FIRST LIGHT

03 September 2024

RESEARCH

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

GUJARAT STATE PETRONET | TARGET: Rs 480 | +4% | HOLD

Reorganisation to unlock investment value; maintain HOLD

CONSUMER DURABLES

Strategic shift to drive growth

AUTOMOBILES

Volume recovery in sight post the lull

SUMMARY

INDIA ECONOMICS: BONDS WRAP

Most of global yields eased in Aug'24. US 10Y yield softened further hinting rate cuts are incoming. US Fed minutes and Fed Chair Powell had signaled the same in the recent commentary amidst the moderation in inflation, reflected with the recent PCE data which is inching closer to the target mark along with signs of weakness in labor market. The only uncertainty lies over the quantum of rate cuts, it could vary between 25-50bps with the market pricing increased likelihood of at least 3-cuts this year, followed by more cuts in CY25.

Click here for the full report.

INDIA ECONOMICS: CURRENCY UPDATE

INR depreciated by 0.2% in Aug'24 (-0.4% in Jul'24) to currently trade at 83.87/$, close to its lifetime low of 83.97/$. This was despite weakening US$. The factors that impacted Rupee include: slowdown in FPI inflows (mainly equity segment), and increased dollar demand by importers. However, the decline was not as steep as it was in case of other currencies, mainly due relatively steady FPI inflows in the debt segment and lower oil prices. As a result, INR traded in the range of 83.72-83.97/$. In the next fortnight, we expect movement in INR to remain range bound.

Click here for the full report.

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GUJARAT STATE PETRONET

- GSPL stock's driver to be value of GUJGA and GTL post transaction with a specified swap ratio of 10+3.33 to 13 shares
- Based on transaction disclosures, we arrive at a value for GUJGA of Rs 615 and GTL of Rs 236, translating to Rs 534 for GUJS
- We maintain HOLD on GUJS with an increased TP of Rs 480 assuming 15% discount on transaction value of GUJGA's CGD business

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- Original design manufacturers are boosting room air conditioner components production even as insourcing trends rise steadily
- AMBER is better positioned than smaller players to capture a larger market share and sustain long-term growth

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BONDS WRAP

31 August 2024

Fortnightly review

Jahnavi Prabhakar
Economist

Most of global yields eased in Aug'24. US 10Y yield softened further hinting rate cuts are incoming. US Fed minutes and Fed Chair Powell had signaled the same in the recent commentary amidst the moderation in inflation, reflected with the recent PCE data which is inching closer to the target mark along with signs of weakness in labor market. The only uncertainty lies over the quantum of rate cuts, it could vary between 25-50bps with the market pricing increased likelihood of at least 3-cuts this year, followed by more cuts in CY25.

On the domestic front, India's 10Y yield too softened and we expect further moderation given the possibility of further dip in inflation in the coming months as well as favorable liquidity conditions. Higher FPI-inflows in debt segment with the bond index inclusion also bodes well for the bond market. Going forward, the 10Y yield is expected to trade in the range of 6.8%-6.9% in Sep'24, with risk evenly balanced.

Movement in global yields in Aug'24:

- There was significant variation in movement in global yields in Aug'24 across global economies. While 10Y yield in Japan fell by 16bps, yields in US was down by 13bps and for UK and China, the bond yields were up by 4.5bps and 3bps respectively.

Table 1. 10Y yield movement globally

Countries	10Y sovereign yield, 31 July 2024	10Y sovereign yield, 30 Aug 2024	Change in bps (MoM)
UK	3.97	4.02	4.5
China	2.15	2.18	2.8
Korea	3.06	3.09	2.8
Germany	2.30	2.30	(0.1)
India	6.93	6.86	(6.6)
US	4.03	3.90	(12.66)
Japan	1.06	0.90	(16.2)
Singapore	2.87	2.69	(18.2)
Indonesia	6.90	6.63	(26.7)

Source: Bloomberg, Bank of Baroda Research

- US 10Y yields ended lower by 13bps in Aug'24. The recently released Fed minutes signaled the rate cuts are very much back on the table given 'vast majority' of officials were willing to reduce rates in the next meet given the data 'comes in as expected'.

CURRENCY UPDATE

31 August 2024

Fortnightly forex review

Sonal Badhan
Economist

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Domestic currency is expected to benefit from possibility of renewed FPI inflows in the equity segment (due to changes announced in the MSCI index) and moderation in oil prices. However, pressure may arise as DXY is beginning to regain ground as investors scale back their expectation of a large rate cut by Fed in Sep'24. Further, any escalation in geo-political tensions in the Middle East will also increase the demand for safe haven currencies, thus adversely impacting INR. We thus expect INR to trade in the range of 83.8-83.9/$.

