FIRST LIGHT

09 February 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONETARY POLICY REVIEW

RBI to pause most likely in FY24

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Capex to spur growth

TATA STEEL | TARGET: Rs 140 | +26% | BUY

Weaker Q3 does not disrupt upcoming growth, maintain BUY

THE RAMCO CEMENTS | TARGET: Rs 534 | –27% | SELL

Performance driven by new capacity addition

Daily macro indicators

Indicator	06-Feb	07-Feb	Chg (%)
US 10Y yield (%)	3.64	3.67	3bps
India 10Y yield (%)	7.32	7.31	(1bps)
USD/INR	82.74	82.70	0.0
Brent Crude (US$/bbl)	81.0	83.7	3.3
Dow	33,891	34,157	0.8
Hang Seng	21,222	21,299	0.4
Sensex	60,507	60,286	(0.4)
India FII (US$ mn)	**03-Feb**	**06-Feb**	**Chg ($ mn)**
FII-D	46.5	(48.3)	(94.8)
FII-E	(30.4)	(126.0)	(95.6)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONETARY POLICY REVIEW

RBI has increased its policy rate by 25bps to 6.5%, taking the cumulative rate hike to 250bps since May'22. While the stance has been left unchanged against market expectation of changing it to "neutral", we still expect RBI to go on a prolonged pause now and also expect no rate cuts this year. Inflation next year is expected at 5.3%, with gradual increase expected towards end of FY24. Unless there is any significant deviation is noted in quarterly forecasts, we do not expect any rate hikes from RBI. Growth expectations for FY24 are more in line with Union Budget and Economic Survey. Our FY24 expectation for inflation (5-5.5%) and GDP (6-6.5%) are also in line with the central bank.

Click here for the full report.

INDIA ECONOMICS: MONTHLY CHARTBOOK

The Union Budget for FY24 focussed on fiscal consolidation and supporting growth through increased capex spending. Domestic growth momentum appears to be strong, albeit some softening is visible, especially in consumption. Export growth too has weakened led by a slowdown in global demand. In line with the trend seen across the globe, RBI too slowed down the pace of rate hike to 25bps. Growth is expected to slowdown to 6.4% in FY24, while inflation is expected to remain elevated at 5.3%. However, stance was retained at "withdrawl of accommodation" which rules out rate cuts in the near future and also gives RBI room to hike rates again, based on the evolving inflation situation.

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

TATA STEEL

- Q3 below consensus with softer recovery in India operations and acute losses in Europe
- Earnings expected to post 18% CAGR over FY24-FY25 buoyed by margin stabilisation and growth projects
- We raise our TP to Rs 140 (vs. Rs 125) on rollover to FY25 and a higher blended target EV/EBITDA of 5.75x (vs. 5.5x); maintain BUY

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THE RAMCO CEMENTS

- Q3 revenue rose 29% YoY as utilisation improved to 69%; realisation gain of 9% came as a positive surprise
- Cost inflation continues to impact performance; fuel burden unlike to moderate and logistics cost an added worry
- Valuations stretched given that we expect ROCE/ROE of sub-10% through to FY25; maintain SELL, TP Rs 534

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MONETARY POLICY REVIEW

08 February 2023

RBI to pause most likely in FY24

Sonal Badhan
Economist

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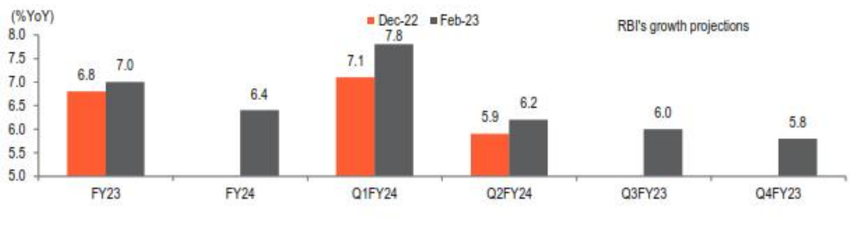
Monetary policy announcement: In line with our expectations, RBI hiked repo rate by 25bps today to 6.5%. Subsequently, SDF rate stands adjusted to 6.25% and MSF and Bank rate to 6.75%. Cumulatively, RBI has now raised repo rate by 250bps since May'22. The central bank has also decided to keep its focus on "withdrawal of accommodation", as against changing the stance to "neutral". This gives RBI the elbow room to hike rates in case of any price/external shocks.

