

RESEARCH

BOB Economics Research | IPO Study

How has the IPO market performed?

BOB Economics Research | CPI and IIP

CPI hardens, IIP growth falters

Consumer Durables

Festive cheer likely to revitalise demand

SUMMARY

India Economics: IPO Study

2021 was the year for the equity market where we witnessed high IPO issuances as companies accessed this avenue for raising funds. During that time, a sum of Rs 1,21,680 crore was mobilized in the market. This was also the time when the secondary market witnessed an upsurge as evidenced by the movement in the Sensex which scaled new heights of 61,765 in 18 Oct 2021. There has however, been a lull in the issuances in 2022 though the big IPO of LIC was undertaken in May'22.

[Click here for the full report.](#)

India Economics: CPI and IIP

Headline CPI rose to 7% in Aug'22 from 6.7% in Jul'22. Food inflation rose sharply to 7.6% from 6.7% in Jul'22 led by vegetables, fruit and milk and pulses. Core inflation remained sticky 5.8% in Aug'22. Going forward, outlook on core remains cautionary as high frequency indicators of growth for India is still performing better. In addition, with CPI still above RBI's target level we continue to expect 50bps rate hike in the current cycle. On the other hand, industrial growth decelerated further to 2.4% in Jul'22 (12.7% in Jun'22) led by contraction in mining output and slowdown in manufacturing and electricity production. Going ahead, global headwinds emerging from tight monetary conditions, weak demand from China owing to Covid-19 related lockdowns and looming energy crisis in Europe, will build pressures on domestic recovery.

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Daily macro indicators

Indicator	08-Sep	09-Sep	Chg (%)
US 10Y yield (%)	3.32	3.31	(1bps)
India 10Y yield (%)	7.08	7.11	4bps
USD/INR	79.72	79.59	0.2
Brent Crude (US\$/bbl)	89.2	92.8	4.1
Dow	31,775	32,152	1.2
Hang Seng	18,855	19,362	2.7
Sensex	59,688	59,793	0.2
India FII (US\$ mn)	07-Sep	08-Sep	Chg (\$ mn)
FII-D	24.1	(22.3)	(46.3)
FII-E	13.9	356.0	342.1

Source: Bank of Baroda Economics Research

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Consumer Durables

- Expect a strong festive season for consumer durables over Aug-Oct (typically 35-40% of annual sales)
- Consumption data looks positive as indicated by auto sales, UPI and credit card spends, though poor monsoon spread a concern
- We continue to prefer leaders in respective categories – HAVL, CROMPTON and POLYCAB

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IPO STUDY

12 September 2022

How has the IPO market performed?

2021 was the year for the equity market where we witnessed high IPO issuances as companies accessed this avenue for raising funds. During that time, a sum of Rs 1,21,680 crore was mobilized in the market. This was also the time when the secondary market witnessed an upsurge as evidenced by the movement in the Sensex which scaled new heights of 61,765 in 18 Oct 2021. There has however, been a lull in the issuances in 2022 though the big IPO of LIC was undertaken in May'22.

Dipanwita Mazumdar
Economist

In this context it is interesting to see how these company shares have fared in the market. The IPO market was used well by several new age companies which also brought in considerable premium. But the performance subsequently when compared with the overall market was not uniform across sectors and companies.

The foregoing study analyzes the following.

1. Total issuances in CY21 were Rs 1,21,680 crore. In CYTD22 (till Aug'22), issuances have been far lower at Rs 38,155 crore. This takes the total issuances in CY21 and CYTD22 to Rs 1,59,835 crore.
2. Sector wise E-commerce, auto and chemicals had the highest share in terms of issuances in CY21. In CYTD22, insurance, edible oil and textiles had the highest share.
3. How have the prices of companies which went in for an IPO fared?
 - a. Listing price versus Issue price: In CY21, ~30% of companies listed at a premium of above 20% (highest since CY17) compared with 15% in CYTD22.
 - b. Current price versus Issue price: In CY21, ~50% of companies have received return above 20% when the current price is compared with issue price. In CYTD22, some companies have recouped earlier losses (seen at the time of comparison of listing price against the issue price), with the number of companies giving return above 20% rising to ~43%.
4. An academic exercise has been conducted to show the present value of investment in IPOs for this entire period. This will give an idea of the risk attached to investing in IPOs, given that they are operating at a discount/premium. For simplicity, it has been assumed that an investor has invested Rs 1 lakh uniformly in every IPO. This is juxtaposed with the movement of Sensex. The results show that in CY21, IPOs have given a return of 74%, whereas Sensex has risen by 20%.



