# What do the Institutions Say: Compilation of recent market research reports as on 12th November 2019

Please find below some of the recent informative research reports / articles on the market / economy as on 12th November 2019. Hope you find the same useful.

**1. Q2 GDP AT 4.2%, FY20 AT 5.0%: WE SHOULD RIDE THE LONG WINTER! - SBI Ecowrap by Dr. Soumya Kanti Ghosh**

**2. India Financial Sector : No relief on credit crunch - Credit Suisse**

**3. Why is Sensex rallying despite poor health of the economy? - ETMarkets.com**

**4. India Strategy : Privatize and Utilize - Kotak Institutional Equities, 6th Nov 2019**

## Q2 GDP AT 4.2%, FY20 AT 5.0%: WE SHOULD RIDE THE LONG WINTER! - SBI Ecowrap by Dr. Soumya Kanti Ghosh

We expect Q2GDP growth at 4.2%. Our acceleration rate for 33 leading indicators at 85% in October 2018 is down to just 17% in September 2019, with such decline gaining traction from March 2019. Even IIP growth number for Sep'19 was –4.3%, which is quite alarming. **We are revising our GDP forecast for FY20 to 5% from 6.1% earlier. We expect growth rate to pick up pace in FY21 to 6.2%. We also expect revisions to GDP data as in the past, but that is likely in February 2020 as is the custom.** In FY17, Q1 GDP figure was revised upwards from 7.1% in every revision and finally settled at 9.2%.

We however believe this growth rate in FY20 should be looked through the prism of **synchronized global slowdown (countries have witnessed 22-716 basis point decline between June'18 and Jun'19, and India cannot be isolated!)**. India **is also significantly lower in Economic Uncertainty Index when compared globally**! We also believe that Moody's change in outlook from stable to negative will not have any significant impact as rating actions are always a laggard indicator and the markets this time have categorically given a thumbs down to such.

**We now expect larger rate cuts from RBI in December policy. However such rate cut is unlikely to lead to any immediate material revival, rather it might result in potential financial instability** as debt financed consumption against an increasing household leverage had not worked in countries and India cannot be an exception. The contemporary issue for macroeconomists is to focus on assuring adequate aggregate demand and the role of fiscal policy in this context is of paramount importance. Much of the reluctance about use of fiscal policy in India currently appears from the fact that the monetary policy space is still adequate. This we believe could be counterproductive. In essence, markets are not unduly worried about fiscal deficit and await clarity from Government on the extent of fiscal slippage in current fiscal. Such an announcement could in fact be good for the markets!

**Against such growth slowdown, it is imperative that India adheres to no negative policy surprises in sectors like Telecom, Power and NBFCs.** For example, it is imperative that a lasting solution is worked out for the NBFC sector that has been much delayed now. We believe that given the crisis of confidence in the financial markets, provision of central bank liquidity for NBFCs is necessary to ensure the stability of the financial system. With every passing day the risk increases that the not so better rated NBFCs in their quest to achieve the capital ratio could do it through deleveraging and reduction of their assets, thus prolonging the credit crunch. It is reminiscent of the back loading of mega bank recapitalisation that was unveiled only in 2017. **What is thus needed is a credible frontloading of backstop** against good quality assets which can be used quickly to absorb potential losses, for NBFCs if they materialise. Similarly, the woes of the telecom sector need to be addressed so that new investors are encouraged to set up new networks in the country. Simultaneously, it is perplexing that a growing economy is witnessing a contraction in power demand with Discoms buying less power for reasons well known. Average PLF of thermal plants dipped to all time low of 48.9% in Oct. Renewables generation declined by 6.4% despite 15% increase in installed capacity.

**Separately, there is a perception in the market domain that de-risking the financial system has brought down the money multiplier** in recent period, and that has purely to do with a slow growth in money supply in recent times. **However, it is not entirely correct. The creation of money supply is largely endogenous in Indian context, catering purely to low money demand. Our research shows that the increase in digital transactions post 2016 also played a critical role in the decline in money multiplier,** which has changed the composition of financial saving of households away from currency to some extent. In particular, there has been a substitution from currency and much of it has gravitated towards digital mode of payments.

## India Financial Sector : No relief on credit crunch - Credit Suisse

Credit crunch intensifies: 2Q witnessed loan growth dropping down to demonetisation lows of 6% as the NBFC lending pull-back (disbursements -36% YoY) was coupled with the slowdown in bank lending (8%). Even private banks' loan growth has dropped to 14% from 22% a year ago. PSU loan growth is down to 5% YoY from 8% in 1Q despite the large recap. Private banks' operating performance was stable, with expanding NIMs. Pretax profits were up 34% on back of higher treasury income.

