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FIRST LIGHT

02 March 2023

RESEARCH

BOB ECONOMICS RESEARCH | POLICY RATES

What India-US rates tell us?

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR is likely to remain range-bound

TECH MAHINDRA | TARGET: Rs 1,160 | +5% | HOLD

Sandstorm a potential game changer

AGROCHEMICALS

Agrochem Summit 2023 – Policy support holds the key

DIVERSIFIED FINANCIALS

Credit cards on a strong growth path

SUMMARY

INDIA ECONOMICS: POLICY RATES

A lot of discussion is going on regarding the terminal Fed fund rate. Money market is pricing another peak of above 5% - maybe around 5.5%, which translates to another 75bps rate hike in the current cycle. Previously, anticipation was anchored at a 5% peak. The current high frequency data in the US ranging from services activity, home sales, core capital goods orders, personal spending and inflation all point to buoyant demand conditions. Also labour market conditions have remained tighter with payroll and wage numbers remaining strong. In this context, we see what the difference between India and USA policy rates have been since Apr'22. Also we look at sovereign yield differential to gauge how policy rate differential is translated in the market. Next we try to bring into picture the inflation differential which is a primary guiding factor.

Click here for the full report.

INDIA ECONOMICS: CURRENCY OUTLOOK

Strong macro data from the US coupled with a strong labour market, has raised the likelihood of more rate hikes. Specifically, markets are now expecting at least two more rate hikes of 25bps each in the next two meetings. Another 25bps rate hike in Jun'23 is also on the table. This implies that the Fed terminal fund rate will be much higher than earlier expectations, which has once again fueled a rally in the dollar. DXY has strengthened, putting pressure on all currencies.

Daily macro indicators

Ticker	27-Feb	28-Feb	Chg (%)
US 10Y yield (%)	3.91	3.92	1bps
India 10Y yield (%)	7.45	7.46	1bps
USD/INR	82.85	82.67	0.2
Brent Crude (US$/bbl)	82.5	83.9	1.7
Dow	32,889	32,657	(0.7)
Hang Seng	19,944	19,786	(0.8)
Sensex	59,288	58,962	(0.6)
India FII (US$ mn)	**24-Feb**	**27-Feb**	**Chg ($ mn)**
FII-D	(39.0)	(7.2)	31.8
FII-E	(163.5)	(196.4)	(32.9)

Source: Bank of Baroda Economics Research

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INR has performed relatively better, supported by improvement in external outlook as well as RBI intervention. Oil prices are once again showing upward momentum buoyed by hopes of an economic recovery in China and FPI flows have been volatile. This suggests that INR is likely to remain under pressure. However, we do not expect INR to breach the 83/$ mark as RBI is seemingly looking to defend it. Hence, we expect INR to trade in the range of 82-83/$ in the next fortnight. Focus will be on US inflation and jobs report.

Click here for the full report.

TECH MAHINDRA

- TECHM launches Sandstorm, a network monitoring service that allows clients to remotely measure customer experiences across devices
- New launch expected to generate positive deal win traction and could prove a game-changer in Horizon 3 projects
- Maintain HOLD with unchanged TP of Rs 1,160

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AGROCHEMICALS

- Summit largely focused on improving crop yields through efficient use of land and water, right crop selection and mechanisation
- Industry sought policy support, including easing of approval process and environmental clearances for formulations and active ingredients
- Concerns raised over negative news flow that cast the industry in bad light as well as the flood of spurious products from neighbouring countries

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DIVERSIFIED FINANCIALS

- Differentiated value proposition vis-à-vis UPI behind sustained growth in credit cards; spends logged a 25% CAGR over 9MFY18-9MFY23
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- HDFCB (28% of sector spends) remains in pole position with SBICARD and ICICIB neck and neck for second place

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POLICY RATES

01 March 2023

What India-US rates tell us?

