

BOB Economics Research | Weekly Wrap

RBI to maintain status quo

Tech Mahindra | Target: Rs 1,040 | +19% | BUY

Analyst meet takeaways – Growth acceleration ahead

Automobiles

Festive Auto Sales – 4Ws do well, 2Ws steady; tractors strong

Oil & Gas

Gas consumption surges

SUMMARY
India Economics: Weekly Wrap

US\$ weakened by 0.7% in the week with positive development on vaccine. Global equity markets too rose. Dow rose by 11.8% MoM in Nov'20, best month in 30 years. Crude oil also went up by 27% in Nov'20. On the domestic front, FPI inflows continue into India, now at US\$ 21.5bn in the current financial year. GDP growth surprised positively at (-) 7.5%. RBI is expected to keep rates on hold as inflation continues to be higher than its target. However, liquidity conditions are likely to remain accommodative.

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

Tech Mahindra

In its analyst meet today, Tech Mahindra (TECHM) emphasised its focus on reviving growth and appeared optimistic about demand traction and margins. Though the 5G timeline stands delayed, management is confident of growth acceleration in FY22 and is targeting a 15% EBIT margin. BFSI, manufacturing and HLS verticals are seeing a growth uptick. Cloud TCV has risen 2x TTM YoY. Factoring guidance given in the analyst meet, we raise FY22/FY23 EPS by 7%/10% and revise our Sep'21 TP to Rs 1,040 (vs. Rs 980). Retain BUY.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.84	0bps	(3bps)	(98bps)
India 10Y yield (%)	5.91	4bps	3bps	(58bps)
USD/INR	74.04	(0.2)	0.1	(3.3)
Brent Crude (US\$/bbl)	47.59	(1.2)	27.0	(21.9)
Dow	29,639	(0.9)	11.8	6.7
Shanghai	3,392	(0.5)	5.2	17.9
Sensex	44,150	(0.2)	11.4	8.2
India FII (US\$ mn)	26 Nov	MTD	CYTD	FYTD
FII-D	(60.3)	(307.8)	(14,537.5)	(4,778.0)
FII-E	406.6	8,321.8	14,868.2	21,471.2

Source: Bank of Baroda Economics Research

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Automobiles

Auto sales continued their upward trajectory in November with healthy YoY growth propelled by festive demand. Domestic PV industry sales increased 9% YoY and HMCL's 2W volumes surged 14%. MHCV sales continued to improve from previous months though volumes still slipped 14% YoY for AL while its LCVs were up 32%. Tractor sales grew 56%/33% YoY for MM/ESC. Our channel checks suggest that 4W festive demand was better than expected while 2W sales languished. Inventories continue to be high for 2Ws.

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Oil & Gas

Natural gas consumption surged to 160.5mmscmd in October (+5% YoY, +12.6% MoM), boosted by the industrials segment. Consumption from the fertiliser sector increased to 50mmscmd (+15% YoY), matched by other industrials at 51mmscmd (flat YoY). Power sector offtake declined to 31mmscmd (-35% MoM, +6.4% YoY) while CGD showed some recovery at 28mmscmd (+9% MoM, -3% YoY). This augurs well for our investment argument favouring B2B gas utilities such as GAIL, Petronet LNG and Gujarat State Petronet.

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WEEKLY WRAP

01 December 2020

RBI to maintain status quo

US\$ weakened by 0.7% in the week with positive development on vaccine. Global equity markets too rose. Dow rose by 11.8% MoM in Nov'20, best month in 30 years. Crude oil also went up by 27% in Nov'20. On the domestic front, FPI inflows continue into India, now at US\$ 21.5bn in the current financial year. GDP growth surprised positively at (-) 7.5%. RBI is expected to keep rates on hold as inflation continues to be higher than its target. However, liquidity conditions are likely to remain accommodative.

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Markets

- **Bonds:** Global 10Y yield closed mixed. US 10Y yield fell by 1bps (0.84%) amidst rising jobless claims. UK 10Y yield fell by 1bps (0.31) over progress in trade talks with EU. Germany 10Y yield rose by 1bps (-0.57%) as services economy slowed down. Oil prices rose by 3.3% (US\$ 48/bbl) with hope of a potential vaccine to revive economic activity. Thus, India's 10Y yield rose by 1bps (5.91%). System liquidity surplus rose to Rs 5.4tn as on 27 Nov 2020 compared with Rs 5.2tn in the previous week.
- **Currency:** Except GBP (flat), other global currencies closed higher against the dollar. DXY index fell by 0.7% in the week. Dollar weakened as risk appetite of investors improved supported by progress on vaccine development. INR appreciated by 0.1% in the week supported by foreign inflows of US\$ 1.2bn.
- **Equity:** Barring FSTE and Shanghai Comp, other global indices closed higher. Positive flash manufacturing PMIs and hopes of an effective vaccine boosted risk sentiment. Dax rose even as services activity was weak and consumer confidence fell in Germany. Following global cues, Sensex rose by 0.2%, led by metals, consumer durables and realty stocks. FPI inflows have now reached US\$ 21.5bn in current FYTD.
- **Upcoming key events:** In current week, markets will await final manufacturing and services PMI data of major economies. Apart from this, US employment data will also shed light on underlying labour market conditions. On the domestic front, markets await RBI's policy decision, PMI data and progress of Covid-19 cases.



