in for a longer tenure thus creating liquidity shortages.

Domestic growth insulated: Today's policy highlighted that Indian economy remained resilient in the midst of unsettling global macroeconomic environment. Governor has also highlighted sell off risks which have crept in domestic bond and currency market, as a result of spill over to global risks. The high frequency indicators of Indian economy also pointed to recovery. Capacity utilisation is improving with a 3-year high of 74.3 in Q1FY23, government capex is picking pace and credit growth have remained in double digit since 22 Apr 2022-all exemplify that domestic demand held ground.

On this backdrop, real GDP is expected to be 7% in FY23. The slight downward revision from previous forecast was simply because the Q1FY23 print of 13.5% real GDP growth was lower than RBI's expectation of 16.2%. Our real GDP growth forecast is also in line with RBI's projection of 7%.

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DIVERSIFIED FINANCIALS | Q2FY23 Preview | 30 September 2022

Expect robust growth traction across segments

- **IIFL Wealth projected to post Q2 AUM/PAT growth of 15%/27% YoY on higher operating leverage, with stronger recurring flows**
- **SBI Card's spends expected to grow 55% YoY with 89% rise in PAT on higher income and lower credit costs**
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Asset management: We expect IIFL Wealth to post AUM growth of 15% YoY in Q2FY23 boosted by fresh flows and mark-to-market gains. Recurring AUM is likely to constitute 60% of the mix (51% in the year-ago quarter). Revenue is forecast to grow 19% YoY aided by higher recurring (69% share) and non-recurring streams. We expect cost-to-income ratio at 45% with PAT growth of 27% YoY. Key monitorables include AUM growth and commentary on recurring business, especially IIFL One.

Credit cards: Monthly spends in July and August crossed the Rs 1tn mark which is positive. With the festival season kicking in from the last week of September, we expect robust spends going into Q3FY23 as well. SBI Card saw market share gains in August, and we estimate 55% YoY growth in spends for Q2, which will reflect in income from fees and services. Net receivables growth is forecast at 32% YoY. We believe NIM would take time to return to pre-Covid levels. Provisions are expected to be lower and we place credit cost at 6.5%, up ~70bps QoQ but sharply lower YoY which should boost PAT. Data on revolvers and credit cost would be key to watch.

Insurance: We have a positive stance on the life insurance industry and believe that the ongoing focus on profitable products would aid sustained margin gains for our coverage stocks (SBI Life, HDFC Life, IPRU) in Q2FY23. Gross premium growth is expected to be strong across the board on the back of stable market conditions as the pandemic ebbs. Cost ratios are likely to decline sequentially for all covered companies, and solvency ratios should hold in line with regulatory requirements. Market leader SBI Life (BUY, TP Rs 1,523) remains our top pick.

Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	530	701	BUY
IIFLWAM IN	1,840	2,277	BUY
IPRU IN	526	645	BUY
SBICARD IN	914	1,227	BUY
SBILIFE IN	1,250	1,523	BUY

Price & Target in Rupees | Price as of 30 Sep 2022

DIVERSIFIED FINANCIALS

30 September 2022

Credit card spends robust; new measures consumer friendly

- **Credit card spends clocked in at Rs 1tn for each of the five months of FY23 – a positive surprise; outlook strong**
- **Brisk growth in cards outstanding over FY17-FY22; new consumer protection rules to provide better clarity on cards in circulation**
- **RBI rules such as tokenisation and card limit checks to come in from 1 October**

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Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	914	1,227	BUY

Price & Target in Rupees | Price as of 30 Sep 2022

Spends strong; FY23 YTD data a positive surprise: Per RBI, credit card spends clocked a 26% CAGR over FY16-FY22 to Rs 9.7tn. Over this period, monthly spends reached Rs 1tn only twice (Oct'21 and Mar'22). In FY23 YTD, however, sector spends clocked in at Rs 1tn in each of the first five months from April to August. Going forward, we expect a strong festive season as the pandemic has ebbed and it is business as usual across the country.

