

**RESEARCH**
**BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK**

INR strengthened in Nov'22

**BOB ECONOMICS RESEARCH | BONDS WRAP**

Fortnightly review

**BOB ECONOMICS RESEARCH | CREDIT TRENDS**

Where is bank credit growing?

**NLC INDIA | NOT RATED**

Capacity addition largely on track

**SUMMARY**
**INDIA ECONOMICS: CURRENCY OUTLOOK**

Dollar demand waned and other global currencies edged up as Fed Chair hinted at tapering the pace of rate hikes starting from Dec'22. Expectations that inflation has likely peaked and concerns over growth suggest that the Fed may be less aggressive. Markets have scaled back their expectations of peak Fed Fund rate. Hence, we may see some correction in DXY after its rather successful stint this year. INR remained range-bound in the last fortnight. Importantly, it recorded a 1.7% monthly gain against the dollar for the first time this year. We foresee INR in the range of 81-82/\$ in the near-term supported by buoyant FPI inflows, lower oil prices and a weaker dollar.

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

**INDIA ECONOMICS: BONDS WRAP**

Global bond yields broadly went into a downswing in Nov'22, a situation not seen in the past few months. US 10Y yield fell by 44bps, 14bps of which was attributed to the overnight fall, post Fed Chair's dovish speech. Markets are now anticipating a slower pace of rate hike by Fed. CME Fed watch tool is now pricing in a 50bps rate hike with 82% probability attached to the outcome which was around 45% as on 31 Oct 2022. IY US swap rates which are indicative of terminal rate is trading above 4.8%. Other global yields are also likely to feel the contagion of falling US 10Y yield. Most central banks' policy decisions are also scheduled this month and slight easing in the rate cycle is expected. In the Eurozone, some economies provided comfort with regard to moderation in flash CPI data.

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

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures and analyst certifications are provided at the end of the report.

**Daily macro indicators**

Indicator	29-Nov	30-Nov	Chg (%)
US 10Y yield (%)	3.74	3.61	(14bps)
India 10Y yield (%)	7.28	7.28	0bps
USD/INR	81.73	81.43	0.4
Brent Crude (US\$/bbl)	83.0	85.4	2.9
Dow	33,853	34,590	2.2
Hang Seng	18,205	18,597	2.2
Sensex	62,682	63,100	0.7
India FII (US\$ mn)	28-Nov	29-Nov	Chg (\$ mn)
FII-D	28.2	7.6	(20.7)
FII-E	319.9	156.6	(163.3)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

research@bobcaps.in



### **INDIA ECONOMICS: CREDIT TRENDS**

Growth in Bank credit has accelerated during the financial year which is a positive sign of economic activity picking up though banks are challenged by a slower growth in deposits. In this context, it is important to see as to where is credit growth emanating.

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

### **NLC INDIA**

- Higher capacities in power as well as mining to boost profitability and capitalise on the country's strong power demand
- Renewable capacity addition will improve the capacity mix and contribute to improved ESG scores
- Under-recovery at the TPS-II Exp plant to reduce, aiding improvement in overall ROE

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

## CURRENCY OUTLOOK

01 December 2022

## INR strengthened in Nov'22

Dollar demand waned and other global currencies edged up as Fed Chair hinted at tapering the pace of rate hikes starting from Dec'22. Expectations that inflation has likely peaked and concerns over growth suggest that the Fed may be less aggressive. Markets have scaled back their expectations of peak Fed Fund rate. Hence, we may see some correction in DXY after its rather successful stint this year. INR remained range-bound in the last fortnight. Importantly, it recorded a 1.7% monthly gain against the dollar for the first time this year. We foresee INR in the range of 81-82/\$ in the near-term supported by buoyant FPI inflows, lower oil prices and a weaker dollar.

