BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

17 September 2018

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI inflation dips, RBI decision a function of INR

BOB Economics Research | Trade

Exports improve, trade deficit stable

Balrampur Chini | Not Rated

Byproduct profitability to grow

SUMMARY

India Economics: Wholesale Inflation

WPI inflation eased to 4.5% in Aug'18 from 5.1% in Jul'18. The softening was led by food inflation at (-) 2.3% versus (-) 0.9% in Jul'18. However, cereal inflation inched up by more than 150bps to 5.1% in Aug'18. While both retail and wholesale inflation fell in Aug'18 from Jul'18 levels, the 5% fall in INR since last policy implies RBI is likely to raise rates by 25-50bps in its October policy. Much depends upon the trajectory of INR till policy decision.

Click here **for the full report.**

India Economics: Trade

India's trade deficit was stable at US$ 17.4bn in Aug'18 (US$ 17.9bn in Jul'18) underpinned by a pickup in exports (19.2% in Aug'18). However, led by 52% jump in oil and 93% increase in gold imports, overall imports increased by 25.4% in Aug'18. Even non-oil-non-gold imports increased by 13%, a reflection of buoyant domestic demand. While trade deficit is estimated to increase to US$ 195bn, higher inflows in the form of FDI, deposits and remittances will provide support to INR. Global trade wars and oil prices remain a risk to our view.

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
TCS	Buy	2,190

MID-CAP IDEAS

Company	Rating	Target
Greenply Industries	Buy	305
L&T Infotech	Buy	2,090
Mayur Uniquoters	Buy	595
Mphasis	Buy	1,370
Supreme Industries	Add	1,370

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.97	1bps	7bps	78bps
India 10Y yield (%)	8.13	(5bps)	31bps	158bps
USD/INR	72.18	0.7	(3.2)	(12.7)
Brent Crude (US$/bbl)	78.18	(2.0)	7.9	41.7
Dow	26,146	0.6	3.3	18.0
Shanghai	2,687	1.1	(3.4)	(20.6)
Sensex	37,718	0.8	0.2	17.3
India FII (US$ mn)	**11 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	12.4	(720.6)	(6,369.7)	(6,615.7)
FII-E	(192.9)	(39.6)	(731.1)	(2,856.6)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Balrampur Chini

We recently hosted a roadshow for the management of Balrampur Chini Mills (BRCM). Key takeaways: (1) BRCM expects its sugar production to increase by 15-20% to 1.2mn tonnes (mt) in FY19. Sugar prices are currently at ~Rs 31/kg ex-factory for the company, while its cost of production at the EBITDA level is Rs 32/kg. (2) BRCM plans to sell ~100mn litres of ethanol in FY19 (vs. ~80mn litres in FY18). The government has revised ethanol prices with effect from 1 Dec 2018 to Rs 43.46/ltr (vs. Rs 40.85/ltr).

Click here for the full report.

WHOLESALE INFLATION

14 September 2018

WPI inflation dips, RBI decision a function of INR

WPI inflation eased to 4.5% in Aug'18 from 5.1% in Jul'18. The softening was led by food inflation at (-) 2.3% versus (-) 0.9% in Jul'18. However, cereal inflation inched up by more than 150bps to 5.1% in Aug'18. While both retail and wholesale inflation fell in Aug'18 from Jul'18 levels, the 5% fall in INR since last policy implies RBI is likely to raise rates by 25-50bps in its October policy. Much depends upon the trajectory of INR till policy decision.

BOB Economics Research
+91 22 6138 9300
research@bobcaps.in

Food inflation softened, cereals on the rise: Food prices remained in the deflation territory for second consecutive month. In Aug'18 food inflation was (-) 2.3% versus (-) 0.9% in Jul'18. The decline was led by vegetables at (-) 20.2% followed by fruit at (-) 16.4%. On the other hand, cereal inflation is edging up at 5.1% in Aug'18 compared with 3.5% in Jul'18. In fact, cereal inflation was 0.3% in FY18. Combined with 12.9% increase in kharif MSP for rice and recent increase in international rice and wheat prices, cereal inflation is expected to pick-up this year.

Crude oil and INR impact: Fuel & power inflation increased by 17.7% in Aug'18 versus an average of 13.8% in the past 4-months. Though international crude price moderated by 1.5% in Aug'18, INR slipped by 1.2% and negated the benefit. Notably, oil prices are on a rise in Sep'18, along with continued depreciation in INR. Hence, fuel & power inflation is likely to remain elevated this year.

Core inflation quickens: While manufactured product inflation continues to remain broadly steady at 4.4% in Aug'18, core inflation picked up to 5% versus 4.8% in Jul'18. Within core, MoM prices of all items, except textile, leather, chemicals, rubber and motor vehicles rose at a faster pace than Jul'18. MoM prices of tobacco, wearing apparel and electronic products rose the most compared to Jul'18. This trend is in contrast to international commodity prices, which have fallen by 4.2% in Aug'18 versus decline of 0.8% in Jul'18. The depreciation of the currency explains a part of the increase in core inflation.

बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

TRADE

14 September 2018

Exports improve, trade deficit stable

BOB Economics Research
+91 22 6138 9300
research@bobcaps.in

India's trade deficit was stable at US$ 17.4bn in Aug'18 (US$ 17.9bn in Jul'18) underpinned by a pickup in exports (19.2% in Aug'18). However, led by 52% jump in oil and 93% increase in gold imports, overall imports increased by 25.4% in Aug'18. Even non-oil-non-gold imports increased by 13%, a reflection of buoyant domestic demand. While trade deficit is estimated to increase to US$ 195bn, higher inflows in the form of FDI, deposits and remittances will provide support to INR. Global trade wars and oil prices remain a risk to our view.

