BOBCAPS
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FIRST LIGHT

16 August 2018

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI inflation eases in July

BOB Economics Research | Trade

Oil imports driving trade deficits

Rushil Decor | NOT RATED

MDF business to lead growth

SUMMARY

India Economics: Wholesale Inflation

WPI inflation eased to 5.1% in Jul'18 from 5.8% in Jun'18. The softening was largely led by food inflation. Fuel and manufactured products inflation rose marginally. Fuel inflation is likely to remain elevated this calendar year as a result of higher oil prices and weaker rupee. A weaker currency will negate the benefit from lower international commodity prices. While WPI inflation may fall in the next few months (base effect), drivers will change as momentum shifts to food inflation as MSP hikes are transmitted into food prices.

Click here for the full report.

India Economics: Trade

Led by higher oil and gold imports, India's trade deficit expanded to US$ 18bn in Jul'18. Buoyant domestic demand resulted in 18.4% jump in non-oil-non-gold imports. However, exports also continue to grow in double-digits. For the year, exports are up by 14.3% (7.4% same period last year). Given high oil prices and buoyant domestic demand, we expect trade deficit to increase to US$ 187bn in FY19 from US$ 160bn in FY18. While trade deficits are rising, FPI inflows of US$ 1.2bn in Aug'18 should act as anchor for INR.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
GAIL	Buy	470
Petronet LNG	Buy	330
Reliance Industries	Buy	1,210
Tata Motors	Buy	410
Tata Consultancy Services	Buy	2,190

MID-CAP IDEAS

Company	Rating	Target
Greenply Industries	Buy	305
L&T Infotech	Buy	2,090
Mayur Uniquoters	Buy	610
Mphasis	Buy	1,370
Supreme Industries	Add	1,370

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.88	1bps	5bps	69bps
India 10Y yield (%)	7.82	7bps	3bps	132bps
USD/INR	69.93	(1.6)	(2.0)	(9.0)
Brent Crude (US$/bbl)	72.61	(0.3)	(3.6)	39.4
Dow	25,188	(0.5)	0.7	15.2
Shanghai	2,786	(0.3)	(1.6)	(13.2)
Sensex	37,645	(0.6)	3.0	20.6
India FII (US$ mn)	**10 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	52.8	854.5	(5,149.7)	(5,395.7)
FII-E	193.2	406.8	(6.8)	(2,132.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Rushil Decor

We recently hosted a roadshow for the management of Rushil Décor (RDL). Key takeaways: (1) RDL has two main business segments, i.e. MDF and laminates. In FY18, MDF contributed ~49% (~Rs 1.7bn) of revenue and laminates ~51% (~Rs 1.8bn). (2) The company has MDF capacity of 300cbm/day located in Karnataka, with utilisation at ~96% in FY18. A bulk of the sales are made in South India. RDL is looking to set up a new MDF plant in Andhra Pradesh with a capacity of 800cbm/day, operational by Apr'20 at a total capex of ~Rs 3.3bn. (3) In laminates, RDL has a capacity of ~3.5mn sheets spread over three plants in Gujarat, with utilisation at ~96.7% in FY18.

Click here for the full report.

WHOLESALE INFLATION

14 August 2018

WPI inflation eases in July

WPI inflation eased to 5.1% in Jul'18 from 5.8% in Jun'18. The softening was largely led by food inflation. Fuel and manufactured products inflation rose marginally. Fuel inflation is likely to remain elevated this calendar year as a result of higher oil prices and weaker rupee. A weaker currency will negate the benefit from lower international commodity prices. While WPI inflation may fall in the next few months (base effect), drivers will change as momentum shifts to food inflation as MSP hikes are transmitted into food prices.

BOBCAPS Research
+91 22 6138 9300
research@bobcaps.in

Food inflation cools off: Food inflation eased to a 13-month low at (-) 2.2% in Jul'18 driven by (-) 12% decline in YoY prices of fruits and vegetables. While vegetables prices declined by (-) 14.1% in Jul'18 (8.1% increase in Jun'18), prices of fruits fell by (-) 8.8% in Jul'18 (3.9% increase in Jun'18). In addition, food grain prices continued its downward momentum and fell by (-) 0.3% in Jul'18, largely led by fall in the prices of pulses (-) 17%. However, wheat prices rose by 6.3% in Jul'18 (5.1% in Jun'18).

Fuel & power inflation rises moderately: While on a MoM basis, minerals oils index hardly moved, on a YoY basis, the index was up by 29.5% in Jul'18 compared with 25.4% increase seen in Jun'18. This change can be explained by unfavourable base effect. In fact, international oil prices fell by (-) 1.3% in Jul'18. A depreciating currency is also adding to domestic prices. On a YoY and MoM basis, INR fell by 6.2% and 1.4% respectively in Jul'18. With oil prices at current levels and EM currencies under pressure, we expect fuel inflation to remain elevated in this calendar year.

Manufactured product inflation steadies: As international commodity prices declined for the second consecutive month in Jul'18 (-2% MoM), core WPI and manufactured product inflation remained steady. Core inflation was unchanged at 4.8% in Jul'18. Manufactured products inflation rose to 4.3% in Jul'18 from 4.2% in Jun'18. Within core, prices of basic metals, wearing apparel, tobacco, chemicals, and electronic products fell compared to Jun'18. On the other hand, that of textiles, pharma products, and motor vehicles rose.