GDP growth in FY24 to ease: Keeping in view that NSO is estimating 7% GDP growth in FY23 (higher than RBI's 6.8% forecast in Dec'22), RBI expects economy to slowdown in FY24. For next year, growth is estimated at 6.4%, in line with what economic survey and Union Budget are also expecting (BoB estimate: 6-6.5%). To meet this target, both Q1FY24 and Q2FY24 growth estimates have been revised upwards to 7.8% (7.1% as of Dec'22), and 6.2% (5.9% earlier), respectively. For Q3 and Q4, growth is estimated at 6% and 5.8% respectively. Downside risks to growth have been sighted as: weak global demand, tight financial conditions and ongoing geopolitical tensions.

Figure 1: RBI growth projections



Source: RBI, Bank of Baroda Research

Inflation risks lowered: For the current financial year (FY23), RBI has revised its inflation projections downward by 20bps. It now expects CPI to average at 6.5% versus 6.7% estimated in Dec'22. This takes into account sharp dip in inflation in Nov-Dec'22 (-105bps from the peak of Oct'22) on account of food inflation, and drop in international crude oil prices. As a result, CPI in Q4FY23 is projected at 5.7% (5.9% earlier). Going ahead, oil prices are expected to average at US$ 95/bbl, down from US$ 100/bbl.

Capex to spur growth

The Union Budget for FY24 focussed on fiscal consolidation and supporting growth through increased capex spending. Domestic growth momentum appears to be strong, albeit some softening is visible, especially in consumption. Export growth too has weakened led by a slowdown in global demand. In line with the trend seen across the globe, RBI too slowed down the pace of rate hike to 25bps. Growth is expected to slowdown to 6.4% in FY24, while inflation is expected to remain elevated at 5.3%. However, stance was retained at "withdrawl of accommodation" which rules out rate cuts in the near future and also gives RBI room to hike rates again, based on the evolving inflation situation.

Mixed reading: The announcements made in the Union Budget are expected to boost consumption. Pick-up in auto sales and improvement in digital payments are positive for the sector. However, easing of non-oil-non-gold imports and other high frequency indicators (electronic imports, fertilizer sales, lower demand for work-MGNREGA) need to be monitored carefully. On rural front, tractor sales has managed to register some improvement and two-wheeler sales have also rebounded. Rabi acreage continues to be higher than last year and bodes well for agri growth.

Centre sticks to fiscal consolidation: In the Union Budget FY24, government has committed to meet 6.4% fiscal deficit target for FY23, and bring it down to 5.9% in FY24. In order to meet FY23 targets, spending momentum has begun easing (FYTD basis) with headline expenditure growth at 11.8% as of Dec'22 (17.7% as of Nov'22). Within this, capex outgo has eased the most (25.1% versus 63.4%). Next year, capex is expected to jump by 37% to Rs 10 lakh crore while revenue expenditure will see only modest increase of 1.2%. On the income side, centre's gross tax revenues continue to moderate (12.5% versus 15.5%), led by both direct (18% versus 23.9%) and indirect (7.1% versus 8.5%) tax collections. Direct tax collections in FY23 are expected to average 17.2% before slowing to 10.5% in FY24. Indirect tax collections this year will rise by 7.1% and 10.4% next year. Overall gross tax revenues this year will average around the current growth rate (12.3%) and moderate to 10.4% next year.

India's 10Y yield remained rangebound: India's 10Y yield remained broadly stable in Jan'23 as borrowing in Q3 has been lower than planned. Further, as no issuance of fresh securities happened in Q4, 10Y yield got additional comfort. Post Budget also the relief on yields continued, as gross borrowing has been pegged lower than expected at Rs 15.4 lah crore. Further, RBI's in line hike of 25bps in the current policy would also keep yields broadly contained. We expect a prolonged pause this year and data dependency to be the key for any action from RBI. Further, RBI's measure in terms of permitting lending and borrowing of G-secs will increase liquidity in the G-sec market. On liquidity front, some pressure will be visible.

