

RESEARCH
BOB Economics Research | Currency Outlook

INR falls to a record low: From being best to worst performing currency

Tata Steel | Target: Rs 140 | +34% | BUY

Merger to simplify group structure

SUMMARY
India Economics: Currency Outlook

Global currencies depreciated sharply yesterday amidst a hawkish commentary from Fed. While the 75 bps rate hike was already priced in, the forward guidance was much more aggressive than anticipated. Fed's projection for median fund rates was revised sharply upwards to 4.4% for CY22 (3.4% in Jun'22) implying a cumulative 125 -150 bps rate hike in the next two meetings. Even in CY23, the median projection for the Fed rate stands at 4.6% versus 3.8% expected in Jun'22, suggesting that rates are likely to remain higher for longer. The overall stance of Fed was much more hawkish than expected which explains the market movement since. Stock indices slid, global yields rose and currencies have declined since.

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

- Proposed merger with 7 group entities will simplify the group structure and enable more efficient funding of NINL and mining expansions
- Announced merger ratios with subsidiaries appear broadly value-neutral for TATA
- Retain estimates pending deal completion; TATA (BUY, TP Rs 140) remains our preferred defensive play in a volatile climate

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

Indicator	21-Sep	22-Sep	Chg (%)
US 10Y yield (%)	3.53	3.71	18bps
India 10Y yield (%)	7.23	7.31	8bps
USD/INR	79.98	80.87	(1.1)
Brent Crude (US\$/bbl)	89.8	90.5	0.7
Dow	30,184	30,077	(0.4)
Hang Seng	18,445	18,148	(1.6)
Sensex	59,457	59,120	(0.6)
India FII (US\$ mn)	20-Sep	21-Sep	Chg (\$ mn)
FII-D	(31.1)	(132.4)	(101.3)
FII-E	226.4	(34.9)	(261.3)

Source: Bank of Baroda Economics Research

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CURRENCY OUTLOOK

23 September 2022

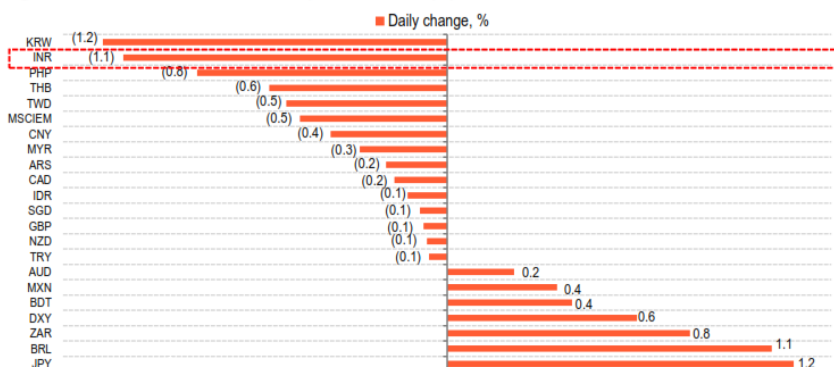
INR falls to a record low: From being best to worst performing currency

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Aditi Gupta
Economist

DXY edged up by 0.6%, and continues to hover around a 20-year high putting pressure on other currencies. Most global currencies ended lower, with the median depreciation in the sample of 22 currencies at 0.1%. However, INR was amongst the worst performing currencies against the dollar. This is in contrast to the time period before the Fed meet where the rupee was one of the best performing currency. Only the Korean Won (KRW) depreciated more than INR. In fact, the 1.1% depreciation seen in INR was its largest single-day decline since Feb'22.

Figure 1: Global currencies have depreciated sharply



Source: Bloomberg, Bank of Baroda | Data as of 22 Sep 2022 | Note: Figures in bracket denote depreciation against USD

The fall by 1.1% is significant with won being higher at 1.2%. Currencies of Australia, Mexico, South Africa, Brazil and Japan appreciated.

What does this mean for INR?

INR is trading weaker against the dollar even today. In fact, INR opened above the 81/\$ mark in the morning but has since settled only marginally below that level. This marks a significant shift in the RBI's forex intervention strategy as in the past RBI had showed a strong intent to defend the 80/\$ mark. Given the global backdrop of a strong dollar and continued weakness in other currencies, it seems likely that the RBI may not be as aggressive as in the past to curb the decline in the exchange rate.



BUY

TP: Rs 140 | ▲ 34%

TATA STEEL

| Metals & Mining

| 24 September 2022

Merger to simplify group structure

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- Announced merger ratios with subsidiaries appear broadly value-neutral for TATA
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Kirtan Mehta, CFA
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Group structure being simplified: TATA has announced the merger of seven of its group entities with itself. The plan excludes Neelachal Ispat Nigam (NINL) where stake dilution is restricted at this stage. The merger will streamline the overall group structure, enable efficient utilisation of group facilities and optimisation of procurement, logistics costs and aid tighter working capital management.

Enables uncomplicated funding for NINL: Importantly, the merger will enable funding of NINL directly on TATA's balance sheet and also avoid the need for complex structures to extend support to long products subsidiary Tata Steel Long Products (TSLP).

Merger value-neutral: We believe the merger is broadly value-neutral at the proposed swap ratios. While it will result in 2.2% dilution of TATA's shares, this would largely be offset by a lower share of minority interest in earnings and modest cost savings of Rs 7bn pre-tax mainly on account of additional royalty that is currently payable by TATA on the sale of captive iron ore to TSLP and Tata Metaliks (TML). Further cost optimisations can improve value. The changes are modest as subsidiary earnings are already accounted for in consolidated earnings.

We remain constructive on India's steel sector: While near-term uncertainty persists owing to the China slowdown, we believe steel margins will stabilise to mid-cycle levels over H2FY23. More importantly, we look forward to earnings growth from Indian steel players over FY23-FY26 as they deliver on the next wave of efficiency and value improvement and expansion projects.

Reiterate BUY: We are not revising estimates at this stage pending completion of the merger. We continue to prefer defensive play TATA (BUY, TP Rs 140) from amongst our steel coverage for its ability to generate sector-leading margins via better integration all the way to iron ore and for its focus on downstream and retail businesses to capture value-add. Our TP is based on a one-year forward EV/EBITDA multiple of 5.5x, which is below our 6x mid-cycle multiple for the Indian steel sector to account for global economic uncertainty.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATA IN/Rs 104
Market cap	US\$ 15.6bn
Free float	66%
3M ADV	US\$ 55.0mn
52wk high/low	Rs 143/Rs 83
Promoter/FPI/DII	34%/22%/20%

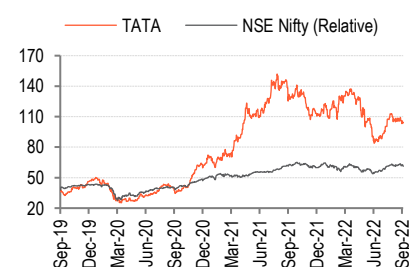
Source: NSE | Price as of 23 Sep 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,423	2,278	1,975
EBITDA (Rs mn)	635	432	400
Adj. net profit (Rs mn)	402	221	190
Adj. EPS (Rs)	33.2	18.3	15.7
Consensus EPS (Rs)	33.3	17.6	14.5
Adj. ROAE (%)	42.6	17.8	13.3
Adj. P/E (x)	3.1	5.7	6.6
EV/EBITDA (x)	3.4	4.4	4.4
Adj. EPS growth (%)	436.1	(44.9)	(14.2)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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