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FIRST LIGHT

13 April 2021

RESEARCH

BOB Economics Research | Weekly Wrap
Second wave a risk to recovery

BOB Economics Research | Inflation and IIP
Industrial output falls, inflation inches up

Tata Consultancy Services | Target: Rs 3,780 | +16% | BUY
Strong contract wins lend a head start for FY22

Power
Expert meeting takeaways – Spot market to take off

SUMMARY

India Economics: Weekly Wrap

Rising global Covid-19 infections pose a risk to global recovery. Israel, US and UK are leading global vaccination drive. Services PMIs moved higher in US, China and Eurozone thus driving global yields higher. Indian yields were lower on account of lower oil prices and RBI's GSAP-1 announcement. INR also fell by 2.2%. India's PMI data moderated. RBI kept the policy rate on hold and will remain accommodative till such time growth does not pick-up on durable basis. We believe reverse repo rate hike will have to wait for H2FY22.

Click here **for the full report.**

India Economics: Inflation and IIP

India's industrial output fell by 3.6% in Feb'21 from 0.9% in Jan'21 led by dip in mining and manufacturing. CPI inflation rose to 5.5% in Mar'21 from 5% in Feb'21 led by jump in food inflation to 4.9% (3.9% in Feb'21). Core inflation remained sticky at 5.9% in Mar'21. Localised lockdowns across states pose a downside risk to our FY22 growth estimate of 11.5%. Food inflation too may be higher than our baseline estimate. Given RBI's lexicographic preference of growth over inflation, we expect a reverse repo hike in H2FY22.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.66	4bps	12bps	94bps
India 10Y yield (%)	6.02	(1bps)	(19bps)	(47bps)
USD/INR	74.75	(0.2)	(2.5)	2.0
Brent Crude (US$/bbl)	62.95	(0.4)	(9.6)	100.0
Dow	33,801	0.9	4.0	42.5
Shanghai	3,451	(0.9)	0.4	22.1
Sensex	49,591	(0.3)	(2.8)	59.2
India FII (US$ mn)	**8 Apr**	**MTD**	**CYTD**	**FYTD**
FII-D	12.0	(312.7)	(2,340.0)	(312.7)
FII-E	280.2	125.6	7,451.9	125.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Tata Consultancy Services

TCS's Q4FY21 revenue growth of 4.2% QoQ CC was broadly in line with our optimistic estimates in a seasonally weak quarter. Growth was broad-based across verticals and geographies. Adj. EBIT margin stood at 26.8%, up 20bps QoQ despite hiring. TCV was strong at US$ 9.2bn. We tweak FY22/FY23 EPS by –1%/–3%, raise our target P/E to 28x (vs. 27.4x) and roll over to a new Mar'22 TP of Rs 3,780 (vs. Rs 3,710). Being the industry leader, TCS will be a prime beneficiary of vendor consolidation during the current technology upcycle. Maintain BUY.

Click here for the full report.

Power

We hosted Arun Kumar, CEO of Kreate Energy, a top 3 player in the Indian power trading market. Mr Kumar has over two decades of experience in the power sector. Key takeaways: (1) electricity spot market volumes to take off, (2) discom reform announcements positive but implementation key, (3) challenges to solar power, (4) Electricity Act 2021 and other regulatory steps positive, (5) opportunities in capex-light segments.

Click here for the full report.

WEEKLY WRAP

12 April 2021

Second wave a risk to recovery

Sameer Narang | Jahnavi
chief.economist@bankofbaroda.com

Rising global Covid-19 infections pose a risk to global recovery. Israel, US and UK are leading global vaccination drive. Services PMIs moved higher in US, China and Eurozone thus driving global yields higher. Indian yields were lower on account of lower oil prices and RBI's GSAP-1 announcement. INR also fell by 2.2%. India's PMI data moderated. RBI kept the policy rate on hold and will remain accommodative till such time growth does not pick-up on durable basis. We believe reverse repo rate hike will have to wait for H2FY22.

Markets

- **Bonds:** Except Germany and China, global 10Y yields closed lower. US 10Y yield fell by 6bps (1.66%) as Fed Chair signalled no rate hike. Crude prices fell by 2.9% (US $ 63/bbl) due to muted demand. India's 10Y yield fell the most by 15bps (6.02%) supported by RBI's decision to conduct GSAP-1 of Rs 1tn in Q1FY22. System liquidity surplus swelled to Rs 6.2tn as on 9 Apr 2021 against Rs 4.6tn in the previous week.

- **Currency:** Except GBP and INR (lower), global currencies closed higher. DXY fell by 0.9% in-line with dip in US 10Y yield. EUR rose by 1.2% as services activity showed recovery. INR depreciated sharply by 2.2% to trade near its lowest since Jul'20, amidst a spike in Covid-19 cases. FII outflows were US$ 187mn.

