

SEPTEMBER 2019

BWR दृष्टिकोण

www.brickworkratings.com



SEBI Registered
RBI Accredited
Credit Rating Agency

Government's stimulus to help economy to revive

September 2019

Falling GDP growth suggests further moderation in economic activity

The recent Q1 2019-20 data on GDP shows deepening concerns on the growth front, but the host of measures announced recently is expected to help in combating slowdown with renewed prospects.

The month started with RBI MPC reducing the key policy rates by an unconventional 35 basis points to 5.4% on August 7, 2019. Finance Minister announcing measures to reboot the economy on 23rd August based on RBI agreeing to transfer a record surplus to the government following the Expert Committee's recommendations renewed the economic sentiments. The amalgamation of the 10 public sector banks (PSBs), along with the implementation of the specific measures on governance reforms also is expected to improve the performance of the PSBs on a sustainable basis.

As against the broadly perceived view that rate cuts help to revive investments and provide consumption push to the economy, the Q1 2019-20 estimates indicates barely any signs of recovery suggesting weakening of both domestic and external demand conditions. So far in 2019, Monetary Policy Committee (MPC) reduced repo rates by 110 basis points cumulatively. Yet, most of the indicators show stagnant economic activity, particularly the bank credit growth not accelerating at a faster pace. This is also due to weak manufacturing activity as automobile sales, cement and transport and communication sectors are still experiencing hardships. The virtual stagnancy is also reflected in both Index of Industrial Production (IIP) (growth down to 2% in June) and the Eight Core industries (growing at 2% in August). Amidst these depressing scenarios, benign inflation rate is the only silver lining providing room for further rate cut hopes. Nevertheless, easing core inflation points to a slump in consumption demand in the economy which is driving low inflation.

Easing crude oil prices brings some respite but depreciating rupee fosters additional concern, which is largely vulnerable to external factors.

Despite the consecutive policy rate cuts by MPC, the transmission of rate cuts by banks (on fresh rupee loans) is at just 29 basis points compared to a combined repo rate cut of 75 bps during Jan to June 2019, as mentioned by RBI in its August policy review. The critical issue of transmission of the rate cuts needs to be addressed soon. Many banks have started reducing their MCLR by 5 to 15 basis points for different tenors after the RBI slashed rates by 35 basis points in the August MPC. Considering that the impact of monetary policy on the Indian economy comes with a lag, the recent rate cuts by RBI will have little impact on reviving the credit scenario immediately. However, going forward, prospects for the domestic economy depends on the government's focus on supporting the distressed sectors like automobiles, real estate, etc., and boosting aggregate demand, especially private investment to address growth concerns.

Contacts

Rajat Bahl
 Chief Analytical Officer
 +91 22 67456634
rajat.b@brickworkratings.com

Anita Shetty
 Research Editor
 +91 22 67456633
anitashetty@brickworkratings.com

Ria Matwani
 Research Editor
 +91 22 67456675
ria.m@brickworkratings.com

Praveen Pardeshi
 Research Analyst
 +91 22 67456681
praveen.p@brickworkratings.com

IN THIS ISSUE...

Macro Indicators

- Economy Trends
- Performance in Core Industries and IIP
- Inflation and Bank Credit
- Crude oil Prices and INR/USD rates
- Balance of Trade
- Forex Reserves and Import Cover

Sectoral Indicators

- Automobiles
- Telecom
- Power
- Coal
- Steel
- Cement
- Airlines

Debt Market Indicators

- G-sec Yields with Corporate Bond Yields, Bank MCLR
- G-sec Yields with Crude Oil Prices

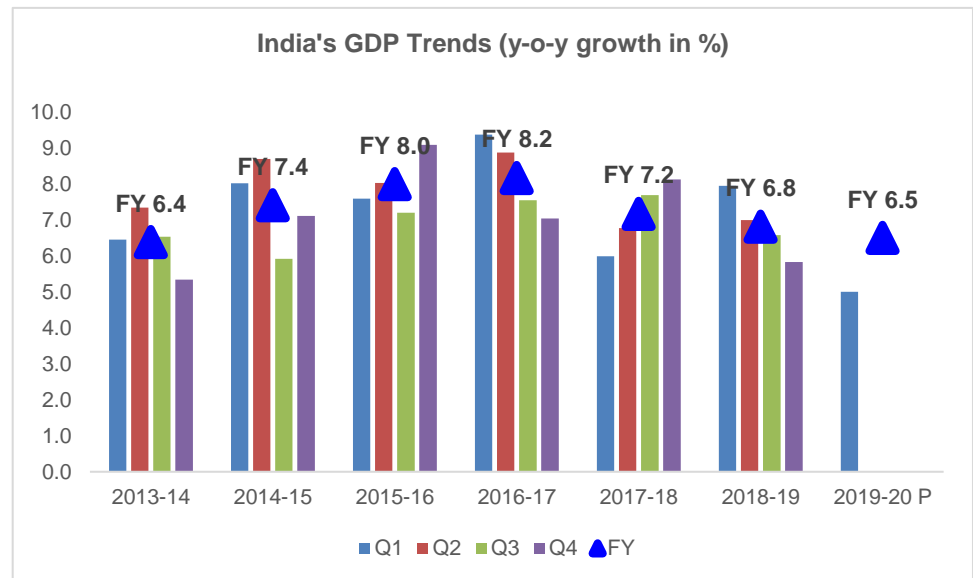
MACRO-ECONOMIC INDICATORS

Economy trends

BWR Views

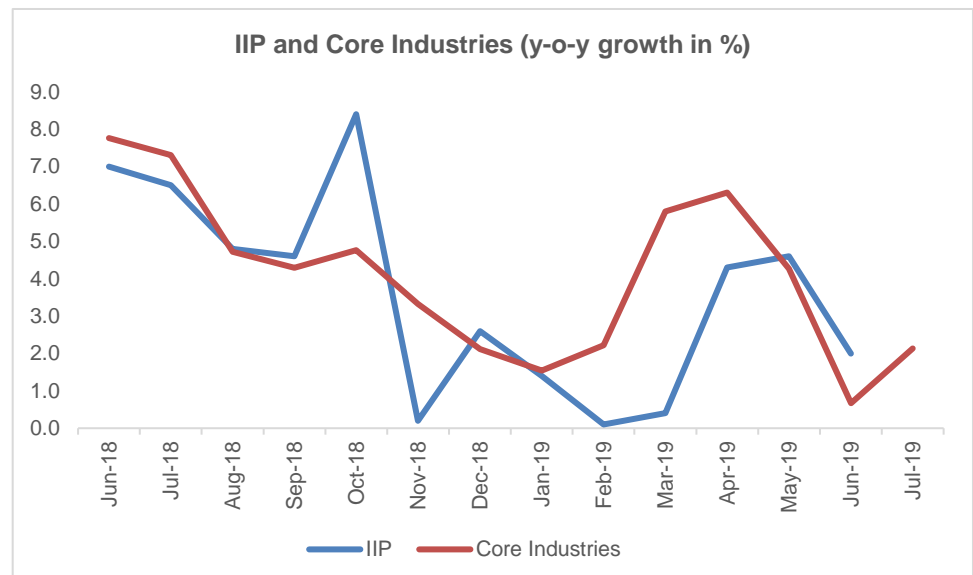
After registering 8% growth in Q1 of 2018-19, domestic economy lost momentum and continued with declining growth throughout 2018-19. The disappointing growth in the Q1 2019-20 presents serious doubts on the possibility of the economy to grow at 7% or 6.9% projected in the Economic Survey and the RBI. The indicators are that the second quarter too may not see any significant improvement, hence the full year growth is likely to be around 6.5%.

