

RESEARCH

Plastic Products

Near term pain; but long-term Structural Growth intact

BOB Economics Research | Monetary Policy Expectations

Stance to be changed, rates on hold

SUMMARY

Plastic Products

- High RM cost to weigh on margins as HDPE/LDPE prices have risen by 9%/17% YoY during Q4FY22
- Volume growth to be backed by government focus on water supply and sanitation projects along with uptick in real estate/construction activity
- Recent rally factors in positives – retain HOLD on ASTRA (TP Rs 2,205) and FNXP (TP Rs 180); SI cut to HOLD from BUY (TP Rs 2,400)

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

India Economics: Monetary Policy Expectations

In the upcoming credit policy of RBI which is scheduled on 8 Apr 2022, we expect MPC to change stance from accommodative to neutral. We expect no change in rates. This includes also the reverse repo rate given that the weighted average reverse repo rate in the term auctions (under VRRR) is close to the repo rate (4%). RBI is likely to scale down the growth projection from current 7.8% in FY23. However, inflation projections are likely to be revised upward for FY23 from Feb estimate of 4.5%.

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

Daily macro indicators

Indicator	01-Apr	04-Apr	Chg (%)
US 10Y yield (%)	2.38	2.4	1bps
India 10Y yield (%)	6.84	6.90	6bps
USD/INR	75.79	75.55	0.3
Brent Crude (US\$/bbl)	104.4	107.5	3.0
Dow	34,818	34,922	0.3
Hang Seng	22,040	22,502	2.1
Sensex	59,277	60,612	2.3
India FII (US\$ mn)	30-Mar	31-Mar	Chg (\$ mn)
FII-D	10.3	(23.9)	(34.2)
FII-E	314.6	1,144.7	830.1

Source: Bank of Baroda Economics Research



PLASTIC PRODUCTS

05 April 2022

Near term pain; but long-term Structural Growth intact

- High RM cost to weigh on margins as HDPE/LDPE prices have risen by 9%/17% YoY during Q4FY22
- Volume growth to be backed by government focus on water supply and sanitation projects along with uptick in real estate/construction activity
- Recent rally factors in positives – retain HOLD on ASTRA (TP Rs 2,205) and FNXP (TP Rs 180); SI cut to HOLD from BUY (TP Rs 2,400)

Ruchitaa Maheshwari
 researchreport@bobcaps.in

Plumbing segment demand steady but agri pipe volumes yet to recover: Plastic product players witnessed volume loss and margin pressure in Q3FY22 owing to a sharp correction in PVC prices, destocking by dealers and weaker demand due to unseasonal rains. Construction activity slowed amid the third Covid wave, further undermining demand in Jan'22. Recovery in construction and real estate activity since February has led to a steady revival in the plumbing segment. Demand for agri pipes remains sluggish, however, due to the pass-along of rising PVC prices, causing farmers to delay purchases. We believe this will impede agri demand revival in FY23.

Improved restocking at dealer level: Lower offtake in the agriculture and housing segments, channel destocking at the dealer level and supply chain disruptions in Q3 eroded the volume growth of many pipe companies. However, we expect channel inventory replenishment to have picked up in Q4 led by the recent rise in PVC prices (10-12%) and the likelihood of further hikes (steadily increasing of spot prices).

Steady price hikes to mitigate margin pressure: PVC resin prices touched a peak of Rs 160/kg in Oct'21 from Rs 137/kg, before falling back to Rs 137/kg in Nov'21, resulting in destocking by dealers. Many companies have recently taken price hikes to mitigate the raw material inflation impact even as PVC prices have recovered by ~Rs 7/kg to hover at Rs 143/kg in Q4. Prices of key inputs, HDPE and LDPE (both crude derived), have increased by 9% and 17% YoY respectively in Q4. We believe companies will be able to partially pass on the cost burden.