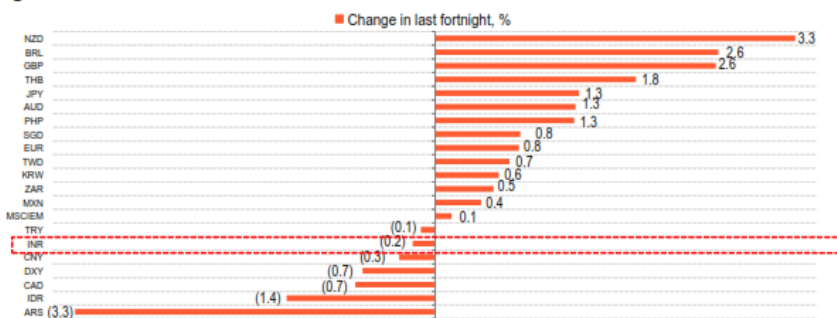
**Aditi Gupta**  
Economist

## Currency movement in the last fortnight

Most global currencies registered gains against the dollar in the last fortnight. DXY index fell by 0.7% in the fortnight, and about 5% in the month. With inflation in US expected to have peaked, investors expect the pace of Fed rate hikes to slow down. Weakness in economic indicators as well as some sluggishness in recent labour market indicators also point towards the same. Fed Chair too in his recent remarks suggested that the Fed may ease the pace of rate hikes "as soon as the December meeting". While the Fed Chair did not allude to a terminal rate, he did mention that it is likely to be higher than the official estimated given in Sep'22. Markets expect the Fed rate to hike policy rate by 50bps in Dec'22 and expect the Fed rate to now peak at below 5%.

Amongst the currencies registering the sharpest gains against the dollar in the last fortnight were: New Zealand dollar (NZD), Brazilian Real (BRL), and the British Pound (GBP). NZD was supported by a massive 75bps rate hike by the Reserve Bank of New Zealand (RBNZ). GBP gained 2.6% against the dollar, and EUR too rose by 0.7%. On the other hand, CNY depreciated by 0.3%, amidst continued Covid-19 woes in China. However, hopes that the government may ease its strict Covid-zero policy, helped offset some decline in the exchange rate.

Figure 2: Global currencies



Source: Bloomberg, Bank of Baroda | Data as of 30 Nov 2022 | Note: Figures in bracket denote depreciation against USD



## BONDS WRAP

01 December 2022

### Fortnightly review

Global bond yields broadly went into a downswing in Nov'22, a situation not seen in the past few months. US 10Y yield fell by 44bps, 14bps of which was attributed to the overnight fall, post Fed Chair's dovish speech. Markets are now anticipating a slower pace of rate hike by Fed. CME Fed watch tool is now pricing in a 50bps rate hike with 82% probability attached to the outcome which was around 45% as on 31 Oct 2022. 1Y US swap rates which are indicative of terminal rate is trading above 4.8%. Other global yields are also likely to feel the contagion of falling US 10Y yield. Most central banks' policy decisions are also scheduled this month and slight easing in the rate cycle is expected. In the Eurozone, some economies provided comfort with regard to moderation in flash CPI data.

**Dipanwita Mazumdar**  
Economist

On the domestic front, 10Y yield traded in the range of 7.26-7.48% in Nov'22 with higher volatility compared to last month. The trajectory was on the downside comforted by ~10% decline in international crude oil prices. Even some moderation in inflation data in Oct'22 raised hopes of a smaller pace of rate hike by RBI. Considerable flattening of India's yield curve was also noticed as short end yields remained inflexible while yield on long end papers fell. Another notable thing noticed in the current month is that, banks have been heavy sellers of government securities especially PSBs. This might be because of the rising wedge between credit and deposit growth, which has raised their demand for funds.

In the current month, we expect India's 10Y yield is expected to remain in the range of 7.2-7.4%. Key watchable will be the RBI policy where we expect a 25-35bps hike in repo rate. Even a slightly lower CPI print (our expectation of ~6-6.2%) will also put downside pressure on yields.