Weak quarterly GDP growth hints at a gradual weakening of the economic growth prospects in India for the current fiscal. The growth rate in the first quarter of 2019-20 came in 5%, almost 3 percentage points lower compared to the corresponding period last year. Domestic economy slowed to 6- year low as can be seen in the charts below, further most of the macro indicators also reflect a slowdown in economic activity.



Source: MOSPI, BWR Research

Performance in Core Industries and IIP



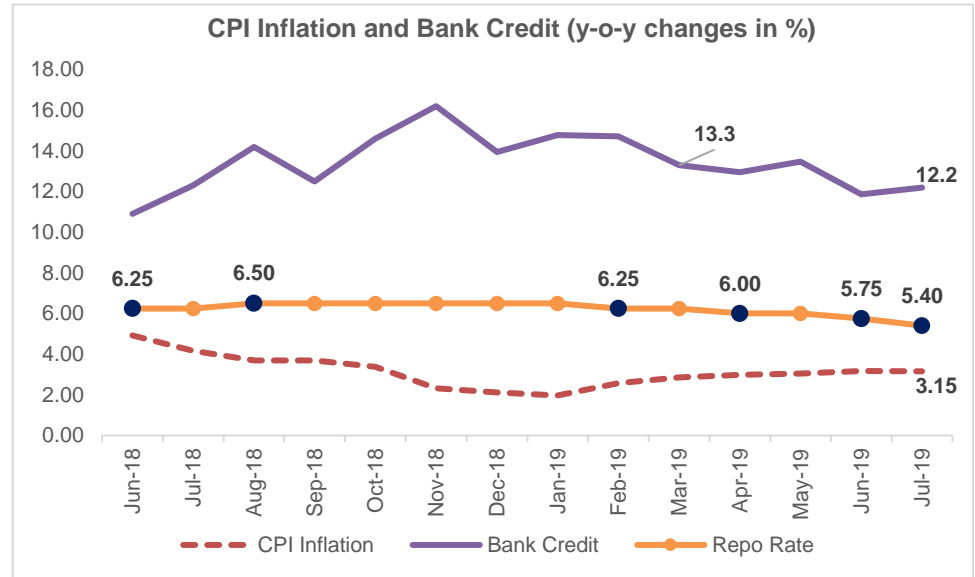
Source: MOSPI, eaindustry.nic.in, BWR Research

BWR Views

The decline in crude oil prices is likely to continue and the inflation to remain within the mid-point of MPC range. Benign inflation and accommodative monetary stance is expected to revive credit growth which has otherwise remained muted so far in 2019, witnessing poor transmission of rate cuts. The recent rate cut by RBI MPC expected to increase the flow of credit to industries but, transmission of rate cuts by banks takes some time, as the impact of the monetary policy on the Indian economy comes with a lag.

Inflation and low bank credit growth

CPI inflation softened to 3.15% in July on the back of falling fuel prices, providing further support to an accommodative monetary policy. RBI MPC cut repo rate by an unconventional 35 basis points in its August 2019 MPC review. However, the pace of credit growth, which continues to be at around 12%, is still not satisfactory despite the cumulative 110 basis points cut in policy rate since February 2019.



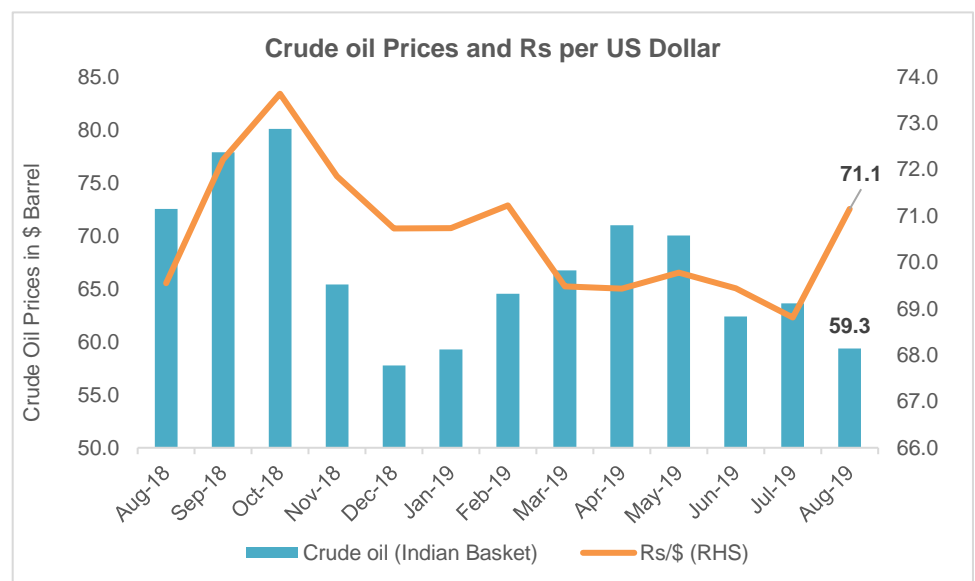
Source: MOSPI, RBI, BWR Research

BWR Views

The Indian rupee is vulnerable to both domestic and global factors like FPI flows, oil prices, US dollar's strength and growth concerns. India has experienced this several times in the past. Recent foreign portfolio outflows from the Indian market and growth concerns expected to keep the rupee under pressure in the near future. The rupee is likely to depreciate further in the coming months.

Crude oil Prices and INR/USD rates

Despite fall in crude oil prices, the domestic rupee depreciated by 3.3% in August 2019 over the previous month. Domestic economic growth concerns coupled with huge FPI outflows and strengthening US dollar dented the currency market sentiments and the rupee moved in the range of Rs 69.05 to Rs 71.76 per USD during August 2019.



