

RBI Monetary Policy Review

Economic Update | 8th February 2023

MPC Hikes Repo Rate By 25 Basis Points, Caution On Inflation Remains

Event	Actual	Consensus	Previous
Repo rate	6.5%	6.5%	6.25%
Standing deposit facility (SDF)	6.25%	-	6.00%
Marginal standing facility (MSF)	6.75%	-	6.50%

Highlights:

- India's Monetary Policy Committee (MPC) has hiked the benchmark repo rate by 25 basis points to 6.5% - the highest since 2018, as it continues efforts to bring inflation closer to its target amid resilient activity in the economy.
- The central bank also raised both the standing deposit facility (SDF) rate and the marginal standing facility (MSF) rate by 25 bps to 6.25% and 6.75, respectively.
- The committee had first raised rates by 40 basis points at an unscheduled meeting in May, followed by 50 basis points each in June, August and September. It raised rates by a further 35 basis points in December last year.
- The MPC also decided by a majority of four out of six members to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Inflation Outlook:

- CPI inflation is expected to remain above the RBI's target of 4%. Stickiness of core inflation is a matter of concern though headline inflation has moderated.
- Food inflation is likely to moderate going forward.
- Commitment to fiscal consolidation will engender an environment of macroeconomic stability.
- Geopolitical tensions continue to impart uncertainty to the commodity and energy prices outlook.
- Considering an average crude oil price (Indian basket) of \$95 per barrel, inflation is projected at 6.5% in FY23, 5.3% in FY24, Q1 at 5%, Q2 at 5.4%, Q3 at 5.4%, Q4 at 5.6%.

Growth Outlook:

- Economic activity remains resilient. Urban demand firmed up further, supported by a sustained recovery in contact intensive services, while rural demand is showing signs of improvement. Investment activity continues to gain traction.

Sutapa Biswas
 Research Analyst (Economy)
 9836020612
sutapa.biswas@smifs.com

- Agricultural activity remains strong with good rabi sowing.
- Robust and broad-based credit growth, improving capacity utilisation, and government's thrust on capital spending and infrastructure in the union budget, should bolster investment activity.
- Consumer confidence has further improved, along with rising optimism over business outlook.
- Protracted geopolitical headwinds continue to present headwinds to domestic activity.
- Real GDP growth for 2023-24 is projected at 6.4%, with Q1 at 7.8%, Q2 at 6.2%, Q3 at 6%, Q4 at 5.8%

Current Account Deficit Outlook:

- Current Account Deficit expected to moderate in H2FY23 and remain eminently manageable and within parameters of viability.
- Indian rupee has remained one of the least volatile currencies in Asia. CAD for H1FY23 stood at 2.2% of GDP.
- Net balance under services and remittance is expected to remain in surplus.

Liquidity Conditions:

- Banking system moved out of the "chakravyuh of excess liquidity".
- System liquidity remains in surplus, though of a lower order than before.
- RBI will remain flexible and responsive to meet productive needs of the economy.
- RBI will conduct operations on either side of liquidity adjustment framework as required.
- Will restore market hours of G-sec market to 9 am to 5 pm.
- Propose to permit lending and borrowing of G-sec.

RBI To Launch QR Code-Based Coin Vending Machines:

RBI to launch QR code-based coin vending machines. These machines will issue coins against debits to customer's UPI-linked accounts. Based on learnings from pilot, guidelines will be issued to banks.

RBI Proposes To Allow Foreign Travelers To Use UPI For Payments In India:

RBI proposes to allow some foreign travelers in India to use UPI for merchant payments. Propose to allow all inbound travelers to India to use UPI for merchant payments. To begin with it will be allowed for travelers from G20 countries at select airports.

View: As the stance of RBI is continuing to focus on withdrawal of accommodation, the window remains open for further rate hike. However, it is likely to depend more on next inflation print.

