

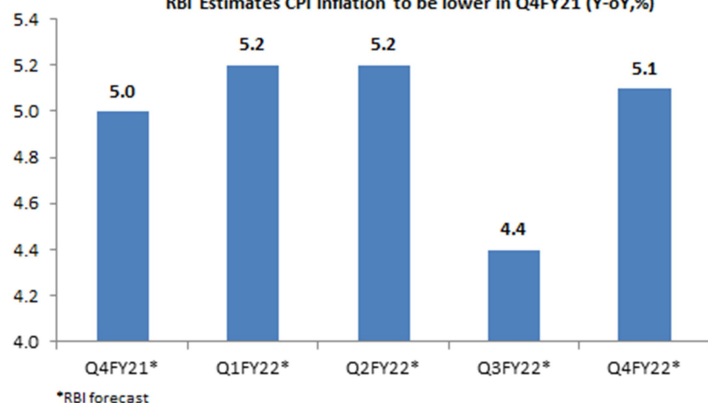
Key Policy rate Unchanged & to continue with the 'Accommodative' Stance

Treading on expected lines, the RBI Monetary Policy Committee (MPC) on April 7 kept the key policy rate unchanged at 4% indicating that a status-quo will be desirable at this juncture when the growth-inflation scenario remains uncertain. The MPC has maintained the GDP growth outlook for FY22 at 10.50% whereas the projection for CPI inflation has been revised to 5.0% in Q4FY21 and 5.2 % in Q1FY22. In a welcome move, the RBI has announced a G-Sec Acquisition Program (GSAP) of Rs.1 lakh crores in Q1FY22 with as much as Rs.25000 crores of Open Market Operations (OMO) purchase lined up on 15 April 2021. The Chairman has also noted that the monetary policy over the next five years would aim at consolidating and building upon the credibility gains of the first 5 years of flexible inflation targeting.

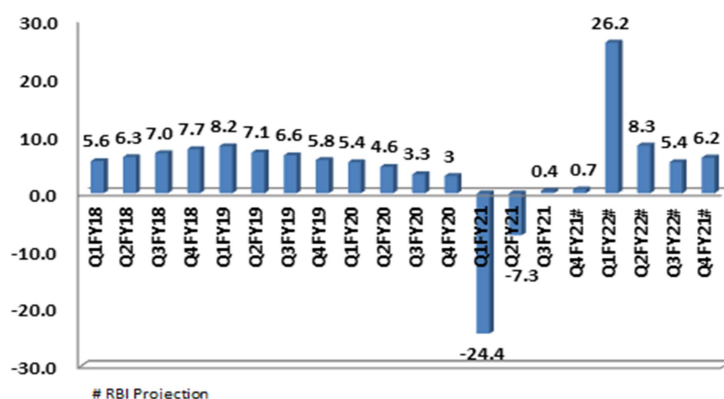
Following are the policy measures and vital announcements by the RBI:

