FIRST LIGHT

05 April 2023

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Further downside for INR likely

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CONSUMER DURABLES

Channel Checks – Fans facing the heat but ACs in demand

Daily macro indicators

Ticker	30-Mar	31-Mar	Chg (%)
US 10Y yield (%)	3.55	3.47	(8bps)
India 10Y yield (%)	7.29	7.31	3bps
USD/INR	82.34	82.18	0.2
Brent Crude (US$/bbl)	79.3	79.8	0.6
Dow	32,859	33,274	1.3
Hang Seng	20,309	20,400	0.4
Sensex	57,960	58,992	1.8
India FII (US$ mn)	**28-Mar**	**29-Mar**	**Chg ($ mn)**
FII-D	71.9	(474.0)	(545.8)
FII-E	236.8	101.4	(135.4)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CURRENCY OUTLOOK

Driven by a weakness in DXY, global currencies appreciated. Volatility remained high amidst turmoil in global banking system and Fed policy meet. INR appreciated by 0.7% in Mar'23 amidst promising global as well as, domestic fundamentals. In FY23, INR depreciated by 7.7%, after depreciating by 3.5% in FY21. Increased expectations of a rate cut by Fed in the second half of CY23, will keep DXY under pressure. On the domestic side, a moderation in imports has kept trade deficit in check. Lower oil prices also bode well for the external sector outlook. Further, while merchandise exports have slipped, services exports have shown resilience suggesting that CAD is likely to remain in a comfortable range. While the stage looks set for a runaway appreciation in INR, we believe that the RBI is likely to maintain the exchange rate in the close range of 82-83/$, as has been the trend in recent past, as external demand remains weak.

Click here for the full report.

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INDIA ECONOMICS: BONDS WRAP

Global bond yields fell sharply in Mar'23 following the banking crisis. The Fed's recent policy gave a slight dovish hint. This led US 10Y yield fell by 45bps on MoM basis. Other major global yields followed suit. India's 10Y yield fell by only 12bps. The yield on long end papers have remained broadly stable. What stands out in the yield picture is the flattening of India's yield curve. If we compare the 31 Mar 2023 yield curve with 31 Mar 2022, there is a sharp contrast. The current borrowing plan have finely managed issuances with major concentration towards the long end segment. Despite this, we expect the flattening of yield curve to continue. Liquidity deficit would further aggravate in Apr'23 with Rs 61,131crore maturity of TLTROs. Increased currency demand in the election year, fairly robust credit demand will also impact flows. Thus correction in short end papers is unlikely in near term. However, long end curve would get comfort from slightly softening inflation print in Mar'23 due to falling vegetable prices and favourable base. Discomfort to short end curve would further aggravate if the 25bps rate hike is materialised by RBI in the coming policy.

Click here for the full report.

INDIA ECONOMICS: COST OF BORROWING

In the wake of rising interest rates scenario, Government has followed suit by jacking up the rates on small savings schemes for Q11FY24. The increase across components have been in the range of 10-70bps in line with expectation. A status quo position has been maintained for PPF rates at 7.1%. Deposits contributes the bulk of the savings deposits with a share of 69.4%. Recently, Centre had pegged Rs 8.88 Lakh crore of the gross issuance calendar for H1FY24. As per our calculation (Bank of Baroda Study: Centre has finely managed its H1FY24 calendar), the average interest cost is projected at 7.29%-7.35%. Against this, the study attempts to estimates the cost of borrowings and average interest cost based on newly revised rates for small savings.

Click here for the full report.

CONSUMER DURABLES

- Demand for fans falls short of dealer expectations post BEE rating transition; outlook cautious
- AC sales improving MoM and expected to rise further this summer, implying scope for price hikes
- Channel checks indicate a mixed Q4FY23 for our consumer durables universe; our picks in fans & ACs – HAVL, CROMPTON, BLSTR