Fig 1: Interest Rate Trend



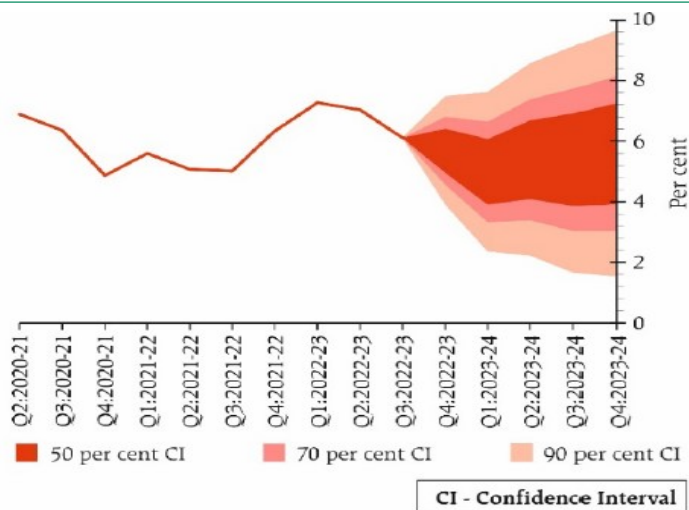
Source: RBI, SMIFS Research

Fig 2: CPI Inflation YoY% and Index Value Trend



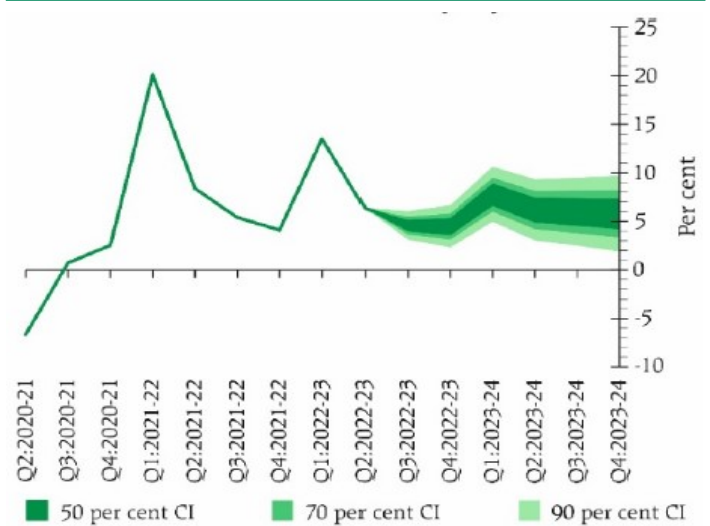
Source: RBI, SMIFS Research

Fig 3: Quarterly CPI Projection YoY%



Source: RBI, SMIFS Research

Fig 4: Quarterly GDP Projection YoY%



Source: RBI, SMIFS Research

Source: Mospi, SMIFS Research

Disclaimer

Analyst Certification:

We /I, the team of Research Analyst(s) of SMIFS Limited (in short “SMIFS / the Company”), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer(s) or securities and distributed as per SEBI (Research Analysts) Regulations 2014. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this Research Report. It is also confirmed that We/I, the above mentioned Research Analyst(s) of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report.

Terms & Conditions and Other Disclosures:

SMIFS Limited is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. SMIFS Limited is registered as Research Analyst Entity with Securities & Exchange Board of India (SEBI) with Registration Number – INH300001474.

SMIFS and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Research Analysts. SMIFS generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this Research Report have been prepared by SMIFS and are subject to change without any notice. The Research Report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of SMIFS Limited. While we would endeavor to update the information herein on a reasonable basis, SMIFS is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent SMIFS from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or policies of SMIFS, in circumstances where SMIFS might be acting in an advisory capacity to this company, or in certain other circumstances.

This Research Report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This Research Report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Securities as defined in clause (h) of section 2 of the Securities Contract Act, 1956, includes Financial Instruments, Currency and Commodity Derivatives. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. SMIFS will not treat recipients as customers by virtue of their receiving this Research Report. Nothing in this Research Report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this Research Report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. SMIFS accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research Report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document

to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. The information given in this report is as of date of this report and there can be no assurance that future results or events will be consistent with this information. The information provided in this report remains, unless otherwise stated, the copyright of SMIFS. All layout, design, original artwork, concepts and intellectual Properties remains the property and copyright of SMIFS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the SMIFS.

SMIFS shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, breakdown of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of SMIFS to present the data. In no event shall SMIFS be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the SMIFS through this report.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (a) Exchange Rates can be volatile and are subject to large fluctuations; (b) the value of currencies may be affected by numerous market factors, including world and notional economic, political and regulatory events, events in Equity & Debt Markets and changes in interest rates; and (c) Currencies may be subject to devaluation or government imposed Exchange Controls which could affect the value of the Currency. Investors in securities such as Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Since associates of SMIFS are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this Research Report.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may: (i) from time to time may have long or short positions in, and buy or sell the Securities, mentioned herein or (ii) be engaged in any other transaction involving such Securities and earn brokerage or other compensation of the Subject Company/ companies mentioned herein or act as an Advisor or Lender/Borrower to such Companies or have other potential/material Conflict of Interest with respect to any recommendation and related information and opinions at the time of the publication of the Research Report or at the time of Public Appearance.

SMIFS does not have proprietary trades but may at a future date, opt for the same with prior intimation to Clients/ Investors and extant Authorities where it may have proprietary long/short position in the above Scrip(s) and therefore should be considered as interested.

The views provided herein are general in nature and do not consider Risk Appetite or Investment Objective of any particular Investor; Clients/ Readers/ Subscribers of this Research Report are requested to take independent professional advice before investing, however the same shall have no bearing whatsoever on the specific recommendations made by the analysts, as the recommendations made by the analysts are completely independent views of the Associates of SMIFS even though there might exist an inherent conflict of interest in some of the stocks mentioned in the Research Report.

The information provided herein should not be construed as invitation or solicitation to do business with SMIFS.

SMIFS or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the Research Report as of the last day of the month preceding the publication of the Research Report.

SMIFS encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither SMIFS and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

SMIFS or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

SMIFS or its associates might have received any compensation from the companies mentioned in the Research Report during the period preceding twelve months from the date of this Research Report for services in respect of managing or co-managing public offerings, corporate finance, investment banking, brokerage services or other advisory service in a merger or specific transaction from the subject company.

SMIFS or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

SMIFS or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may have been engaged in market making activity for the companies mentioned in the Research Report.

SMIFS may have issued other Research Reports that are inconsistent with and reach different conclusion from the information presented in this Research Report.

A graph of daily closing prices of the securities/commodities is also available at www.nseindia.com and/or www.bseindia.com, www.mcxindia.com and/or www.icex.com.

SMIFS submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equity Research Analysis activities in last 3 years.

This Research Report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SMIFS and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosures

- SMIFS, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
- SMIFS, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company.
- SMIFS, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months.
- SMIFS, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report.
- Research Analyst has not served as director/officer/employee in the subject company
- SMIFS has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months.
- SMIFS has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
- SMIFS has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months.
- SMIFS has not received any compensation or other benefits from third party in connection with the research report.
- SMIFS has not engaged in market making activity for the subject company

Analyst holding in stock: **NO**

Key to SMIFS Investment Rankings

Buy: Return >15%, Accumulate: Return between 5% to 15%, Reduce: Return between -5% to +5% , Sell: Return < -5%

Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414, +91 33 6634 5414

Email Id: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com