BOBCAPS
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FIRST LIGHT

05 July 2022

RESEARCH

BOB Economics Research | Currency Outlook

Rupee to remain under pressure

BOB Economics Research | Monthly Economic Buffet

Economic Round-up: June 2022

Orient Electric | Target: Rs 310 | +14% | HOLD

Annual report analysis – Strategic initiatives paying off

SUMMARY

India Economics: Currency Outlook

Increasing risks of global recession drove global currencies lower. On the other hand, DXY continues to trade near a two-decade high supported by safe-haven appeal as well as Fed's aggressive policy stance. Fed Chair reiterated the Central Bank's commitment to provide "unconditional" support to tame rising inflation. Similar views were echoed by ECB President. Soaring inflation across countries and synchronized monetary policy tightening has increased the risks of a global recession, denting investor sentiment. EM currencies have been particularly hit, including India. In the last few trading sessions, INR has touched a record-low several times breaching the 79/$ mark on 1 Jul 2022. Apart from global factors, headwinds on the domestic front have also increased. We expect, INR to remain under pressure in the near term and trade in the range of 78.5-79.5/$ in the next fortnight. In FY23, we expect INR in the range of 78-80/$.

Click here for the full report.

India Economics: Monthly Economic Buffet

Fears of slowdown in global growth have intensified over the past month as multiple high frequency indictors are showing strains of stress (PMIs, commodity prices). Further, major central banks have re-affirmed that taming inflation remains a key priority and G-7 countries have announced a ban on Russian oil imports. These factors have also lent fears to probability of slowdown in growth. However, with easing restrictions in China, activity seems to be reviving, but downside risks still persist.

Click here for the full report.

Daily macro indicators

Indicator	30-Jun	01-Jul	Chg (%)
US 10Y yield (%)	3.01	2.88	(13bps)
India 10Y yield (%)	7.45	7.42	(2bps)
USD/INR	78.97	79.04	(0.1)
Brent Crude (US$/bbl)	114.8	111.6	(2.8)
Dow	30,775	31,097	1.0
Hang Seng	21,997	21,860	(0.6)
Sensex	53,019	52,908	(0.2)
India FII (US$ mn)	**29-Jun**	**30-Jun**	**Chg ($ mn)**
FII-D	(7.6)	(23.6)	(16.0)
FII-E	(39.1)	(33.0)	6.1

Source: Bank of Baroda Economics Research

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Orient Electric

- Targeting key growth drivers such as greater reach in South India, channel diversification and innovation-led product development
- Cost initiatives drove savings of Rs 0.4bn (1.8% of FY22 sales). Balance sheet healthy with net cash at Rs 1.4bn, D/E at 0.1x, ROE at 25.4%
- Management confident of gradual premiumisation but we prefer HAVL and CROMPTON. Maintain HOLD, TP revised to Rs 310 (vs. Rs 350)

Click here for the full report.

