

Trade Review

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Trade activity tumbles on stark slowdown in demand

Trade activity worsened further in Aug'19, with total trade (exports + imports) declining by 10.6%, the lowest in the past three years. Although the drop in commodity prices was, in part, one of the major culprits, other factors that dragged overall activity were the slackness in domestic demand and decline in world trade volumes. Trade deficit narrowed to USD13.5bn in Aug'19 vs. Q1FY20 average of USD15.3bn, but it is still elevated given the sluggishness in demand. World trade volumes in June also pointed toward weakness as trade activity worsened in the US and LatAm. Capital goods trade also worsened in August, with both imports and exports declining sharply. Net services exports remained high, with overall services exports and imports remaining strong at 8.7% and 18.2% growth in July. Rebel attack in Saudi oil facilities has increased the geopolitical risks ([Major Rebel attack hits Saudi Oil Facilities](#)) which might widen the trade deficit going forward.

Some of the important measures announced by the FM on Saturday are: 1) remission of duties or taxes on export products (replacing Merchandise Exports from India Scheme) which will cost the government Rs500bn; 2) providing higher insurance to banks to cover working capital loans for exporters; 3) inclusion in priority sector lending which will release liquidity of Rs360-680bn; and 4) real-time electronic processing of GST refunds by month-end. These measures are likely to aid export growth in the longer term.

Exports decline 6% in Aug'19

Exports declined 6.0% yoy in Aug'19, primarily due to the sharp decline in engineering goods and petroleum products. The decline in exports was skewed, with the two sectors contributing over 56% to the decline. Engineering goods exports declined 9.4% yoy in Aug'19, the third-consecutive month of decline in exports. This is mainly due to the decline in iron & steel and ferrous & non-ferrous metals. Exports, on the other hand, were high in electronic goods (45.9%), iron ore (356.7%) and spices (35.4%). Non-oil exports declined sharply by 5.3% yoy. Agri exports also declined 9.3% yoy on a sharp decline in rice exports (23.9% yoy).

Steep decline in imports

Imports declined 13.5% yoy in Aug'19, with five sectors contributing 84% of the decline. Gold declined 62.5% and petroleum 8.9%, and excluding both, imports still declined 9.3%. Consumption-oriented items such as gold and electronic goods saw declines. Gold imports declined despite the sharp rise in gold prices, indicating that volume would have declined substantially. With new measures announced by the FM, we believe that there would be some respite to the gems and jewellery sector. Commodity-centric imports and capital goods-related imports also faced a similar fate in August.

Net capital goods deficit narrowed to USD1.9bn in Aug'19 from USD2.3bn in Sep'19 due to relatively better growth in capital goods exports compared with a 13.5% decline in capital goods imports, mainly driven by the decline in the transport equipment sector (44.5%).

Outlook: CAD to improve in H1FY20 on low commodity prices and demand

Despite the sharp slowdown in growth and weakness in commodity prices, trade deficit continued to remain elevated — an indication of the stickiness in imports. However, the pressure on CAD has relatively subsided compared with H2FY19. The recent measures taken by the FM are more in favor of smoothening the pace of growth once the demand conditions improve. They are tick marks necessary for the recovery in export growth. However, observing current world trade volumes, trade activity is likely to remain subdued, in our view.

Please see our India EAP (Page 4): [Nifty](#)

