

# FIRST LIGHT

## RESEARCH

### BOB Economics Research | Weekly Wrap

Oil falls, equities recover

### Infosys | Target: Rs 730 | +12% | ADD

Subpar operating performance, annual guidance suspended

### Logistics | Q4FY20 Preview

Expect an anaemic quarter

## SUMMARY

### India Economics: Weekly Wrap

Global equity markets closed higher on the hope of successful treatment to Covid-19 to hit the markets soon enough. Yields fell as macro data points to steep slowdown with IMF warning of a sharp recession. China's Q1CY20 GDP contracted by 6.8%. India's 2Y yield fell by more than 40bps as RBI Governor indicated room for further rate cuts. We expect another 50bps rate cut as economy slows down to 1.5% in the year. We also see stimulus for MSMEs, more liquidity for impacted sectors and RBI buying government bonds.

[Click here for the full report.](#)

### Infosys

Infosys (INFO) reported a lacklustre Q4FY20 operating performance marked by a miss on both revenue and margins. Deal TCv at US\$ 1.6bn was modest and carried a caveat of likely ramp-up delays. Suspended annual guidance, especially on operating margins, adds a blind spot in a crucial year for margin recovery. We trim FY21/FY22 EPS estimates by 15%/16% and revise our Mar'21 TP to Rs 730 (vs. Rs 840 earlier), set at an unchanged FY22E P/E of 18x. Retain ADD but prefer TCS and HCL Tech over INFO.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	25,000
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Reliance Industries</a>	Buy	1,500

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	255
<a href="#">Ashok Leyland</a>	Sell	64

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.64	2bps	(44bps)	(192bps)
India 10Y yield (%)	6.35	(9bps)	8bps	(107bps)
USD/INR	76.38	0.5	(2.9)	(10.1)
Brent Crude (US\$/bbl)	28.08	0.9	(2.3)	(61.0)
Dow	24,242	3.0	14.2	(8.7)
Shanghai	2,838	0.7	2.1	(13.2)
Sensex	31,589	3.2	3.3	(19.3)
<b>India FII (US\$ mn)</b>	<b>16 Apr</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(162.8)	(933.1)	(10,692.6)	(933.1)
FII-E	(337.6)	0.4	(6,602.5)	0.4

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## Logistics: Q4FY20 Preview

Already reeling under a domestic consumption slowdown, the Indian logistics industry has now taken a severe blow from Covid-19-led trade disruptions. We forecast revenue and EBITDA declines for all our coverage companies in Q4FY20, with TCIEXP being the only player expected to post earnings growth (3.5% YoY) due to reduced taxes. The sharp plunge in auto volumes would hurt auto-focused 3PL companies (MLL, TRPC). We reiterate our preference for companies with strong balance sheets; TCIEXP is our top pick.

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## WEEKLY WRAP

20 April 2020

**Oil falls, equities recover**

**Global equity markets closed higher on the hope of successful treatment to Covid-19 to hit the markets soon enough. Yields fell as macro data points to steep slowdown with IMF warning of a sharp recession. China's Q1CY20 GDP contracted by 6.8%. India's 2Y yield fell by more than 40bps as RBI Governor indicated room for further rate cuts. We expect another 50bps rate cut as economy slows down to 1.5% in the year. We also see stimulus for MSMEs, more liquidity for impacted sectors and RBI buying government bonds.**

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**Markets**

- **Bonds:** Except Japan and China, global yields closed lower as macro data points to a steep slowdown. IMF has warned of a severe recession. US 10Y yield fell by 8bps (0.64%) as retail sales, factory output and home sales disappointed. Oil prices fell by 10.8% (US\$ 28/bbl) as OPEC projected global oil demand to drop by 6.8 mn bpd in CY20. India's 10Y yield fell by 14bps (6.35%). India's 2Y yield fell by more than 40bps as RBI Governor indicated room for further rate cuts. System liquidity surplus was at Rs 4.8tn, same as last week.
- **Currency:** Global currencies closed mixed. DXY rose by 0.3% in the week as investors fear the economic impact of the pandemic will be worse than anticipated. Rising US jobless claims and sharp drop in US retail sales and industrial orders also dented sentiment. CNY fell by 0.5% as China's GDP growth contracted by 6.8%. INR ended the week lower by 0.1% after touching a fresh record low at 76.79/\$. FPI outflows were US\$ 539mn.
- **Equity:** Apart from FTSE, other global indices closed higher in the week led by hopes of a possible vaccine for COVID-19 and as countries begin to open up their economies. Dow (2.2%) posted gains for second week in a row. Sensex (1.4%) too ended in green supported by liquidity boosting measures by RBI. Cap goods and metal stocks gained the most.
- **Upcoming key events:** Markets will track COVID-19 cases. Pace of increase has moderated to 564k this week from 599k last week. Apart from this, flash PMI readings of major economies (US, Eurozone and Japan) are scheduled to be released. On the domestic front, markets will await fresh stimulus from government to combat the crisis.