Pressure on INR: INR appreciated by 1% in Jan'23, despite FPI outflows. This can be explained by a weaker dollar and softer oil prices. However, post the stronger than expected US jobs report, the dollar rally resumed, putting pressure on INR as well as other currencies. FPI flows are likely to remain under pressure amidst a domestic stock market rout and possibility of higher rates in the US. Concerns also remain on the external front. However, RBI is likely to monitor and prevent any sharp fall in the INR. We expect INR in the range of 81-83/$ in the near term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

Economics Research Department
chief.economist@bankofbaroda.com

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BUY
TP: Rs 140 | ▲ 26%

TATA STEEL | Metals & Mining | 08 February 2023

Weaker Q3 does not disrupt upcoming growth, maintain BUY

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- **Earnings expected to post 18% CAGR over FY24-FY25 buoyed by margin stabilisation and growth projects**
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Kirtan Mehta, CFA
research@bobcaps.in

Weak Q3: TATA's consolidated Q3FY23 EBITDA at Rs 27bn fell 53% QoQ and was 54% below consensus. While standalone recovery was soft, Europe suffered an EBITDA loss of US$ 95/t. TATA saw a consolidated net loss with a one-off deferred tax charge on transfer out of the British Pension scheme. Net debt remained elevated at Rs 717bn, and TATA will not be able to deliver on deleveraging by US$ 1bn this year.

Expect gradual stabilisation of margins near-term: We expect industry-wide steel margins to stabilise to mid-cycle levels over FY24 aided by supportive government policies in China aimed at rebooting the economy. For TATA, margins in Indian operations are also likely to stabilise over FY24. European operations are likely to be under pressure at least until Q1FY24 with planned turnaround at Netherlands operations and the need for a demand-supply rebalancing in Europe. Accounting for the weaker Q3 and slower improvement over the next six months, we cut our FY23/FY24 EBITDA by 20%/10% but largely maintain our FY25 forecast.

Earnings growth kicking in from fructification of capex: Over a lower FY23 base, we now look for an 18% EBITDA CAGR over FY23-FY25. Besides margin stabilisation, key growth levers are ramp-up of the 6mtpa pellet plant, 2.2mtpa CRM complex and 1mtpa NINL plant over FY24, as well as ramp-up of the annealing & galvanising facilities and start-up of the 5mtpa Kalinganagar expansion over FY25.

Look beyond volatility to longer-term growth: TATA is well positioned to weather the ongoing downturn and is advancing its plan for 1.5x capacity growth to reach ~32mt by FY27 with implementation of Kalinganagar and NINL expansion. The company also has enough optionality within its three bases in India to deliver on its 40mtpa plan by FY30 via brownfield expansion. Moreover, it is aiming to improve the structural position of European operations under zero-carbon transition.

Maintain BUY: We increase our TP to Rs 140 from Rs 125 as we revise estimates, roll forward our valuation base and account for a blended FY25E EV/EBITDA multiple of 5.75x (vs. 5.5x earlier), valuing Indian operations at 6x and European operations at 4.5x. Given 26% upside potential, we maintain BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	TATA IN/Rs 111
Market cap	US$ 16.5bn
Free float	66%
3M ADV	US$ 65.0mn
52wk high/low	Rs 139/Rs 83
Promoter/FPI/DII	34%/23%/20%

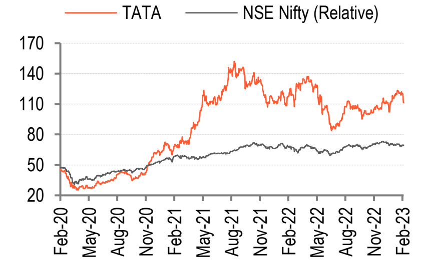
Source: NSE | Price as of 8 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,423	2,273	2,127
EBITDA (Rs mn)	635	287	339
Adj. net profit (Rs mn)	402	89	126
Adj. EPS (Rs)	33.2	7.4	10.5
Consensus EPS (Rs)	33.2	13.5	12.9
Adj. ROAE (%)	42.6	8.0	11.0
Adj. P/E (x)	3.4	15.1	10.7
EV/EBITDA (x)	3.5	7.0	5.8
Adj. EPS growth (%)	436.1	(77.7)	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 534 | ⋎ 27%