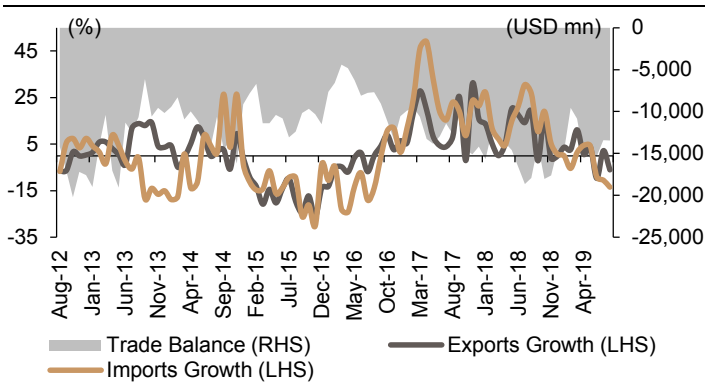
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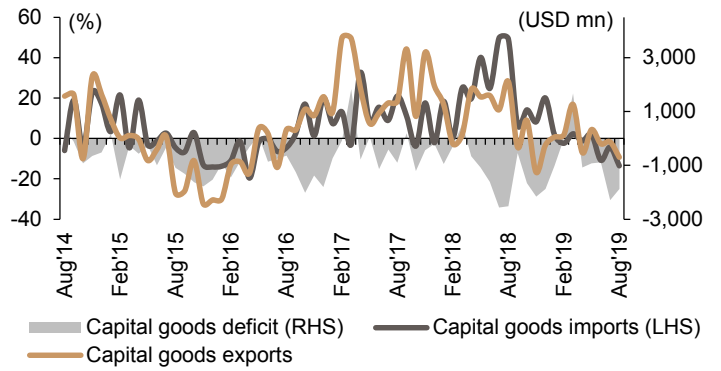
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Exhibit 1: Trade deficit remains at USD13.5bn in Aug'19



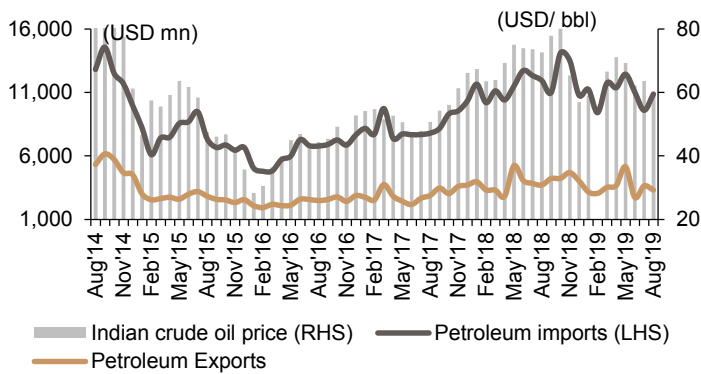
Source: Ministry of commerce, Emkay Research

Exhibit 2: Capital goods deficit narrows to USD1.9bn on relatively better capital goods exports



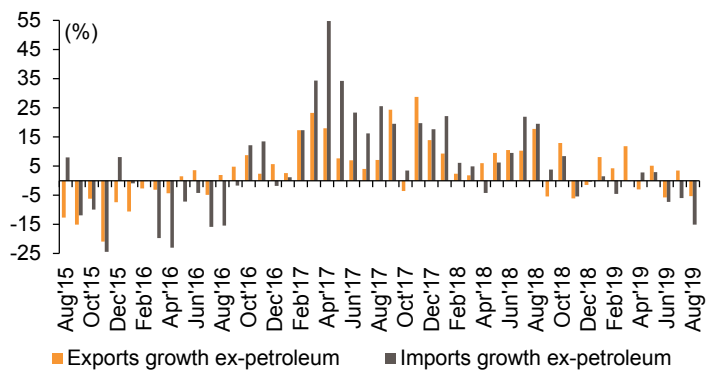
Source: Ministry of commerce, Emkay Research

Exhibit 3: Petroleum deficit widens to USD7.6bn despite ease in crude oil prices



Source: Ministry of commerce, Emkay Research

Exhibit 4: Non-oil deficit narrows to USD5.9bn, a 5-month low



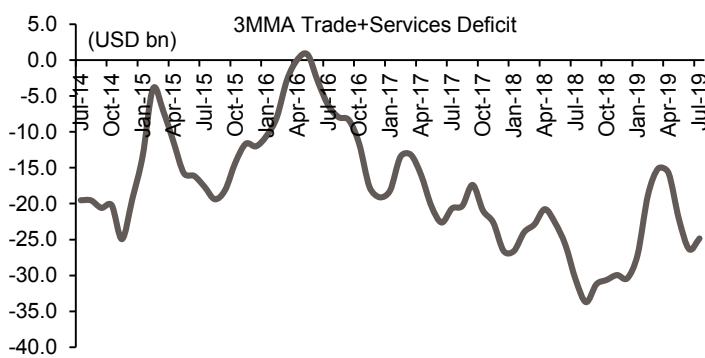
Source: Ministry of commerce, Emkay Research