CURRENCY OUTLOOK

04 July 2022

Rupee to remain under pressure

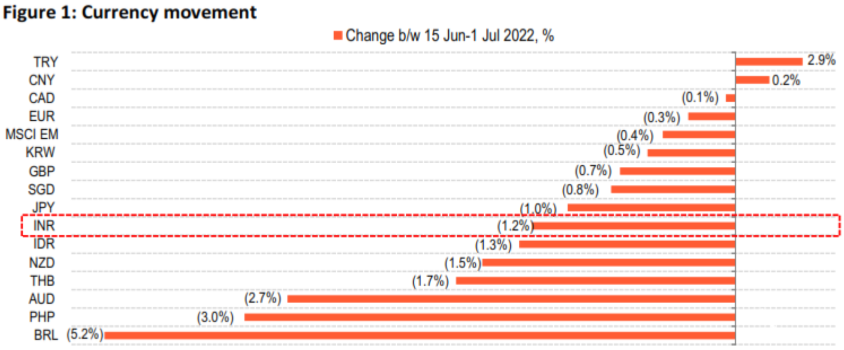
Aditi Gupta
Economist

Increasing risks of global recession drove global currencies lower. On the other hand, DXY continues to trade near a two-decade high supported by safe-haven appeal as well as Fed's aggressive policy stance. Fed Chair reiterated the Central Bank's commitment to provide "unconditional" support to tame rising inflation. Similar views were echoed by ECB President. Soaring inflation across countries and synchronized monetary policy tightening has increased the risks of a global recession, denting investor sentiment. EM currencies have been particularly hit, including India. In the last few trading sessions, INR has touched a record-low several times breaching the 79/$ mark on 1 Jul 2022. Apart from global factors, headwinds on the domestic front have also increased. We expect, INR to remain under pressure in the near term and trade in the range of 78.5-79.5/$ in the next fortnight. In FY23, we expect INR in the range of 78-80/$.

How have currencies fared?

Global currencies closed lower in the last fortnight as risk-sentiment soured. Increasing risks of a global recession have dented investor sentiment. As a result, demand for safe-haven dollar has risen which continues to hover around a 20-year high. Apart from this, expectations of aggressive policy tightening by US Fed is also contributing to the dollar strength. An unexpected surge in US inflation to a 41-year high prompted US Fed to hike rate by 75bps (biggest rate hike since 1994). This is also contributing to the surge in US 10Y yield, pushing the yield differential higher. Further, global agencies such as World Bank and OECD have downgraded global growth forecasts and also warned of severe risks to the growth outlook. Manufacturing PMIs of major economies such as US, UK, Eurozone and Japan also moderated suggesting increased risks to global outlook, thus increasing the appeal for dollar.

Figure 1: Currency movement



Source: Bloomberg, Bank of Baroda | Data as of 1 Jul 2022 | Note: Figures in bracket denote depreciation against USD

Emerging market currencies continue to remain under pressure as investors turn risk-averse. MSCI EM index fell by 0.4% in the fortnight. However, BRL depreciated much sharply by 5.2%. Currencies of major advanced economies such as Eurozone and UK also depreciated amidst surging inflation and increased risks to global growth.

MONTHLY ECONOMIC BUFFET

04 July 2022

Economic Round-up: June 2022

Sonal Badhan
Economist

Fears of slowdown in global growth have intensified over the past month as multiple high frequency indictors are showing strains of stress (PMIs, commodity prices). Further, major central banks have re-affirmed that taming inflation remains a key priority and G-7 countries have announced a ban on Russian oil imports. These factors have also lent fears to probability of slowdown in growth. However, with easing restrictions in China, activity seems to be reviving, but downside risks still persist.

Global growth: While lockdown restrictions in China have eased owing to drop in Covid-19 cases and both manufacturing and services PMI has picked up, elsewhere growth is witnessing a slowdown. Global PMIs have dropped in Jun'22, US' consumer confidence index is down, and retail inflation in UK and US remains at decadal high. Commodity prices are also cooling-off, as a sign of looming global growth slowdown. These concerns have revived the debate of extent of tightening to be adopted by major central banks (Fed, BoE, ECB). However, in case inflation remains elevated, central bankers have re-affirmed that they will provide unconditional support to cool down the prices.

Global Central Banks: Deviation in global central bank actions continues to remain. While US Fed, BoE, Swiss National Bank (first hike in 15 years), and RBI have hiked rates, ECB remains on stand-by for now but is expected to begin rate hike cycle from Jul'22. On the other hand, BoJ and PBOC remaining accommodative. US Fed has recently announced 75bps rate hike in Jun'22, following 50bps hike in May'22. Various Fed officials have indicated that this trend might continue if inflation is not curbed. BoE also hiked rate by 25bps this month, its 5th rate hike since Dec'21.

Key macro data releases: India's eight core industries expanded to a 13-month high to 18.1% in May'22 from 9.3% in Apr'22. This was led by broad based improvement across the sectors with refinery, steel, cement, electricity and fertilizers each clocking double digit growth in May'22. However, coal output moderated marginally. Centre's fiscal position at the start of FY23 remains on solid footing with gross tax revenue rising by robust 29% in FYTD23 (Apr-May'22), with direct taxes up by 61% and indirect taxes up by 9%. Spending by the government has also been front-loaded this year with overall expenditure growth at 22%, led by jump in capex.

