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FIRST LIGHT

12 May 2021

RESEARCH

BOB Economics Research | Monthly Chartbook

India's recovery hit by second wave

Power

Yesterday's rally likely an overreaction

SUMMARY

India Economics: Monthly Chartbook

Our economic activity tracker shows that economy is now 21% below Feb'20 baseline compared with a 3% dip in Mar'21. A number of high frequency indicators—E-way bills, toll collections, vehicle registration, rail freight and mobility—are showing impact on the economy. This makes us believe that there is a heightened risk to our growth forecast of 11% for FY22.

Given the change in economic outlook, yields for government and private sector have eased again. The outlook on yields looks more benign than in Mar'21. After a depreciation of 0.3% in Apr'21, INR has again regained some ground. We expect it to trade in a tight range of 73-75/USD. Merchandise and services exports are likely to do well in a background of improving global demand. However, rising oil prices and change in monetary policy stance of global central banks is a risk to our yield and INR view.

Click here for the full report.

Power

Power stocks rallied yesterday, possibly on news of a 25% YoY uptick in electricity consumption in the first week of May. While trends are impressive versus Apr'20, a YoY comparison belies the true picture considering the hard lockdown last year. Barring northern states, demand growth has been fuelled by all regions led by the east and northeast. Discoms may be seeing an adverse mix shift towards lower-tariff domestic and agriculture customers. Soft PLFs and under-construction capacity suggest that any material rise in project activity is unlikely.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.60	2bps	(6bps)	89bps
India 10Y yield (%)	6.01	0bps	(1bps)	(16bps)
USD/INR	73.35	0.2	1.9	3.1
Brent Crude (US$/bbl)	68.32	0.1	8.5	130.6
Dow	34,743	(0.1)	2.8	43.4
Shanghai	3,428	0.3	(0.7)	18.4
Sensex	49,502	0.6	(0.2)	56.8
India FII (US$ mn)	**7 May**	**MTD**	**CYTD**	**FYTD**
FII-D	71.9	203.7	(2,188.6)	(161.4)
FII-E	(162.9)	(539.2)	5,298.0	(2,028.3)

Source: Bank of Baroda Economics Research

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India's recovery hit by second wave

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State specific restrictions to impact growth: Second wave has hit India hard with 6.6mn fresh cases in Apr'21 compared with 1.1mn new infections in Mar'21. Our activity tracker shows that economic activity is almost 21% below Feb'20 baseline from 3% below baseline in Mar'21. We expect state specific restrictions to continue in Q1FY22 and spillover into Q2FY22 as well. This puts our FY22 growth estimate of 11% at risk.

High frequency indicators show a dip: High frequency indicators such as diesel sales (-13.5% MoM), vehicle registration (-18.2% MoM), rail freight (-9.9% MoM), toll collections (-15% MoM) and E-way bills (-7.1% MoM) are pointing to a dip in economic activity. While internal trade seems to have been hit as seen in toll collection and E way bills, external trade did hold ground in Apr'21. With restrictions across most states in India, non-oil-non-gold imports will lag.

Yields softened: India's 10Y yield fell by 14bps in Apr'21 and has fallen by another 2bps in May'21. Muted credit demand outlook on the back of rising Covid-19 infections explains this. Also RBI is likely to maintain accommodative monetary policy stance for longer than what was expected a few weeks back. The G-Sec Acquisition Program (GSAP-1) will also help in ensuring that yields remain on the lower side. The risk to yields is likely to come from rising oil prices and change in monetary policy of advanced economies. As global economy normalises, oil prices are unlikely to see a downtick. Same is the case with commodity prices. In addition, central banks of England and Canada have reduced their asset purchase program in light of improving economic activity.

INR to remain range-bound: INR depreciated by 0.3% in Apr'21 as Covid-19 cases spiked sharply. FII flows turned negative for the first time in 7-months at US$ 1.9bn. However, INR has risen in May'21 supported by a weakness in USD (DXY has fallen by 1.2% in May'21). We expect INR to trade in the range of 73-75/USD in FY22. Higher oil prices and further spike in Covid-19 cases remain a key risk to our view.

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

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POWER

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Yesterday's rally likely an overreaction

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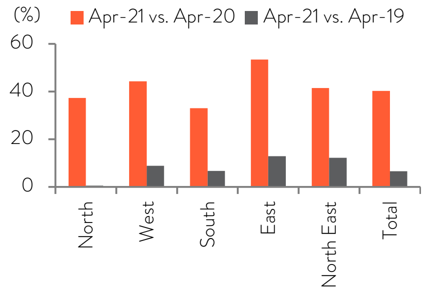
Power rally driven by growing consumption: Power stocks rallied on 10 May led by BHEL (13.6%), GE T&D (7.8%), Torrent Power (8.4%) and Tata Power (7.1%). News reports on consumption growing by 25% in the first week of May could have prompted the rally.

Growth impressive but YoY analysis misleading: A comparison with 2020 data provides an inaccurate picture due to the stringent nationwide Covid lockdown last year and hence a look at 2019 data is more relevant. All-India consumption in Apr'21 grew 6.5% vs. Apr'19 (and by 40% YoY), based on POSOCO data. Growth was broad-based across regions, led by the east and northeast (12-13% vs. 2019), which could be attributed to elections in two major states in these regions. The west (+8.8%) and south (+6.7%) also showed an impressive uptick, whereas the north remained weak at 0.5%.

Domestic and agriculture demand potentially led growth: High frequency data by segment is not available, but anecdotal evidence suggests growth is likely to have come from domestic (24% of demand in FY20, 7.8% CAGR FY10-FY20) or agricultural consumers (18%, 6.6% CAGR). Offtake from the commercial segment (8% of demand, 5.5% CAGR FY10-FY20) is likely to have fallen sharply amid renewed lockdowns and growth in industrial demand (43%, 8.8% CAGR) may also be muted for the same reason.

Implications: (1) Adverse mix for discoms – Higher domestic and agriculture demand will be a negative for discoms as tariffs for these segments are lower and AT&C losses higher. (2) Adequate capacity – Overall PLF in FY21 was 38% and for coal capacity 48% (vs. >70% in the last decade). Net capacity addition of >25% announced over FY22-FY25 – a large part of which is either in the construction or planning stage – would mean project flow, specifically in the thermal space, may not surprise on the upside.

POWER CONSUMPTION GROWTH



Source: POSOCO

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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