Exhibit 5: Major contributors to India's Exports-Imports in Aug'19

	YoY (%)					(pps Contribution)	
	Aug-19	Jul-19	Jun-19	FY20*	FY19*	Aug-19	Jul-19
Exports	(6.0)	2.2	(9.7)	(1.8)	15.2	(6.0)	2.2
Engineering goods	(9.4)	(1.7)	(2.7)	(3.3)	21.8	(2.4)	(0.4)
Petroleum product	(10.7)	(5.0)	(32.8)	(5.8)	51.1	(1.4)	(0.7)
Cotton yarn/ fabrics/ made-ups	(22.4)	(10.0)	(19.7)	(13.2)	21.6	(0.9)	(0.4)
Organic & Inorganic Chemicals	(9.2)	13.4	(8.2)	5.8	130.8	(0.7)	0.9
Plastic & linoleum	(16.9)	(4.2)	(6.5)	(4.3)	72.3	(0.5)	(0.1)
Imports	(13.4)	(10.4)	(9.1)	(5.1)	19.3	(13.4)	(10.4)
Gold	(62.5)	(42.2)	13.0	(3.5)	(1.4)	(5.0)	(2.8)
Petroleum	(8.9)	(22.1)	(13.3)	(6.1)	53.8	(2.3)	(6.2)
Transport Equipment	(44.5)	(16.6)	(33.2)	(27.2)	14.3	(1.9)	(0.7)
Coal, coke & Briquettes	(23.8)	(0.5)	(3.4)	(3.1)	27.8	(1.2)	(0.0)
Pearls, precious etc stones	(20.5)	(31.0)	(23.6)	(22.0)	(20.4)	(0.9)	(1.8)

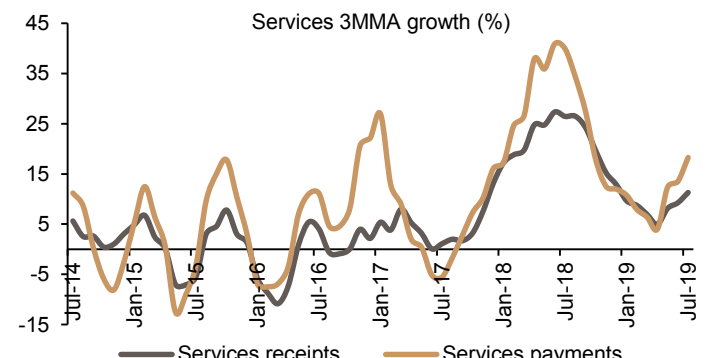
Source: Ministry of commerce, Emkay Research Note: * for Apr-Aug

Exhibit 6: Trade deficit of goods and services in Q1FY20 has widened compared with Q4FY19



Source: Ministry of commerce, Emkay Research

Exhibit 7: Services activity further strengthened in Jul'19



Source: Ministry of commerce, Emkay Research

Emkay Alpha Portfolio – Nifty



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Sector

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Analyst bio

Sunil Tirumalai comes with 13 years of sell-side equity research experience, having been a top-ranked analyst across multiple sectors. At Emkay, Sunil heads the research team and also drives equity strategy. He holds an MBA (PGDM) from IIM Ahmedabad, and a BTech from NIT Trichy.

