Monetary Policy Update – February 2023

ICICI direct Research

February 8, 2022

Rate hike cycle largely behind us…

Repo rate………………………………………………… Hiked by 25 bps to 6.5%

CRR……………………………..……………………………..Unchanged at 4.5%

The RBI MPC was of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects. Accordingly, the MPC decided to increase the policy repo rate by 25 bps to 6.5%. The MPC decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target, going forward, while supporting growth. Consequently, the standing deposit facility (SDF) rate stands adjusted to 6.25% with the marginal standing facility (MSF) rate and the bank rate at 6.75%.

Overall liquidity remains in surplus, with average daily absorption under the LAF increasing to ₹ 1.6 lakh crore during December-January from an average of ₹ 1.4 lakh crore in October-November.

Inflation is projected at 6.5% in 2022-23, with Q4 at 5.7%. On the assumption of a normal monsoon, CPI inflation is projected at 5.3% for 2023-24, with Q1 at 5.0%, Q2 at 5.4%, Q3 at 5.4% and Q4 at 5.6%.

Real GDP growth for 2023-24 is projected at 6.4% with Q1 at 7.8%, Q2 at 6.2%, Q3 at 6.0% and Q4 at 5.8%. The domestic economic activity is expected to remain resilient aided by the sustained focus on capital and infrastructure spending, even as continuing fiscal consolidation creates space for private investment.

As an ongoing endeavour to further develop the government securities market, we propose to permit lending and borrowing of G-secs. This will provide investors with an avenue to deploy their idle securities, enhance portfolio returns and facilitate wider participation. This measure will also add depth and liquidity to the G-sec market; aid efficient price discovery and work towards a smooth completion of the market borrowing programme of the Centre and states.

View: Time to turn overweight on debt funds

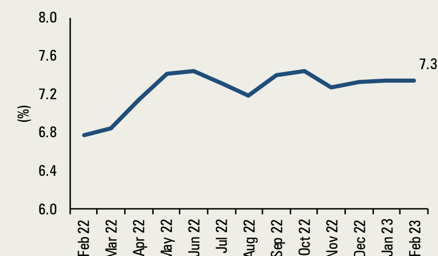
The RBI policy, as expected, turned out to be a non-event as the 25 bps rate hike was widely expected. Yields across the curve were up marginally by 2-3 bps post policy announcement. The RBI comment indicates that in all likelihood, the rate hike cycle in now behind us. We expect a long pause over the next few policy meetings, particularly in calendar year 2023.

With CPI for FY23-24 projected at 5.3%, repo rate at 6.5% offers real rate of 1.20%, which falls in RBI's target range of 1-2% as per our belief. Given the focus of RBI on growth as well, the terminal rate looks likely the current rate of 6.5%. Therefore, no further rate hike is expected in the near term.

The risk of higher rate hike could only emerge from global factors rather that domestic factors like continuous rate hike by US Fed and other central banks, capital outflows and currency depreciation pressure due to yield differential and any further supply side disruption due to ongoing geopolitical tension.

The Union Budget has further boosted the outlook for Indian debt market. The fiscal deficit and the borrowing estimate were largely in line while for continued fiscal glide path over next two years is also positive. Debt markets like other asset classes perform in cycles. Last two years (2022 and 2021) saw average debt funds delivering return of around 4% per annum while in 2019 and 2020, debt funds delivered around ~10% return.

G-sec - 10 year



RBI Action

ICICI Securities – Retail Equity Research

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnoliai@icicisecurities.com

The interest rate cycle is likely to peak out in the next few months globally while in India it may peak out with probably a last rate hike of 25 bps. Since higher return in debt market is made when investments are done near peak of the rate cycle, the year 2023 could mark the comeback year of debt markets in India as well as globally.

RBI development, regulatory measures – Key points

Expanding scope of Trade Receivables Discounting System (TReDS)

In order to provide further impetus to the TReDS platforms and to aid cash flows of MSMEs, RBI has expanded the scope by permitting insurance facility on TReDS platform. In addition, all entities/institutions eligible to undertake factoring business will be permitted to participate as financiers in TReDS. Secondary market operations will also be enabled on TReDS platforms.

Extending Unified Payments Interface (UPI) for Inbound Travellers to India

RBI proposed to permit all inbound travellers to India to access UPI for their merchant payments (P2M). To begin with, this facility will be extended to travellers from the G-20 countries, arriving at select international airports. Going forward, this facility will be enabled across all other entry points in the country. The required operational instructions will be issued shortly.

Penal Charges on Loans

At present, regulated entities (REs) are required to have a policy for levy of penal interest on advances. The REs, however, follow divergent practices on levying of such charges. In certain cases, these charges are found to be excessive. To further enhance transparency, reasonableness and consumer protection, draft guidelines on levy of penal charges will be issued to obtain comments from stakeholders. It may impact a few NBFCS having high penal charges currently.

The next meeting of the MPC is scheduled for April 3-6, 2023.

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. 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 report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The 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 ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities 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 ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This 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 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. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this 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 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. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this 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.

ICICI Securities 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.

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

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities 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 report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This 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 ICICI Securities 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.