Source: Ministry of Petroleum & Natural Gas, FBIL, BWR Research

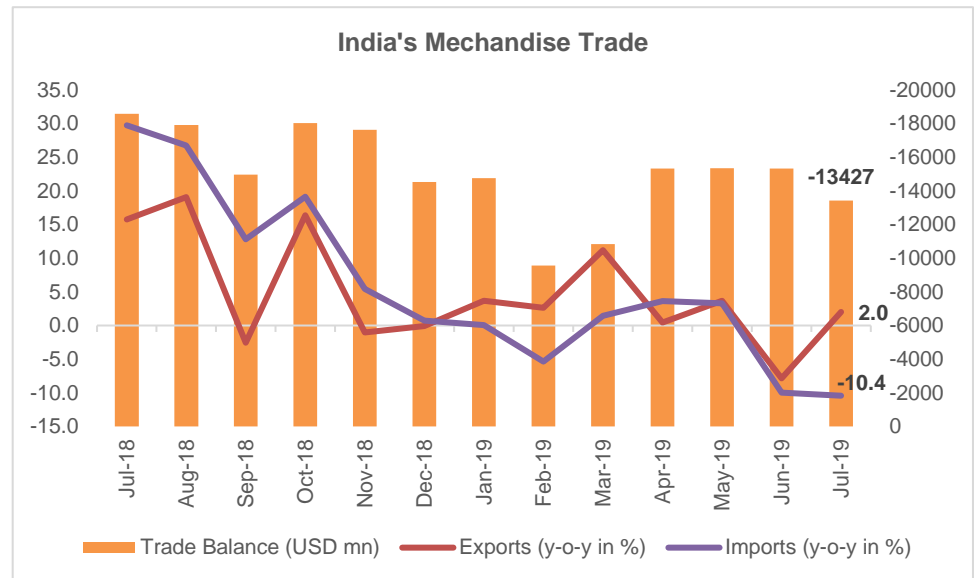
BWR Views

Fall in crude oil prices helped a lower trade deficit in July 2019. If the trend continues this would help the economy to manage fiscal situation and current account deficit well in 2019-20.

The depreciating rupee may pose

Merchandise trade

The trade deficit narrowed down by 28% (y-o-y) during July 2019 to USD 13.5 billion as imports fell by 10% (in value terms) over the year on account of reduction in both gold and crude oil imports. Merchandise exports increased marginally compared to last year as huge reduction in re-exports of petroleum products and non-petroleum products resulted in fall in export value of goods.



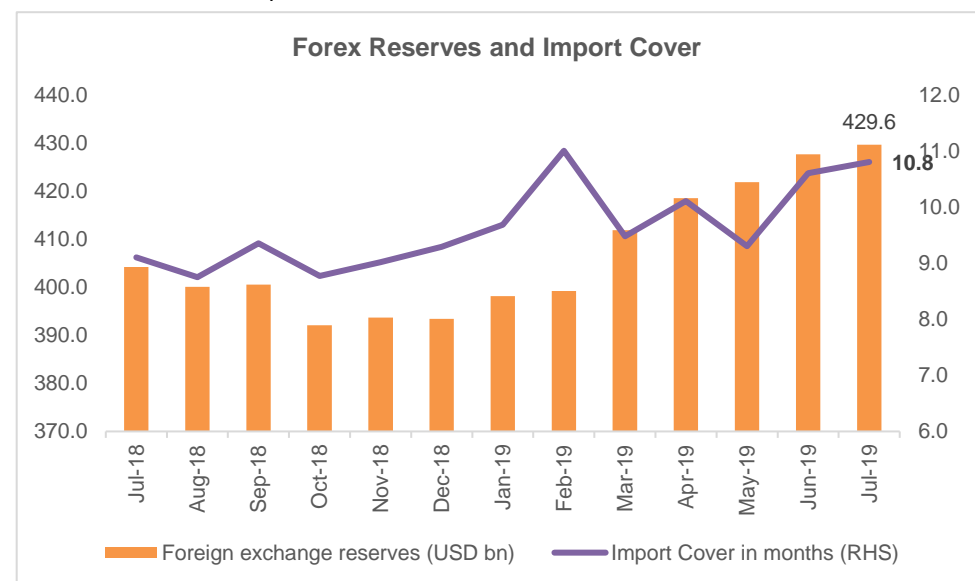
Source: Ministry of Commerce, BWR Research

BWR Views

Adequate forex reserves reflect country's ability to absorb external shocks. With the recent fall in rupee, RBI may intervene in the forex market, which is likely to drain forex reserves to some extent.

Forex Reserves and Import Cover

Foreign exchange reserves swell by \$25 billion to \$430 billion towards the end of July 2019 compared with a year ago reserves position. The current level of Forex reserves is sufficient to cover 10.8 months of imports.



Source: Ministry of Commerce, RBI, BWR Research

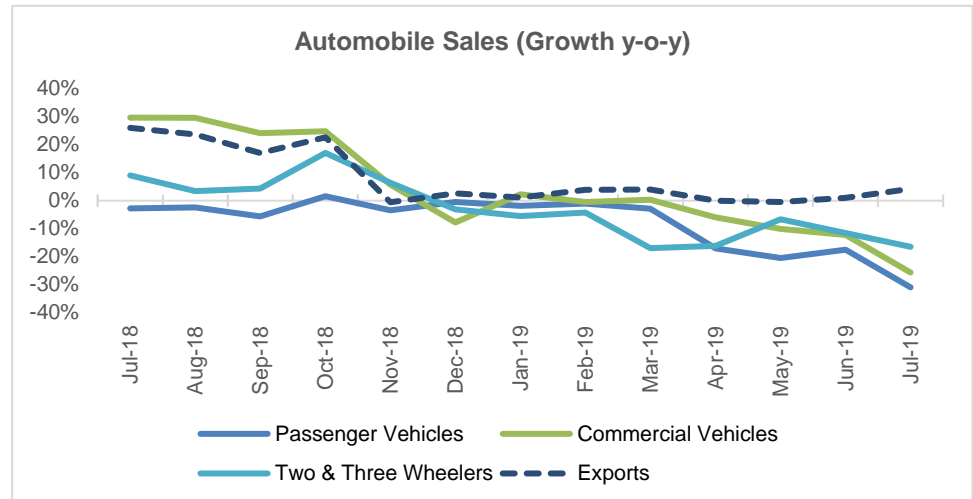
SECTORAL INDICATORS

Automobiles

BWR Views

Vehicle sales are expected to remain under pressure till H1 FY20, post which sales might see an uptick due to pre-buying by fleet owners before the BS-VI norms kick in from FY21 and also on account of government measures announced to boost automobile demand.

Domestic automobile sales fell by 19% y-o-y in the month of July 2019 driven by weak sales across all the segments. High cost of ownership due to increased insurance cost has hampered the passenger vehicles and two-wheeler sales. Revised axle norms and financing issues due to NBFC crisis have hit the commercial vehicle sales. Customers in all segments seem to be postponing buying decisions in anticipation of GST cuts, resulting in low footfalls at dealerships.