Funding for NBFCs remains constrained. Over the past year, MFs have cut NBFC exposure by 30%. NBFCs tided over this largely through increased sell-downs and higher bank funding (+30% YoY). With most PSU banks' NBFC exposure now at 10-15% of their loan book, headroom for incremental funding is low. Debt markets continue to differentiate among NBFCs, with long-term bond funding still available to only a select few. For short-term paper, the spread on borrowing costs among NBFCs has widened to historic highs of 400 bp+ despite surplus liquidity. Recently, with divergent trends visible even for sell-downs from NBFCs, the funding options for the perceived stressed names have reduced further.

Corporate bank recovery on track. NPA additions for banks moderated in 2Q as noncorporate (agri/SME) moderated from the seasonal 1Q spike. Corporate NPA additions continued to trend down, though banks are still to recognise NBFCs in default as NPAs (0.2-0.5% of loans). Retail asset quality also continues to hold up well at both banks and NBFCs. Thus we continue to prefer HDFCB, ICICI, Axis, and IIB, and remain cautious on NBFCs.

## Why is Sensex rallying despite poor health of the economy? - ETMarkets.com (Nov, 7 2019)

NEW DELHI: Equity benchmark Sensex has been hitting fresh record highs on a daily basis even as high-frequency macro-economic data continued to show acute pain in the economy.
Sensex rallied for the seventh straight sessions to Monday but closed a notch lower on Tuesday. On Wednesday, it hit a new peak at 40,469, and added another 50 points in Thursday's morning trade to top the 40,500 mark.

This, even as latest data suggested a two-year low manufacturing PMI reading in October and a 19-month low services PMI reading for September. Auto stocks, which were on the forefront of market's revival last month on signs of early demand revival, have since lost momentum. But the benchmark index continues to rise. Analysts say expectations of more government measures to speed up economic recovery have been the prime market driver. History of three recent slowdowns in India suggests government intervention is a must for the economy to revive. In the ongoing slowdown, the government has already shown its intent to boost the economy by announcing a slew of measures and slashing corporate tax.

On Wednesday, Finance Minister Nirmala Sitharaman unveiled a Rs 25,000 crore AIF to help the distressed real estate sector. A day earlier, she said the government would soon use its strong electoral mandate to usher in the next wave of reforms,

and not to miss the bus this time. This commentary has made investors to expect more measures from the government in the coming days. “No downturn has reversed without government intervention,” Centrum Broking said in a research note. “But the magnitude of intervention varies given the severity of downturn and government’s ability to utilise the fiscal space,” it said.

The government did not compromise on spending during 2012-2013 slowdown, even as it reduced fiscal deficit sharply by nearly 1 per cent of GDP from 5.9 per cent to 4.9 per cent. On the monetary policy front, RBI slashed cash reserve ratio by 200 bps and repo rate by 100 bps during this period. Earlier during 2008-2009 global financial crisis, the government announced a complete waiver of loans for marginal farmers. An across-the-board 4 per cent in ad valorem CENVAT rate cut was also announced. “The government had accorded approval to 37 infrastructure projects worth Rs 70,000 crore alone and extended export credit for labour-intensive exports and improved pre- and post-shipment credit availability,” Centrum Broking said. Also, IIFCL was given the responsibility to refinance up to 60 per cent of commercial bank loan for PPP projects, involving total investment of Rs 1,00,000 crore over an 18-month period. RBI also cut CRR and repo rate by 400 basis points each, even as reverse repo fell by 250 basis points.

During the 2002-2003 agrarian crisis, corporate tax was cut to 40 per cent from 48 per cent, spending in public infrastructure was increased sharply by Rs 37,919 crore, and credit flow to the agriculture sector through institutional channels was increased to Rs 75,000 crore.

Many economists see GDP growth at sub-5 per cent in September quarter, and full-year growth anywhere but below 6 per cent. Data showed aggregate September quarter PAT growth for the 387 companies that have announced results so far is 17 per cent, led by financials, and largely helped by the tax cuts, which has balanced out the drop in tax growth at 14 per cent.

In the next wave of reforms, the Modi government is widely expected to tweak to income-tax rates, long-term capital gains (LTCG) and DDT, among others, to prop up the markets. “The stock market has high expectations of a cut in individual income-tax and/or GST rates. Several consumer-discretionary (automobile) stocks have rallied on the back of rising expectations of a fiscal stimulus to consumption. However, it remains to be seen if the government will further risk India’s fiscal position, given the continued weak tax revenues and likely Rs 1.45 lakh hit on corporate tax revenues,” said Kotak Institutional Equities.