Dipanwita Mazumdar
Economist

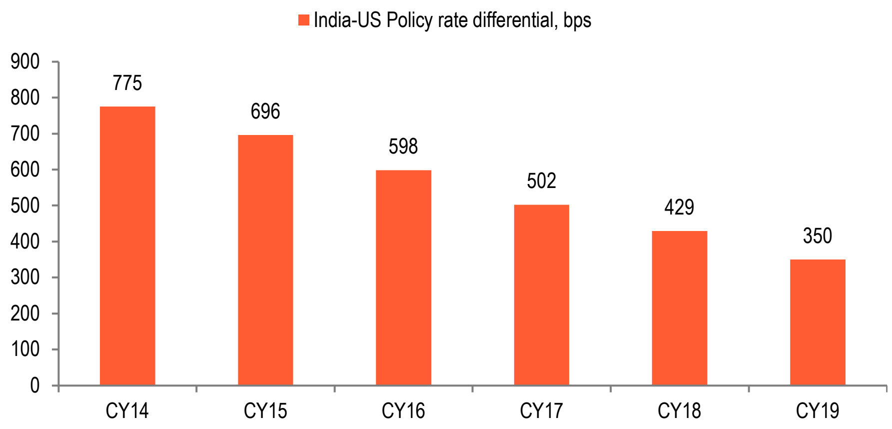
A lot of discussion is going on regarding the terminal Fed fund rate. Money market is pricing another peak of above 5% - maybe around 5.5%, which translates to another 75bps rate hike in the current cycle. Previously, anticipation was anchored at a 5% peak. The current high frequency data in the US ranging from services activity, home sales, core capital goods orders, personal spending and inflation all point to buoyant demand conditions. Also labour market conditions have remained tighter with payroll and wage numbers remaining strong. In this context, we see what the difference between India and USA policy rates have been since Apr'22. Also we look at sovereign yield differential to gauge how policy rate differential is translated in the market. Next we try to bring into picture the inflation differential which is a primary guiding factor.

The study is done for the current year as well as past 5 years (before Dec-2019), to get an idea about what has been the differential rates historically and how much is the current divergence. We exclude the Covid-19 period to even out the volatility.

Policy rate differential

After a prolonged period of ultra-low rates to support the economy, US Fed has already frontloaded 450bps rate hike in the current cycle. On the other hand, RBI's current cycle translates to 250bps rate hike. There prevails much debate on ahead or behind the curve. But the tinkering of policy rate is contingent on underlying macros indeed. In this backdrop, we try to see whether the current policy rate differential is in line with the historical trend.

Fig 1: Historically Policy rate differential have fallen



Source: Bloomberg, Bank of Baroda Research, Note: Policy rate differential=India-US

CURRENCY OUTLOOK

01 March 2023

INR is likely to remain range-bound

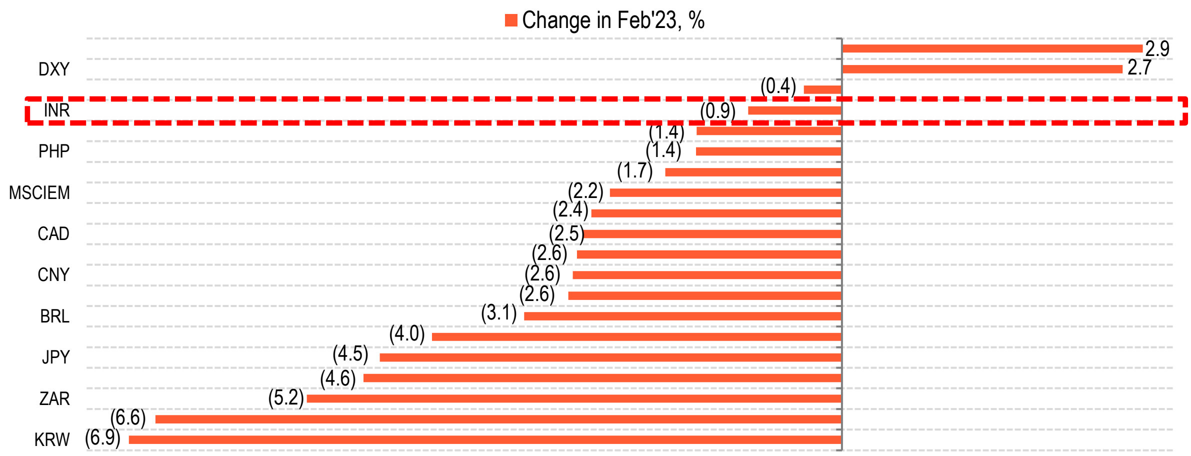
Aditi Gupta
Economist

Strong macro data from the US coupled with a strong labour market, has raised the likelihood of more rate hikes. Specifically, markets are now expecting at least two more rate hikes of 25bps each in the next two meetings. Another 25bps rate hike in Jun'23 is also on the table. This implies that the Fed terminal fund rate will be much higher than earlier expectations, which has once again fueled a rally in the dollar. DXY has strengthened, putting pressure on all currencies. INR has performed relatively better, supported by improvement in external outlook as well as RBI intervention. Oil prices are once again showing upward momentum buoyed by hopes of an economic recovery in China and FPI flows have been volatile. This suggests that INR is likely to remain under pressure. However, we do not expect INR to breach the 83/$ mark as RBI is seemingly looking to defend it. Hence, we expect INR to trade in the range of 82-83/$ in the next fortnight. Focus will be on US inflation and jobs report.