Movement in global currencies in Aug'24

In Aug'24, major global currencies appreciated against the dollar. The movement in global currencies was led by weakness in dollar. DXY index, measuring the dollar's value against a basket of currencies was 2.3% lower in Aug'24 (weakest since Nov'23), following the 1.7% decline in Jul'24. Much of the weakness was noted in the second fortnight of Aug'24 when it fell by 1.5%, compared with 1.1% decline noted in the first fortnight. However some revival in dollar demand has been visible towards the end of the month, as incoming macro data points towards a smaller rate cut by Fed in Sep'24. During the course of the month, Fed Chair in his statement at Jackson Hole Symposium confirmed that the time has come for Fed to lower rates. However the quantum of rate cuts this year remains a topic of debate. Most analyst are pricing in 100bps cut by the end of this year. This view has been supported by continued weakness in the manufacturing sector activity, 4th consecutive rise in unemployment rate in Jul'24, slowdown in home sales amidst low levels of new home supply and elevated prices. As risk sentiment improved, Asian currencies gained the most. Apart from them, JPY, EUR and GBP also made significant gains. GBP gained following the comments of Bank of England Governor Bailey at Jackson Hole Symposium. He cautioned that it would be too early to declare a victory over inflation currently, and rates would have to remain restrictive for a longer period of time to bring inflation down to central bank's target on a durable basis.

COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 480 | ⮝ 4%

GUJARAT STATE PETRONET | Oil & Gas | 02 September 2024

Reorganisation to unlock investment value; maintain HOLD

- **GSPL stock's driver to be value of GUJGA and GTL post transaction with a specified swap ratio of 10+3.33 to 13 shares**
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Reorganisation: GSPC Group has announced the merger of GSPC (Not Rated), GUJGA and GUJS and then the demerger of the transmission business into GTL. The proposed transaction simplifies the group's structure, adds the competitive gas trading business and consolidates all investments except transmission under GUJGA, partially unlocking the holding discount on GUJGA for GUJS investors.

GUJGA value as per transaction: Based on the implied transaction value of GUJGA (Not Rated) at Rs 443bn and collective value of gas trading business and consolidation of investments at Rs 134bn as per transaction details given by management, we arrive at potential value of Rs 577bn. On an expanded equity base after 36% dilution, this results in a potential value of Rs 615/sh. While GUJGA's transaction value implies a FY26 P/E of 27x on consensus estimates, actual market value can vary depending on consensus assumptions of investors.

GTL value as per transaction details: Going by indicated transaction value details, GTL's (Not Rated) implied value works out to Rs 73.8bn and translates to a per share value of Rs 236. GTL's total number of shares works out to 312.7mn based on the 1:3 demerger ratio on GUJGA's expanded equity base of 938.2mn shares.

GUJS valuation levers: GUJS shareholders will get 10 shares of GUJGA and 3.33 shares of GTL for every 13 shares of GUJS upon the completion of the transaction. Based on the post transaction implied per share value of Rs 615 for GUJGA and Rs 236 for GTL, GUJGA effective value works out to Rs 694/sh prior to the merger and translates to a value of Rs 534 for GUJS. However, till the completion of the transaction, actual arbitrage will lower GUJS's value by cost of holding as well as transaction cost.

HOLD with an increased TP of Rs 480: We raise our SOTP-based TP for GUJS to Rs 480 from Rs 370, factoring in the reorganisation announcement. Our TP is below the transaction implied value of Rs 534, as we conservatively assume 15% discount on transaction value of GUJGA keeping in view relatively high implied FY26 P/E of 26.8x for the existing business. Given 4% upside; maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GUJS IN/Rs 460
Market cap	US$ 3.1bn
Free float	51%
3M ADV	US$ 16.2mn
52wk high/low	Rs 447/Rs 255
Promoter/FPI/DII	38%/16%/24%

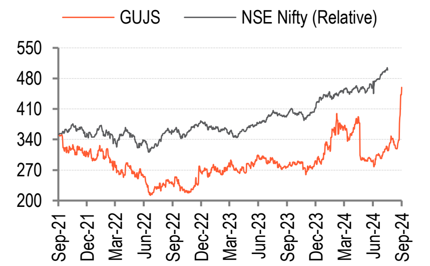
Source: NSE | Price as of 2 Sep 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	20,148	13,925	14,793
EBITDA (Rs mn)	14,875	8,829	9,309
Adj. net profit (Rs mn)	12,679	7,448	7,676
Adj. EPS (Rs)	22.5	13.2	13.6
Consensus EPS (Rs)	22.5	15.0	17.0
Adj. ROAE (%)	13.0	7.1	6.9
Adj. P/E (x)	20.4	34.8	33.8
EV/EBITDA (x)	17.2	28.7	27.4
Adj. EPS growth (%)	36.5	(41.3)	3.1