CPI AND IIP

12 September 2022

CPI hardens, IIP growth falters

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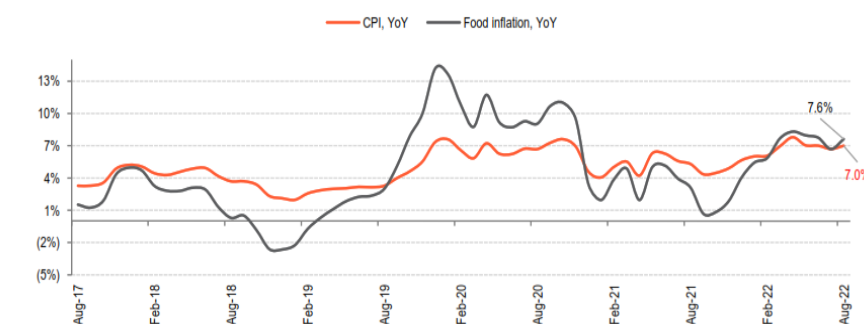
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Sonal Badhan
Economist

CPI inches up

CPI inflation inched up: Against our estimate of 6.7% and compared to market consensus of 6.9%, headline CPI print was higher than estimated at 7% in Aug'22, on YoY basis. This is the 8th consecutive month that headline CPI print have remained above RBI's upper band of 6%. For Q2FY23, RBI estimated the print to be at 7.1%. Food inflation shot up considerably to 7.6% from 6.7% in Jul'22. Out of 12 food and beverage items of inflation, 7 of the food items have shown a pickup in momentum. Among them, vegetable inflation rose by 13.2% from 10.9% in Jul'22, fruits by 7.4% from 6.3%, milk and milk product by 6.4% from 5.8%, pulses from 2.5% against 0.2% in Jul'22. In Sep'22 as well, major food items such as vegetable, fruits, milk are showing a pickup in momentum. Further sowing of rice has been a concern which might put further pressure on cereal prices going ahead. However, government's supply management measures such as the recent restriction on rice exports might provide some comfort.

Fig 1 – CPI rose to 7%, aided by food inflation



Source: CEIC, Bank of Baroda Research



CONSUMER DURABLES

12 September 2022

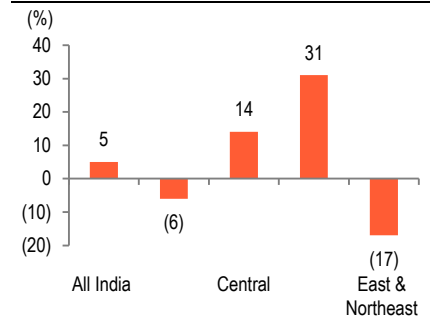
Festive cheer likely to revitalise demand

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Festive season demand likely to be upbeat: Our industry interactions coupled with positive newsflow point to robust festive season demand. Festivities in India began at the end of August with Ganesh Chaturthi and Onam, and will extend into late October when Diwali kicks in. Anecdotally, this celebratory period accounts for 35-40% of annual sales for the consumer durables sector, barring air conditioners. While volumes are expected to reach pre-Covid levels, most of the growth is likely to come from higher pricing as the industry has hiked prices by 15-20% YoY across categories. So, even just 5% volume growth could translate to 20% YoY revenue growth. Per media reports, most companies have registered a sales uptick during Onam and Ganesh Chaturthi.

Region-wise deviation of rainfall from LPA



Source: Bank of Baroda Economics Research | Data as of 8 Sep

Some positive consumption data....: RBI data on spending shows a rise in consumption. We note a jump in UPI (unified payments interface) spending from Rs 9.8tn to Rs 10.7tn over April to August. Similarly, credit card spends have risen from Rs 300bn to Rs 324bn over this period. This can be interpreted in two ways – as an actual surge in consumption, or as a shift in spending from other modes to credit cards/UPI. Another positive data point is passenger vehicle sales in August which crossed 0.3mn units for the fifth month this calendar year. Lastly, at the broader macro level, private final consumption expenditure (PFCE) totalled Rs 39.7tn in Q1FY23, similar to Q4FY22 in absolute terms, but 190bps higher at 61.1% of GDP.

...and some not so positive data: While India's southwest monsoon has been 5% above the long period average (LPA) as of 8 September, *Kharif* (summer) crop sowing is marginally lower than last year in terms of acreage. Deficient rains in parts of the Gangetic belt have impacted cultivation of rice and pulses. This can have an impact on rural consumption in H2FY23. The eastern and northeastern regions also lag with a 17% rainfall deficit vis-à-vis the LPA. However, this will have a limited impact on demand given the lower contribution of these regions to GDP.

Prefer sector leaders: We continue to prefer leaders in respective categories – HAVL, CROMPTON and POLYCAB. We do not anticipate much action in the AC space over the next two quarters and maintain a neutral stance on AC players.



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Note: Recommendation structure changed with effect from 21 June 2021

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