BUY

TP: Rs 1,040 | ▲19%

TECH MAHINDRA

| IT Services

| 01 December 2020

Analyst meet takeaways – Growth acceleration ahead

In its analyst meet today, Tech Mahindra (TECHM) emphasised its focus on reviving growth and appeared optimistic about demand traction and margins. Though the 5G timeline stands delayed, management is confident of growth acceleration in FY22 and is targeting a 15% EBIT margin. BFSI, manufacturing and HLS verticals are seeing a growth uptick. Cloud TCV has risen 2x TTM YoY. Factoring guidance given in the analyst meet, we raise FY22/FY23 EPS by 7%/10% and revise our Sep'21 TP to Rs 1,040 (vs. Rs 980). Retain BUY.

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Huge 5G opportunity: Despite 5G timeline delays due to Covid-19, TECHM has identified key areas of collaboration with communication service providers (CSP) such as: (1) supply chain transformation, (2) open network on cloud, (3) intelligent & cognitive managed operations, (4) digital OSS, and (5) enterprise network modernisation. 5G is potentially a ~US\$ 130bn market, which will be shared by OEMs, CSPs and IT companies. This still gives TECHM enough room for growth.

Within 5G, the areas of 'open 5G network' and 'network on cloud' are expected to grow at 65-70% and 20-25% CAGR respectively over CY20-CY25. TECHM has developed a network automation and managed services framework called 'Netops.ai' as its own organic product in the 5G field.

Growth acceleration in FY22: TECHM has entered a repair phase in H2FY21 following the Covid outbreak and management expects growth to accelerate in FY22. Its enterprise segment (60% of revenue) is seeing increased demand from the BFSI, manufacturing and HLS verticals. TECHM expects to achieve at least high-single-digit YoY growth (ex-5G). Management also has an ambitious EBIT margin target of 15% for FY22 (vs. 11.6% in FY20). BPS segment's uplifted margins are expected to sustain in the near-to-midterm due to cost reductions coming from relaxed work-from-home guidelines.

Ticker/Price	TECHM IN/Rs 877
Market cap	US\$ 10.4bn
Shares o/s	873mn
3M ADV	US\$ 64.5mn
52wk high/low	Rs 890/Rs 471
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	347,421	368,677	385,822	448,388	506,640
EBITDA (Rs mn)	63,368	57,261	66,649	85,553	97,783
Adj. net profit (Rs mn)	42,975	42,505	45,483	55,259	63,907
Adj. EPS (Rs)	47.7	48.3	51.7	62.8	72.7
Adj. EPS growth (%)	11.9	1.2	7.0	21.5	15.6
Adj. ROAE (%)	21.4	19.8	19.4	21.0	21.6
Adj. P/E (x)	18.4	18.1	17.0	14.0	12.1
EV/EBITDA (x)	12.0	13.3	11.4	8.7	7.2

Source: Company, BOBCAPS Research




AUTOMOBILES

01 December 2020

Festive Auto Sales: 4Ws do well, 2Ws steady; tractors strong

Auto sales continued their upward trajectory in November with healthy YoY growth propelled by festive demand. Domestic PV industry sales increased 9% YoY and HMCL's 2W volumes surged 14%. MHCV sales continued to improve from previous months though volumes still slipped 14% YoY for AL while its LCVs were up 32%. Tractor sales grew 56%/33% YoY for MM/ESC. Our channel checks suggest that 4W festive demand was better than expected while 2W sales languished. Inventories continue to be high for 2Ws.

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PV sales rise: Maruti's (MSIL) dispatches increased 2% YoY to 153.2k units in Nov'20 with exports rising sharply by 30%. Growth was led by the midsize segment (+29% albeit off a low base), vans (+10%) and UVs (+2%). Our dealer checks suggest that 'WagonR' and 'Ertiga' formed ~50% of sales during the festive season and the supply from MSIL to dealers fell short of demand. PV sales for M&M (MM) were up 24% YoY while Hyundai Motors saw a 9% rise. New entrant KIA continued to outperform, growing 50% YoY. Tata Motors also posted strong 104% growth.