Movement in global currencies

Reversing the trend seen in Jan'23, global currencies once again came under pressure as the dollar regained strength. In Feb'23, DXY strengthened by 2.7% as markets' pricing of Fed future rate trajectory changed dramatically. This in turn was driven by a slew of macroeconomic data which reinforced the view that inflation continues to remain stubbornly high. Core PCE index, Fed's preferred measure of inflation showed a MoM increase in Jan'23. On the other hand, labour market conditions remained strong and the economy added a stellar 517,000 jobs in Jan'23. This suggests that risks to inflation remain tilted to the upside and this was also reiterated by several voting as well as non-voting members of the FOMC. Investors now expect the Fed terminal fund rate in the range of 5.25%-5.50%. This has once again led to a rally in the dollar, albeit the pace is a little more cautious this time around.

Fig 1: Global currencies were mostly lower in Feb'23



Source: Bloomberg, Bank of Baroda Research, Data as of 28 Feb 2023 | Note: Figures in bracket denote depreciation against USD

FLASH NOTE

HOLD
TP: Rs 1,160 | 5%

TECH MAHINDRA

| Technology & Internet | 01 March 2023

Sandstorm a potential game changer

- **TECHM launches Sandstorm, a network monitoring service that allows clients to remotely measure customer experiences across devices**
- **New launch expected to generate positive deal win traction and could prove a game-changer in Horizon 3 projects**
- **Maintain HOLD with unchanged TP of Rs 1,160**

Saptarshi Mukherjee
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Launch of Sandstorm: TECHM has launched Sandstorm, a remote real-time network monitoring and smart device assurance service for telecom players and enterprises. According to the company, this cutting-edge solution allows service providers to remotely measure customer experiences on any device, from smartphones, tablets and virtual reality headsets to smart televisions and connected cars.

Unique solution for telecom players: Per TECHM, Sandstorm is a fully scalable and customisable solution designed to meet the unique requirements of customers. It is intended to help telecom players launch their networks faster by assuring end-to-end call flows from a remote location, eliminating the need for on-site testing by engineers. This apart, it is expected to expedite 5G implementation. We believe that TECHM will successfully resolve deal win challenges in the Horizon 2 and Horizon 3 growth framework.

Expect positive deal traction: We expect Sandstorm to spur positive traction in deal wins for TECHM, especially in Horizon 3 engagements. This apart, we note several positive markers for the company in Q3FY23: (1) enterprise segment crossed US$ 1bn in quarterly revenue, driven by the retail and manufacturing verticals within the enterprise segment; (2) new deal bookings stood at US$ 795mn total contract value (TCV), providing near-term growth visibility, with large wins expected in Q4, and (3) focus on cost optimisation projects in the communications, media & entertainment (CME) vertical, albeit with elongated timelines for deal closure and fewer renewals.

Maintain HOLD: The stock is trading at 14.1x/11.9x FY24E/FY25E EPS. In its quarterly earnings commentary, TECHM indicated that it was unlikely to meet its operating margin guidance of 14% for FY23. Moreover, we believe that portfolio rationalisation will continue in H2FY23, impacting revenue in the near term. Given the subdued revenue and margin outlook, we retain HOLD and continue to value the stock at 12.5x FY25E EPS – ~20% discount to WPRO considering the overhang from sluggish 5G rollout – for an unchanged TP of Rs 1,160.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TECHM IN/Rs 1,100
Market cap	US$ 11.6bn
Free float	64%
3M ADV	US$ 32.9mn
52wk high/low	Rs 1,575/Rs 944
Promoter/FPI/DII	36%/39%/25%

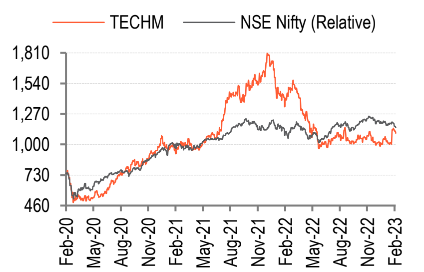
Source: NSE | Price as of 28 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,46,460	5,37,442	6,07,222
EBITDA (Rs mn)	80,201	82,605	99,771
Adj. net profit (Rs mn)	55,662	53,171	68,487
Adj. EPS (Rs)	63.9	60.5	77.9
Consensus EPS (Rs)	63.9	71.6	80.9
Adj. ROAE (%)	21.2	18.4	21.4
Adj. P/E (x)	17.2	18.2	14.1
EV/EBITDA (x)	11.9	11.3	9.2
Adj. EPS growth (%)	26.9	(5.4)	28.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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AGROCHEMICALS