Valuations' fair: Post demand disruption in Jan 22' due to covid, plumbing segment is holding up but agri segment is yet to show revival. With higher costs of inventory built-up in Q3 and steep rise in additives; we expect company to witness margin pressure for next 3-6 months. We maintain HOLD on ASTRA (TP Rs 2,205 vs. Rs 2,465) and FNXP (TP Rs 180 vs. Rs 200), but have lowered our target prices on both stocks to factor in lower target multiples amid RM cost inflation and delay in agri demand. We also cut EPS estimates for ASTRA & SI considering the raw material burden and slight moderation in volumes. SI (TP Rs 2,400 vs. Rs 2,535) stands downgraded from BUY to HOLD as positives appear priced in, akin to peers.

Recommendation snapshot

Ticker	Price	Target	Rating
ASTRA IN	2,046	2,205	HOLD
FNXP IN	168	180	HOLD
SI IN	2,155	2,400	HOLD

Price & Target in Rupees | Price as of 5 Apr 2022



MONETARY POLICY EXPECTATIONS

05 April 2022

Stance to be changed, rates on hold

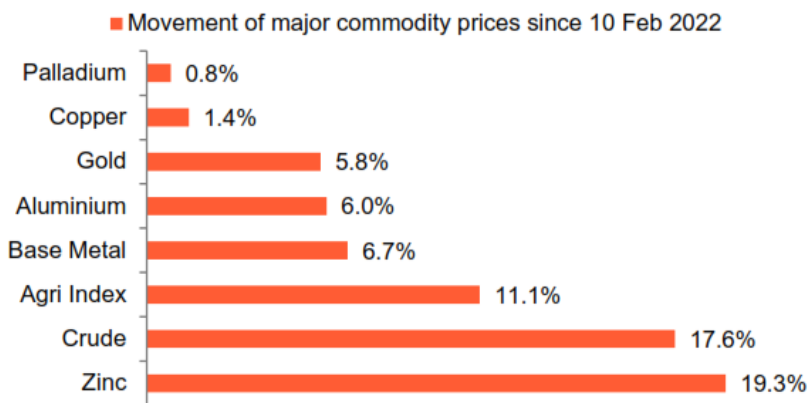
In the upcoming credit policy of RBI which is scheduled on 8 Apr 2022, we expect MPC to change stance from accommodative to neutral. We expect no change in rates. This includes also the reverse repo rate given that the weighted average reverse repo rate in the term auctions (under VRRR) is close to the repo rate (4%). RBI is likely to scale down the growth projection from current 7.8% in FY23. However, inflation projections are likely to be revised upward for FY23 from Feb estimate of 4.5%.

Dipanwita Mazumdar
Economist

Since the last policy which was held on 10 Feb 2022, the macro fundamentals have changed:

- 1) Supply side pressure exacerbated with rising oil prices:** International crude prices was trading at US\$ 90+/bbl in the last policy. However, subsequently it rose to a high of US\$ 120+/bbl and is presently trading at US\$ 108/bbl. Along with oil, other commodity prices also rose considerably. This is primarily on account of geopolitical tension surrounding Russia-Ukraine war situation.

Fig: 1 Since last policy, prices of major commodities remained elevated, despite recent correction



Source: Bloomberg, Bank of Baroda Research

- 2) Pass through of international oil to domestic oil prices:** After a freeze of 137 days, domestic retail prices of petrol and diesel went up for the 13th session in the past two weeks by Rs 9.2/lt. Even commercial LPG prices rose by Rs 250/cylinder, as also kerosene prices in PDS (by 15.4% on an average in past two months). Petrol, diesel, LPG and Kerosene related products have a share of 4.2%. These are likely to remain elevated in the near term. The Russia-Ukraine crisis is likely to put pressure on the prices of edible oils, which have already been in double digits in the last 23 months.



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.

Rating distribution

As of 31 March 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 65 have BUY ratings, 31 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

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 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 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 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.: INH00000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ00159332 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 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.