FIRST LIGHT

12 April 2022

RESEARCH

BOB Economics Research | Monthly Chartbook

RBI hints at policy normalisation

Building Materials | Q4FY22 Preview

Commodity inflation and muted volumes to play spoilsport

Tata Consultancy Services | Target: Rs 4,660 | +26% | BUY

Resilient margins

SUMMARY

India Economics: Monthly Chartbook

Global markets continue to be watchful as concerns over ongoing Russia-Ukraine war eased. Oil prices moderated, however it still remains above US$100/bbl mark. Global supply chain shortages also came to the fore. Even global food prices have risen to an all-time high. Fears of global inflation were visible with Fed minutes highlighting a more aggressive tone. On the domestic front, RBI maintained status quo on rates and normalised the LAF corridor; while revising its inflation forecast upwards and growth forecast downwards for FY23. MPC members continued with accommodative stance and hinting on withdrawal of accommodation in a phased manner.

Click here **for the full report.**

Building Materials | Q4FY22 Preview

- Expect a tepid Q4 given volume losses due to the third Covid wave in Jan'22 and elections in Feb'22; some demand pickup seen in March
- Margins to contract led by commodity inflation (crude-derived) and higher freight & logistics costs
- Management commentary on demand and margin outlook will be key monitorables

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Daily macro indicators

Indicator	07-Apr	08-Apr	Chg (%)
US 10Y yield (%)	2.66	2.7	4bps
India 10Y yield (%)	6.91	7.12	20bps
USD/INR	75.96	75.91	0.1
Brent Crude (US$/bbl)	100.6	102.8	2.2
Dow	34,584	34,721	0.4
Hang Seng	21,809	21,872	0.3
Sensex	59,035	59,447	0.7
India FII (US$ mn)	**06-Apr**	**07-Apr**	**Chg ($ mn)**
FII-D	166.2	(30.4)	(196.6)
FII-E	(186.9)	(593.0)	(406.1)

Source: Bank of Baroda Economics Research

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Tata Consultancy Services

- Q4 revenue growth at 3.2% QoQ CC beat consensus expectations of 2.3% but came in a tad lower than our estimate
- EBIT margin held strong at 25%, ahead of our estimate, aiding an operating profit beat; order book at all-time high of US$ 11.3bn
- We trim FY23/FY24 EPS by 0.8%/2.6% and roll over to a new TP of Rs 4,660 (vs. Rs 4,770); retain BUY given strong demand and deal wins

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RBI hints at policy normalisation

Global markets continue to be watchful as concerns over ongoing Russia-Ukraine war eased. Oil prices moderated, however it still remains above US$100/bbl mark. Global supply chain shortages also came to the fore. Even global food prices have risen to an all-time high. Fears of global inflation were visible with Fed minutes highlighting a more aggressive tone. On the domestic front, RBI maintained status quo on rates and normalised the LAF corridor; while revising its inflation forecast upwards and growth forecast downwards for FY23. MPC members continued with accommodative stance and hinting on withdrawal of accommodation in a phased manner.

Risks to recovery: The economy in Mar'22 had begun to show signs of recovery with ebbing of the 3rd wave and spread of vaccination programme. This was reflected with improvement in auto sales, electronic imports and surge in digital payments. RBI's future expectations index, consumer confidence improved to 115.2 (103.3 from Jan'22) in Mar'22. However, this recovery is likely to be uneven, on the back of the ongoing uncertainty in geopolitical sphere. On agri front, foodgrain production is likely to register a record output in AY21-22 with growth at 4.2% (3.7% last year). As tensions escalate with the imposition of new sanctions on Russia, global food prices have risen to an all-time high in Mar'22, posing inflationary pressure.

Centre's spending lagging: Centre's fiscal deficit ratio (% of GDP, 12M trailing basis) as of Feb'22 is currently running at 7.4%. In terms of revised target, actual fiscal deficit has reached 82.7% (76% last year) of the targeted amount. While revenues of the government remain healthy, spending is currently below target. On FYTD basis, Centre's gross tax collections, at Rs 22.7tn, have reached 91% of the targeted amount, while net revenue collections (Rs 17.9tn) are at 86%. However, overall spending at Rs 31.4tn, is only 83% of the revised target and there remains a gap of Rs 6.3tn. Of this gap, Rs 5.1tn is on account of revenue expenditure and Rs 1.2tn is on account of capital spending. We expect government to meet its fiscal deficit target of 6.9% on account of lower than anticipated spending, in the wake of postponement of LIC IPO and miss in the disinvestment targets for FY22.