TRADE

14 August 2018

Oil imports driving trade deficits

Led by higher oil and gold imports, India's trade deficit expanded to US$ 18bn in Jul'18. Buoyant domestic demand resulted in 18.4% jump in non-oil-non-gold imports. However, exports also continue to grow in double-digits. For the year, exports are up by 14.3% (7.4% same period last year). Given high oil prices and buoyant domestic demand, we expect trade deficit to increase to US$ 187bn in FY19 from US$ 160bn in FY18. While trade deficits are rising, FPI inflows of US$ 1.2bn in Aug'18 should act as anchor for INR.

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research@bobcaps.in

KEY HIGHLIGHTS

- Exports growth slowed marginally to 14.3% vs 18.2% increase in Jun'18
- Imports rose to a 14-month high of 29% in Jul'18
- Trade deficit widens to US$ 18bn vs US$ 17bn in Jun'18

Exports edged down slightly: Export growth maintained its double digit pace albeit at a slower pace of 14.3% in Jul'18 from 18% in Jun'18. Oil exports moderated to 30.1% vs 52.5% in Jun'18. Most significant change was seen in the exports of gems and jewellery which rose by 25%, highest since Nov'17. With FYTD19 export growth at 14.3% (7.4% in same period last year), we believe export growth is likely to remain buoyant on the back of expanding global demand. In addition, INR depreciation of 9% in CYTD18 will also make exports more competitive. However, ongoing protectionism and the adverse impact on global growth could pose a risk to exports.

Non-oil-non-gold imports remain buoyant: Imports rose by 29% in Jul'18 to US$ 43.8bn. Oil imports increased by 57.4% in Jul'18 to US$ 12.4bn. Gold imports rose by 40.9% to US$ 3bn. Non-oil-non-gold imports rose by 18.4% to US$ 28.5bn. Apart from agri imports, all other non-oil-non-gold items have seen a large increase. For instance, electronic good imports were higher by 26.4%; capital goods by 27.8%; non-ferrous metals by 29%; and iron & steel by 19.9%. This indicates a broad-based revival in the economy.

Trade deficit widens further: Higher oil and non-oil imports pushed India's trade deficit from an already high US$ 17.2bn in Jun'18 to US$ 18bn in Jul'18, highest since May'13. During FYTD19, trade deficit has increased to US$ 63.6bn from US$ 54.1bn in the same period last year. The increase is driven by higher net oil imports which have risen from US$ 19.9bn in Apr-Jul'17 to US$ 31bn in Apr-Jul'8. Given the buoyant consumer demand, we expect trade deficit to increase to US$ 187bn in FY19 (6.7% of GDP). This implies a current account deficit of US$ 64bn (2.3% of GDP) compared with US$ 48.7bn in FY18 (1.9% of GDP).

NOT RATED

RUSHIL DECOR | Construction Materials | 14 August 2018

MDF business to lead growth

We recently hosted a roadshow for the management of Rushil Décor (RDL). Below are the key takeaways:

- RDL has two main business segments, i.e. MDF and laminates. In FY18, MDF contributed ~49% (~Rs 1.7bn) of revenue and laminates ~51% (~Rs 1.8bn).

MDF

- The company has MDF capacity of 300cbm/day located in Karnataka, with utilisation at ~96% in FY18. A bulk of the sales are made in South India.
- MDF is sold primarily through distributors and consignment stockists. RDL has a network of 80 distributors, 3 consignment stockists and 850 dealers.
- RDL is looking to set up a new MDF plant in Andhra Pradesh with a capacity of 800cbm/day, operational by Apr'20 at a total capex of ~Rs 3.3bn. As per management, the facility can earn revenues of ~Rs 4.5bn-5bn on full utilisation.
- The new plant would be funded by buyers' credit (Rs 1bn), debt (~Rs 1.3bn), internal accruals and partly by preferential equity issue.
- Management believes the current excess capacity in MDF will be absorbed by the market over the next few quarters. MDF pricing may see some near-term pressure but should stabilise as demand grows. RDL earned MDF operating margins of ~21.7% in FY18 and believes these are sustainable in the medium term.

Laminates

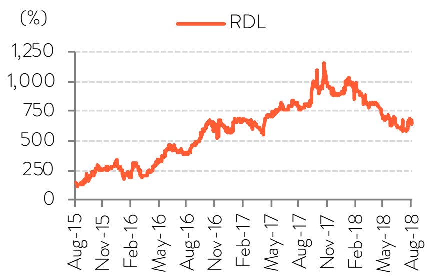
- RDL has a capacity of ~3.5mn sheets spread over three plants in Gujarat, with utilisation at ~96.7% in FY18.
- The company has 70 distributors, 13 consignment stockists and 1,950 dealers in laminates in India.
- Exports account for ~50-55% of laminate revenues.
- RDL had taken a ~5% price increase in laminates in Q1FY19 and believes this will enable it to counter raw material price pressure and maintain operating margins at 12-13% going ahead.

BOBCAPS Research
+91 22 6138 9300
research@bobcaps.in

Ticker/Price	RDL IN/Rs 680
Market cap	US$ 145mn
Shares o/s	15mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 1,195/Rs 575
Promoter/FPI/DII	53%/13%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

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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