Centrum Broking believes September quarter of FY2020 may be the bottom for India, as its study showed it takes on an average 2-3 quarters for an economy to normalise once government intervention starts, “We expect growth to rebound to normalised levels in Q1FY21-Q2FY21,” it said.

About 80 per cent of the gains that Sensex makes typically come in the two years following the general election, said Saurabh Mukherjea, Founder and Chief Investment Officer, Marcellus Investment. “Clearly, we are in an environment where the market is discounting economic reforms. And in spite of a weak state of the economy, the market is now focussed on other reforms that the people believe are

likely to be announced in the next six months or so. So it is land reforms, labour reforms, income tax cuts, potentially dividend distribution tax cuts that people are rightly focussing on. This is something we have seen in India before," Mukherjea told ETNOW.

The  corporate tax rate has already started reflecting in the second quarter earnings of India Inc. On the monetary policy front, RBI has cut the policy rate by 135 basis points since February this year. At 5.15 per cent, the repo rate is at lowest level since March 2010. "The government appears keener to revive investment demand. It may have to deliver follow-up reforms in areas of factors of production and general governance. India's ranking in 'Ease of Doing Business' has improved further, however, it still lags considerably in areas of contract enforcement, property registration, starting business and paying taxes," said Kotak Institutional Equities.

The recent tax cut has resulted in shifting 'tax paid' to 'profits' within corporate GVA. Besides, it has resulted in providing non-dilutive 'zero cost' growth capital and prospects of higher amounts of buybacks (and dividends), thereby improving EPS growth outlook and sentiment, said ICICI Securities.

## India Strategy : Privatize and Utilize - Kotak Institutional Equities, 6th Nov 2019

**Privatize and utilize.** The government may need to accelerate its privatization program including of the larger 'strategic' entities in the electric utilities and oil, gas & consumable fuels sectors to offset the sharp deceleration in tax revenues. As such, it does not have much leeway to raise funds from (1) 'normal' divestment; its stake has already fallen to around 51% in many cases and (2) other sources such as RBI dividends (already factored) and sale of natural resources (uncertain).

**Current slowdown has impacted tax receipts;** corporate tax cut to dent revenues further Gross tax revenues of the central government increased by a mere 1.5% yoy in 1HFY20 (see Exhibit 1) as GST collections remained stagnant (see Exhibit 2). However, expenditure grew by 14% yoy in 1HFY20. Government finances have been supported by a 92% increase in non-tax revenue collections (see Exhibit 3) due to RBI's hefty dividends in August 2019. However, the government's decision to reduce corporate tax rates will put further pressure on direct tax receipts. Thus, we model central GFD/GDP to be at 3.7% (see Exhibit 4) and consolidated GFD/GDP at 6.7% for FY2020E (see Exhibit 5) assuming divestment receipts of Rs1.05 tn.

**Limited room left for raising resources through divestments of CPSEs up to 51% :** The government has met a good part of its fiscal requirements through divestments of its stakes in PSUs over FY2014-19 (see Exhibit 6). However, we note the scope to raise funds through the divestment route is fairly limited as the government can only mobilize Rs1.4 tn (see Exhibit 7) by selling its direct exposure to listed entities up to 51% and Rs2.8 tn including indirect exposure through LIC and cross-holding of other PSUs (see Exhibit 8). As such, this route of revenue mobilization may run out in 1-2 years.

**Government has to focus on privatizing all non-strategic CPSEs:** The government has already taken a vital step towards privatization by deciding to sell its entire stake in BPCL, SCI and 30% of its stake in CCRI; it can raise around Rs750 bn (see Exhibit 9) at current

prices. However, it may have to explore full privatization of the larger central PSUs over a period of time to raise sufficient funds to meet its growing revenue and capital expenditure. In our view, very few companies can be considered strategic—even defense and resources entities are not really strategic given India's large reliance on imports. Nonetheless, we would assume the government may want to retain more than 51% stake in defense and resources PSUs. All other entities can be theoretically privatized through sale to (1) private companies or (2) institutional and retail investors. Exhibit 10 details our calculation of effective resource pool from complete divestment of non-strategic PSEs and partial (up to 51%) of strategic PSEs.

**Funds from privatization can meet India's burgeoning infrastructure requirement:** As discussed in our October 11, 2019 report on investment titled Hope, the government will have to fund the bulk of India's investment in electricity, mobility and water (see Exhibit 11 for our estimate of required investment in basic infrastructure over the next 10 years). The government has set an ambitious target of Rs100 tn of investment in infrastructure over the next five years. The private sector is unlikely to invest in basic infrastructure given both policy and pricing challenges.