FIRST LIGHT

15 September 2022

RESEARCH

BOB Economics Research | WPI

WPI provides relief

BOB Economics Research | Telecom Study

Telecom sector & 5G Auction

KEC International | NOT RATED

Analyst meet takeaways: Headwinds abating

SUMMARY

India Economics: WPI

WPI for Aug'22 has come in at 12.4%, down from the peak of 13.9% in Jul'22, supported by softening global commodity prices. Barring food index, other sub-heads such as manufacturing and fuel, noted further deceleration in inflation in Aug'22. On a MoM basis too, WPI fell by (-) 0.5% following (-) 1% decline in Jul'22. World Bank's pink sheet data suggests that moderation in metal prices continued even in Aug'22, while rice prices have begun to inch up.

Click here for the full report.

India Economics: Telecom Study

India has the second-largest telecom market in the world with the country registering a strong subscriber base over the last decade. Given the recent structural reforms along with the rollout of 5G connectivity, the sector is poised to expand further in the coming years. Against this backdrop, this report attempts to analyze the telecom sector in some detail including auctions, bank credit etc.

Click here for the full report.

Daily macro indicators

Indicator	12-Sep	13-Sep	Chg (%)
US 10Y yield (%)	3.36	3.41	5bps
India 10Y yield (%)	7.14	7.08	(6bps)
USD/INR	79.53	79.15	0.5
Brent Crude (US$/bbl)	94.0	93.2	(0.9)
Dow	32,381	31,105	(3.9)
Hang Seng	19,362	19,327	(0.2)
Sensex	60,115	60,571	0.8
India FII (US$ mn)	**09-Sep**	**12-Sep**	**Chg ($ mn)**
FII-D	6.1	(36.2)	(42.2)
FII-E	285.7	212.9	(72.8)

Source: Bank of Baroda Economics Research

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KEC International

- FY23 order inflow (+15% YoY) and margin guidance remains broadly unchanged
- T&D picking up domestically and also has good international prospects. KECI's timely diversification into rail and civil projects paying off
- Management sees much of the headwinds abating with working capital expected to normalise from Q3 and SAE losses subsiding

Click here for the full report.

WPI

14 September 2022

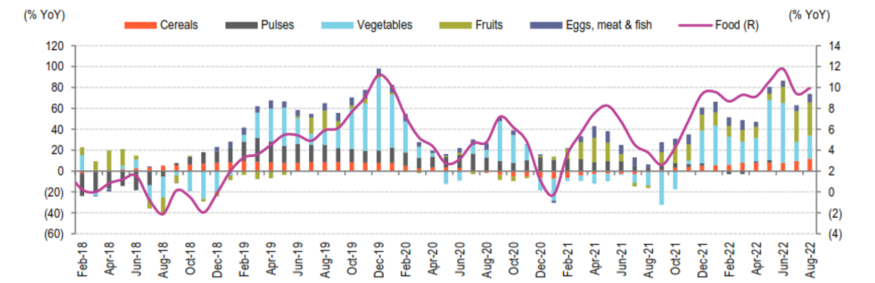
WPI provides relief

Sonal Badhan
Economist

WPI for Aug'22 has come in at 12.4%, down from the peak of 13.9% in Jul'22, supported by softening global commodity prices. Barring food index, other sub-heads such as manufacturing and fuel, noted further deceleration in inflation in Aug'22. On a MoM basis too, WPI fell by (-) 0.5% following (-) 1% decline in Jul'22. World Bank's pink sheet data suggests that moderation in metal prices continued even in Aug'22, while rice prices have begun to inch up.

Food inflation continues to hurt: Headline WPI eased much more than expected (BoB estimate: 13.4%) in Aug'22 to 12.4% from 13.9% in Jul'22, despite pick up in food prices. Food inflation in Aug'22 inched up by 9.9% from 9.4% in Jul'22. Barring prices of milk, all other sub-components registered an increase in inflation. Significant pick up was visible in the case of vegetables (22.3% in Aug'22 versus 18.3% in Jul'22), fruits (31.7% versus 29.4%), eggs, meat & fish (7.9% versus 5.5%), and cereals (11.8% versus 9.8%). Within cereals, prices of both paddy and wheat were higher in Aug'22. Amongst vegetables, while tomato prices cooled off, those of onions, cucumber, bottle guard, okra remained elevated. Prices of pulses (2.6% versus 1.3%) and spices & condiments (23.5% versus 21.9%) too increased for the second consecutive month in Aug'22. These trends were mostly in line with international prices. World Bank's pink sheet shows that international rice prices have moved up by 6.4% in Aug'22 following 0.4% contraction in Jul'22. On the other hand, international prices of wheat have continued moderate in Aug'22 (16.5% versus 27.4% in Jul'22).

Fig 1 – Food inflation inches up again in Aug'22



Source: CEIC, Bank of Baroda Research

Fuel and power drops further: Fuel and power inflation in Aug'22 eased significantly to 33.7% from 43.8% in Jul'22 supported by broad-based moderation. Most significantly, mineral oil index dropped to 45.4% from 59.2% in Jul'22, on the back of decline in international oil prices (+38.6% YoY in Aug'22 versus 41.5% in Jul'22). Electricity price index also cooled off to 25.7% in Aug'22 from 32.4% in Jul'22. Coal prices too rose a slower pace of 2.5% versus 2.7% in the previous month.

