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FIRST LIGHT

01 September 2020

RESEARCH

BOB Economics Research | Weekly Wrap
India's GDP and fiscal health in focus

BOB Economics Research | Q1FY21 GDP
Investment and consumption drive record fall in GDP

Media & Entertainment
Unlock 4.0: Cinema shutdown extended to September

SUMMARY

India Economics: Weekly Wrap

Global 10Y yields went up as macro data showed further improvement in economic activity: China's industrial profits, US durable goods and new home sales. US Fed Chair introduced a new inflation targeting policy which will allow Fed to keep lower interest rates for longer. DXY fell by 0.9%. INR rose by 1.9% supported by FPI inflows. India's 10Y yield rose by 5bps despite RBI's operation Twist due to accelerating inflation and elevated fiscal deficit. Markets look forward to Q1FY21 GDP and government's fiscal numbers.

Click here for the full report.

India Economics: Q1FY21 GDP

India's GDP growth in Q1FY21 contracted by 23.9%. Manufacturing led the decline at 39.3% followed by services at 20.6%. The only beacon of light was agriculture output which increased by 3.4%. Counter cyclical fiscal policy was visible with 16.4% jump in government consumption. However, private consumption and investment spending fell by 26.7% and 47.1% respectively. With a higher than anticipated fall in Q1 GDP and localized lockdowns in Q2 continuing, we now expect GDP to contract by 6.8% in FY21 (5% earlier).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.72	(3bps)	14bps	(78bps)
India 10Y yield (%)	6.14	(1bps)	29bps	(42bps)
USD/INR	73.40	0.6	1.9	(2.8)
Brent Crude (US$/bbl)	45.05	(0.1)	4.2	(25.5)
Dow	28,654	0.6	8.6	8.5
Shanghai	3,404	1.6	5.4	17.9
Sensex	39,467	0.9	2.5	5.7
India FII (US$ mn)	**27 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	(177.7)	(274.7)	(14,802.3)	(5,042.8)
FII-E	192.7	6,350.9	5,062.7	11,665.6

Source: Bank of Baroda Economics Research

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Media & Entertainment

After nearly six months of shutdown, movie halls in India were denied permission to reopen in September under the new Unlock 4.0 guidelines issued by the Ministry of Home Affairs (MHA) on 29 August. This contrasts with widespread expectations of reopening among the exhibitor fraternity. The MHA guidelines, however, allow open air theatres to function after 21 September.

Click here for the full report.

WEEKLY WRAP

31 August 2020

India's GDP and fiscal health in focus

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Global 10Y yields went up as macro data showed further improvement in economic activity: China's industrial profits, US durable goods and new home sales. US Fed Chair introduced a new inflation targeting policy which will allow Fed to keep lower interest rates for longer. DXY fell by 0.9%. INR rose by 1.9% supported by FPI inflows. India's 10Y yield rose by 5bps despite RBI's operation Twist due to accelerating inflation and elevated fiscal deficit. Markets look forward to Q1FY21 GDP and government's fiscal numbers.

Markets

- **Bonds:** Global long end yields closed higher. US 10Y yield rose by 9bps (0.72%) supported by improving economic outlook even as US Fed shifted policy mandate to average inflation targeting. This implies lower rates for longer. Crude prices rose by 1.6% (US $ 45/bbl) due to likely impact of hurricane 'Laura' in the Gulf of Mexico. India's 10Y yield rose by 5bps (6.14%) owing to fiscal and inflationary concerns. System liquidity surplus was at Rs 4tn against Rs 3.6tn in the previous week.

- **Currency:** Global currencies closed higher against US$ this week. DXY fell by 0.9% as Fed Chair announced a shift in its inflation targeting signalling that ultra-low rates will continue in the medium-term. GBP rose by 2% to more than 2-year high as BoE Governor hinted at further stimulus to support the economy. INR appreciated sharply by 1.9% in the week to its highest since Mar'20 supported y FII equity inflows of US$ 793mn.

- **Equity:** Barring FTSE and Nikkei, other global indices ended higher this week led by improving global macro indicators (China's industrial profits, US home sales) and Fed's shift indicating lower rates for long. Sensex (2.7%) surged the most, posting its biggest weekly gain in a month led by banking and real estate stocks. This was followed by Dow and Dax gaining by 2.6% and 2.1% respectively.

- **Upcoming key events:** In the current week, markets will closely watch manufacturing and services PMIs of all major economies. In addition, US and Germany's factory orders and US unemployment rate will also be released. On the domestic front, Q1FY21 GDP print, core industrial index and fiscal data are due for release today.