Pressure on yields: India's 10Y yield shot up by 7bps in Mar'22. However, the increase in yield was much steeper in Apr'22 (by 28bps), post the announcement of government's H1FY23 borrowing plan (Rs 8.45tn or 59% of total issuances). Even RBI's hawkish policy in terms of - 1) inflation projections (120bps higher for FY23 than in Feb'22 policy), and 2) hinting withdrawal of accommodation, impacted bond market sentiments. Further LAF corridor was reduced and restored to the pre-pandemic level of 50bps as against 90bps since May'20. We expect 10Y bond yield to remain elevated and trade in the range of 7-7.25% in FY23. Inflationary pressure will prompt RBI to start the rate hike cycle from Jun'22 onwards and we expect 50bps rate hike in FY23.

INR to remain range-bound: After depreciating to a record low of 76.97/$ on 7 Mar 2022, INR has regained some strength. This has coincided with easing concerns over Russia-Ukraine war, moderation in oil prices and intervention by RBI. FPI outflows too have receded as risk-sentiment has improved. We expect INR to trade in the range of 75.5-76.5/$ in the near-term. Sharp jump in oil prices remains a key risk. However, over the medium and long term, Fed tightening might put downward pressure on INR. For FY23, we expect INR to trade in the range of 76-77/$.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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BUILDING MATERIALS | Q4FY22 Preview | 11 April 2022

Commodity inflation and muted volumes to play spoilsport

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Tiles and Sanitaryware to see modest Q4 volume growth: Players in the tiles business saw a sales pickup in the month of March as real estate demand was resilient and dealers stocked up in anticipation of price hikes in April. Due to high freight costs, exports remained sluggish and with rising gas costs, many Morbi players shut down operations, thus vacating the space for organised players. Companies under our coverage have been hiking prices (5-10% in Q4) to counter cost inflation but could still suffer margin contraction due to high gas prices. In sanitaryware, demand has held up well even as companies raised prices to pass on the cost inflation.

Wood panel space to witness volume and margin losses: Weak demand in January due to the third Covid wave is likely to subdue sequential MDF volume growth in Q4. Nevertheless, underlying demand remains robust given strong OEM offtake, wider distribution, lower imports, rising acceptance of readymade furniture and a shorter replacement cycle. Wood panel players have been hiking prices with a lag effect (2-2.5% for plywood in mid-Feb, 17% for MDF in Q3) to negate cost inflation. However, the rise in crude-derived chemical prices (Brent up 75% YTD) can exert margin pressure in Q4.

Pipe volumes to improve QoQ: The pipe industry saw a demand revival in Q4 led by steady traction in the plumbing segment while agriculture demand remained weak due to PVC price volatility. PVC resin prices hit a peak of Rs 160/kg in Oct'21 from Rs 137/kg, before falling back to Rs 137/kg in Nov'21, resulting in destocking by dealers in Q3. Many companies recently hiked prices to mitigate the raw material inflation impact even as PVC prices have recovered by ~Rs 7/kg to hover at Rs 143/kg in Q4. Prices of key inputs, HDPE/LDPE (both crude-derived), have risen 9%/17% YoY in Q4. We believe companies will be able to partly pass on the cost burden and expect them to report better volumes along with slight EBITDA margin gains QoQ.

Adhesive segment margins to contract: Price hikes by adhesives players under our coverage will aid realisations though a high base effect and slow demand in Jan'22 will limit volume growth. PIDI has raised prices to mitigate higher VAM input cost but this will still constrain its gross margin as it insulates only ~70% of the product basket.