- The RBI kept the **Repo Rate** under the Liquidity Adjustment Facility (LAF) unchanged at **4.00%** in its first bi-monthly policy for 2020-21. Accordingly, **Reverse Repo Rate** under the LAF determined with a spread of 65 basis points below the Repo rates remain unchanged to **3.35%**. Marginal Standing Facility (**MSF**) and the **Bank rate** both determined with a spread of 25 basis points above the Repo rate also remain unchanged to **4.25%**. On the liquidity front, RBI left the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) of scheduled Banks unchanged at 3.00% and 18.00% of their net demand and time liability (NDTL) respectively.
- **GDP growth** recorded an unprecedented contraction in Q1 and recorded sequential upturn in Q2 by regaining positive territory in Q3 following a jump in Govt. expenditure and recovering exports & faster than anticipated reduction in new COVID-19 cases. Capacity utilization is rising but growth will require continued policy support until investment and consumption stabilize. RBI's growth outlook for FY22 was kept unchanged at 10.5% with caveat of downside risks arising out of second wave of Covid-19 infections.
- RBI determines the inflation target in terms of **consumer price index (CPI)**, once in every five years. Accordingly, in a notification on March 31, 2021, the Central Government, in consultation with the RBI, retained the inflation target at 4 % (with the upper tolerance level of 6% and the lower tolerance level of 2 %) for the 5-year period April 1, 2021 to March 31, 2026.
- **India's manufacturing activity** dropped to 7-month low to 55.4 in March 2021, the lowest since last August from 57.5 in the month of February 2021. However the latest reading was indicative of a substantial improvement in the health of the sector that outpaced the long-run series average.
- The IHS Markit India Services PMI declined to 54.6 in March of 2021 from 55.3 in the previous month, and slightly above market expectations of 54.5. The reading pointed to the sixth straight month of expansion in the sector, as both output and new orders continued to grow, despite the rate of expansion softened.
- **Households' inflation** expectations, measured by the Reserve Bank of India March 2021 round of household survey, increased by 80 basis points over the next 3-month period and 10 basis points over the 1-year ahead median inflation expectations due to higher crude oil prices, non-oil commodity prices and increased operation costs.
- **Exports surpassed** the pre-pandemic level and entered the expansionary zone from December 2020 while **imports contraction** became softer in H2FY21 and eventually turned positive from December 2020 after a gap of 9 months.
- Net **FDI** rose to USD 44.3 billion in April-January 2020-21 from USD 36.3 billion a year ago. Net foreign portfolio investment was of the order of USD 37.1 billion during 2020-21 (upto March 30) as against net outflows of USD 5.2 billion in the same period of last year.
- India's **foreign exchange reserves** were at USD 579.3 billion on March 26, 2021 covering 18.4 months of imports and 102.8% of external debt.
- **Globally** inflation remained benign and below target in major advanced economies (AEs) but for emerging market economies (EMEs), barring China, Thailand and Indonesia, CPI inflation has mostly picked up. Global commodity prices have been rising since May 2020. The Bloomberg commodity price Index increased by 17.8% during Sep'2020- Mar'2021.
- Exchange rate has exhibited two-way movements over the past six months, reflecting both global and domestic factors. Looking ahead, heightened volatility in global financial markets could depreciate/appreciate rupee by 5% which could move inflation by +20 bps/-20 bps & GDP by +15bps/-15bps respectively.

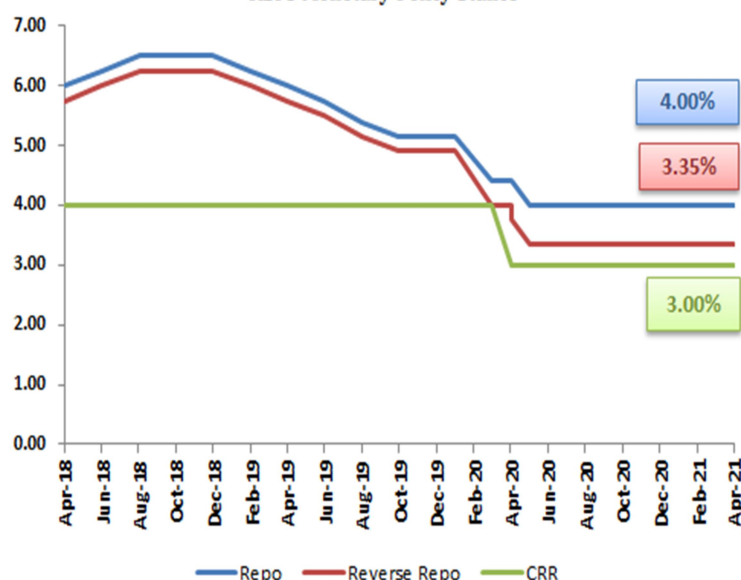
RBI Estimates CPI Inflation to be lower in Q4FY21 (Y-o-Y,%)