Source: CMIE, BWR Research

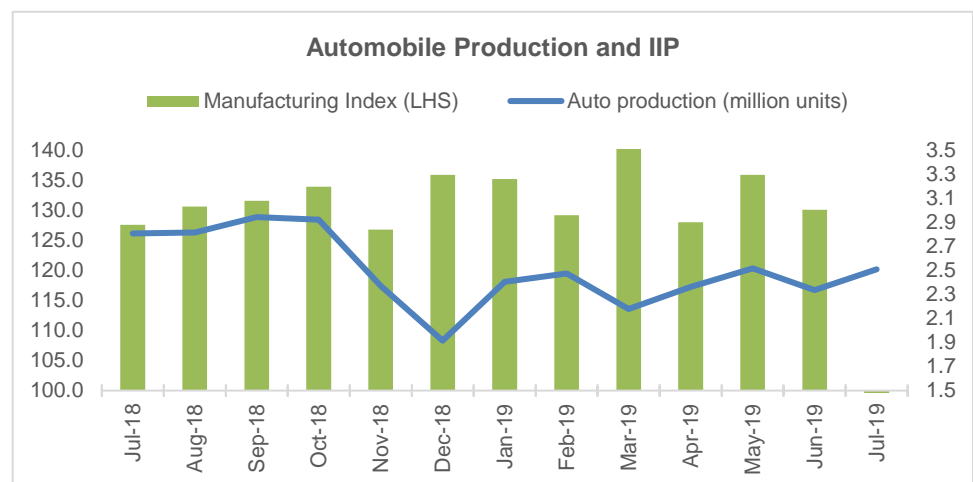
Several measures were announced by the government in order to address the slump in automobile sales like deferring the increase in registration fees till June 2020, allowing BS-IV vehicles to remain operational for the entire period of registration, hiking depreciation benefit on all vehicles to 30% from 15% and reversing ban on government purchases.

Manufacturing Index and Automobiles

Domestic automobiles production declined by 11% y-o-y in the month of July 2019 due to production cut downs by manufacturers on account of huge inventory build-up occurring from falling sales. Slowdown in auto production is in line with overall decline in manufacturing index. This has also adversely affected the ancillaries and automobile dealers.

BWR Views

Slowdown in vehicle sales has resulted in huge inventory build-up. Therefore, production cut down is expected to continue in the coming months until inventory at the dealer level eases. Announcement of GST cuts before the festive season could help revive the sentiments.



Source: MOSPI, CMIE, BWR Research

Telecom

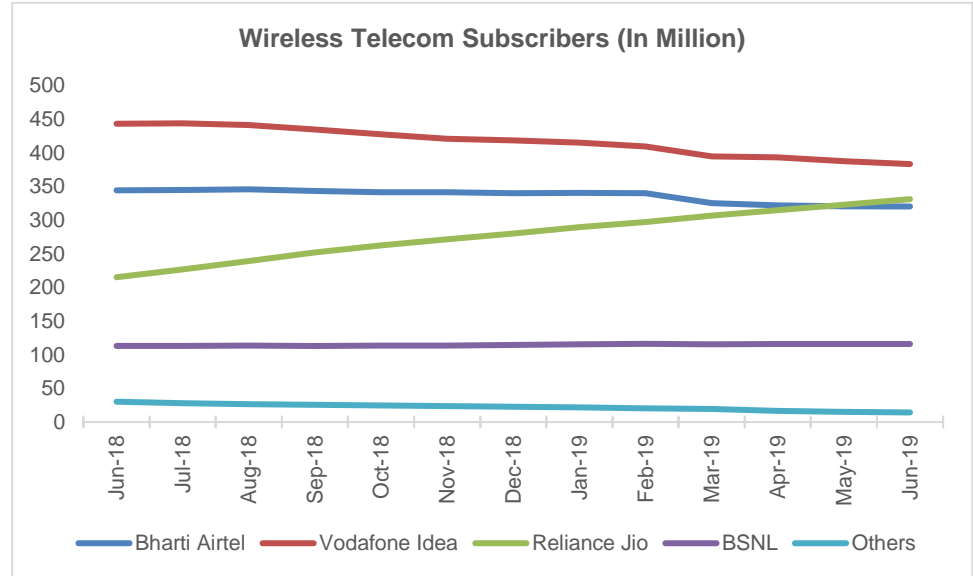
BWR Views

Reliance Jio is expected to increase its market share going forward. Players to continue to feel pressure on their profitability.

Vipula Sharma
(Director - Ratings)
vipula.s@brickworkratings.com

Aakriti Sharma
(Asst Manager - Ratings)
aakriti.s@brickworkratings.com

Consolidation of the market continues with Jio increasing its market share and driving the overall subscriber additions in the sector. As on June 30, 2019, the market share of Vodafone-Idea was 32.9% followed by Reliance Jio at 28.4% and Bharti Airtel at 27.5%. Reliance Jio overtook Airtel to become the second largest telecom carrier in India in May 2019. While, Reliance Jio has been substantially adding new subscribers, the same for Airtel has been very slow and in contrast Vodafone-Idea has been losing subscribers.



Source: TRAI, BWR Research

The sector currently has only three major players who have all recently declared their Q1 FY20 results which are not encouraging for the sector as a whole. While, Reliance Jio continues to be profitable, it has been reporting declining ARPU for the last 7-8 quarters. On the other hand, Airtel and Vodafone are struggling with significant losses and falling subscriber base.

Bharti Airtel has bounced back with measures to take on its aggressive competitor Reliance Jio. Airtel launched its own set top box on the Xtreme platform to counter the plans of Jiofiber however, the recently launched Jiofiber has already picked the interest of fibre based broadband users who were primarily using the services local broadband service providers. Reliance Industries during its AGM also highlighted an action plan to reduce the group's overall debt size. This would give Jio more flexibility and enable it to continue the low tariffs for a longer time than previous estimates.

Power

BWR Views

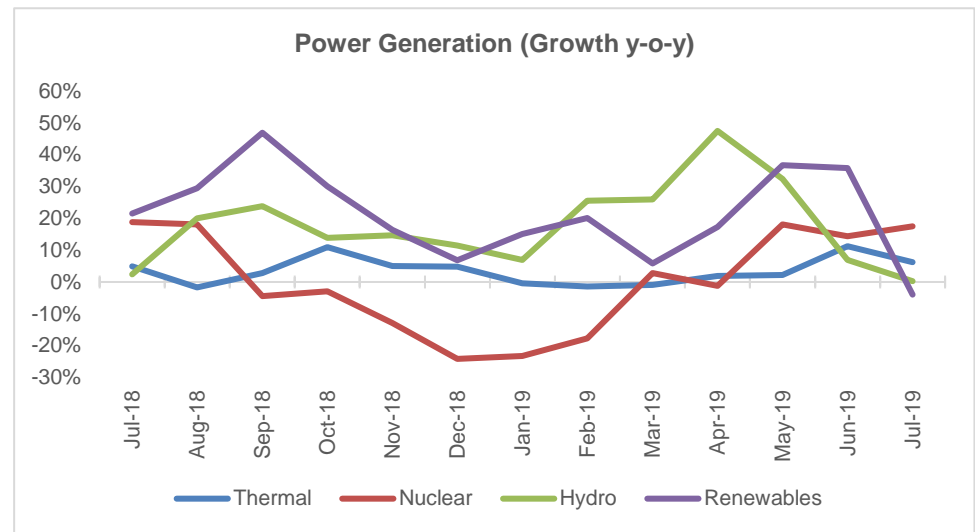
Power sector may continue to witness stress due to stalled projects.

