FIRST LIGHT

05 March 2024

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Capacity addition quickens but lags annual targets

Daily macro indicators

Indicator	29-Feb	01-Mar	Chg (%)
US 10Y yield (%)	4.25	4.18	(7bps)
India 10Y yield (%)	7.08	7.06	(2bps)
USD/INR	82.91	82.91	0.0
Brent Crude (US$/bbl)	83.6	83.6	(0.1)
Dow	38,996	39,087	0.2
Hang Seng	16,511	16,589	0.5
Sensex	72,500	73,745	1.7
India FII (US$ mn)	**28-Feb**	**29-Feb**	**Chg ($ mn)**
FII-D	101.8	(16.1)	(117.9)
FII-E	(167.5)	506.6	674.1

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: BONDS WRAP

Sell off in global bond market persisted in Feb'24 as well since markets have already priced in a late start to the rate cut cycle of major central banks. For Fed, odds are in favour of a rate cut from Q2 onwards. For other central banks, it may be an even more delayed response based on the evolution of growth-inflation data. For domestic yields, the undertone is different. India's 10Y yield got support from buoyant demand from FPIs. In Feb'24, there were inflows of US$ 2.7bn in the debt segment. Going forward, resilient domestic macros, fiscal discipline and easing price pressure would put further downward bias on yields.

Click here **for the full report.**

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INDIA ECONOMICS: CRUDE IMPORTS

Russia meets a large portion of India's ever growing demand for crude oil. Post the Russia-Ukraine conflict, Russia emerged as one of the top contributors to India's oil import and its share in total imports has risen remarkably on the back of the discounts on oil prices. However, in the last few months some moderation has been noticed in terms of Russia's supply of crude given the fall in international crude prices. Regardless of this dip, the demand for Russia's crude oil has remained intact even as government is trying to lower its oil import bill and reducing its dependence on Russia as it continues to look for other better suited alternatives.

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INDIA ECONOMICS: CURRENCY OUTLOOK

INR has remained on a strong footing in Feb'24, appreciating by 0.2%. With this, INR has now appreciated for 3 months straight, despite a resurgence in dollar strength. Resilient domestic growth along with manageable trade deficit has been underpinning the strength in INR. This is being supplemented by robust foreign inflows, particularly in the debt segment. We believe that this trend is likely to continue in Mar'24 as well. INR is expected to trade in a narrow range of 82.85-83.00/$ in Mar'24. Risks remain from a repricing of Fed's rate trajectory and increase in oil prices.

Click here for the full report.

INDIA ECONOMICS: GDP FORECAST

According to the recently released estimates, the NSO has pegged the economy to clock a growth of 7.6% in FY24. Given the strong macro-economic fundamentals, consumption and investment are expected to maintain if not drive growth higher in FY25. With gradual improvement in global economic outlook, exports are expected to register stronger growth. GVA growth is expected at 7.2% form 6.7% in FY24 led by broad based improvement across sectors. Revival in agriculture sector on the back of normal monsoon is an assumption here. Based on the above, we expect the Indian economy to clock a growth rate of 7.8% in FY25.

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DIVERSIFIED FINANCIALS

- MF AUM crossed Rs 50tn in 9MFY24, marking a new high for the industry
- Top 10 AMCs continue to command over 70% of equity and 80% of overall market share by MAAUM
- Equity performance of Nippon AMC and HDFC AMC remains in top quartile across timeframes

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POWER: MONTHLY TRACKER

- Power plant PLFs higher at 72.3% in Jan'24 and 68.5% YTD; government raises peak demand estimate 5% to 384GW by 2032
- 10GW renewable capacity added in 10MFY24 and transmission line addition picked up in Jan'24, but both still lag full-year targets
- NTPC and PWGR remain our top picks; we maintain HOLD on TPW due to full valuations

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BONDS WRAP

02 March 2024

Fortnightly review

Dipanwita Mazumdar
Economist

Sell off in global bond market persisted in Feb'24 as well since markets have already priced in a late start to the rate cut cycle of major central banks. For Fed, odds are in favour of a rate cut from Q2 onwards. For other central banks, it may be an even more delayed response based on the evolution of growth-inflation data. For domestic yields, the undertone is different. India's 10Y yield got support from buoyant demand from FPIs. In Feb'24, there were inflows of US$ 2.7bn in the debt segment. Going forward, resilient domestic macros, fiscal discipline and easing price pressure would put further downward bias on yields.

We expect 10Y yield to remain in the range of 7-7.10% in the current month. Liquidity deficit is likely to persist and remain in the range of 1.0-1.2% of NDTL. Durable liquidity would come under further pressure due to expected increase in currency in circulation in the coming months.