EAP-Nifty (33 stocks)

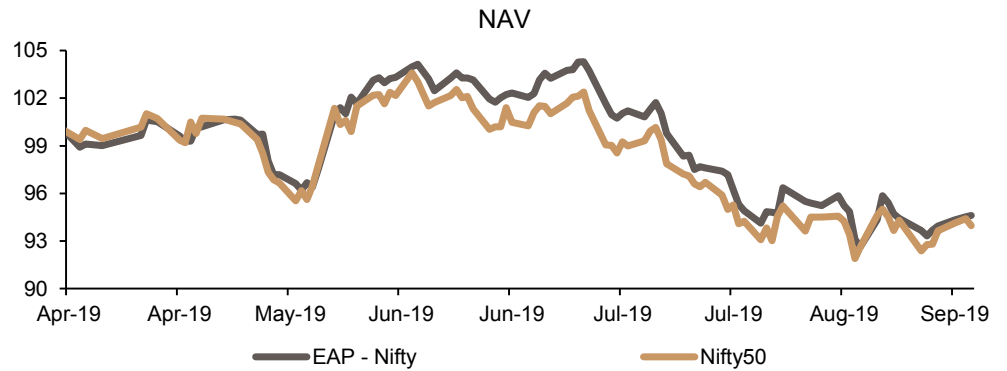
Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
Auto & Auto Ancillaries	5.44	2.10	-61%	-334
Exide Industries	0.00	0.50	NA	50
Mahindra & Mahindra	1.10	1.60	45%	50
BFSI-Banks	28.22	28.80	2%	58
Axis Bank	3.03	2.50	-17%	-53
HDFC Bank	10.77	10.00	-7%	-77
ICICI Bank	5.85	8.80	51%	295
Indusind Bank	1.64	2.00	22%	36
Kotak Mahindra Bank	4.34	2.00	-54%	-234
State Bank of India	2.36	3.50	48%	114
BFSI-NBFCs	11.24	9.96	-11%	-128
Bajaj Finance	1.76	1.76	0%	0
HDFC	8.20	8.20	0%	0
BFSI-Insurance	0.00	1.15	NA	115
ICICI Pru Life	0.00	1.15	NA	115
Cement	1.58	1.69	7%	11
Ultratech Cement	0.95	1.69	77%	74
Consumer Goods & Retail	10.94	9.42	-14%	-152
Berger Paints	0.00	0.75	NA	75
Hindustan Unilever	2.93	2.20	-25%	-73
ITC	4.64	3.50	-25%	-114
Marico	0.00	1.00	NA	100
Titan Company	1.03	0.97	-6%	-6
United Breweries	0.00	1.00	NA	100
Engineering & Capital Goods	3.71	5.00	35%	129
Larsen & Toubro	3.71	5.00	35%	129
Information Technology	15.33	17.70	15%	237
HCL Tech	1.36	2.80	106%	144
Infosys	6.87	8.20	19%	133
TCS	5.26	6.70	27%	144
Metals & Mining	2.95	2.00	-32%	-95
Coal India	0.76	1.00	32%	24
Tata Steel	0.57	1.00	76%	43
Oil & Gas	12.24	12.27	0%	3
GAIL	0.53	1.00	88%	47
HPCL	0.00	1.50	NA	150
ONGC	0.87	0.96	11%	9
Reliance Industries	9.52	8.81	-8%	-72
Pharmaceuticals	2.29	3.45	51%	116
Cipla	0.53	1.25	136%	72
Divi's Lab	0.00	1.10	NA	110
Ipca Lab	0.00	1.10	NA	110
Power	2.28	2.00	-12%	-28
NTPC	1.20	2.00	67%	80
Telecommunications	1.95	0.50	-74%	-145
Bharti Airtel	1.46	0.50	-66%	-96
Agri Input & Chemicals	0.69	0.00	-100%	-69
Media & Entertainment	0.48	0.00	-100%	-48
Ports	0.65	0.00	-100%	-65
Cash		4.0		
Nifty	100.0	100.0		

EAP-Nifty portfolio NAV

	Base			Latest
	1-Apr-19	13-Jun-19	13-Aug-19	12-Sep-19
EAP - Nifty	100.0	103.3	95.5	94.6
Nifty50	100.0	102.1	93.6	94.0

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart

Source: Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
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