Real GDP Growth (y-o-y,%)

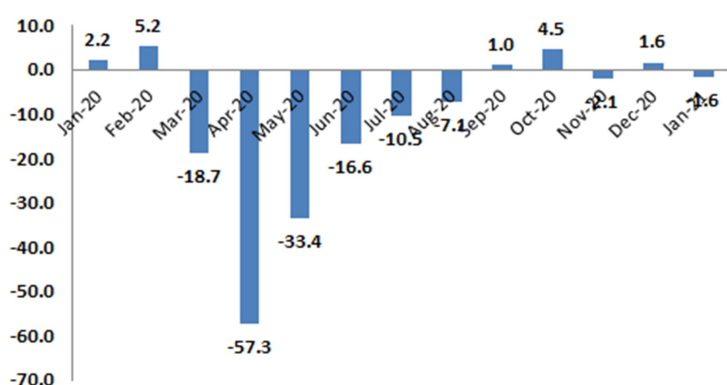


RBI's Monetary Policy Stance

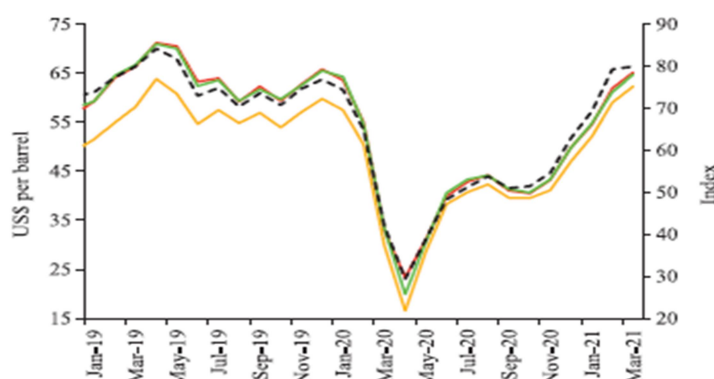


- After breaching the upper tolerance threshold of 6.0 % for six consecutive months (June-November 2020), **CPI inflation** fell in December 2020 and eased further in January 2021 to 4.1% on the back of a sharp correction in vegetable prices and softening of cereal prices and rebounded to 5% in february primarily by base effect. Taking into account signals from forward looking surveys RBI projected CPI inflation for Q4FY21 at 5% and a year ahead (as depicted in above chart) with risks broadly balanced.
- India's Industrial production (IIP)** slipped into contractionary zone in January 2021 by registering a decline of 1.6% (yoy) as against 1.56% growth previous year. The IIP has turned volatile in last three months suggesting that the economy has entered into a consolidation phase.
- Crude oil** prices picked up since November 2020 on vaccine optimism and extension of production cuts by OPEC plus. The US stimulus and Brexit agreement further boosted the market sentiments.

IIP (Monthly, YoY,%)



Energy and Crude Oil Prices



Aum Capital RESEARCH DESK

Rajesh Agarwal
Tanya Kothary

Head of Research
Manager Equity Research

033 – 40572121
033 – 40572121

rajesh.agarwal@aumcap.com
tanya.kothary@aumcap.com

Disclosure & Disclaimer

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. AUM Capital Market Private Limited (hereinafter referred to as "AUM Cap") or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. AUM Cap has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, AUM Cap endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, AUM Cap nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

AUM Cap is registered under SEBI (Research Analysts) Regulations, 2014. Further, AUM Cap hereby declares that –

- AUM Cap/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company.
- AUM Cap/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- AUM Cap/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

AUM Capital Market Private Limited

Registered Office: 5, Lower Rawdon Street, Akashdeep building 1st Floor, Kolkata – 700020;

Phone: +91(33) 40572222; Fax: +91(33) 24760191

Website: www.aumcap.com; Email: aumresearch@aumcap.com

SEBI Research Analyst Registration No.: INH300002423