#### Global yields on a downswing:

- In Nov'22, global yields broadly fell compared to Oct'22. There was a sharp fall in US 10Y yield of 44bps, with 14bps of it happening overnight post Fed Chair's speech which had a thorough dovish bias. Statements such as 'moderate the pace of our rate increases' was a clear signaling that steeper rate hike cycle is way past. The rationale behind was soft landing of the economy and materialization of previous rate hikes. Recent ADP private payroll numbers in the US also indicated that some degree of softening of the tighter labour market conditions has already taken place. The 1Y US swap rate, which can be reflective of the terminal fund rate, is currently trading at 4.8% against 4.9% seen in the first week of Nov'22.
- Softening flash CPI print in Germany, Spain, France and Netherlands in the Eurozone also comforted yields in the region raising expectation of a softer rate cycle by ECB as well. UK's 10Y yield was supported by the fiscal credibility expressed in the recently announced Mini Budget. Further lower than expected borrowing in Oct'22 of £ 13.55bn (est.: £ 22bn) also comforted yields.



## CREDIT TRENDS

01 December 2022

### Where is bank credit growing?

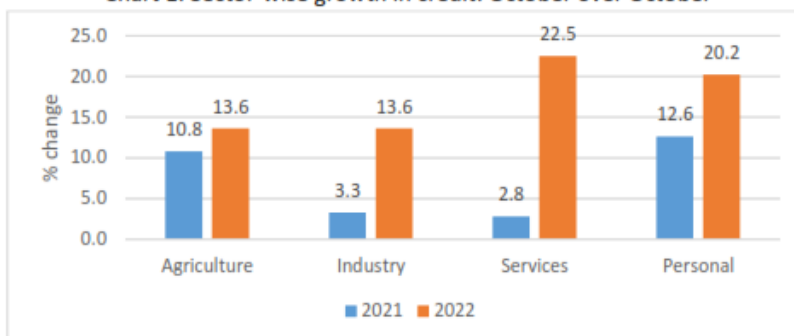
Growth in Bank credit has accelerated during the financial year which is a positive sign of economic activity picking up though banks are challenged by a slower growth in deposits. In this context, it is important to see as to where is credit growth emanating.

**Aditi Gupta**  
Economist

RBI data for month ending October shows that overall gross bank credit has grown by 17.9% on an annual basis compared with 6.8% last year. Total outstanding credit is now Rs 128.89 lakh crore. Data across sectors is available for around Rs 120 lakh crore. Significantly the largest component now is personal loans with a share of 31.4%. This is followed by manufacturing and services which are almost the same with 27.4% and 27.6% respectively. Agriculture had a share of 13.2% while the balance was food credit.

The chart below gives the growth rates of credit to the 4 sectors within non-food credit. The interesting observation is that there has been higher than average growth in credit to the services and personal loans segments, while that to agriculture and industry has trailed. Further, while growth to agriculture is lower at 13.6% it comes over a relatively higher growth in 2021 of 10.8%. In case of industry there was lower growth of 3.3% and hence the base effect is stronger here. For the other two sectors growth in credit has been above 20% with services recording it over a low growth of 2.8% while for personal loans it was 12.6% last year. Therefore it can be said that growth in credit to agriculture has been sustained while it accelerated for the personal loans segment.

Chart 1: Sector-wise growth in credit: October over October



Source: RBI

Within these sectors too there are some interesting observations. In case of industry the sharp growth rates in micro & small and medium industries has been maintained with acceleration seen for the former. The contribution of ECLGS has been significant here. In case of large industry there was a marginal fall in 2021 which has been reversed and this lower base has resulted in higher growth of 10.9%. (Chart 2). The share of large industry in credit to industry is high at 76.5% followed by micro and small with 16.8% and medium with 6.7%. The relatively less impressive growth in credit to this sector can be linked with virtually flat growth in manufacturing for H1-FY23 as per the GDP numbers released yesterday.



