

35bps Rate Cut to Help in Repairing The Credit Cycle

Rates Change	↓
Growth Outlook	↓
Long term Inflation outlook	↔

Monetary Rates	Jun-19	Aug-19
Repo Rate	5.75	5.40
Reverse Repo	5.50	5.15
MSF	6.00	5.65

Key Highlights

- **Monetary Policy Committee in its 3rd bi-monthly policy decided to reduce the repo rate by 35 basis points to 5.40% from 5.75%.** As a result of which the reverse repo rate now stands adjusted at 5.15% and Marginal Standing Facility at 5.65% while keeping the stance unchanged at accommodative.
- This marks as a fourth consecutive rate cut in the calendar year 2019 on the back of subdued domestic growth and demand concerns.
- **High frequency indicators such as tractor, motorcycle sales (rural indicators) passenger vehicle sales and aviation traffic growth (urban indicators) showed contraction signals, justifying the 35bps rate cut.**
- The longer term growth projections have been marginally revised downwards for a fourth term in a row. whereas the inflation projection has marginally crept up.
- The RBI believes the scattered and spatial distribution of rainfall may lead to a temporary uptick in the food inflation, while the rains in the beginning of August may offset the inflation to an extent. Inflation projection for Q2 2019-20 and H22019-20 stood at 3.1 and 3.5-3.7 respectively.
- The RBI's business assessment index signals improvement in the business in the 4th quarter of 2019-20 to 76.1% from 75.9% in 3rd quarter. The manufacturing PMI rose to 52.5 in July from 52.1 in June on the back of pick up in production and higher new orders.
- The MPC also noted the FY20 GDP forecast downward at 6.9 from 7 percent earlier. The downtrend in GDP was backed by downside risks of global trade tensions, and weakening of construction activity in India, which is one of the largest job provider in the country.
- The RBI's decision to boost credit towards the priority sector lending has led to enhancing the limit for SME's and housing to 20 lakhs from 10 lakhs will bode well for the economy to help spur the demand and investments in the country.
- **A higher than consensus rate cut is a welcome move from the RBI which will help in repairing the credit cycle which is in trouble right now.**
- Acceptance by the RBI of a cooling GDP growth estimates is a sign that the government should look for some fiscal measures along with the monetary measures by the RBI to revoke growth in India.
- The next Monetary Policy Meet will take place on October 4th 2019.