Power generation grew by 4.5% y-o-y in July 2019 despite a slump in industrial activity in the country. This growth is on account of expansion of access in the power sector as large number of households are added to the electricity network for the first time. While, conventional power sources recorded a growth of 5.7%, renewable sources witnessed a decline of 4% y-o-y in July 2019. Although, the Government has been promoting and incentivizing to set up renewable energy plants, the investor sentiment has been consistently declining.

Investment in the renewable energy sector has bottomed out on the fear of uncertainty related to Power Purchase Agreements (PPAs). Bidding for new projects has reduced drastically as the international investors have turned cautious.

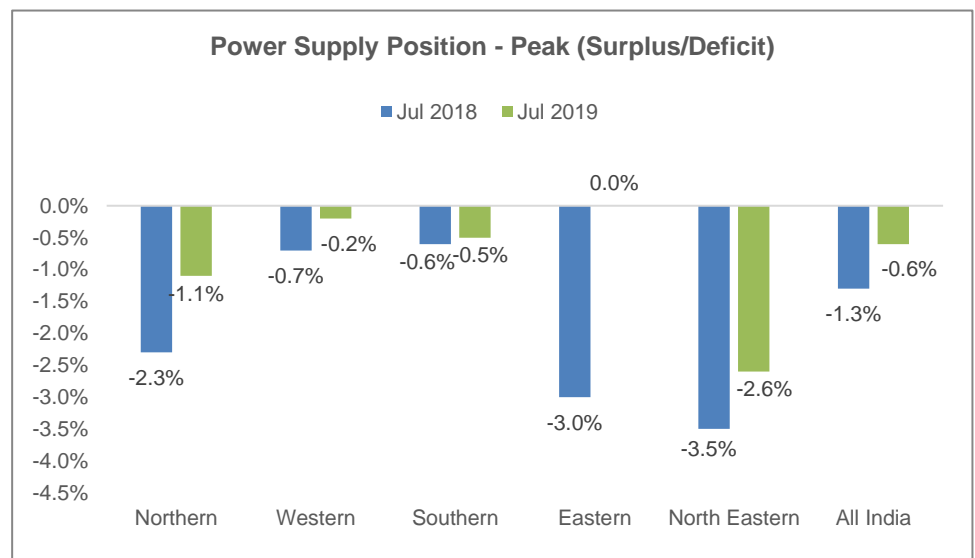
Vipula Sharma
(Director - Ratings)
vipula.s@brickworkratings.com

Aakriti Sharma
(Asst Manager - Ratings)
aakriti.s@brickworkratings.com



Source: Central Electricity Authority, BWR Research

India's power supply position improved in July 2019, but country is still not a power-surplus nation. The deficit is primarily due to DISCOMS stressed financials on account of its mounting losses and huge debt burden.



Source: Central Electricity Authority, BWR Research

BWR Views

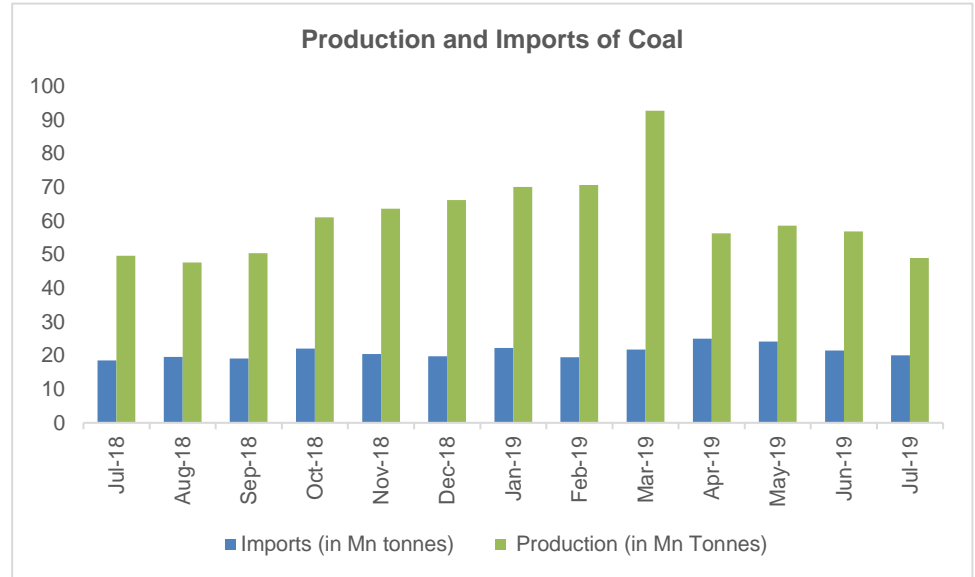
In the domestic market, coal-fired power generation capacity is expected to rise due to increase in demand and lack of alternative fuels by power generation companies. The central government is planning to auction more than 41 new coal blocks soon to augment this demand. However, no light seen for the distressed power generators who have stopped producing any power or have low PLFs.

Vipula Sharma
(Director - Ratings)
vipula.s@brickworkratings.com

Shashank Joshi
(Rating Analyst)
shashank.j@brickworkratings.com

Coal

India imports nearly 20 million tonnes of coal compared to 60 million tonnes of domestic production on an average. During July 2019, domestic production of coal declined by 1% whereas imports have risen by 8% y-o-y. Globally, coal prices have been declining since July 2018, due to weak global growth and lower demand.



Source: CMIE, eaindustry.nic.in, BWR Research

In a recent development, the Union Cabinet has approved the proposal for review of Foreign Direct Investment (FDI) in various sectors on 28th August 2019. In the coal Sector, the new policy envisages for sale of coal, 100% FDI under automatic route for coal mining including associated processing infrastructure which will attract international players to create an efficient and competitive coal market. Coal fired power plants account for approximately 70% of India’s electricity generation. Apart from electricity there are other industries which use coal as input like steel and cement. These changes in FDI policies will result in making India attractive FDI destination.

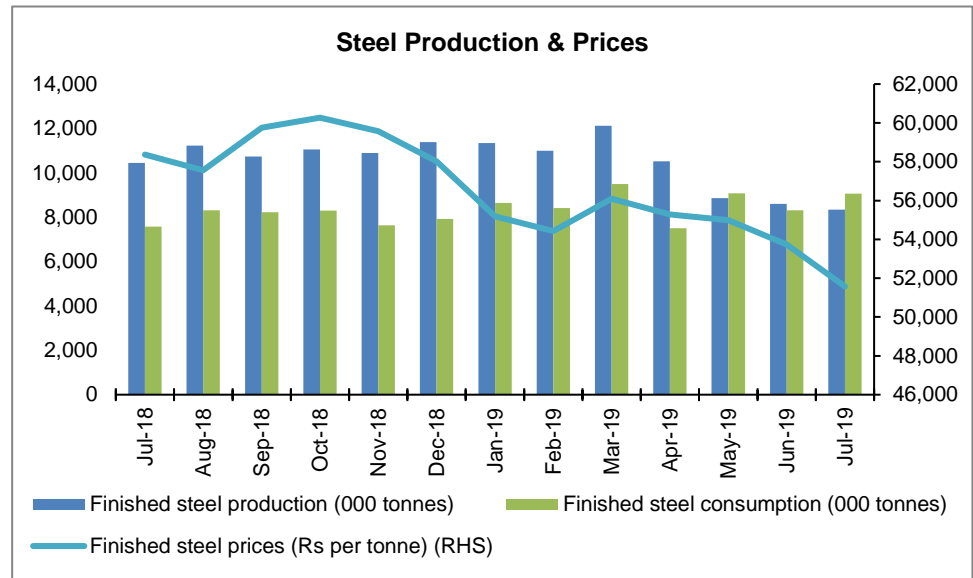
BWR Views

The ongoing distress in the automobile and real estate sectors curtailed the demand for steel. Global issues continue to weigh on prices since outlook for the sector continues to remain weak. However, the sector is expected to improve gradually, following Governments push for infrastructure development and its emphasis on investing Rs 20 lakh crore every year which is likely to boost steel consumption. The recent announcement to encourage greater investment in coal, which is an essential raw material for steel, is also a positive for the sector.