01 March 2023

Agrochem Summit 2023: Policy support holds the key

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Recommendation snapshot

Ticker	Price	Target	Rating
PI IN	3,115	3,800	BUY

Price & Target in Rupees | Price as of 24 Feb 2023

We attended a summit on the agrochemical sector themed “Making India A Manufacturing Hub”, organised by India Chemical News in Delhi. Key takeaways:

Growth opportunities: India ranks second in global agricultural production after China. It is the world’s largest producer of various cereals, pulses, fruits, milk, tea, cotton and many more agricultural commodities. The sector has significant potential for growth given the country’s vast arable land, large population involved in farming and current low productivity. India’s agrochemical exports are growing faster (14%) than China (8%). Its capital cost is the same as that of China while its operating cost is better.

Responsible use of agrochemicals: Indian agriculture is moving towards collectivisation, mechanisation and digitisation in a bid to become more sustainable. Experts at the summit emphasised the importance of sustainable agriculture. Farmer education about optimal agrochemical usage is essential to recast the negative perception surrounding the industry. A key constraint is the shortage of resources available with farmers, making agricultural extension activities critical in terms of providing support and training to cultivators.

Hurdles to growth: While the agrochemical industry has grown in the last decade, there remains a gap between research labs and farmers’ fields. To bridge this gap, experts believe the government must increase its budget for agriculture extension and training services. Indian farmers currently earn only a third of the income of their Chinese counterparts. The sector’s growth is constrained by various hurdles such as a lack of modern equipment, paucity of credit flow and scanty investment.

Busting myths: The industry believes there is a pressing need to dispel the widespread misconceptions among consumers around the use of agrochemicals. CCFI indicated that agri-commodities in India do not carry a high quantity of pesticides. It also explained that Indian farmers use far less agrochemicals per hectare compared to the world’s other large food producers.

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DIVERSIFIED FINANCIALS

01 March 2023

Credit cards on a strong growth path

- **Differentiated value proposition vis-à-vis UPI behind sustained growth in credit cards; spends logged a 25% CAGR over 9MFY18-9MFY23**
- **Cards outstanding crossed 81mn at end-9MFY23 (18% CAGR); spends per card and per transaction also on the rise**
- **HDFCB (28% of sector spends) remains in pole position with SBICARD and ICICIB neck and neck for second place**

Mohit Mangal
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Differentiated model, robust growth: Despite the surging popularity of UPI in India, we believe credit cards will continue to post robust growth given their clear value proposition over prepaid transactions. Aggregate credit card spends have increased at a strong 25% CAGR over 9MFY18-9MFY23 to Rs 10.5tn (20% CAGR over FY18-FY22 to Rs 9.7tn). Notably, the sector has clocked Rs 1tn of spends in each of the months over Apr-Dec'22. The top 7 players constitute over 80% market share, with HDFCB retaining pole position at 28% market share, followed by SBICARD and ICICIBC jostling for second place.

Receivables portfolio posts strong growth: Aggregate receivables (loans on balance sheet) have logged a CAGR of 23% over 9MFY18-9MFY23 to Rs 1.8tn. Loans as a percentage of spends have been rangebound at 14-17%, with the exception of Covid-hit FY21 which saw an increase to 21%. For SBICARD, the only listed pureplay credit card business, the loan-to-spends ratio has been at 16-17% over FY19-FY22, with the exception of FY21 (19%). At end 9MFY23, the ratio stood at 19.6%. Revolvers in the receivables mix remained low compared to pre-Covid levels, though Q3 earnings commentary indicates that EMIs soared.

Momentum in cards outstanding intact despite new norms: Credit cards outstanding have increased at a strong 18% CAGR over 9MFY18-9MFY23 to 81.1mn (18% CAGR over FY18-FY22 to 73.6mn). ICICIBC was the biggest gainer with a 330bps increase over FY18-9MFY23, followed by RBK at 310bps. HDFCB has ceded the most ground, dropping 760bps to 21%, but still maintained its top spot. Despite the RBI's new rule effective Jul'22 mandating the closure of cards inactive for over a year, we note that Q3FY23 cards outstanding was net positive. Also, after stagnating over FY18-FY21, monthly spends per card and per transaction both increased in FY22 and 9MFY23.

Large cross-selling opportunity: Debit card o/s are currently 12x of credit cards in India. The ratio of credit-to-debit cards has risen from 4.4% at end-FY18 to 8.6% at end-9MFY23 but remains low. Even if only 1% of existing debit cardholders are converted to credit cards, it will result in 10-12% growth annually.

Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	750	1,034	BUY

Price & Target in Rupees | Price as of 28 Feb 2023

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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

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