RESEARCH ANALYST

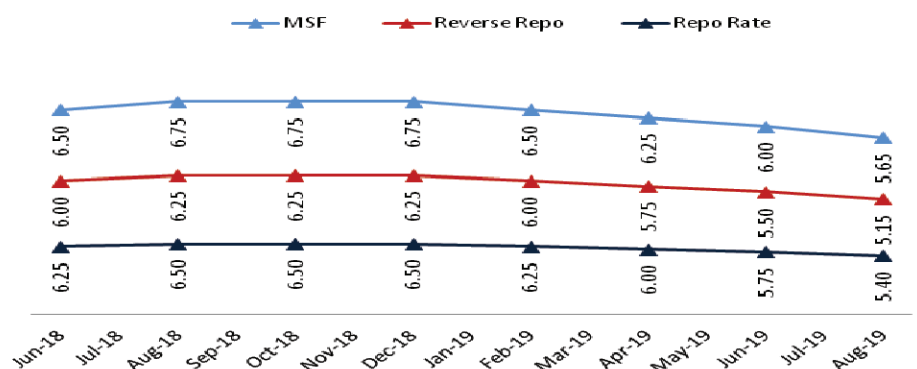
DEEPAK KUMAR

Deepak.kumar@narnolia.com

DHWANIK SHAH

Dhwanik.Shah@narnolia.com

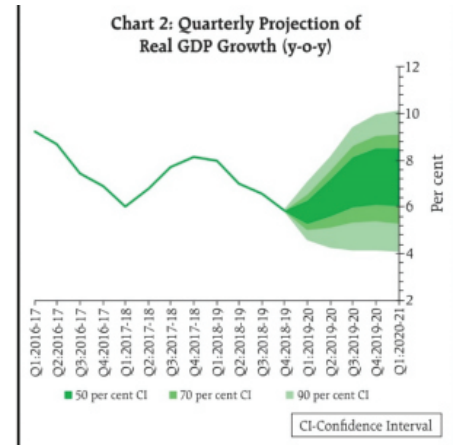
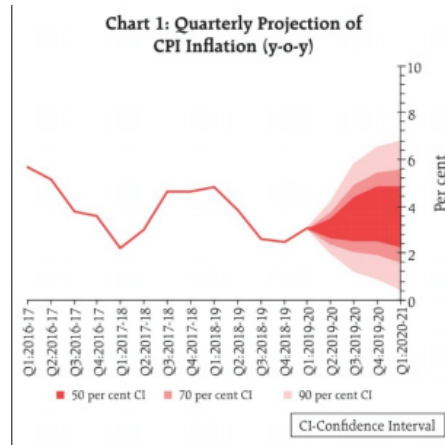
Exhibit: Monetary rates



The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Exhibit: Inflation and GDP outlook

The longer term Growth projections have been marginally reduced.



		INFLATION OUTLOOK			GROWTH OUTLOOK		
DATE	RATE ACTION	STONE	YEAR	RATE	BULLISH	FY18	7.40%
6th Apr 2017	No action	Hawkish			Cautious	FY18	7.40%
7th Jun 2017	No action	Dovish	H1 18	2-3.5	Cautious		7.30%
			H2 18	3.5-4.5			
2nd Aug 2017	Rate cut 25bps	Hawkish	H2 18	4-4.5	Cautious	FY18	
4th Oct 2017	No action	Hawkish	H2 18	4.2-4.6	Cautious	FY18	7.30%
6th Dec 2017	No action	Hawkish	H2 18	4.3-4.7	Cautious	FY18	6.70%
7th Feb 2018	No action	Hawkish	H2 18	5.1	Cautious	FY18	6.60%
			H1FY19	5.1-5.6		FY19	7.40%
			H2FY19	4.5-4.6		H118	7.40%
5th Apr 2018	No action	Dovish	H2 18	4.5	Bullish	FY19	7.30%
			H1FY19	4.7-5.1		H1	7.30%
			H2FY19	4.4		H2	7.40%
6th Jun 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.50%
			H2FY19	4.7		H1	7.4%
1st Aug 2018	Rate hike 25bps	Hawkish	H1FY19	4.6	Neutral	FY19	7.40%
			H2FY19	4.8		H2	7.30%
			Q1FY20	5.0		Q1FY20	7.50%
5th Oct 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.40%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			
5th Dec 2018	No action	Hawkish	H2FY19	2.7-3.2	Neutral	FY19	7.40%
			H1FY20	3.8-4.2		H1FY20	7.50%
7th Feb 2019	Rate cut 25 bps	Dovish	Q4FY19	2.8	Neutral	FY20	7.40%
			H1FY20	3.2-3.4		H1FY20	7.2-7.4
			Q320	3.9		Q3FY19	7.50%
4th Apr 2019	Rate cut 25 bps	Dovish	Q4FY19	2.4	Neutral	FY20	7.20%
			H1FY20	2.9-3.0		H1FY20	6.8-7.1
			H2FY20	3.5-3.8		H2FY20	7.3-7.4
6th Jun 2019	Rate cut 25 bps	Dovish	H1FY20	3.0-3.1	Neutral	FY20	7.00%
			H2FY20	3.4-3.7		H1FY20	6.4-6.7
						H2FY20	7.2-7.5
7th Aug 2019	Rate cut 25 bps	Dovish	Q2FY20	3.1	Cautious	FY20	6.90%
			H2FY20	3.5-3.7		H1FY20	5.8-6.6
						H2FY20	7.3-7.5

The GDP growth outlook has been revised downwards due to weak domestic activity coupled with heightened trade war tensions in the recent months.

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which 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.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential 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 NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. 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. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.