**ADD**

TP: Rs 730 | ▲ 12%

**INFOSYS**

| IT Services

| 21 April 2020

## Subpar operating performance, annual guidance suspended

**Infosys (INFO) reported a lacklustre Q4FY20 operating performance marked by a miss on both revenue and margins. Deal TCV at US\$ 1.6bn was modest and carried a caveat of likely ramp-up delays. Suspended annual guidance, especially on operating margins, adds a blind spot in a crucial year for margin recovery. We trim FY21/FY22 EPS estimates by 15%/16% and revise our Mar'21 TP to Rs 730 (vs. Rs 840 earlier), set at an unchanged FY22E P/E of 18x. Retain ADD but prefer TCS and HCL Tech over INFO.**

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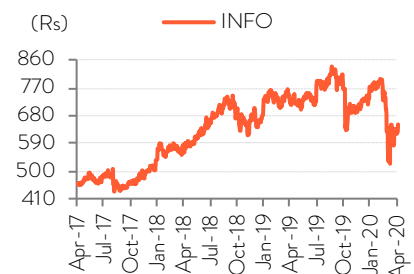
**Disappointing performance:** Akin to peers, a partial Covid-19 hit in the last few weeks of March led to a 0.8% QoQ CC decline in INFO's revenue (-1.4% QoQ in dollar terms) vs. consensus estimates of 0.6% QoQ CC growth. Revenue contraction stemmed from reduction in traditional services revenue (-3.6% QoQ in dollar terms) even as digital revenue growth (+1.7% QoQ in dollar terms) was at its slowest pace since the company started this quarterly disclosure in Q1FY18. EBIT margins at 21.2% shed 80bps QoQ, rounding off FY20 at 21.3% – towards the lower end of the guided range of 21-23%.

Ticker/Price	INFO IN/Rs 653
Market cap	US\$ 37.1bn
Shares o/s	4,349mn
3M ADV	US\$ 88.0mn
52wk high/low	Rs 847/Rs 509
Promoter/FPI/DII	13%/35%/52%

Source: NSE

**Modest deal wins, caveat of likely ramp-up delays:** Deal win TCV at US\$ 1.6bn reflected seasonal moderation with a 9% QoQ decline, albeit up 5% YoY. New deal share increased to 56% vs. 32% in Q3, though management indicated likely ramp-up delays and the possibility of slower deal conversion during the Covid-19 turmoil.

## STOCK PERFORMANCE



Source: NSE

**Suspended outlook:** As with peers such as Wipro and Cognizant, INFO has also suspended its annual outlook, both for revenue and operating margins. FY21 was to be critical for management's three-year strategic programme that aimed at recouping operating margins during the year. But Covid-led uncertainty and a suspended margin outlook have added disappointing blind spots.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	705,220	826,760	907,910	912,792	991,163
EBITDA (Rs mn)	190,100	208,890	222,680	229,136	255,368
Adj. net profit (Rs mn)	160,280	154,100	167,350	155,792	172,692
Adj. EPS (Rs)	36.9	35.4	39.0	36.3	40.3
Adj. EPS growth (%)	17.3	(4.0)	10.3	(6.9)	10.8
Adj. ROAE (%)	23.9	24.5	26.5	22.6	22.9
Adj. P/E (x)	17.7	18.5	16.7	18.0	16.2
EV/EBITDA (x)	13.5	12.6	11.9	11.6	10.4

Source: Company, BOBCAPS Research



**LOGISTICS**

Q4FY20 Preview

20 April 2020

**Expect an anaemic quarter**

Already reeling under a domestic consumption slowdown, the Indian logistics industry has now taken a severe blow from Covid-19-led trade disruptions. We forecast revenue and EBITDA declines for all our coverage companies in Q4FY20, with TCIEXP being the only player expected to post earnings growth (3.5% YoY) due to reduced taxes. The sharp plunge in auto volumes would hurt auto-focused 3PL companies (MLL, TRPC). We reiterate our preference for companies with strong balance sheets; TCIEXP is our top pick.

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**Unprecedented trade slowdown:** Coming on the heels of soft EXIM trade and a prolonged domestic consumption slowdown, the Covid-19 outbreak has aggravated the woes of Indian logistics companies. The national lockdown from 25 March has ushered in an unprecedented slowdown in domestic trade, as corroborated by high frequency indicators for the month – (1) EXIM trade has plunged 31% YoY in Mar'20 – the steepest fall on record, and (2) major port traffic has slipped 5% YoY. Upcoming trade indicators are likely to be even worse.

**RECOMMENDATION SNAPSHOT**

Ticker	Rating
AGLL IN	ADD
CCRI IN	ADD
MAHLOG IN	BUY
TCIEXP IN	BUY
TPRC IN	BUY
VRLL IN	BUY

MAHLOG = MLL

**Anaemic earnings...:** We expect our logistics coverage to report revenue/EBITDA declines in Q4FY20, consequent to the sharp plunge in domestic and EXIM trade. Economic activity typically picks up in March, and hence the pandemic-related disruptions in the last two weeks of the month are likely to have a significant impact on growth and profitability. We forecast a median revenue decline of 7% YoY for our logistics coverage in Q4 vs. a 2% increase in 9MFY20.

**...barring TCIEXP:** TCI Express (TCIEXP) is likely to be the only company to post higher YoY earnings, led by a lower corporate tax rate. Auto-focused players – Mahindra Logistics (MLL) and Transport Corp (TRPC, SCS division) – could see a sharp dip in revenue after a steep plunge in auto OEM sale volumes in Mar'20. Restrictions on vehicle movement have hurt road freight operators (TRPC's freight vertical and VRL Logistics). Soft global container trade will hit EXIM-oriented players – Container Corp has reported a 4% drop in Q4 volumes.

**Prefer companies with strong balance sheets:** With sustained growth recovery at least a couple of quarters away, we continue to recommend that investors stay with companies which have quality balance sheets and established market positions. We reiterate TCIEXP as our top pick, followed by VRLL, MLL and TRPC. We revise our FY20-FY22 earnings estimates down for MLL and AGLL, factoring in the Covid-19 impact on near-term growth prospects and profitability.



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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