- **Equity:** Global indices ended mixed with US and Europe closing in green and Asian stocks ending in red. Dovish comments from Fed Chair helped boost sentiment in US and Europe. Sensex fell by 0.9% amidst spike in Covid-19 infections. It was dragged down by banking and power stocks.

- **Covid-19 tracker:** Global cases rose by 4.6mn for the current week versus 4.1mn in the previous week led by India, Germany and France. India added 0.9mn cases in the week versus 0.5mn WoW. Israel has vaccinated 61% of its population, UK at 47% and US at 35%. India is at 6.4%.

- **Upcoming key events:** Globally, Macro prints from US (CPI, industrial production retail sales) and China (exports, GDP, FAI) will be in key focus. Also, rate decisions of BoK and RBNZ are due. In India, CPI, WPI and industrial production data along with Covid-19 infections will be tracked.

INFLATION AND IIP

12 April 2021

Industrial output falls, inflation inches up

India's industrial output fell by 3.6% in Feb'21 from 0.9% in Jan'21 led by dip in mining and manufacturing. CPI inflation rose to 5.5% in Mar'21 from 5% in Feb'21 led by jump in food inflation to 4.9% (3.9% in Feb'21). Core inflation remained sticky at 5.9% in Mar'21. Localised lockdowns across states pose a downside risk to our FY22 growth estimate of 11.5%. Food inflation too may be higher than our baseline estimate. Given RBI's lexicographic preference of growth over inflation, we expect a reverse repo hike in H2FY22.

Sameer Narang
Aditi Gupta | Jahnavi
chief.economist@bankofbaroda.com

IIP contracts sharply: Industrial output contracted at the highest pace in six months at 3.6% in Feb'21 from 0.9% in Jan'21. This was led by sharp drop in both mining and manufacturing output at 5.5% (-2.5% in Jan'21) and 3.7% (-1.3% in Jan'21) respectively in Feb'21. Electricity was the only bright spot as it registered an improvement of 0.1% in Feb'21. Output of primary and intermediate goods contracted at an accelerated pace of 5.1% (+0.7% in Jan'21) and 5.6% (+0.9% in Jan'21) respectively in Feb'21. FMCG and Cap goods output contracted at a slower pace of 3.8% and 4.2% respectively in Feb'21. Consumer durable output surprised positively at 6.3% in Feb'21.

CPI rises further: CPI inflation rose for the third straight month to 5.5% in Mar'21 from 5% in Feb'21. Food inflation accelerated to 4.9% in Mar'21 versus 3.9% in Feb'21. Vegetable prices contracted by 4.8% in Mar'21 versus a decline of 6.3% in Feb'21. On the other hand, prices of fruits rose at a 33-month high of 7.9% (6.3% in Feb'21). Prices of meat and fish too accelerated to 15.1% (11.3% in Feb'21). Oil and fat index remained elevated at 24.9% versus 20.8% in Feb'21. Inflation in pulses (13.3%) and eggs (10.6%) also remained high. The only piece of good news was decline in cereal inflation at 0.7% from 0.3% in Feb'21. Localised lockdowns may drive food inflation higher.

Core inflation elevated: Core inflation remained steady at 5.9% in Mar'21. Moderation in personal care and effects (5.9% from 8.6% earlier) and health (6.2% from 6.3%) was offset by increase in transport and communication to 12.5% in Mar'21 (highest in the current series) from 11.4% in Feb'21, clothing and footwear to 4.4% (from 4.2%), housing to 3.5% (from 3.2%) and recreation and amusement to 6.1% (from 5.8%). State specific lockdowns pose a risk to our growth estimate of 11.5%. Inflation, in particular food inflation may also remain elevated compared to our current baseline forecast.

KEY HIGHLIGHTS

- CPI inflation edged up to 5.5% in Mar'21 from 5% in Feb'21.
- Core inflation remained elevated at 5.9%.
- IIP contracts by 3.6% in Feb'21 from a decline of 0.9% in Jan'21.

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BUY
TP: Rs 3,780 | ⮝ 16%

TATA CONSULTANCY SERVICES | IT Services | 12 April 2021

Strong contract wins lend a head start for FY22

TCS's Q4FY21 revenue growth of 4.2% QoQ CC was broadly in line with our optimistic estimates in a seasonally weak quarter. Growth was broad-based across verticals and geographies. Adj. EBIT margin stood at 26.8%, up 20bps QoQ despite hiring. TCV was strong at US$ 9.2bn. We tweak FY22/FY23 EPS by –1%/–3%, raise our target P/E to 28x (vs. 27.4x) and roll over to a new Mar'22 TP of Rs 3,780 (vs. Rs 3,710). Being the industry leader, TCS will be a prime beneficiary of vendor consolidation during the current technology upcycle. Maintain BUY.