India's headline CPI edged down to 7.04% against our expectation of 7% and compared to 7.8% in Apr'22. This was driven by favourable base (6.3% in May'21). Government has also announced MSP hike and increase in gold import duty, which might push inflation higher in the near-term. We see a case for RBI hiking repo rate by another 50-75bps.

HOLD

TP: Rs 310 | 14%

ORIENT ELECTRIC | Consumer Durables | 04 July 2022

Annual report analysis: Strategic initiatives paying off

- **Targeting key growth drivers such as greater reach in South India, channel diversification and innovation-led product development**
- **Cost initiatives drove savings of Rs 0.4bn (1.8% of FY22 sales). Balance sheet healthy with net cash at Rs 1.4bn, D/E at 0.1x, ROE at 25.4%**
- **Management confident of gradual premiumisation but we prefer HAVL and CROMPTON. Maintain HOLD, TP revised to Rs 310 (vs. Rs 350)**

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Key takeaways from our analysis of ORIENTEL's FY22 annual report:

Overview: ORIENTEL discusses strategic initiatives such as 'Consumer-Centricity' and 'Digital Enablement' that have transformed its operations and helped innovate products. Project Sanchay resulted in Rs 451mn in cost savings (1.8% of FY22 revenue). Despite macroeconomic headwinds, the company experienced healthy growth driven by value selling and calibrated pricing. Efforts to broaden reach by expanding and fortifying the distribution network, particularly in South India, have continued. The balance sheet remains strong with net cash standing at Rs 1.4bn.

Walking a tight rope: Inflation has dampened overall demand. The market is currently not in a position to absorb price increases, and hence ORIENTEL has not taken any recent price action. FY22 saw some volume growth as a result of distribution footprint expansion, product launches, traction in B2B, and a demand shift from the unorganised to organised sector. The ECD space did see price increases of 14-15%, with volume growth in the upper single digits. In the case of lighting, the company hiked prices by 6-7% and posted volume growth of over 20%.

Strategic growth drivers: With the goal of reaching Rs 50bn in revenue in the medium term, management has identified the following major drivers: (i) stronger go-to-market strategy – increasing distribution reach and depth, with a focus on expansion in the south given encouraging results in Tamil Nadu; (ii) channel proliferation – limited reliance on the distribution model and a focus on growing through e-commerce; (iii) targeting the B2C space in lighting with a thrust on façade lighting; and (iv) a deeper focus on innovation-led product development.

Healthy balance sheet; maintain HOLD: Net cash stood at Rs 1.4bn, D/E at 0.1x and ROIC/ROE at 38.1%/25.4% for FY22. Management is confident of gradual premiumisation but we prefer HAVL and CROMPTON in the space. Maintain HOLD on ORIENTEL with a revised TP of Rs 310 as we lower our P/E multiple from 40x to 35x given inflationary headwinds for discretionary sectors.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ORIENTEL IN/Rs 271
Market cap	US$ 728.5mn
Free float	61%
3M ADV	US$ 1.0mn
52wk high/low	Rs 408/Rs 244
Promoter/FPI/DII	39%/8%/26%

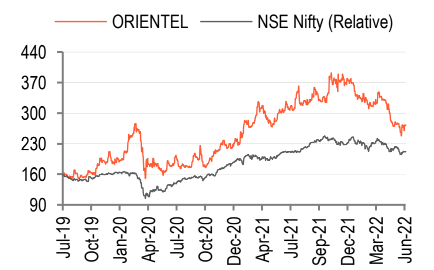
Source: NSE | Price as of 4 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	29,230	33,567
EBITDA (Rs mn)	2,313	2,951	3,474
Adj. net profit (Rs mn)	1,266	1,514	1,903
Adj. EPS (Rs)	6.0	7.1	8.9
Consensus EPS (Rs)	6.0	8.5	10.1
Adj. ROAE (%)	25.4	25.4	26.3
Adj. P/E (x)	45.5	38.1	30.3
EV/EBITDA (x)	24.7	19.0	16.2
Adj. EPS growth (%)	46.7	19.6	25.6

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

Stock performance



Source: NSE

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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