Vidya Shankar
 (Senior Director - Ratings)
vidyashankar@brickworkratings.com

Steel

Domestic steel prices are on a declining trend after October 2018 owing to subdued industrial activity in the country visible in declining infrastructure & construction activity and lower automobile sales. Steel prices in the international market is also weak on account of deceleration in global steel demand especially China.



Source: CMIE, BWR Research

BWR Views

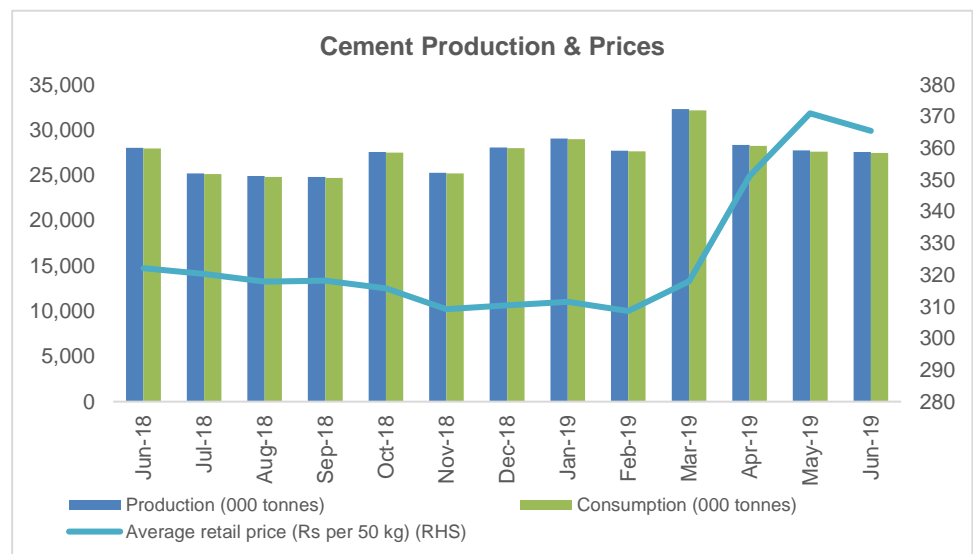
With the continuous focus of the Government on infrastructure and affordable housing, the cement demand is expected to witness an increase from H2 FY20. Various cement manufacturers have been adding capacities to meet the incremental demand and the same is likely to keep the prices stable

Vipula Sharma
 (Director - Ratings)
vipula.s@brickworkratings.com

Aakriti Sharma
 (Asst Manager - Ratings)
aakriti.s@brickworkratings.com

Cement

Cement prices have started correcting from June 2019 after witnessing a sharp increase in April & May 2019 as dealers have raised the prices in anticipation of healthy demand going forward. As expected, the prices started coming down reflecting weak demand.



Source: CMIE, BWR Research

BWR Views

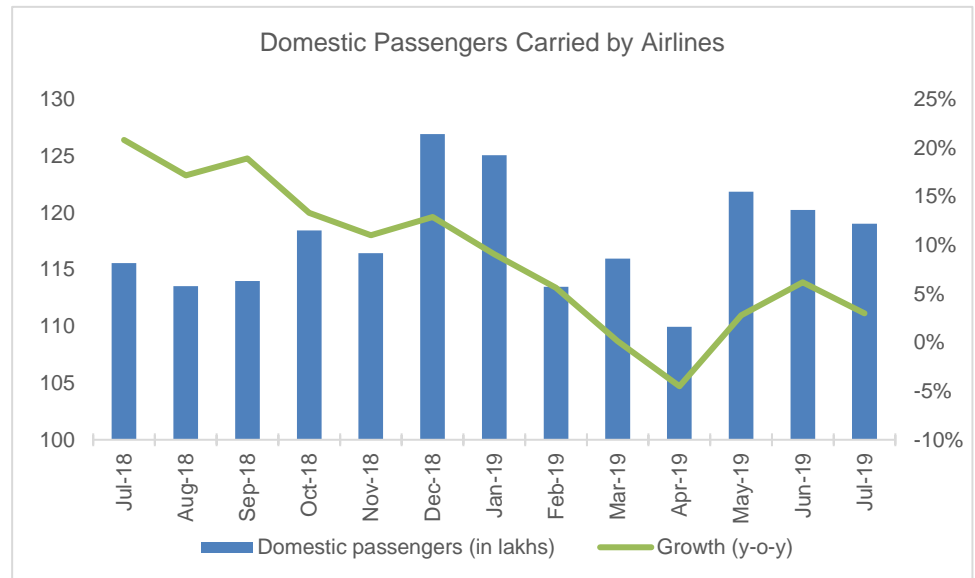
Domestic air passenger traffic in India is expected to grow in the single digits this fiscal, mainly because of a capacity shortage caused by the grounding of Jet Airways.

Vipula Sharma
(Director - Ratings)
vipula.s@brickworkratings.com

Shashank Joshi
(Rating Analyst)
shashank.j@brickworkratings.com

Airlines

Domestic air passengers grew by 3% y-o-y in the month of July 2019. The revival in growth started from May 2019 after a decline in April 2019 and a slowdown since the start of the year. This revival in growth was aided by capacity additions by the players and also due to other airlines redeploying grounded aircraft of Jet Airways.