TELECOM STUDY

14 September 2022

Telecom sector & 5G Auction

Jahnavi Prabhakar
Economist

India has the second-largest telecom market in the world with the country registering a strong subscriber base over the last decade. Given the recent structural reforms along with the rollout of 5G connectivity, the sector is poised to expand further in the coming years. Against this backdrop, this report attempts to analyze the telecom sector in some detail including auctions, bank credit etc.

Telecom sector

India's digital economy is expected to grow by leaps and bounds and will be valued at US$ 1tn by FY26. Total Internet subscribers in the country is estimated to grow to 900mn in FY26 on the back of robust growth in rural area. In terms of FDI inflows, telecom sector is the 3rd largest sector with over 7% contribution. According to TRAI, the total telephone subscribers in India as of Jun'22 including both wired and wireless stands at 1173 mn. The overall tele density, which is defined as number of telephones per 100 population, signifies telecom penetration in the country is around 85.1%. There are over 800.9 mn broadband subscribers in the country.

As per the Department of Telecommunications (DoT), India is the second largest country with respect to telephone connections. Over 98% of all telephone subscriptions are mobile subscriptions. As part of reforms and in order to boost manufacturing in the telecom sector, the DoT had notified the PLI scheme in Feb'21 with an outlay of over Rs 12,195 cr spread over a 5-year timeline. The scheme is expected to provide incremental employment and production. Furthermore, there were other slew of reforms announced in Sep'21 which included: 1) rationalization of Bank Guarantees and Adjusted Gross revenue 2) tenure of spectrum to be raised from 20 to 30 years, 3) spectrum can be surrendered in 10 years and in order to stimulate investment, 100% FDI in the Telecom sector permitted under the automatic route.

Credit to Telecom sector has grown over the years. After declining by 0.6% in FY18, the sector made a strong comeback, registering a growth of 34.5% in FY19 and continued with this upward momentum, with double digit growth in even FY20. However, given the pandemic induced slowdown, credit to telecom sector dropped by 21.9% in FY21. The following year (FY22), base effect enabled a favorable growth and is expected to climb higher in FY23.

NOT RATED

KEC INTERNATIONAL | Capital Goods | 14 September 2022

Analyst meet takeaways: Headwinds abating

- **FY23 order inflow (+15% YoY) and margin guidance remains broadly unchanged**
- **T&D picking up domestically and also has good international prospects. KECI's timely diversification into rail and civil projects paying off**
- **Management sees much of the headwinds abating with working capital expected to normalise from Q3 and SAE losses subsiding**

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Key takeaways from KECI's (Not Rated) recent analyst meet:

Optimistic outlook: KECI expects order inflows to grow at 15-20% YoY over the next few years, with civil and urban infrastructure forming the next growth engine, followed by railways and transmission & distribution (T&D). Competitive intensity is reducing for large projects, especially in railways, due to the need for bid bonds. Mechanisation and digitisation to enhance engineering capabilities are likely to be the key themes.

Guidance intact: Management retained its 15% order growth estimate for FY23. EBITDA margin in Q2 is expected to hold at Q1 levels (5.1%), and expected to normalized (10%) by FY24. The pipeline remains healthy at Rs 1.15tn driven by T&D – domestic and international. Domestic T&D, in particular, is perking up.

Civil business to replicate growth as rail segment: KECI's timely diversification into railways had offset the muted growth in T&D. Management expects growth in the civil business (mainly data centres, water, residential, commercial & metals projects) to track its rail segment over the next few years. Notably, working capital requirements are relatively lower for the civil segment. Also, the business delivered a near-double-digit margin (9.5%) in Q1FY23 and management expects to exceed 10% by Q1FY24.

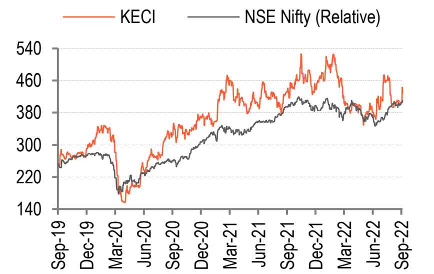
Working capital to normalise from Q3: Net working capital days had risen to 148 in Q1FY23 (+10% QoQ/YoY), which KECI expects will normalise to 130-135 days by FY23-end. Key to this will be (i) normalisation of the inverted GST duty structure which is expected to release Rs 2.5bn-3bn in working capital, and (ii) closure of legacy EPC projects by Q2FY23, unlocking the anticipated milestone payment.

SAE Brazil troubles subsiding: Subsidiary SAE Brazil's troubles largely stem from delays and subsequent cost overruns in its legacy EPC projects. Higher interest rates of 17-18% in Brazil have also exacerbated losses. The company's legacy EPC projects are nearing completion in Q2, and KECI expects its claims worth Rs 2bn-2.5bn to be released upon completion (SAE debt: Rs 4bn). Ex-EPC, SAE Brazil has an order book of Rs 11bn. Management remains hopeful of a turnaround by Q4FY23.

Ticker/Price	KECI IN/Rs 436
Market cap	US$ 1,411mn
Free float	47%
52wk high/low	Rs 550/Rs 345
Promoter/FPI/DII	52%/12%/27%

Source: NSE | Price as of 14 Sep 2022

Stock performance



Source: NSE

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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

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