FIRST LIGHT

05 April 2019

RESEARCH

BOB Economics Research | Monetary Policy Review

Two done, more to come

Banking

SC quashes RBI's 12-Feb circular – An expert perspective

Container Corp of India | Target: Rs 530 | −0% | REDUCE

Q4FY19 volumes substantially below estimates

SUMMARY

India Economics: Monetary Policy Review

MPC delivered two consecutive rate cuts of 25bps each with a 4-2 vote. Neutral stance maintained. The continuous undershoot of CPI inflation and downward revision to growth forecasts spurred the MPC members to cut rates. With weak global and domestic growth momentum and change in monetary policy stance of most global central banks, RBI has room for another rate cut as real rates remain high. The key risk to the above view is sharp jump in oil prices, poor monsoon or adverse election result.

Click here **for the full report.**

Banking

We hosted experts from a leading restructuring and debt advisory services firm for insights into the recent Supreme Court (SC) verdict that struck down the RBI's 12 February circular on resolving stressed assets. Our expert panel highlighted that there will be no impact on the list-1/2 cases referred by the RBI since they turned NPA before the circular was issued and they were specific cases directed by the central bank. However, banks will have to study all cases referred to CIRP via the circular and reinitiate their resolution in light of the SC verdict.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	620
GAIL	Buy	515
Infosys	Buy	830
ONGC	Buy	225
TCS	Buy	2,390

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,310
Future Supply	Buy	780
Greenply Industries	Buy	230
L&T Infotech	Buy	2,100
Laurus Labs	Buy	495

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.52	5bps	(20bps)	(28bps)
India 10Y yield* (%)	7.42	0bps	(14bps)	13bps
USD/INR	68.42	0.5	2.9	(5.0)
Brent Crude (US$/bbl)	69.31	(0.1)	5.2	1.9
Dow	26,218	0.1	1.6	8.1
Shanghai	3,216	1.2	5.3	2.7
Sensex	38,877	(0.5)	6.7	17.7
India FII (US$ mn)	**02 Apr**	**MTD**	**CYTD**	**FYTD**
FII-D	(252.1)	(252.1)	1,016.3	(252.1)
FII-E	68.6	68.6	8,294.7	68.6

Source: Bank of Baroda Economics Research
*Based on 7.17% GS 2028

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Container Corp of India

Container Corporation of India (CCRI) posted 2.5% YoY growth in EXIM volumes in Q4FY19, below our estimate of 9.6% YoY. This represents the second consecutive quarter of muted growth, after a subdued Q3FY19 (+6.3% YoY). We believe this underperformance stems from tepid EXIM cargo movement, soft growth in Indian Railways' container traffic (+6.7% YoY during Jan-Feb'19) and a high base of Q4FY18 (EXIM volume growth of 20% YoY). EXIM volumes grew 8.1% in FY19, lower than management's guidance of 12%.

Click here for the full report.

MONETARY POLICY REVIEW

04 April 2019

Two done, more to come

MPC delivered two consecutive rate cuts of 25bps each with a 4-2 vote. Neutral stance maintained. The continuous undershoot of CPI inflation and downward revision to growth forecasts spurred the MPC members to cut rates. With weak global and domestic growth momentum and change in monetary policy stance of most global central banks, RBI has room for another rate cut as real rates remain high. The key risk to the above view is sharp jump in oil prices, poor monsoon or adverse election result.

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Inflation forecast revised downwards: RBI lowered its quarterly FY20 CPI forecast by as much as 30-40bps. For Q4FY19, new forecast is 2.4% versus 2.8% in Feb'19, for H1FY20 new forecast is 3% versus 3.3%, for Q3FY20 new forecast is 3.5% versus 3.9% earlier. For Q4FY20 forecast is 3.8%. The annual forecast for FY20 and FY21 is at 3.4% and 3.95% respectively, below MPC's target of 4%. This downward revision is driven by benign food inflation and lower oil prices. The persistent negative output gap also gives credence to the inflation outlook. So does the dip in global growth momentum. The new forecasts are in line with our projection of 3.4% and 3.7% for FY20/ FY21.

FY20 growth forecast at 7.2% from 7.4%: RBI reduced its GDP forecast for FY20 to 7.2% (7% in H1FY20 and 7.4% in H2FY20) on the back of dip in global (FIG-1) and domestic growth momentum. While the former will impact exports which have turned sluggish off-late, the slowdown in consumption is driving domestic demand lower. Recent indicators such as non-oil-non-gold imports, capital goods imports, port and air passenger traffic, CV and auto sales are all pointing to muted growth outlook. Investment growth has been driving GDP higher, but mostly led by government spending on roads and affordable housing. With improving capacity utilization (now at 75.9%), growth can be sustained with a broad based investment recovery for which lower real rates will be of help.

High real rates and output gap: Compared with other large economies, real rates in India are on the higher side. At the same time, the negative output gap should ensure inflation remains below RBI's target. Hence, we believe RBI is likely to do another repo rate cut in its next policy meeting. The key risks to our view are any sharp jump in global oil prices, below normal monsoon and adverse election outcome.

KEY HIGHLIGHTS

- RBI cuts repo rate by 25bps, stance remained unchanged at neutral.
- Inflation projections for H1FY20 revised downward to 3%, for H2FY20 at 3.7%.
- GDP forecast also revised lower at 7.2% for FY20 from 7.4% earlier.