Source: DGCA, BWR Research

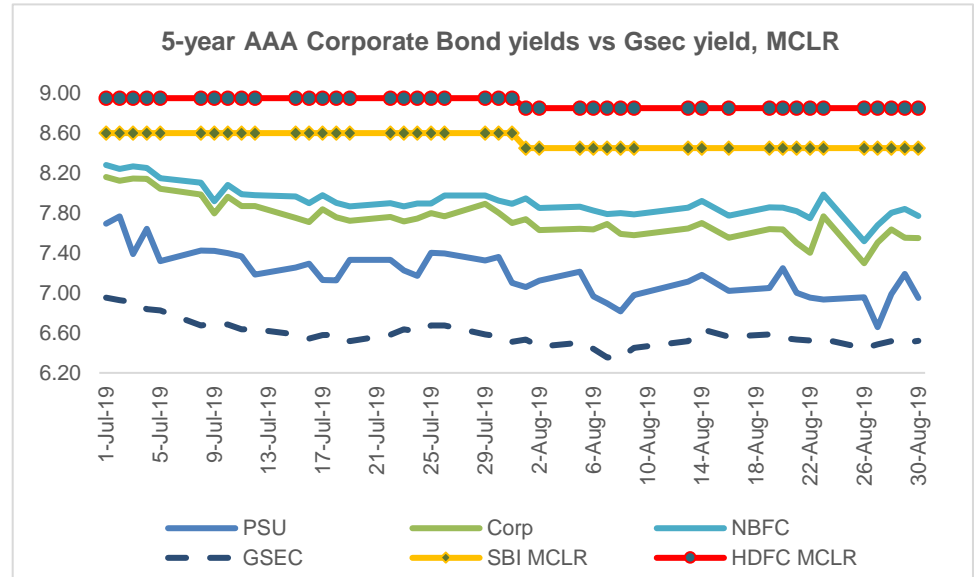
DEBT MARKET INDICATORS

Movements in Bond Yields

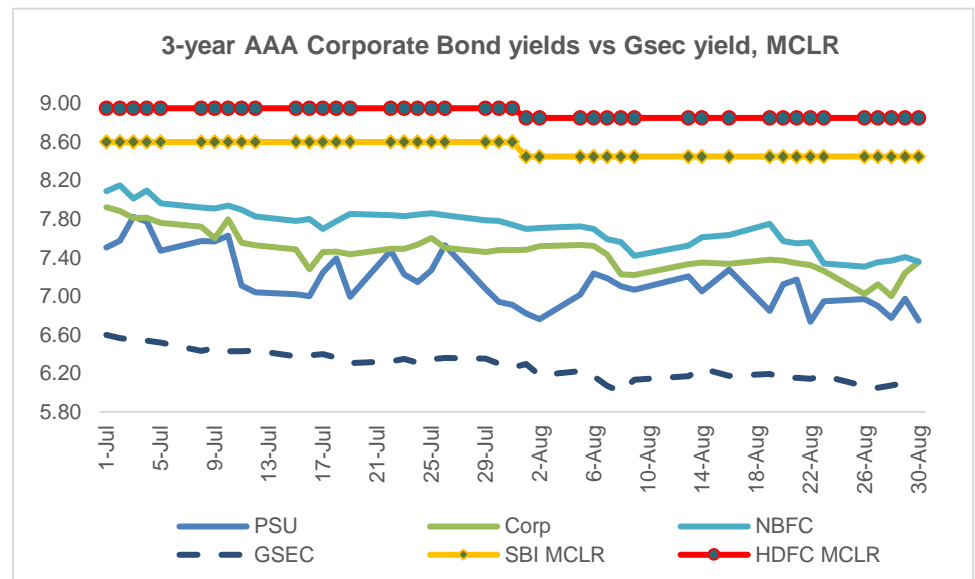
BWR Views

Yields of shorter tenor corporate bond have eased due to various reforms announced by the Finance Minister to improve the economic growth even as RBI's decision to transfer surplus to Government of India led to easy liquidity in the bond market. Also, expectation of RBI's easing rate cycle continues to weigh on the movements in bond yields.

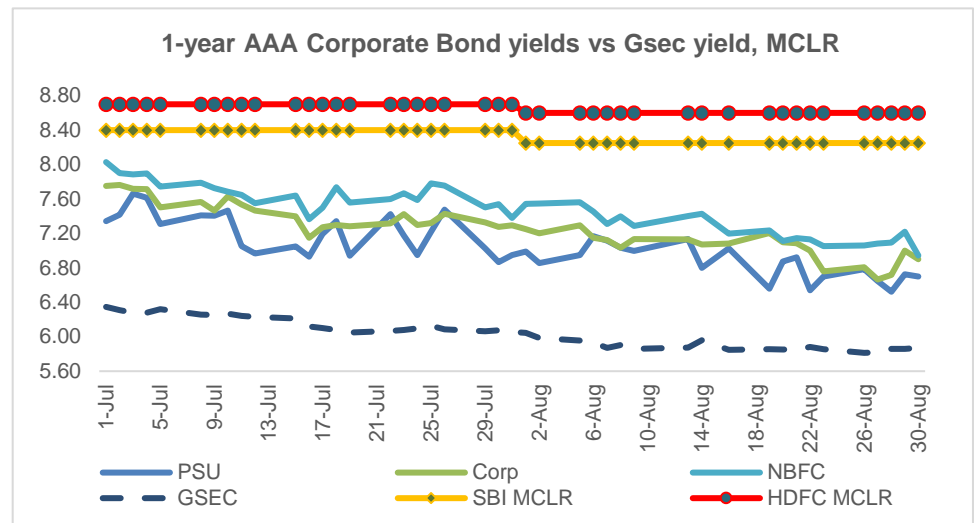
Bond yields (annualised) of Public Sector Units (PSUs), Corporates and Non-Banking Finance Companies (NBFCs) maturing in 5-year, 3-year and 1-year period with corresponding Government Securities and Bank Marginal Cost of funds based Lending Rate (MCLR) are provided below.



Source: FIMMDA, SBI, HDFC, BWR Research



Source: FIMMDA, SBI, HDFC, BWR Research



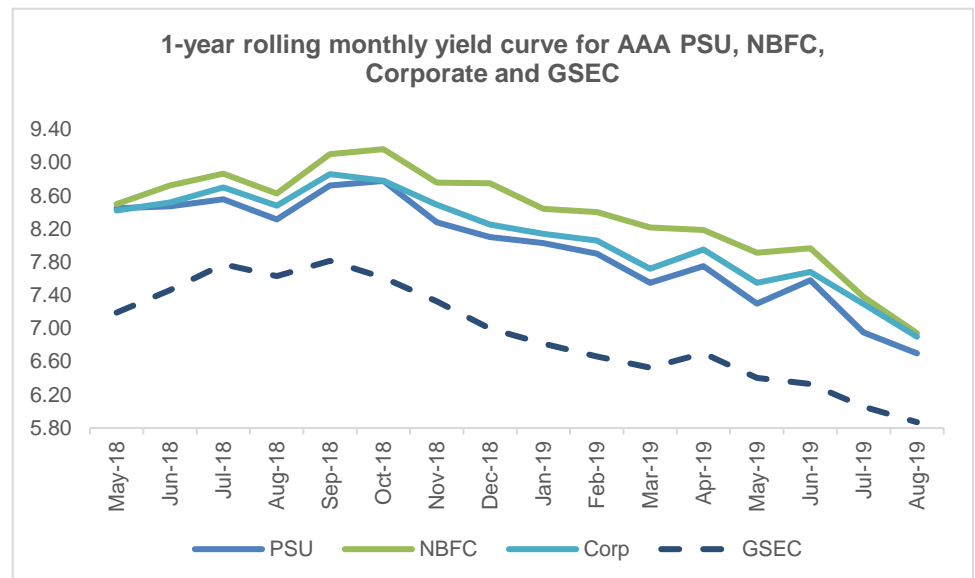
Source: FIMMDA, SBI, HDFC, BWR Research

The yields of AAA rated corporate bonds maturing in 5-year, 3-year and 1-year have eased by 51-74, 57-76 and 64-109 basis points respectively in the month of August compared to July due to better liquidity in the bond market due to various measures announced by Finance Minister Nirmala Sitharaman to revive the growth of economy along with RBI's decision of transferring the surplus worth Rs 1,76,051 crores comprising of Rs 1,23,414 crores surplus and an additional Rs 52,637 excess contingency provisions .