2W sales steady; 3Ws struggle: Hero's (HMCL) wholesale volumes surged 14% YoY to 591.1k in Nov'20, with scooter sales clocking 32% growth and motorcycles increasing 13% YoY. 2W sales for Bajaj Auto (BJAUT) rose 12% YoY to 384.9k, while TVS Motor (TVSL) saw a 25% increase to 311.5k units. 3W sales for TVSL and BJAUT continued to languish, falling 35% and 38% YoY respectively. Royal Enfield reported total 2W sales of 63.8k units (+6% YoY).

MHCV sales improving on monthly basis: Ashok Leyland's (AL) CV sales increased 5% YoY to 10.7k units. MHCVs continued to improve MoM but were down 14% YoY, whereas LCVs were up 32% YoY. In FY21 YTD, AL's sale volumes have plunged 50% YoY, led by a steep 66% drop in MHCVs and a 26% decline in LCVs.

Tractors dispatches strong on low inventory levels: MM sold 32.7k tractors (+56% YoY) in Nov'20 and competitor Escorts (ESC) sold 10.2k units (+33% YoY). Tractor demand outlook remains healthy. According to MM, demand continues to be robust, fuelled by an excellent festive season with strong retail sales during Dhanteras and Diwali and lower inventories at the dealer level.



OIL & GAS

01 December 2020

Gas consumption surges

Consumption spikes on fertiliser plant offtake: Natural gas consumption surged to 160.5mmscmd in October (+5% YoY, +12.6% MoM), boosted by the industrials segment. Consumption from the fertiliser sector increased to 50mmscmd (+15% YoY), matched by other industrials at 51mmscmd (flat YoY). Power sector offtake declined to 31mmscmd (-35% MoM, +6.4% YoY) while CGD showed some recovery at 28mmscmd (+9% MoM, -3% YoY). This augurs well for our investment argument favouring B2B gas utilities such as GAIL, Petronet LNG and Gujarat State Petronet.

Industrials continue to take advantage of low prices: The industrials sector is driving gas consumption due to the decline in average gas prices – long-term LNG remains below US\$ 6/mmbtu while domestic gas prices were slashed by ~25% from Oct'20. The spike in spot LNG to >US\$ 7/mmbtu levels may impact consumption in certain pockets but the average gas price for industrials still trends ~20% lower YoY. LNG consumption at 103mmscmd (+27%) is close to all-time high, primarily led by low prices for long-term LNG contracts.

Domestic gas production recovers a bit: Gas production improved to 80.6mmscmd in October (+5% MoM). ONGC and Oil India's output increased to 63.4mmscmd (flat YoY, +6% MoM) and 7.4mmscmd (+10% YoY) respectively. Power and fertiliser would be key consumers of domestic gas over the next few months given low prices and could more than make up for any decline in consumption from CGD.

GAS CONSUMPTION TREND

(mmscmd)	Oct'20	Oct'19	YoY (%)	Sep'20	MoM (%)	H1FY21	H1FY20	YoY (%)
Fertiliser	50.2	43.5	15.4	26.9	86.5	44.7	42.2	5.9
Power	31.1	29.2	6.4	47.5	(34.6)	33.5	33.4	0.3
CGD	28.4	29.2	(3.0)	26.1	8.5	18.6	28.0	(33.5)
Other Industrials:	51.0	51.3	(0.6)	42.1	21.2	52.2	50.6	3.1
Refineries	21.8	21.7	0.3	21.3	2.2	24.7	20.5	20.4
Petrochemicals	9.4	9.7	(3.3)	5.7	66.2	8.4	10.0	(15.6)
Miscellaneous	19.7	19.8	(0.3)	15.1	31.0	19.1	20.1	(5.2)
Total	160.5	153.2	4.8	142.6	12.6	149.0	154.2	(3.4)

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG IN	330	BUY
IGL IN	565	BUY
GUJGA IN	400	BUY
GUJS IN	270	BUY
MAHGL IN	750	SELL
GAIL IN	155	BUY

Target in Rupees

GAS CONSUMPTION

(mmscmd)	Oct'20	Oct'19	YoY (%)
Fertiliser			
Domestic	13.4	19.3	(30.8)
R-LNG	36.8	24.2	52.1
Total	50.2	43.5	15.4
Power			
Domestic	18.6	21.2	(12.0)
R-LNG	12.4	8.0	233.9
Total	31.1	29.2	55.4
CGD			
Domestic	14.9	15.8	(5.7)
R-LNG	13.5	13.4	0.2
Total	28.4	29.2	(3.0)
Other Industrials			
Domestic	10.4	15.5	(33.3)
R-LNG	40.6	35.8	13.5
Total	51.0	51.3	(0.6)
Total Consumption	160.5	153.2	4.8
Total Domestic	57.3	71.8	(20.3)
Total R-LNG	103.3	81.4	26.9

Source: PPAC, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

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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