US 10Y inched up considerably:

- US 10Y yield continued to inch up. The undertone of major Fed officials (Atlanta Fed President, Chicago Fed President and Fed Governor) was that policy rate has already peaked but easing warrants a correct balance of macroeconomic mix. The core PCE data closely tracked by Fed in policymaking has remained firm. University of Michigan's inflation expectations have also hinted at stickier inflation both for 1 and 5 year horizon. Other macro data such as ISM manufacturing print, consumer confidence index and new homes data showed some softening. This has pared the increase in yields to some extent. As per CME Fed watch tool the odds of a rate cut is visible only from Q2CY24 onwards. The upcoming Fed Chair's testimony before the Congress and payroll data holds the cue.
- Other central banks such as BoE and ECB closely monitored the growth-inflation dynamics of the region. BoE's Chief Economist was not convinced of easing price pressures and hinted at 'guard against a false sense of security'. Markets are not pricing any move by BoE before Aug'24. Elsewhere, Bundesbank President also cautioned against easing policy too soon. In the Eurozone, despite cooling inflation, core has remained sticky.
- 10Y yield in China was supported by PBOC's surprise move of cutting the 5 year loan prime rate by 25bps. In Thailand, worries about state of the economy has led to a fall in yield, due to risk-off sentiment.

CRUDE IMPORTS

02 March 2024

India's crude import-story so far

Jahnavi Prabhakar
Economist

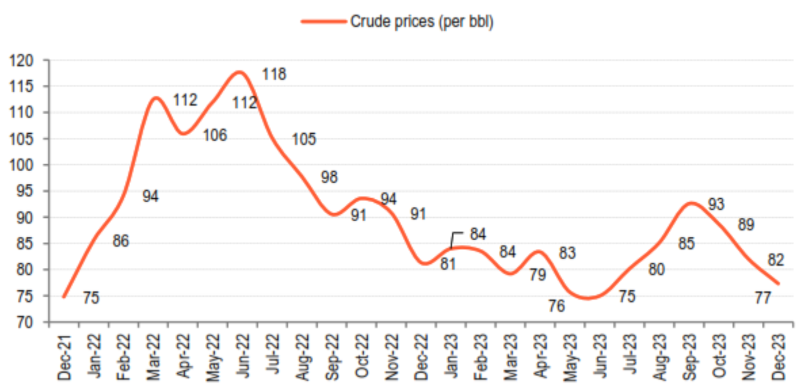
Russia meets a large portion of India's ever growing demand for crude oil. Post the Russia-Ukraine conflict, Russia emerged as one of the top contributors to India's oil import and its share in total imports has risen remarkably on the back of the discounts on oil prices. However, in the last few months some moderation has been noticed in terms of Russia's supply of crude given the fall in international crude prices. Regardless of this dip, the demand for Russia's crude oil has remained intact even as government is trying to lower its oil import bill and reducing its dependence on Russia as it continues to look for other better suited alternatives.

Crude oil prices

India depends on other regions and countries to fulfil its growing demand for crude. Over 80% of India' crude oil demand is met though imports. In Dec'23, India's total oil import bill had fallen down by 25% on a YoY basis compared with an increase of 7.2% in Nov'23. This was on account of a steady fall in the crude oil prices, the average price was down by 4.9% in Dec'23 (US$ 77.3/bbl from 81.3/bbl in Dec'22).

Before the beginning of the Russia-Ukraine conflict, the average international crude price was hovering below US$ 100/bbl mark. Back in Dec'21, the average price was a low as US$ 75/bbl. With the beginning of the conflict in Feb'22, the conflict added to ongoing geopolitical uncertainty, raising concerns over global economic outlook and the oil prices escalated to as high as US$ 118/bbl during this period. However, since then the prices have gradually moderated and are trading near the US$ 77/bbl mark.