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

Stock performance



Source: NSE

CONSUMER DURABLES

02 September 2024

Strategic shift to drive growth

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Post our interaction with Epack Durable (Not Rated) we did a comparative analysis between Amber Enterprises and Epack Durable. Our key findings are as follows:

EMS is poised for rapid growth with new policies: We believe the EMS segment is set for substantial long-term expansion. With supportive government policies, the domestic EMS market will grow from Rs 1.46tn in FY22 to Rs 4.5tn in FY26 with growth CAGR of 32.3% (Frost & Sullivan). We expect this growth to benefit key players like DIXON, AMBER, EPACK, etc. In our view, these companies have reached significant scale and market dominance and are now positioned to advance into components manufacturing to enhance localisation and value addition within India. Further initiatives will be needed to encourage domestic component production, in which GOI has implemented various schemes.

PLI boost…: The Production-Linked Incentive scheme and favourable industry trends are driving significant growth in the domestic RAC market, and as per EPACK it is expected to grow at a CAGR of 13% from FY24-FY28, reaching 17.7mn units by FY28. Currently, AC penetration in India is ~9%, compared to 90% in Japan and US each and 80% in China. In response to rising demand, several OEM and ODM players are investing heavily in capex under the PLI scheme, which has increased domestic value addition from 20% to 40% and we believe this will increase further.

... AMBER leads investment: Despite rising insourcing trends, ODM players are ramping up production of RAC components. AMBER and EPACK are key RAC ODM players in this segment. AMBER has committed Rs 6.2bn to the PLI scheme (the highest among ODM/OEM players) and invested Rs 14.9bn in capex from FY22-24. EPACK has committed Rs 3.6bn under the PLI scheme and invested Rs 5.8bn in total capex from FY22-24 (Fig 4).

RAC ODM market share: AMBER stands out as a leading player in the RAC ODM market, with a 27% market share in FY24. EPACK had a 24% market share in FY24. AMBER's focus on expanding its component business has allowed it to retain its market share despite a drop in outsourcing from AC OEM players.

AUTOMOBILES

02 September 2024

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- **2-wheeler segment shows healthy signs of growth driven by mix of entry level pickup and high-end segment**
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Passenger vehicle segment: Domestic PV industry volumes grew 6.3%/1.3% YoY/MoM driven by continued SUV demand and periodic new launches. MSIL's volume fell 5.3% YoY but rose 3.1% MoM as the SUV segment continues to offset the decline in compact segment sales. Exports drove overall growth. TTMT fell ~3.0%/1.3% YoY/MoM while MM grew ~16%/4% YoY/MoM driven by the healthy response to new launch XLO 300. Hyundai India's domestic volume grew by ~17.4% YoY and continued its second position.

Two-wheeler segment: The 2W segment grew ~7.9%/18% YoY/MoM driven equally by domestic and export markets. HMCL grew a weak 4.8% YoY, impacted by temporary supply shortages. BJAUT delivered the highest growth of ~18% YoY driven by new launches. TVSL's volume grew 14% YoY. BJAUT's growth was driven by domestic markets as export growth was tepid at 1% YoY, while TVSL's growth was driven by exports which grew by ~19% YoY. EIM's volume fell ~5 YoY (+10% MoM).

Three-Wheeler segment: The 3W segment grew by 11.9%/52.8% YoY/MoM driven by domestic and export volumes. BJAUT's domestic 3W volume grew 2%/7% YoY /MoM and TVSL's overall volume fell 7.2%/11.9 YoY/MoM as exports stayed weak.

Tractors segment: Overall tractor sales stayed flat YoY but fell by 10.6% MoM due to seasonality (sales are down during monsoon months). ESCORTS and MM delivered flat growth YoY; MoM sales in the tractor segment fell. Higher exports drove MM's growth (36% exports growth) while ESCORTS lacked export pace (~4%).

Commercial vehicles: CV segment volume fell 6.8% YoY, but stayed flat at 1.4% MoM. Domestic and exports both fell 7.1%/6.2% each YoY. M&HCV segment volume fell 17.3% YoY and rose by 5.5% MoM with TTMT decreasing 20.9% YoY but seeing an uptick of 9.6% MoM, and AL falling by ~13.6% YoY (+1.4% MoM). LCV segment showed negative growth, with TTMT volume falling 13.8%/1.0% YoY/MoM. Overall, the segment fell 7% YoY but gained 2.5% MoM.

Key ratings: Retain BUY rating on MM and AL, and SELL on ESCORTS and VSTT.

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