**NOT RATED****NLC INDIA**

Utilities

01 December 2022

## Capacity addition largely on track

- Higher capacities in power as well as mining to boost profitability and capitalise on the country's strong power demand
- Renewable capacity addition will improve the capacity mix and contribute to improved ESG scores
- Under-recovery at the TPS-II Exp plant to reduce, aiding improvement in overall ROE

**Anupam Goswami**

research@bobcaps.in

We interacted with Mukesh Agrawal, ED Finance, NLC India (NLC IN, Not Rated).

Key takeaways:

**Regulated capex to boost bottomline:** NLC is adding a 3200MW coal-based thermal plant (3x800MW phase-I and 1x800MW phase-II) in Talabira, Odisha. Management expects the plant to be commissioned by 2027-28. Capex for phase-I totals Rs 194.2bn or ~Rs 6.06 per MW, implying the addition of ~Rs 58.3bn to regulated equity. The Talabira plant has been allotted the Panchwara coal block (9MT normative output, 13MT peak) in Jharkhand which the company is developing in joint venture with the state government, to be commissioned in 2028.

**TPS II Exp under-recovery to stabilise:** TPS II Exp is the country's first power plant based on circulating fluidised bed combustion (CFBC) technology. Due to technical constraints, the plant is running at low availability and load factors (PAF/PLF). Of NLC's total under-recovery of Rs 1.9bn in H1FY23, the TPS II Exp plant accounts for ~Rs 1.2bn which is expected to reach ~Rs 2.2bn in FY23. However, management has indicated that the company is taking necessary measures to raise availability to 80-85% by FY24, which should ease under-recovery and improve ROE.

**Renewable capacity addition on track:** NLC's renewable energy capacity is at 1.4GW out of its total capacity of 5GW. About 4.5GW is in the planning and tendering stage, and the company aims to reach 6GW in renewable capacity by 2030 to achieve a healthy balance with its thermal plants. Ramp-up of these capacities will also improve NLC's ESG scores.

**Capacity addition at JV/subsidiary level:** The company's Ghatampur (Uttar Pradesh) thermal power plant (3x 660MW) is ready for commissioning, and each phase of 660MW will be commissioned every four months starting Mar'23.

**Coal ramp-up on the cards:** From current coal production of 6MT in FY22 (20MT capacity), NLC plans to ramp up output to 13MT in FY23 and close to 20MT in FY24. The company has tied up ~8MT with NTPC and the balance will be sold in the open market which will fetch higher realisations given elevated global prices.

Ticker/Price	NLC IN/Rs 84
Market cap	US\$ 1.4bn
Free float	21%
52wk high/low	Rs 92/Rs 56
Promoter/FPI/DII	79%/0%/21%

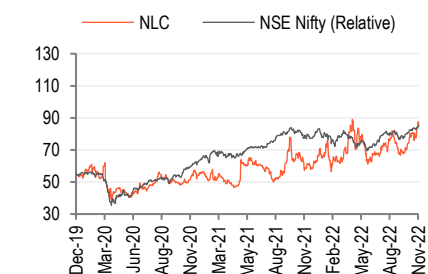
Source: NSE | Price as of 1 Dec 2022

### Key financials

Y/E 31 Mar	FY20A	FY21A	FY22A
Total revenue (Rs mn)	79,119	75,644	1,01,300
EBITDA (Rs mn)	27,698	22,642	37,226
Adj. net profit (Rs mn)	14,173	10,573	8,470
Adj. EPS (Rs)	10.2	7.6	6.1
Adj. ROAE (%)	3.7	2.9	2.5
Adj. P/E (x)	8.2	11.0	13.7
EV/EBITDA (x)	5.3	5.6	2.3
Adj. EPS growth (%)	11.6	(28.5)	22.4

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.**

## 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.

### 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 BOB Capital Markets Limited (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 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 CIN Number: U65999MH1996GOI098009.

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. 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. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

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 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.

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.

#### **Other disclaimers**

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

#### **Distribution into the United Kingdom ("UK"):**

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

#### **No distribution into the US:**

This report will not be distributed in the US and no US person may rely on this communication.

#### **Other jurisdictions:**

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.