Figure 1: International Crude oil prices over the last 2-years



Source: Bloomberg, Bank of Baroda Research

CURRENCY OUTLOOK

02 March 2024

Fortnightly forex review

Aditi Gupta
Economist

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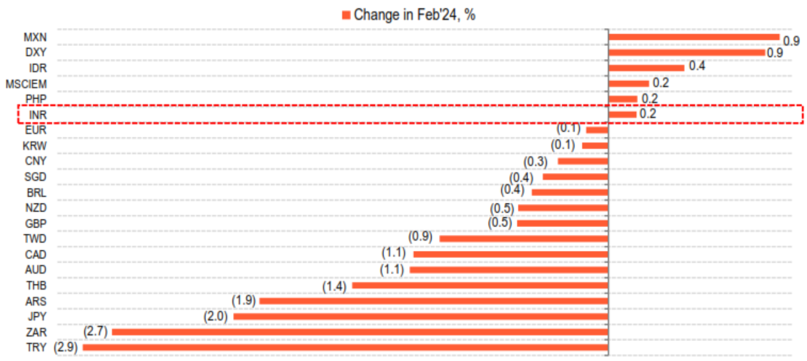
Movement in global currencies

Global currencies were mostly lower in Feb'24, as dollar gained strength. DXY rose by 0.9% as Fed's rate cut expectations have been pushed back to Jun'24 amidst a sustained momentum in the US economy. Investors have also dialed back expectations of aggressive rate cuts, with most analysts now expecting only a smaller magnitude of rate cuts in 2024. This has been helping dollar which has risen by 2.8% in 2024 (upto 29 Feb 2024). As a result, other currencies have depreciated. Amongst major currencies, GNP has depreciated by 0.5% and EUR by 0.1%. It is interesting to note that rate cut expectations in both Eurozone and UK have also been pushed back even as economic activity remains on a fragile ground. JPY depreciated by 2%, as BoJ's policy divergence weighed on the currency.

Figure 1: Movement in global currencies in Feb 2024



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 29 Feb 2024 | Figures in brackets indicate depreciation against the dollar

How has INR fared?

Continuing with the trend in the last few months, INR traded in a narrow trading range in Feb'24 as well. In Feb'24, INR appreciated by 0.2%, taking its gains in CY24 to 0.4%. The stability in the exchange rate despite adverse headwinds from a stronger dollar and escalated geo-political tensions in the Middle-East is underpinned by India's robust macro fundamentals.

GDP FORECAST

04 March 2024

GDP expectations for FY25

Jahnavi Prabhakar
Economist

According to the recently released estimates, the NSO has pegged the economy to clock a growth of 7.6% in FY24. Given the strong macro-economic fundamentals, consumption and investment are expected to maintain if not drive growth higher in FY25. With gradual improvement in global economic outlook, exports are expected to register stronger growth. GVA growth is expected at 7.2% form 6.7% in FY24 led by broad based improvement across sectors. Revival in agriculture sector on the back of normal monsoon is an assumption here. Based on the above, we expect the Indian economy to clock a growth rate of 7.8% in FY25.

FY25 GDP estimation

GDP growth at 7.8% in FY25, is marginally higher than the estimated increase of 7.6% in FY24 on a YoY basis. The main driving factors would be:

- Private consumption is likely to register stronger growth of 6.5% in FY25 compared with 3% in FY24. This is based on the pickup in consumption demand especially FMCG goods. In the coming year, inflation is expected to moderate and will provide support to consumption. It is also projected that in addition to the FMCG sector, automobiles will also record higher growth with record number of sales across segments including passenger cars. Lower input cost, absence of supply bottlenecks and moderation in commodity prices will make it attractive for consumers and could push up the demand for entry-level cars. The foray of electric vehicles is also expected to add to the strength of this sector.
- Government consumption will register growth at 6.6% for the same period.
- Gross fixed capital formation (GFCF) is to grow by 9.3% in FY25. In addition to the continued growth in government capex, a pickup in private capex is expected that will be broader based. This will result more in in the second half of the year as higher consumption leads to improvement in capacity utilization.
- Global economic outlook is looking up gradually as has been evident from the recent projection by IMF which expects global growth at 3.2% in CY25 (3.1% in CY24). This goes along with easing of inflation. Lowering of policy rates by global central banks will provide further impetus to growth story. Against this, exports will register improvement even as there is some uncertainty related to Middle East.

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DIVERSIFIED FINANCIALS

04 March 2024

Sustained, strong demand for mutual funds

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- **Top 10 AMCs continue to command over 70% of equity and 80% of overall market share by MAAUM**
- **Equity performance of Nippon AMC and HDFC AMC remains in top quartile across timeframes**

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Recommendation snapshot

Ticker	Price	Target	Rating
ABSLAMC IN	520	500	HOLD
HDFCAMC IN	3,767	3,425	HOLD
NAM IN	516	580	HOLD
UTIAM IN	906	909	HOLD

Price & Target in Rupees | Price as of 2 Mar 2024

Strong MF AUM growth: Aggregate MAAUM has clocked a 13% CAGR over FY19-FY23 to Rs 40tn, before crossing Rs 50tn in 9MFY24 – marking a milestone for India's mutual fund industry. Higher financial savings, broader regional penetration, ease of investing online, and rising awareness about mutual funds are some of the factors spurring growth. We see ample scope for a further demand pickup as India's AUM to GDP ratio remains lower than that in most other countries.