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CURRENCY OUTLOOK

01 April 2023

Further downside for INR likely

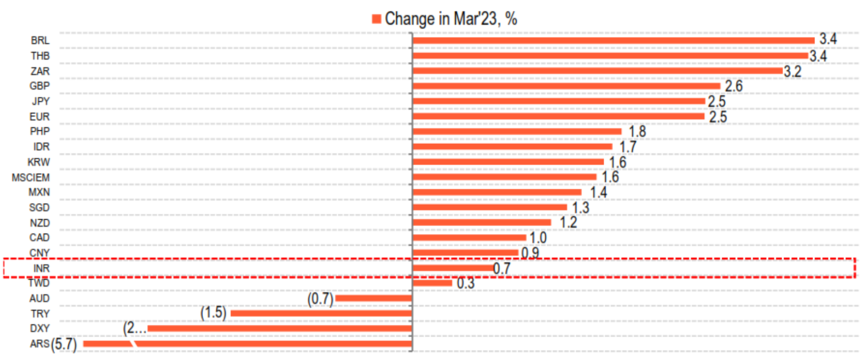
Aditi Gupta
Economist

Driven by a weakness in DXY, global currencies appreciated. Volatility remained high amidst turmoil in global banking system and Fed policy meet. INR appreciated by 0.7% in Mar'23 amidst promising global as well as, domestic fundamentals. In FY23, INR depreciated by 7.7%, after depreciating by 3.5% in FY21. Increased expectations of a rate cut by Fed in the second half of CY23, will keep DXY under pressure. On the domestic side, a moderation in imports has kept trade deficit in check. Lower oil prices also bode well for the external sector outlook. Further, while merchandise exports have slipped, services exports have shown resilience suggesting that CAD is likely to remain in a comfortable range. While the stage looks set for a runaway appreciation in INR, we believe that the RBI is likely to maintain the exchange rate in the close range of 82-83/$, as has been the trend in recent past, as external demand remains weak.

Movement in global currencies

Global currencies mostly gained against the dollar in Mar'23. DXY was lower by 2.3%. Stress in the US banking sector due to the failure of a few regional banks and fears of further contagion dominated market sentiments. Market participants reprised expectations for future rate hikes, even as the regulators sprang into action to limit the fallout from the crisis. This weighed on the dollar. Global currencies too witnessed high volatility during this period. Against this backdrop, the Fed raised policy rates by another 25bps, however the pace of future rate hikes remained uncertain. As the damage from the banking crisis was largely contained due to timely intervention from the Fed, FDIC and US Treasury Department, the Fed was once again seen hiking rates. Macro data since then, specifically moderation in core PCE suggest that the after a last 25bps rate hike in May'23, the Fed may finally put its rate hike cycle on a pause mode. In fact, there are expectations of rate cuts in the latter part of the year which is weighing on the dollar.

Figure 1: Global currencies were mostly higher in Mar'23



Source: Bloomberg, Bank of Baroda Research, Data as of 31 Mar 2023 | Note: Figures in bracket denote depreciation against USD

BONDS WRAP

01 April 2023

Fortnightly review

Dipanwita Mazumdar
Economist

Global bond yields fell sharply in Mar'23 following the banking crisis. The Fed's recent policy gave a slight dovish hint. This led US 10Y yield fell by 45bps on MoM basis. Other major global yields followed suit. India's 10Y yield fell by only 12bps. The yield on long end papers have remained broadly stable. What stands out in the yield picture is the flattening of India's yield curve. If we compare the 31 Mar 2023 yield curve with 31 Mar 2022, there is a sharp contrast. The current borrowing plan have finely managed issuances with major concentration towards the long end segment. Despite this, we expect the flattening of yield curve to continue. Liquidity deficit would further aggravate in Apr'23 with Rs 61,131crore maturity of TLTROs. Increased currency demand in the election year, fairly robust credit demand will also impact flows. Thus correction in short end papers is unlikely in near term. However, long end curve would get comfort from slightly softening inflation print in Mar'23 due to falling vegetable prices and favourable base. Discomfort to short end curve would further aggravate if the 25bps rate hike is materialised by RBI in the coming policy.

Global yields moderated in Mar'23:

- Sovereign 10Y yields moderated in Mar'23. This was following the banking crisis in the global space on account of asset liability mismatches, dried up liquidity situation, regulatory factors and also faulty lines with regard to risk management practices. US Fed in its recent policy also removed the statement of 'ongoing increases in the target range'.
- Recent high frequency data point in the US such as industrial production, consumer sentiment index (U. Michigan), personal spending and the PCE deflator also reflect some degree of slowdown.
- The 1-year inflation expectation (U. Michigan) has also dropped to 3.6% from 3.8% earlier. The US OIS 2month curve is also trading at 4.9%, signaling terminal rate to hover around that level. Traders are pricing in a pause with 51.6% probability attached to the outcome. Thus, US 10Y yield fell the most by 45bps and other major global yields followed suit.
- It is interesting to note how in FY23, yields have completely reversed their direction. Here tightening rate cycle, elevated inflation prints and liquidity squeeze resulted in sharp increase in yields globally.

Domestic 10Y yield traded in the range of 7.29-7.43% in Feb'23, almost stable compared to previous month. Some downside risk was instead visible due to increased appetite for sovereign asset class supported by risk off sentiment.

Gap between long end (29Y paper) and short end (6 months paper) was reduced to 31bps in Mar'23 which was 60bps in Jan'23. In FY23, yield curve has exhibited considerable degree of flattening.