Recommendation snapshot

Ticker	Price	Target	Rating
ASTRA IN	2,060	2,205	HOLD
CPBI IN	664	735	HOLD
CRS IN	4,709	5,590	BUY
FNXP IN	166	180	HOLD
GREENP IN	584	595	HOLD
KJC IN	1,039	1,460	BUY
MTLM IN	225	260	BUY
PIDI IN	2,525	2,445	HOLD
SI IN	2,097	2,400	HOLD
SOMC IN	659	1,140	BUY

Price & Target in Rupees | Price as of 8 Apr 2022

BUY

TP: Rs 4,660 | ⮝ 26%

TATA CONSULTANCY SERVICES

| Technology & Internet | 12 April 2022

Resilient margins

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- **EBIT margin held strong at 25%, ahead of our estimate, aiding an operating profit beat; order book at all-time high of US$ 11.3bn**
- **We trim FY23/FY24 EPS by 0.8%/2.6% and roll over to a new TP of Rs 4,660 (vs. Rs 4,770); retain BUY given strong demand and deal wins**

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Growth underperforms: TCS's Q4FY22 revenue grew 2.6% QoQ USD, below our estimate of 3.7%. The growth was led by the telecom and media vertical (+5.8% QoQ USD), followed by retail/manufacturing (+4.7%/+3.7%). BFSI grew by a mere 2%. Among major geographies, revenue from North America increased 4.5% QoQ USD and MEA delivered impressive growth at 8%. Among the major demand drivers were cloud, consulting, cognitive business operations, cyber security, IoT and digital engineering, and TCS Interactive. The company added 13 clients QoQ in the US$ 10mn+/20mn+ revenue buckets and 2 in the US$ 50mn+ bucket. Net profit grew 1.6% QoQ USD.

Margin shines: TCS reported a stable EBIT margin QoQ at 25%, outperforming our estimate of 24.3% amid a tight supply environment marked by rising attrition as well as elevated hiring. The company saw only a 90bps QoQ impact from the supply crunch which was offset by operational efficiency despite peak attrition levels of 17.4%. TCS hired more than 35,000 employees in Q4FY22, its highest quarterly figure. SG&A expenses were up 20bps QoQ and subcontracting expenses increased 30bps while travel was down 40bps. The company will effect salary hikes from Apr'22, at levels slightly more than its last round of hikes.

Record deal wins: TCS reported a record TCV of US$ 11.3bn (including two mega deals), with US$ 8.2bn from BFSI and US$ 2.6bn from retail. North America had an order book of US$ 6.1bn in Q4. Ignio signed 36 new clients during the quarter. Cloud adoption in both Horizon I and Horizon II (deals based on cloud-native initiatives) have led to multiple contract wins. Deal pricing has been flattish QoQ but has improved on a full-year basis.

Other takeaways: Europe saw 6%+ growth in Q3 which has normalised due to the high base. TCS plans to announce a new organisation structure with business groups instead of verticals and service lines. It announced final dividend of Rs 22/sh in Q4.

Retain BUY: We tweak estimates to factor in the results and roll valuations to Jun'24, leading to a new TP of Rs 4,660 (vs. Rs 4,770), set at an unchanged 36.5x P/E.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	TCS IN/Rs 3,696
Market cap	US$
Free float	28%
3M ADV	US$ 145.9mn
52wk high/low	Rs 4,043/Rs 3,004
Promoter/FPI/DII	72%/17%/11%

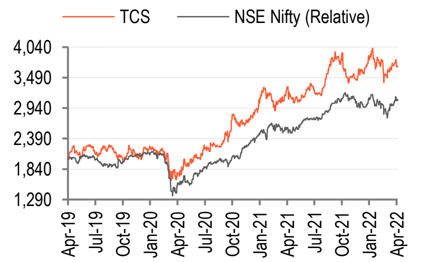
Source: NSE | Price as of 11 Apr 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,641,770	1,917,540	2,182,282
EBITDA (Rs mn)	465,460	530,570	607,976
Adj. net profit (Rs mn)	336,480	383,270	437,015
Adj. EPS (Rs)	90.9	103.6	118.1
Consensus EPS (Rs)	90.9	107.2	119.2
Adj. ROAE (%)	39.2	43.3	43.2
Adj. P/E (x)	40.6	35.7	31.3
EV/EBITDA (x)	29.7	26.1	22.8
Adj. EPS growth (%)	5.5	13.9	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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