THE RAMCO CEMENTS | Cement | 08 February 2023

Performance driven by new capacity addition

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- **Cost inflation continues to impact performance; fuel burden unlike to moderate and logistics cost an added worry**
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Milind Raginwar | Yash Thakur
research@bobcaps.in

Topline growth drives performance: TRCL's Q3FY23 revenue rose 29% YoY to Rs 20bn aided by 19% volume growth which was contributed by capacity addition and a push in the eastern region that contributes ~25% of the company's volumes. Capacity utilisation improved to 69%, and management expects +80% levels in Q4. In a positive surprise, realisations grew 9% YoY, helping TRCL partially offset cost inflation. Management has guided for volume growth of 30% in FY23, followed by a healthy double-digit uptick in FY24 as new capacity ramps up.

Cost inflation continues: Blended fuel cost inched up to Rs 2.43/kcal. The usage of pet coke in Q3 was at ~59% of the fuel mix, with procurement cost at US$ 191/t. The railways' 15% busy season surcharge also impacted logistics cost (negative impact of Rs 50/t on EBITDA). Promotional expenses led to a 14% YoY rise in other expenditure to Rs 2.4bn. However, with strong realisation gains, EBITDA increased 23% YoY to Rs 2.8bn.

Capacity expansion underway: TRCL's Kurnool integrated unit began commercial production in Q2FY23 (with a 5MW WHRS) and achieved clinker capacity utilisation of 54% in Q3. Land acquisition for the Karnataka greenfield plant has not yet started as government approval is awaited. TRCL is also awaiting notification from the government for the Tamil Nadu limestone auctions.

Balance sheet remains stressed: Net debt in Q3 was at Rs 45.6bn as compared to Rs 47.4bn in Q2FY23, which includes an interest-free loan of Rs 1.9bn. The average cost of borrowing rose to 7.1% from 5.4% in YoY due to repo rates hikes.

Maintain SELL: Given the positive surprise in Q3, we raise our FY23 EPS by 38% but leave FY24/FY25 forecasts largely unchanged. At current valuations of 12x FY25E EV/EBITDA, TRCL looks expensive given its high gearing, weak margin profile due to a presence in oversupplied regions, and single-digit return ratios. We maintain SELL and continue to value the stock at 10x FY25E EV/EBITDA for an unchanged TP of Rs 534. Our target implies a replacement cost of Rs 7.7bn/mt (~US$ 100/t), a 10% premium to the industry average (for details, see our initiation report).

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	TRCL IN/Rs 730
Market cap	US$ 2.1bn
Free float	58%
3M ADV	US$ 4.5mn
52wk high/low	Rs 898/Rs 576
Promoter/FPI/DII	42%/7%/32%

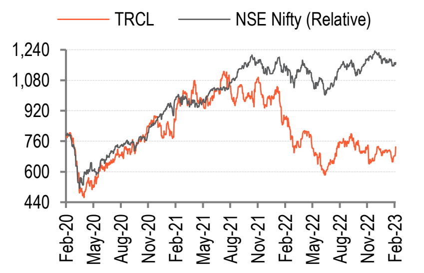
Source: NSE | Price as of 8 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	59,567	74,694	86,276
EBITDA (Rs mn)	12,606	10,399	12,711
Adj. net profit (Rs mn)	8,928	2,907	4,102
Adj. EPS (Rs)	37.8	12.3	17.4
Consensus EPS (Rs)	37.8	14.1	28.3
Adj. ROAE (%)	14.7	4.4	6.0
Adj. P/E (x)	19.3	59.4	42.1
EV/EBITDA (x)	16.6	20.6	16.9
Adj. EPS growth (%)	17.1	(67.5)	41.1

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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