BANKING

04 April 2019

SC quashes RBI's 12-Feb circular – An expert perspective

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We hosted experts from a leading restructuring and debt advisory services firm for insights into the recent Supreme Court (SC) verdict that struck down the RBI's 12 February circular on resolving stressed assets. Key takeaways:

RBI's 12-Feb circular dealt with resolution of stressed assets: Prior to the February notice, the RBI had rolled out a series of loan restructuring schemes, such as CDR, SDR and change of management outside SDR/S4A, to resolve stressed assets in the banking system. But none of these schemes adopted a holistic approach and hence effective resolutions remained elusive, even as banks used them to delay NPA recognition. The RBI on 12 February, therefore, scrapped all existing loan restructuring plans and issued a more stringent framework to deal with stressed assets.

Key points of contention: Salient aspects of the circular that raised concerns among banks and borrowers were: (a) 100% lender consensus required for implementing a resolution plan in cases over Rs 20bn – this was seen as an uphill task; (b) 180-day window for resolutions – this was considered too short for accounts that required a longer gestation period; and (c) just a day's default would cause the loan to be classed as a special mention account (SMA).

Why the SC termed it as Ultra Vires: The SC questioned the constitutional validity of Sections 35AA and 35AB of the Banking Regulation Act which led RBI to issue the circular. Under Sec 35AA, the RBI in consultation with the central government can direct banks to initiate a corporate insolvency resolution process (CIRP) in case of specific and not generic defaults. Sec 35AB empowered RBI to issue directions for resolution other than CIRP. The SC revoked the circular on the grounds that it dealt with generic defaults.

Impact on existing cases undergoing resolution: Experts highlighted that there will be no impact on the list-1/2 cases referred by the RBI since they turned NPA before the circular was issued and they were specific cases directed by the central bank. However, banks will have to study all cases referred to CIRP via the circular and reinitiate their resolution in light of the SC verdict.

What will RBI do next: According to our expert panel, the RBI has two options: (a) come out with a new circular that addresses concerns by scrapping the Rs 20bn floor, extending the 180-day window and/or relaxing the one-day default norm, or (b) provide a list to the government which may then push it to IBC.

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REDUCE
TP: Rs 530 | ∀ 0%

CONTAINER CORP OF INDIA | Logistics | 04 April 2019

Q4FY19 volumes substantially below estimates

Exim volumes underperform: Container Corporation of India (CCRI) posted 2.5% YoY growth in EXIM volumes in Q4FY19, below our estimate of 9.6% YoY. This represents the second consecutive quarter of muted growth, after a subdued Q3FY19 (+6.3% YoY). We believe this underperformance stems from tepid EXIM cargo movement, soft growth in Indian Railways' container traffic (+6.7% YoY during Jan-Feb'19) and a high base of Q4FY18 (EXIM volume growth of 20% YoY). EXIM volumes grew 8.1% in FY19, lower than management's guidance of 12%.

Domestic volumes also fall short: CCRI's domestic volumes grew 5.4% YoY in Q4FY19, also lower than our estimate of 10% YoY. In FY19, domestic volume growth moderated to 10.2% from 15% in FY18. Total volumes (EXIM + domestic) grew 8.4% for FY19.

Earnings cut likely: Considering the disappointing volumes, we expect EBITDA and PAT to also fall short of expectations, barring any major realisation or margin surprises. Given that consensus estimates factor in a healthy 15%/16% CAGR in standalone revenue/PAT over FY19-FY21, we see potential for earnings downgrades.

Focus on newer growth avenues continues: In Mar'19, CCRI opened its first distribution logistics centre at Ennore, Chennai, in partnership with NDR Infrastructure. The facility is aimed at meeting the warehousing and distribution needs of various manufacturers and importers. Management plans to open ~20 distribution centres across the country. This follows the commencement of its coastal shipping operations in Jan'19, underscoring a strong commitment to tap into newer growth avenues.

Maintain REDUCE: We maintain our Mar'20 target price of Rs 530 for CCRI, set at 25x one-year forward P/E. While we expect the dedicated freight corridor (DFC) to bring in higher volume and efficiency gains, we believe that premium valuations capture material upsides from current levels.

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Ticker/Price	CCRI IN/Rs 532
Market cap	US$ 4.7bn
Shares o/s	609mn
3M ADV	US$ 7.0mn
52wk high/low	Rs 564/Rs 461
Promoter/FPI/DII	55%/28%/13%

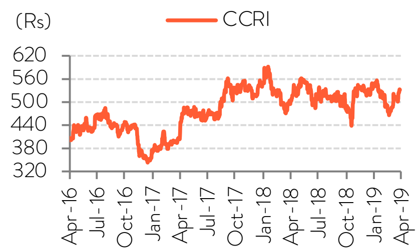
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	11,581	12,810	12,648
Adj. EPS (Rs)	19.0	21.0	20.8
Adj. EPS growth (%)	9.1	10.6	(1.3)
Adj. ROAE (%)	11.9	12.1	11.0
Adj. P/E (x)	28.0	25.3	25.6
EV/EBITDA (x)	21.0	18.5	15.2

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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