COST OF BORROWING

01 April 2023

Small Savings

Jahnavi Prabhakar
Economist

In the wake of rising interest rates scenario, Government has followed suit by jacking up the rates on small savings schemes for Q11FY24. The increase across components have been in the range of 10-70bps in line with expectation. A status quo position has been maintained for PPF rates at 7.1%. Deposits contributes the bulk of the savings deposits with a share of 69.4%. Recently, Centre had pegged Rs 8.88 Lakh crore of the gross issuance calendar for H1FY24. As per our calculation (Bank of Baroda Study: Centre has finely managed its H1FY24 calendar), the average interest cost is projected at 7.29%-7.35%. Against this, the study attempts to estimates the cost of borrowings and average interest cost based on newly revised rates for small savings.

Small savings rate hiked

- Government of India has revised the small savings scheme for Q1FY24 from Q4FY23. With the revision, there has been increase in interest rates across the board with only one exception.
- Time deposits have been raised by 20bps for 1year deposits to 6.8% from 6.6% previously.
- For 2 year (6.9% vs 6.8%) and 3 year (7% vs 6.9%) deposits, the rates are now higher by 10bps. Time deposits for 5-year duration have been raised by 50bps to 7.5% for Q1FY24. Recurring deposits for 5-year tenure have been elevated to 6.2% mark from 5.8% previously.
- Interest rates under the Monthly income scheme have been pushed up by 7.4%, it holds a sizeable share in total savings.
- The highest rate of increase (70bps) has been registered for the National Saving certificate at 7.7% compared with 7% rate in Q4FY23.
- Kisan Vikas Patra scheme will now be attracting much higher rates of 7.5% as against 7.2%.
- Under the Sukanya Samridhi Scheme, rates have been increased by 40bps to 8% from 7.6% in Q4FY23.
- However, the exemption to these rising interest rates have been for Public Provident Fund wherein the rates are steady at 7.1%.

Structure of Small Savings

In order to understand the structure of small savings better, it is important to notice the share of each of components. This is based upon RBI's data for Feb'22 on components wise break up of small savings. Deposits have the highest share in total savings comprising about 69.4%, followed by saving certificates at 23% and Public provident Fund at 7.6%.

CONSUMER DURABLES

03 April 2023

Channel Checks: Fans facing the heat but ACs in demand

- **Demand for fans falls short of dealer expectations post BEE rating transition; outlook cautious**
- **AC sales improving MoM and expected to rise further this summer, implying scope for price hikes**
- **Channel checks indicate a mixed Q4FY23 for our consumer durables universe; our picks in fans & ACs – HAVL, CROMPTON, BLSTR**

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Mixed outlook: Our interactions with several air conditioner and fan dealers in various regions indicate a mixed outlook, with AC dealers optimistic of summer demand and fan dealers cautious following BEE (Bureau of Energy Efficiency) star rating transition from Jan'23. Q4FY23 is the first quarter following the rating transition which was expected to lend an impetus to demand, but unseasonal rains in March have proved to be a spoiler. In contrast, AC dealers have seen incremental MoM demand and expect to surpass the summer sales posted last year, marked by 10-15% rural market growth and 30-40% growth in urban markets.

Push to clear old fan inventory: Fan dealers confirmed the push to sell old-star-rated inventory, in line with the Q3FY23 earnings commentary across players. At present, big distributors hold 5-6 months of old inventory while small dealers hold 2-3 months of stock. Though channels are focusing on clearing old inventory, enquiries for new-rated fans are also translating into sales.

BLDC fans gaining traction: The BEE rating change has led to increased awareness among consumers about energy efficiency, with rising enquiries for the latest brushless motor (BLDC) fans. Unlisted player Atomberg is currently the market leader in this segment and enjoys the first mover advantage. However, our channel checks indicate that the gap between the leader and peers is likely to narrow quickly as Atomberg's weaknesses in distribution and scale are likely to be exploited by peers.

Scope for price hikes: In line with Q3 earnings commentary, both the fan and AC segments witnessed price hikes during the fourth quarter – at 4-5% and 4-8% (Rs 2,000-2,500) respectively. Our dealer interactions indicate scope for further hikes depending on demand trends this summer.

Prefer sector leaders: We prefer HAVL (BUY, TP Rs 1,500), CROMPTON (BUY, TP Rs 440), and BLSTR (BUY, TP Rs 1,450) in the fans and AC segments.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,825	2,100	HOLD
BLSTR IN	1,379	1,450	BUY
CROMPTON IN	293	440	BUY
DIXON IN	2,861	4,100	BUY
HAVL IN	1,189	1,500	BUY
KEII IN	1,699	1,900	BUY
ORIENTEL IN	270	290	HOLD
POLYCAB IN	2,880	3,300	BUY
SYRMA IN	263	400	BUY
VGRD IN	250	260	HOLD
VOLT IN	818	910	HOLD

Price & Target in Rupees | Price as of 31 Mar 2023

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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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