FIRST LIGHT

09 November 2022

RESEARCH

BOB ECONOMICS RESEARCH | INTEREST RATES

Small savings versus bank deposits

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Global growth slowing down; India steady

GREENPLY INDUSTRIES | TARGET: Rs 215 | +26% | BUY

Stable quarter but margins disappoint

Daily macro indicators

Indicator	03-Nov	04-Nov	Chg (%)
US 10Y yield (%)	4.15	4.16	1bps
India 10Y yield (%)	7.48	7.47	(1bps)
USD/INR	82.89	82.44	0.6
Brent Crude (US$/bbl)	94.7	98.6	4.1
Dow	32,001	32,403	1.3
Hang Seng	15,339	16,161	5.4
Sensex	60,836	60,950	0.2
India FII (US$ mn)	**02-Nov**	**03-Nov**	**Chg ($ mn)**
FII-D	(47.6)	12.6	60.2
FII-E	168.1	93.9	(74.2)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: INTEREST RATES

After keeping rates stagnant for almost 2-years, the government recently announced a hike in interest rates for small savings scheme. Overall out of the total 12 schemes, interest rates on 5 of the schemes was raised in the range of 10-30 bps. On the other hand, while banks have increased term deposit rates to some extent, savings deposit rate continues to remain at a low of 2.7%. Even term deposit rate of 1 year maturity fetches a lower rate of interest than the corresponding small saving instruments. In this study, we compare the trends in bank deposits with small savings deposits and the role of interest rate differential between the two.

Click here **for the full report.**

INDIA ECONOMICS: MONTHLY CHARTBOOK

Stubbornly high inflation print worldwide has nudged global central banks on rate hike spree. Both Fed and BoE raised rates by 75bps to tame accelerating inflation. BoE has also warned of 'long and painful recession'. ECB too has raised rates. Furthermore, IMF in its bi-annual World Economic Outlook report has projected global growth to slow down to 3.2% in CY22 (6% in CY21) and expects further moderation to 2.7% in CY23. Against this backdrop, global yields have surged. On the currency front, dollar continued to strengthen further with INR depreciating by 1.7% in Oct'22. Softening of global demand has resulted in moderation of oil prices. Global food prices have also edged down to 9-month low, signalling some possible relief from high inflation. Domestically, RBI is likely to continue with monetary tightening in line with other Central Banks.

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GREENPLY INDUSTRIES

- Consolidated Q2 revenue grew 14% YoY on a 7% increase in volumes and 6% higher realisations in India plywood operations
- Operating margin slipped 160bps YoY to 9.9% (10.7% excluding non-cash ESOP cost)
- Weak outlook for Gabon operations leads us to cut FY23/FY24 margins 90bps/210bps and lower our TP to Rs 215 (vs. Rs 235); retain BUY

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INTEREST RATES

07 November 2022

Small savings versus bank deposits

Aditi Gupta
Economist

After keeping rates stagnant for almost 2-years, the government recently announced a hike in interest rates for small savings scheme. Overall out of the total 12 schemes, interest rates on 5 of the schemes was raised in the range of 10-30 bps. On the other hand, while banks have increased term deposit rates to some extent, savings deposit rate continues to remain at a low of 2.7%. Even term deposit rate of 1 year maturity fetches a lower rate of interest than the corresponding small saving instruments. In this study, we compare the trends in bank deposits with small savings deposits and the role of interest rate differential between the two.

Structure of small savings

Small savings comprise of three main components: deposits, saving certificates and public provident fund (PPF). Deposits account for a majority share (69.4%) of the total small savings. It must be noted that while small savings grew by a CAGR of 12.2% in the last 5 years, CAGR for deposits has been higher at 13.4% in the same period. Within deposits, post office time deposits (17.4%) and post office savings deposits (16.4%) have a significant share. Further, both of them have grown at a much faster pace than the growth in overall small savings as well as deposits. Monthly income scheme also has a sizeable share of 16.5%. However, CAGR growth in this segment has remained muted at 5.3% in the last 5 years.