Card dynamics positive; ample opportunity to cross-sell: Spends per card per month increased in FY23 YTD after staying flat over the last five years (at Rs 10k-11k), barring FY21. Spends per transaction, which were flat over FY18-FY21, increased in FY22 before holding steady in FY23 YTD. The credit-to-debit card ratio was 8.3% at end-Aug'22 as compared to 4.4% in FY18, indicating huge opportunity to cross-sell.

New regulations raising volatility in cards outstanding: Credit cards outstanding posted a robust 20% CAGR over FY16-FY22 to 73.6mn. However, volumes fell 3% MoM to 78mn in Aug'22 from 80mn in Jul'22, possibly because the RBI guidelines that came into effect in Jul'22 require that a card be deactivated if unused for over a year.

New RBI measures to protect consumers: New RBI measures to prevent fraud and raise customer protection will come into effect from 1 October. Key rules: (i) Many organisations retain card data (card number, expiration date) for convenience which raises the risk of card information being stolen or misused. They must now move to a tokenisation system which is the replacement of actual card details with an alternative code, referred to as a "token". (ii) Credit card issuers cannot increase the credit card limit of a customer without approval from the cardholder. (iii) Issuers must first obtain one-time-password (OTP) based consent if a cardholder hasn't activated his card for more than 30 days from the issued date.

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CONSUMER DURABLES

30 September 2022

Sep'22 Roundup: Demand indicators strong

- **Positive momentum in housing and jobs creation augurs well for long-term demand of consumer durables**
- **Vedanta-Foxconn semiconductor JV a structural positive for the durables sector as it marks the onset of local semiconductor supply**
- **We continue to prefer leaders in respective categories: HAVL, CROMPTON and POLYCAB**

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Our Sep'22 Roundup summarises select consumer durables reports published during the month. Follow the links in the headlines below for the full reports.

Vedanta-Foxconn JV to aid localisation of appliances: The Vedanta-Foxconn semiconductor JV is a key long-term positive for the consumer durables sector as it marks the onset of local semiconductor supply. The JV targets production of 28nm chips used in TVs, ACs, trains, robots and drones – the very areas India aims to indigenise. Proposed 80% output reservation for the domestic market could catalyse local manufacturing of various consumer durable appliances.

SYRMA – niche EMS player: We interacted with the management of Syrma SGS (SYRMA, Not Rated), a leading EMS player with best-in-class EBITDA margins of 11-13% vs. 4-8% for listed peers. It offers a diverse product suite across industrial, auto, consumer electronic and medical applications. FY23 revenue is guided to grow on par with industry at 40%, with ODM share in the mix stable at >25%.

Appliances fuel energy savings: India is among the few countries to fulfil its energy intensity mitigation target up to 2020. Energy intensity has declined at a 3% CAGR vs. FY13 and a 5% CAGR vs. FY07. Consumer durables accounted for 35% of India's power savings in 2020 spurred by product labelling norms.

Formal jobs data encouraging: Employment generation in India's formal sector hit a record 1.8mn in July vs. a monthly run-rate of 0.7mn over the past four years, per EPFO. Jobs data points to growth in the manufacturing and services sectors as well as greater formalisation of the economy. As rising employment lifts income levels, we expect demand for appliances to gather pace.

Real estate uptrend heralds stronger durables demand: Housing sales – a key demand indicator for consumer durables – are on a long-term secular growth path, per RBI pricing data. Non-metro cities are seeing sharper price recovery post pandemic vs. the five metros due to better affordability and the rise of hybrid workplaces.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,297	2,300	HOLD
BLSTR IN	1,097	1,100	HOLD
CROMPTON IN	414	500	BUY
DIXON IN	4,263	4,500	BUY
HAVL IN	1,334	1,500	BUY
ORIENTEL IN	275	310	HOLD
POLYCAB IN	2,587	3,000	BUY
VGRD IN	235	250	HOLD
VOLT IN	901	1,100	HOLD

Price & Target in Rupees | Price as of 29 Sep 2022

Disclaimer

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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