Q1FY21 GDP

31 August 2020

Investment and consumption drive record fall in GDP

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India's GDP growth in Q1FY21 contracted by 23.9%. Manufacturing led the decline at 39.3% followed by services at 20.6%. The only beacon of light was agriculture output which increased by 3.4%. Counter cyclical fiscal policy was visible with 16.4% jump in government consumption. However, private consumption and investment spending fell by 26.7% and 47.1% respectively. With a higher than anticipated fall in Q1 GDP and localized lockdowns in Q2 continuing, we now expect GDP to contract by 6.8% in FY21 (5% earlier).

Investment and consumption see sharp declines: India's GDP contracted sharply by 23.9% in Q1FY21 (our estimate: 18.3%) led by 39.3% decline in manufacturing and 20.6% decline in services activity. Agriculture output increased by 3.4%. Government consumption too stood up at 16.4% in Q1. However, private consumption was subdued with a contraction of 26.7%. Investment demand (GFCF) fell by 47.1% (6.5% decline in Q4). Exports too contracted by 19.8% versus 8.5% contraction in Q4 as external demand was weak. Imports fell by 40.4% in Q1 on the back of lower domestic demand.

Construction and trade drive GVA lower: GVA contracted by 22.8% in Q1FY21 compared with increase of 3% in Q4FY20. Construction sector reported a sharp fall of 50.3% (2.2% decline in Q4), followed by trade, hotels, transport and communication with a decline of 47% (increase of 2.6% in Q4). Manufacturing and mining output fell by 39.3% and 23.3% respectively. While government consumption increased, public administration and defence spending fell by 10.3%. Apart from this quarter, the two series have a correlation of 0.88 in the current series. Hence, there may be a case of revision in either one of them.

Outlook for FY21: Since the last quarter, economic recovery has picked up. For instance, infra sector contraction in Jul'20 is 9.6% compared with a decline of 24.3% in Q1FY21. Merchandise exports have fallen by 10.2% in Jul'20 compared with a 19.8% decline in exports of goods and services in Q1. Imports have also recovered. Vehicle output, rail freight, E-way bills and other high frequency indicators are also pointing out to a recovery. However, the extent of contraction in Q1 and gradual pace of recovery on the back of continued lockdowns suggests that GVA will now contract by 6.8% in FY21 with downside risks to our estimates depending upon the duration/ spread of the pandemic.

KEY HIGHLIGHTS

- GDP contracted sharply by 23.9% in Q1FY21 led by sharp fall in consumption and investment.
- Government spending was a positive.
- On the supply side, manufacturing fell the most. Agriculture contributed positively.

MEDIA & ENTERTAINMENT

31 August 2020

Unlock 4.0: Cinema shutdown extended to September

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Cinema exhibitors stymied again: After nearly six months of shutdown, movie halls in India were denied permission to reopen in September under the new Unlock 4.0 guidelines issued by the Ministry of Home Affairs (MHA) on 29 August. This contrasts with widespread expectations of reopening among the exhibitor fraternity. The MHA guidelines, however, allow open air theatres to function after 21 September.

Multiplex leaders have adequate liquidity: PVR (PVRL) has recently completed its Rs 3bn rights issue, whereas Inox Leisure (INOL) has raised Rs 1bn through sale of treasury shares. These funds should suffice to sustain operations for the next few months, even if the lockdown extends beyond September. Our estimates bake in screen reopening in October.

Smaller players face existential threat: Unlike large cinema exhibitors, single screens and smaller, regional multiplex operators with limited access to external capital are already falling prey to the extended lockdown. Per a **media article**, 10-12% of screens in the country have downed shutters permanently, including prominent single-screen theaters such as Central Plaza in Mumbai and AVM Rajeswari and Maharani in Chennai. This corroborates our view that the lockdown could hasten consolidation in favour of large multiplexes.

New content witnessing strong response globally: 'Tenet', the first big-ticket release in the pandemic era, made a strong start grossing US$ 53mn since its release on 26 August in 41 countries. This is impressive considering that it is yet to open in key markets of the US and China. New Chinese movie 'The Eight Hundred' grossed a robust US$ 277mn within 10 days of release, underscoring the sturdy recovery in China's box office – the first major market to reach pre-Covid levels in just 4-5 weeks since reopening.

Strong consumer response to new content suggests large screens retain their appeal amidst a digital boom. Further, Tenet's release in India may help attract patrons to theatres when screens reopen, at a time when Bollywood content appears to be depleted.

Reiterate preference for INOL: We continue to prefer INOL over PVRL due to its better balance sheet, lower fixed cost burden and improvement in operating parameters, as highlighted in our recent **sector initiation report**. Delay in screen opening may, however, weigh on these stocks in the near term.

RECOMMENDATION SNAPSHOT

Ticker	Target	Rating
INOL IN	330	BUY
PVRL IN	1,220	ADD

Target in Rupees

Disclaimer

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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