Savings certificates with a share of 23% in total small savings, also remain a major player in this segment. CAGR growth in this segment was at 9.7% in the last 5 years. PPF with a share of just 7.6%, remains the least preferred amongst investors. This may be due to a long lock in period of 15 years under this scheme. Growth of PPF deposits too has remained lackluster at just 9.1%.

Table 1: Structure of small savings deposits

	% Share	CAGR (FY17-FY22)
1 Small Savings	**100.0**	**12.2**
1.1 Total Deposits	**69.4**	**13.4**
Post Office Saving Bank Deposits	16.4	16.4
Monthly Income Scheme	16.5	5.3
Senior Citizen Scheme 2004	8.2	23.0
Post Office Time Deposits	17.4	20.1
Post Office Recurring Deposits	10.8	10.9
1.2 Saving Certificates	**23.0**	**9.7**
1.3 Public Provident Fund	**7.6**	**9.1**

Source: CEIC, Bank of Baroda Research | Note: Data for Small savings deposits is upto Feb'22

Global growth slowing down; India steady

Stubbornly high inflation print worldwide has nudged global central banks on rate hike spree. Both Fed and BoE raised rates by 75bps to tame accelerating inflation. BoE has also warned of 'long and painful recession'. ECB too has raised rates. Furthermore, IMF in its bi-annual World Economic Outlook report has projected global growth to slow down to 3.2% in CY22 (6% in CY21) and expects further moderation to 2.7% in CY23. Against this backdrop, global yields have surged. On the currency front, dollar continued to strengthen further with INR depreciating by 1.7% in Oct'22. Softening of global demand has resulted in moderation of oil prices. Global food prices have also edged down to 9-month low, signalling some possible relief from high inflation. Domestically, RBI is likely to continue with monetary tightening in line with other Central Banks.

Mixed signals for domestic demand: On the back of the festive surge, consumption demand improved as has been reflected by higher auto sales (retail vehicles), robust credit growth (17.9% in Oct'22 against 5.7% in Oct'21) and buoyant GST collections (2nd highest level since inception). However, moderation in power demand and fertilizer sales has raised some concerns over the strengthening of domestic demand. On the agri front, rabi sowing has begun with sown area of pulses and oilseeds higher compared with last year.

Centre's finances remain healthy: Centre's fiscal deficit (% of GDP, 12MMA basis), was unchanged at 6.4% in Sep'22, despite pick up in spending. Ahead of upcoming state elections, centre's overall spending rose considerably in Sep'22 and in H1FY23 it is up by 12.2% versus 8.9% during Apr-Aug'22. Both capex (49.5% versus 46.8%) and revenue expenditure (6%versus 3%) increased. This was also supported by sharp increase in centre's net revenues (8.2% versus 2.9%). Driven by festive spending and higher prices, indirect tax collections rose (11.8% versus 11.2%). Non-tax revenues also improved (-1.7% versus -21.4%). Going forward, higher expenditure can be expected on account of food and fertilizer subsidies. In addition, with negligible room to raise excise duty, expected drop in custom duty collections as commodity prices ease, weak trend in disinvestment receipts, pressure on fiscal deficit will remain.

India's 10Y yield rising: Global yields continued to inch up as US Fed, ECB, and BoE all hiked policy rates again. Stubborn inflation data has led to central banks reaffirming tightening stance until it cools down significantly. In Oct'22, US 10Y yield inched up (MoM) by 22bps. In Nov'22 so far (MTD) it is further up by 11bps. In comparison (MoM), UK's 10Y has gone up by 2bps and India's 10Y yield by 2bps. We continue to expect a terminal repo rate of 6.5% as RBI aims to tame rising inflation. CPI inflation in Oct'22 is estimated to have eased to 6.8% from 7.4% in Sep'22.