Ruchi Burde | Seema Nayak
research@bobcaps.in

Results in line: TCS reported QoQ revenue growth of 4.2% CC/5% USD, nearly in line with our optimistic estimates of 4.4% CC/5.2% USD. Demand is robust, as indicated by its highest-ever quarterly TCV of US$ 9.2bn, up 3% YoY on a strong base of US$ 8.9bn in Q4FY20.

Geographically, the UK and Europe grew the most at 7-9% QoQ USD. India was strong at 5% USD, followed by North America at 4%. Vertical-wise, BFSI posted stellar growth of 8% QoQ USD. Manufacturing and RCPG both increased by 5% USD each and life sciences was robust at 4%. The strong all-round showing indicates the beginning of a multiyear demand growth cycle wherein we expect TCS to be the prime beneficiary.

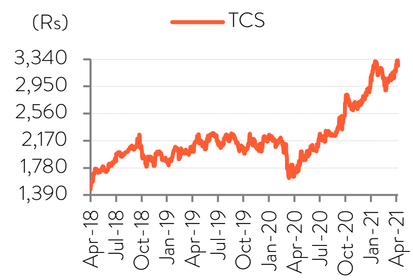
Margins intact: EBIT margin at 26.8% expanded 20bps QoQ, in line with our estimate and within TCS's targeted band of 26-28% – this was despite record quarterly hiring of ~19,400 employees and INR appreciation. Management expects to maintain margins aided by accelerated growth.

Strong BFSI TCV: BFSI is gaining momentum with TCV at an all-time high of US$ 3.9bn (+63% YoY, +50% QoQ). Retail TCV was at US$ 1.4bn. Most deals are being driven by core transformation, app modernisation and cloud migration.

Ticker/Price	TCS IN/Rs 3,247
Market cap	US$ 162.4bn
Shares o/s	3,753mn
3M ADV	US$ 143.0mn
52wk high/low	Rs 3,354/Rs 1,675
Promoter/FPI/DII	72%/17%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,464,630	1,569,490	1,641,770	2,026,582	2,383,493
EBITDA (Rs mn)	395,050	421,100	465,460	590,316	678,489
Adj. net profit (Rs mn)	315,240	323,400	336,480	435,024	499,401
Adj. EPS (Rs)	84.0	86.2	90.9	117.6	135.0
Adj. EPS growth (%)	25.3	2.6	5.5	29.3	14.8
Adj. ROAE (%)	35.5	37.0	39.2	44.2	40.7
Adj. P/E (x)	38.7	37.7	35.7	27.6	24.1
EV/EBITDA (x)	30.7	28.8	26.1	20.6	17.9

Source: Company, BOBCAPS Research

POWER

12 April 2021

Expert meeting takeaways – Spot market to take off

Tarun Bhatnagar
research@bobcaps.in

We hosted Arun Kumar, CEO of Kreate Energy, a top 3 player in the Indian power trading market. Mr Kumar has over two decades of experience in the power sector. Key takeaways:

Electricity spot market volumes to take off: Growth in electricity demand, relatively slower generation capacity additions and recent forced plant shutdowns have led to a sharp increase in volumes and prices in the spot market. As more trading products are offered by exchanges (currently just 3 vs. over 50 offered by exchanges in Europe), participation should improve. Restrictions on open access customers through various charges by states also act as an impediment. Supply to the market will increase further when current restrictions on trading renewable energy certificates (REC) are lifted.

Discom reform announcements positive but implementation key: Poor financials of power distribution companies are the biggest challenge for the sector. Government policy announcements are positive but implementation holds the key. Efforts should be toward turning larger lossmaking discoms around – if successful, this can be replicated in other regions. Steps such as having a legal member on the State Electricity Regulatory Commissions (SERC) would make it tougher for states to sidestep regulations.

Solar challenges: Solar PPA signing has slowed due to challenges faced by many states in managing renewable intermittency (power fluctuations). The increase in duties on solar modules also poses a challenge as this will raise costs even as the quality of Indian modules is yet to reach the levels of imported modules. Meeting renewable portfolio obligations (RPO) has also become a challenge after trading in RECs was barred by the authorities.

Electricity Act 2021 and other regulatory steps positive: The government is likely to table the Electricity Act 2021 bill in the next parliament session. This coupled with CERC resuming activities after being stopped by the Supreme Court should help in the resolution of various issues.

Opportunities in capex-light segments: Historically, companies investing heavily in the power sector have been unable to perform well. Instead, players that use technology and analytics will benefit from the emerging trends.

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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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