BROKERAGE TAKE

INFLATION SET TO RISE, PEAK BY JUNE

THE debate on the re-emergence of macro stability risks has intensified because of rising headline inflation, widening trade deficits and also the budget announcement last week that the fiscal deficit targets for both FY18 and FY19 will be set wider than initially targeted. The central bank, at its latest monetary policy meeting, indicated that it expected headline inflation of 5.1 per cent in the March quarter, and that headline inflation would rise to 5.1-5.6 per cent in H1FY19, before moderating to 4.5-4.6 per cent in H2FY19.

Against this backdrop, the attention on the incoming monthly data will likely be on the inflation and trade deficit prints. The headline inflation moderated to 5 per cent in January (5.2 per cent previously) and the trade deficit narrowed to $12 billion ($14.9 billion previously). A sequential decline in high frequency food prices, a drop in gold imports and robust exports growth are the key drivers behind improvement.

Looking beyond January, we expect inflation to rise to a peak by June (driven by base effects in food inflation and impact of house rent allowance) and the current account deficit will widen on the back of an uptick in investment. Our assessment remains that the starting point of core inflation and current account deficit is providing some buffer, but we do think moderate risks are emerging on account of the wider-than-targeted fiscal deficits. To assess the risks to macro stability, we are watching oil prices, impact of potential minimum support price hikes for kharif crop, trends in government expenditure growth and rural wage growth.

Finally, our base case assessment is that RBI will hike rates in Q4FY18. But considering that we see upside risks to our inflation forecasts, risks are also tilting towards an earlier-than-expected rate hike.

– Morgan Stanley

Bank of Baroda

Strong improvement on all major operating matrix clearly suggest that BoB's transformation effort is paying off in right direction. Analysis of stressed assets suggests that the bank is approaching the end of recognition of stressed loan cycle, which along with higher PCR indicates sharp moderation in credit cost from FY19 onwards. Recently announced mega recapitalisation scheme is a long-term positive for the public sector banks in general. The bank's new management is gradually reinstating confidence through major changes in operating structure, which may start yielding desired outcome. Improved outlook on asset quality and operating performance augur well for the bank. We maintain our positive stance on the bank and will come out with detail update after analyst meet.

Result were above our expectation on operating profit (Rs 36.5 billion, + 40.6 per cent YoY and +20 per cent QoQ) front led by the strong growth in net interest income (Rs 43.9 billion, + 40.2 per cent YoY and +18.1 per cent QoQ) along with relatively muted increase in operating expenditure (Rs 24.1 billion, + 4.4 per cent YoY and + 0.1 per cent QoQ). Domestic NIM's improved by 56 bps QoQ to 3.24 per cent in Q3FY18 led by the 21 bps decline in cost of deposits along with 20bps increase in yield on advances. Global NIMs improved by 41 bps to 2.72 per cent.

Global advance grew by 14.1 per cent YoY led by the 16.4 per cent YoY increase in domestic advances. Overall growth in domestic advances was led by 33.4 per cent YoY growth in retail advances.

However, strong growth in operating profit does not percolate down to bottom line as the higher credit cost on the corporate portfolio along with MTM loss on non HTM portfolio negatively impacted th bottom line.

– Reliance Securities

Future Consumer

The company reported a healthy revenue growth of 42.1 per cent YoY in Q3FY18, sequentially growth was 4.5 per cent QoQ. Gross margins to our surprise decline 30 bps YoY to 13.7 per cent a function of unfavorable mix and rising input cost. But operating performance was strong with Ebitda margins at 2.1 per cent (+150 bps YoY) aided by prudent other expenditure that grew by 18.6 per cent YoY. FCL's loss before tax reduced to Rs 31 million during the quarter against a loss of Rs 113 million in corresponding period of the previous year. Cash profit generation was strong at Rs 75 million, third consecutive quarter of cash profit generation. Store distribution expansion continues to be aggressive with ~80K stores and expansion of 2.8x YoY. FCL has approved the sale of investment of Amar Chitra Katha at an equity value of Rs 600 million. We expect FCL to grow at healthy sales CAGR of 44 per cent over FY17-20E. Increased penetration and contribution of higher margin brands will help improve profitability as well. We expect gross margins to expand by 271 bps over the same period and expect FCL to turn PAT positive by FY19. We value the company at 2x FY20E Sales and have a 'neutral' rating with revised TP of Rs 68.

– Yes Securities

Prestige Estates

The company's Q3FY18 operations were stable sequentially as it maintained sales from ongoing projects. Pre-sales volume was reported at 0.8msf while sales value at Rs 5.2 billion (flat QoQ). Around 45 per cent of sales were contributed by completed inventory. Collection improved to Rs 9.5 billion against quarterly average of Rs 9 billion. While, no projects were launched as company faced longer approval cycle, net debt increased by Rs 2.1 billion to Rs 58.1 billion primarily on annuity capex. We expect the debt to rise further on back of share purchase agreements (Rs 4.4 billion) and annuity capex. PEPL entered into a residential platform with HDFC Capital to get exposure in various geographies through opportunistic land acquisitions. Restructuring and portfolio additions will be key monitorables going forward. We maintain 'buy' with TP of Rs 300 as annuity book gives us comfort on valuation. But prolonged weak demand and rising yields remains the key risks.

– JM Financial