INR to remain range-bound: INR depreciated by 1.7% in Oct'22 and fell to another record-low as Fed indicated a higher than expected terminal Fed fund rate. Higher oil prices and negative FPI flows also contributed to the weakness in the rupee. However in Nov'22, INR has regained some of its losses mostly on the back of waning dollar strength. INR trajectory in the near-term is likely to be governed by the movement in DXY. We believe INR is likely to trade in the range of 82.5-82.95/$ in the near term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 215 | ⮝ 26%

GREENPLY INDUSTRIES | Construction Materials | 08 November 2022

Stable quarter but margins disappoint

- **Consolidated Q2 revenue grew 14% YoY on a 7% increase in volumes and 6% higher realisations in India plywood operations**
- **Operating margin slipped 160bps YoY to 9.9% (10.7% excluding non-cash ESOP cost)**
- **Weak outlook for Gabon operations leads us to cut FY23/FY24 margins 90bps/210bps and lower our TP to Rs 215 (vs. Rs 235); retain BUY**

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Healthy revenue growth: Greenply (GIL) reported consolidated Q2FY23 revenue growth of 14% YoY (+9% QoQ) to Rs 4.9bn. India business grew 15% YoY as plywood volumes increased 7% and price realisation improved 6% to Rs 248/sqm. Gabon subsidiary revenue grew 12% YoY.

Margin subdued: Gross margin improved slightly to ~40% (+30bps YoY) in Q2 as the steady rise in timber cost was partly negated by softer chemical prices, along with a change in product mix. However, higher employee cost (+115bps YoY) saw operating margin fall 160bps YoY to 9.9% (10.7% adjusted for non-cash ESOP cost of Rs 40mn). India business posted a 255bps YoY decline in EBITDA margin to 8.9% (adj. 9.8%).

Volume guidance raised: Management has guided for ~4% volume growth in H2FY23, implying ~17% growth for FY23 (vs. 10-11% guided earlier) to 67mn sqm. Management did not provide EBITDA margin guidance.

Weak Gabon operations to weigh on margins: Management expects a slowdown in Gabon business in H2FY23 (50-60% revenue drop) due to energy cost volatility and soft demand in Europe, leading us to believe that near-term gains in the India plywood business will be nullified. MDF could provide strong support in FY24, but execution is a key monitorable. We cut FY23/FY24 EBITDA margin forecasts by 90bps/210bps to 9.6%/11.7% to incorporate the Gabon outlook and subdued domestic margins.

New capacity: GIL is setting up an MDF plant in Gujarat with a capacity of 800cbm per day for Rs 5.8bn-5.9bn (earlier Rs 5.5bn) by Q4FY23. The company is facing congestion at ports which may delay machine installation. The plant at Hapur, Uttar Pradesh, has annual plywood capacity of 7.5msm and is likely to be operational by Q4.

Retain BUY: The stock is trading at an inexpensive 16x FY24E EPS. We believe that a rerating is dependent on GIL's plywood business outperforming peers after an underwhelming showing in recent quarters. We continue to value the stock at 20x FY24E EPS – in line with its 5Y median of 21x – while lowering our TP to Rs 215 (vs. Rs 235) post estimate changes. BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	MTLM IN/Rs 171
Market cap	US$ 256.4mn
Free float	48%
3M ADV	US$ 0.4mn
52wk high/low	Rs 255/Rs 161
Promoter/FPI/DII	52%/3%/45%

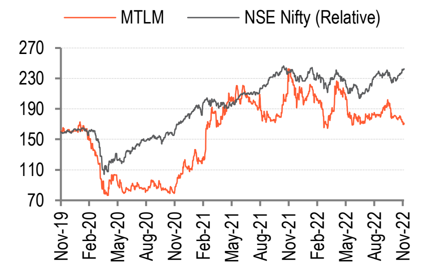
Source: NSE | Price as of 7 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	15,628	17,859	23,211
EBITDA (Rs mn)	1,503	1,719	2,719
Adj. net profit (Rs mn)	947	846	1,313
Adj. EPS (Rs)	7.7	6.9	10.7
Consensus EPS (Rs)	7.7	10.5	12.3
Adj. ROAE (%)	19.4	14.7	19.4
Adj. P/E (x)	22.2	24.8	16.0
EV/EBITDA (x)	15.0	13.0	9.2
Adj. EPS growth (%)	55.5	(10.7)	55.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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