The bonds across the said categories witnessed improving investor sentiments on the back of anticipation of further monetary easing policy.

Monthly yield curve of AAA PSUs, NBFCs, Corporates and G-sec

The monthly yields of G-secs maturing in 1 year compared with Corporate bonds yields of PSUs, NBFCs and Corporates with similar maturity time buckets have witnessed downward trend due to softening of interest rates post RBI-MPC repo rate cut and various measures announced for growth revival. This is expected to lower the cost of borrowing for Issuers.

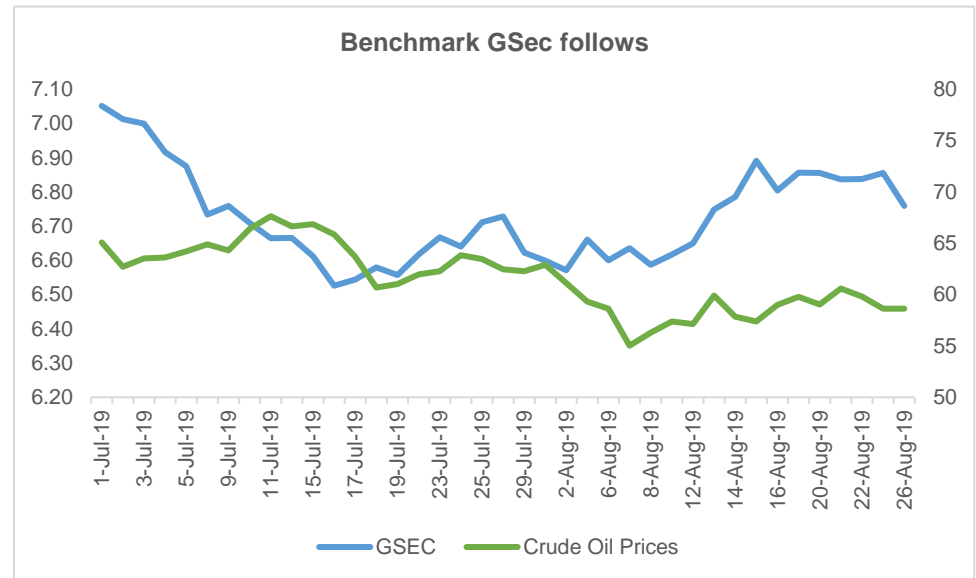


Source: FIMMDA, BWR Research

The recent fall in Brent Crude oil prices has reflected in the easing of yields, thereby, boosting positivity in the bond market. The average crude oil prices saw a sharp fall in the month of August to USD 58.80/ barrel as against previous month's average of USD 63.97/ barrel. The crude oil prices have witnessed a major fall of USD 5.17/ barrel in August.

BWR Views

Recent sharp fall in the crude oil prices helped easing domestic yields. Global cues along with domestic cues continue to influence the Indian bond market yields.



Source: U.S Energy Information Administration, BWR Research

BRICKWORK RATINGS (BWR) IS INDIA'S HOME GROWN CREDIT RATING AGENCY BUILT WITH SUPERIOR ANALYTICAL PROWESS FROM INDUSTRY'S MOST EXPERIENCED CREDIT ANALYSTS, BANKERS AND REGULATORS. ESTABLISHED IN 2007, BRICKWORK RATINGS AIMS TO PROVIDE RELIABLE CREDIT RATINGS BY CREATING NEW STANDARDS FOR ASSESSING RISK AND BY OFFERING ACCURATE AND TRANSPARENT RATINGS. BRICKWORK RATINGS PROVIDES INVESTORS AND LENDERS TIMELY AND IN-DEPTH RESEARCH ACROSS THE STRUCTURED FINANCE, PUBLIC FINANCE, FINANCIAL INSTITUTIONS, PROJECT FINANCE AND CORPORATE SECTORS. BRICKWORK RATINGS HAS EMPLOYED OVER 350 CREDIT ANALYSTS AND CREDIT MARKET PROFESSIONALS ACROSS 8 OFFICES IN INDIA. OUR EXPERIENCED ANALYSTS HAVE PUBLISHED OVER 12,000 RATINGS ACROSS ASSET CLASSES. BRICKWORK RATINGS IS COMMITTED TO PROVIDE THE INVESTMENT COMMUNITY WITH THE PRODUCTS AND SERVICES NEEDED TO MAKE INFORMED INVESTMENT DECISIONS. BRICKWORK RATINGS IS A REGISTERED CREDIT RATING AGENCY BY SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) AND A RECOGNISED EXTERNAL CREDIT ASSESSMENT AGENCY (ECAI) BY RESERVE BANK OF INDIA (RBI) TO CARRY OUT CREDIT RATINGS IN INDIA. BRICKWORK RATINGS IS PROMOTED BY CANARA BANK, INDIA'S LEADING PUBLIC SECTOR BANK. MORE ON CANARA BANK AVAILABLE AT WWW.CANARABANK.CO.IN

BWR RATING CRITERIA IS AVAILABLE AT [HTTPS://WWW.BRICKWORKRATINGS.COM/RATINGSCRITERIA.ASPX](https://www.brickworkratings.com/ratingscriteria.aspx)

Copyright © 2019 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, Kamataka 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and/or research, Brickwork Ratings relies on factual information it receives from issuers, reliable third party sources and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or such research. The manner of Brickwork Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, and/or the research it undertakes. Brickwork Ratings may also rely on the availability and nature of relevant public information, access to the management of the issuer, the availability of audit reports, engineering reports, legal opinions and other reports provided by third parties. Users of Brickwork Ratings' should agree that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating and/or research will be accurate and complete. Ultimately, the issuer and the third party data sources are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering data and other reports. In issuing its ratings Brickwork Ratings relies on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and factors in assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed and/or this research report was published.

The information in this report is provided "as is" without any expression, representation or warranty of any kind. A Brickwork Ratings' rating is an opinion as to the creditworthiness of a security and/or research report its opinion of the themes/issues discussed in the report. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings and/or research are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible. The rating and/or research does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security and/or instrument/credit facility. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings' is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason at the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings and/or research are not a recommendation to buy, sell, or hold any security. Ratings and/or research do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Brickwork Ratings receives fees from issuers, insurers, and others for rating their securities and/or instrument/credit facility availed.

For print and digital media

The Rating Rationale and/or research report is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale and/or research report to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales and/or research reports for consideration or otherwise through any print or electronic or digital media.