FIRST LIGHT

05 April 2021

RESEARCH

BOB Economics Research | Trade

Non-oil imports surge

Cement

Expert meeting takeaways – Demand outlook robust

SUMMARY

India Economics: Trade

India's trade deficit expanded to US$ 14.1bn in Mar'21 from US$ 12.6bn in Feb'21 led by sharp rebound in gold (+584%) and non-oil-non-gold (+46%) imports. While imports increased by 52.9%, exports rose by 58.2% on the back of gems, engineering and pharma products. Rising domestic demand and higher oil prices imply trade deficit is likely to increase to US$ 180bn in FY22. This along with relatively weaker EM currencies implies INR is likely to see a depreciating bias rather than the appreciating bias seen recently.

Click here for the full report.

Cement

We hosted Sanjay Ladiwala, a renowned cement industry expert associated with the business since 1973. He has been the President of the Cement Stockists & Dealers Association of Bombay for 28 years and the Chairman for 4 years. Key excerpts: (1) Cement prices to resume growth trajectory, (2) Positive outlook on demand growth, (3) High infrastructure demand does not mean lower profitability, (4) Capacity growth may not depress prices in medium term, (5) Near-term margin headwinds from cost increases manageable.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.74	4bps	34bps	116bps
India 10Y yield (%)	6.17	2bps	(7bps)	3bps
USD/INR	73.11	0.4	0.5	3.2
Brent Crude (US$/bbl)	63.54	(0.9)	(3.9)	156.8
Dow	32,982	(0.3)	6.6	57.5
Shanghai	3,442	(0.4)	(1.9)	25.9
Sensex	49,509	(1.3)	0.8	75.2
India FII (US$ mn)	**26 Mar**	**MTD**	**CYTD**	**FYTD**
FII-D	118.9	(756.0)	(2,240.2)	(6,333.8)
FII-E	54.6	2,627.4	7,621.2	37,596.9

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

TRADE

03 April 2021

Non-oil imports surge

Sameer Narang
Jahnavi | Sonal Badhan
chief.economist@bankofbaroda.com

India's trade deficit expanded to US$ 14.1bn in Mar'21 from US$ 12.6bn in Feb'21 led by sharp rebound in gold (+584%) and non-oil-non-gold (+46%) imports. While imports increased by 52.9%, exports rose by 58.2% on the back of gems, engineering and pharma products. Rising domestic demand and higher oil prices imply trade deficit is likely to increase to US$ 180bn in FY22. This along with relatively weaker EM currencies implies INR is likely to see a depreciating bias rather than the appreciating bias seen recently.

KEY HIGHLIGHTS

- Exports jump by 58.2% in Mar'21 compared with a 0.7% increase in Feb'21.
- Imports rise by 52.9% in Mar'21 versus an increase of 7% in Feb'21
- Trade deficit widens to US$ 14.1bn in Mar'21 versus US$ 12.6bn in Feb'21.

Exports bounce back: Preliminary data shows that India's exports jumped by 58.2% in Mar'21, after showing 0.7% increase in Feb'21. In Mar'20, exports had fallen by 34.3%. The rebound in exports is led by gems & jewellery (+75.6% versus -11.2% in Feb'21), engineering goods (+70.3% versus -2.4%) and pharmaceutical products (47.4% versus 14.7%). Overall, non-oil exports recorded 62.3% jump versus 3.5% increase in Feb'21. In FY21, exports were down by 7.3% following 5.1% drop in FY20.

Imports back on track: India's imports increased by 52.9% in Mar'21 compared with an increase of 7% in Feb'21. In Mar'20, imports fell by 28%. The uptick in imports is led by gold imports which skyrocketed by 584.2% in Mar'21 to US$ 8.4bn compared with an increase of 124% in Feb'21 to US$ 5.3bn. In FY21, gold imports have now increased by 22%. Non-oil-non-gold imports too showed a large increase of 46.3% in Mar'21 versus 6.1% in Feb'21. Electronic goods (76.6%) and machinery, electrical & non electrical (59.9%) imports rose the most. Silver (90.2%) and transport equipment (32.7%) led the decline. Oil imports also saw a marginal increase of 1.2% in Mar'21 versus a decline of 16.6% in Feb'21. In FY21, imports are down by 18% after a 7.7% drop in FY20.

Trade deficit widens: India's trade deficit widened to US$ 14.1bn in Mar'21 from US$ 12.6bn in Feb'21 as imports accelerated. Both gold and non-oil-non-gold imports rose. The latter signifies normalisation of domestic economic activity. This along with higher oil prices (+23% in CYTD21) implies India's trade deficit is likely to expand to US$180bn in FY22 compared with US$ 99.3bn in FY21. EM currencies are also relatively weak with RMB (-0.6% in CYTD21), RUB (-2.9%), Real (-8.9%) and IDR (-3.4%). US$ has been stronger (+3.4%). The backdrop of rising trade deficit and weaker EM currencies implies INR is likely to be weaker than stronger.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

CEMENT

1 April 2021

Expert meeting takeaways – Demand outlook robust

Kirtan Mehta, CFA
research@bobcaps.in

We hosted Sanjay Ladiwala, a renowned cement industry expert associated with the business since 1973. He has been the President of the Cement Stockists & Dealers Association of Bombay for 28 years and the Chairman for 4 years. Key excerpts:

Cement prices to resume growth trajectory: India's cement industry is at an inflection point. Consolidation, expected growth in demand and healthy utilisation of 72-73% could underpin a 4-5% annual increase in average cement prices (averaging for cyclical fluctuations) for the next 2-3 years at least.

Positive outlook on demand growth: With healthy revival in demand over the past two quarters, the industry could see 4-5%/9% volume growth in FY21/ FY22. Demand growth over the medium term would be underpinned by the government's commitment to infrastructure development and affordable housing. Rural demand from independent housing would serve as the backbone, growing at a slow and steady pace of 2-3% for the long term. North and East India will see relatively higher benefits of infrastructure-driven growth.

High infrastructure demand does not mean lower profitability: While cement sold in the non-trade channel earns lower realisation, the cost of its distribution, logistics and marketing is Rs 500-600/t less than that of trade.

Capacity growth may not depress prices in medium term: A significant proportion of the cement industry is reaching an optimum clinker-to-grinder ratio, limiting further opportunities for brownfield expansion. Greenfield capacity will take longer to materialise (6-8 years). Capacity growth by itself will not put pressure on prices in the medium term.

Near-term margin headwinds from cost increases manageable: The cement industry has significant opportunities to improve efficiency in logistics with the use of technology and analytics. GST implementation has helped the industry accelerate the pace of technology adoption, besides improving transparency and data availability. In the medium term, increasing adoption of blended cement will also augment the bottomline of cement companies.

Key risks: Near term, any lockdown to avoid the spread of Covid-19 is a key risk to steady demand growth. Longer term, the availability of limestone is a risk to growing capacity.

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)

Rating distribution

As of 31 March 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 42 have BUY ratings, 13 have ADD ratings, 5 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.