Equity funds continue to gain traction: Growth in mutual funds is being fuelled by demand for equity schemes, which accounted for 56% of total AUM in 9MFY24 from 42% in FY19. SIPs have been key drivers of growth, with systematic plan AUM swelling to Rs 10tn at end-9MFY24 (35% of equity assets) as compared to Rs 2.5tn (24%) in FY19. Apart from equities, ETF share has also risen from 5% to 13% over the period, reflecting investors' preference for passive schemes.

Market remains concentrated among top 10 AMCs: The top 10 fund houses continue to command ~80% of industry MAAUM. SBI AMC remains the leader, with market share surging to 17.2% at end-9MFY24 from 11.8% in FY19. IPRU AMC, the #2 player, and HDFC AMC, the #3 player, retained their rankings despite losing market share. In the equity category, the market share of the top 10 AMCs has slipped from 76.3% in FY19 to 72.4% in 9MFY24. All four listed players have ceded ground, but HDFC AMC and Nippon AMC have clawed back share since FY22. In the highly competitive equity market, only 20bps separates the top two players (IPRU AMC and HDFC AMC).

HDFC AMC, Nippon AMC among top equity scheme performers: A comparison of equity scheme performance shows that HDFC AMC and Nippon AMC remain in the top quartile across 1Y, 3Y and 5Y timeframes. UTI AMC has struggled across timeframes and equity schemes, whereas ABSL AMC has had a mixed run.

Retain positive sector view: We retain our positive sector view but have HOLD ratings on all stocks due to high valuations. Nippon AMC is best placed, in our view, but remains at HOLD due to a 60%+ stock runup over the last six months.

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POWER | Monthly Tracker | 04 March 2024

Capacity addition quickens but lags annual targets

- **Power plant PLFs higher at 72.3% in Jan'24 and 68.5% YTD; government raises peak demand estimate 5% to 384GW by 2032**
- **10GW renewable capacity added in 10MFY24 and transmission line addition picked up in Jan'24, but both still lag full-year targets**
- **NTPC and PWGR remain our top picks; we maintain HOLD on TPW due to full valuations**

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Peak demand returning; plants gear up for summer: Peak power demand during Jan'24 grew ~4% MoM and YoY to 223GW, with a marginal shortfall in supply. Total generation for the month increased 8.6% MoM and 5.7% YoY to 144BU. Thermal plants contributed ~80% of the electricity generated in January and ~75% in FY24 YTD, with their average PLF rising to 72.3% for the month (vs. 65.2% in Dec'23 and 66.9% in Jan'23) and 68.5% YTD. India Ratings expects ~68% PLF for FY24 and FY25. The government has recently raised its peak power demand estimate to 384GW by 2032, a 5% increase compared to earlier estimate published in May'23.

Renewables catching up with annual target: Wind and solar capacities of 300MW and 1GW respectively were added during January, taking FY24 YTD renewable capacity additions to 10GW. This is still short of the 20GW of additions expected by ICRA in FY24 and 18-20GW expected by India Ratings.

Transmission infrastructure rises MoM, continues to lag YTD: A total of 938ckm of transmission line capacity was added in January and 9,985ckm in FY24 YTD. Central Electricity Authority's (CEA) monthly capacity addition target was exceeded by 14%, but YTD addition is still 33% below target (vs. 36% earlier). Under tariff-based competitive bidding (TBCB), no new projects began construction, but ReNew Transmission has completed its 2,500MW Koppal Wind Energy evacuation project.

Three new transmission works approved: The National Committee on Transmission (NCT) has approved three projects worth Rs 7.4bn. Of these, projects worth Rs 1.2bn and Rs 2.5bn have been awarded to PWGR and Adani Energy respectively, and a third worth Rs 3.7bn is approved for RECPDCL and to be awarded via TBCB.

Outstanding dues continue to fall: Outstanding dues payable to public sector units stood at Rs 181.4bn as of Jan'24, falling 2% MoM and 16.5% YoY. The fall indicates successful implementation of the late payment surcharge (LPS) scheme.

Top picks: We continue to prefer NTPC (BUY, TP Rs 370) and PWGR (BUY, TP Rs 320) as plays on thermal capex and India's green energy corridor respectively.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	342	370	BUY
PWGR IN	287	320	BUY
TPW IN	1,149	1,140	HOLD

Price & Target in Rupees | Price as of 2 Mar 2024

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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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