KEY HIGHLIGHTS

- Exports growth rises to 19.2% vs 16.1% increase in Jul'18
- Imports rose to 25% in Aug'18, driven by oil
- Trade deficit stable at US$ 17.4bn vs US$ 17.9bn in Jul'18

Export growth shoots up: Export growth improved to 19.2% on a YoY basis in Aug'18 from 16.1% in Jul'18. Oil exports remained buoyant at 31.8% in Aug'18 versus 30.1% in Jul'18. Apart from agriculture exports, a broad based pick-up was seen across different sub-segments with chemicals, pharma and engineering goods reporting an increase of 40%, 18.2% and 21.2% respectively. Given the 11% depreciation in INR in the year, India's export competitiveness has improved. In addition, global growth is showing sustained recovery. Hence, we expect exports to continue to do well. Though growth may come-off on account of high base in H2 and impact (if any) from ongoing trade wars.

Oil, consumer and capital goods imports increase: Imports rose by 25% in Aug'18 to US$ 45.2bn compared to US$ 43.8bn in Jul'18. Oil imports jumped by 51.7% in Aug'18 to US$ 11.8bn. During FYTD19 oil imports have increased by 53.8%. In Aug'18, gold imports have increased by 92.6% versus 40.9% in Jul'18. During FYTD19, gold imports are at the same level as last year. However, non-oil-non-gold imports rose not only in Aug'18 at 12.9% but also FYTD19 at 9.8%. This is a reflection of buoyant consumer demand for electronic goods and capital goods.

FY19 trade deficit at US$ 195bn: While trade deficit dipped slightly to US$ 17.4bn in Aug'18 from a 5-year high of US$ 17.9bn in Jul'18, it is expected to increase to US$ 195bn in FY19 (US$ 160bn in FY18). A large part of this increase will be because of higher oil prices which are now at an upward of US$ 75/bbl (US$ 57.9/bbl in FY18). Given a normal monsoon and pick-up in urban consumption, non-oil-non-gold imports are also likely to remain on an upward trajectory. However, higher remittances and deposit inflows will make-up for some of the increase in trade deficit and thus result in CAD of US$ 70.4bn in FY19 from US$ 48.7bn.

NOT RATED

BALRAMPUR CHINI | Agriculture | 14 September 2018

Byproduct profitability to grow

We recently hosted a roadshow for the management of Balrampur Chini Mills (BRCM). Below are the key takeaways:

Sugar

- BRCM expects its sugar production to increase by 15-20% to 1.2mn tonnes (mt) in FY19. Sugar production in the country is estimated to reach ~35.5mt in sugar season 2018-19 (SS19), as per ISMA.
- Sugar prices are currently at ~Rs 31/kg ex-factory for the company, having improved after the central government declared an MSP of Rs 29/kg in Jun'18. BRCM's cost of sugar production at the EBITDA level is Rs 32/kg.
- Management is hopeful of a further increase in sugar MSP as sugarcane dues in Uttar Pradesh stand at ~Rs 100bn – with most companies making losses, higher sugar realisations are the only way to pay farmers. The UP government has written to the Centre requesting that the MSP be raised to Rs 34/kg.
- The UP government is looking to provide incentives to millers – it plans to offer a cash subsidy and also subsidised loans to millers to aid payment of cane arrears to farmers.

Ethanol

- BRCM plans to sell ~100mn litres of ethanol in FY19 (vs. ~80mn litres in FY18). The government has revised ethanol prices with effect from 1 Dec 2018 to Rs 43.46/ltr (vs. Rs 40.85/ltr).
- Management believes profitability from this segment would increase due to the benefit of higher prices and also higher volumes.
- BRCM plans to divert some sugar to ethanol production in SS19 as ethanol produced from B-heavy molasses is now more remunerative at Rs 52.43/ltr.

Cogeneration

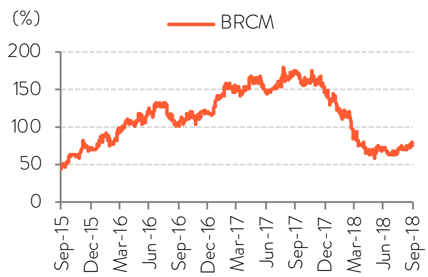
- The company expects to sell ~700mn units of power in FY19 (vs. 570mn units in FY18) due to higher sugarcane crushing. Average price realisation is estimated at ~Rs 4.8/unit, similar to the FY18 figure.
- Profitability from this segment should improve in FY19 due to higher volumes and stable realisations.

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

Ticker/Price	BRCM IN/Rs 89
Market cap	US$ 282mn
Shares o/s	228mn
3M ADV	US$ 6.3mn
52wk high/low	Rs 179/Rs 59
Promoter/FPI/DII	40%/21%/39%

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)

General disclaimers

BOB Capital Markets Limited (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, wealth management and portfolio 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 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

The BOBCAPS research team hereby certifies that all of the views expressed in this report (1) accurately reflect our personal views about the subject company or companies and its or their securities and (2) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed in this report.

BOBCAPS generally 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 generally 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.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

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.