FIRST LIGHT

13 April 2023

RESEARCH

BOB ECONOMICS RESEARCH | IMF WORLD ECONOMIC OUTLOOK

IMF flags risks to recovery

BOB ECONOMICS RESEARCH | CPI AND IIP

CPI cools, IIP growth stable

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Rate hike off the table; Inflation holds the key

HDFC BANK | TARGET: Rs 1,943 | +15% | BUY

Q4 likely to see sustained growth momentum

TATA CONSULTANCY SERVICES | TARGET: Rs 3,580 | +10% | HOLD

Steady quarter but macro headwinds cloud outlook

ABB INDIA | TARGET: Rs 3,220 | +1% | HOLD

Annual report highlights – Agile business model

Daily macro indicators

Ticker	10-Apr	11-Apr	Chg (%)
US 10Y yield (%)	3.42	3.43	1bps
India 10Y yield (%)	7.22	7.21	(1bps)
USD/INR	81.99	82.13	(0.2)
Brent Crude (US$/bbl)	84.2	85.6	1.7
Dow	33,587	33,685	0.3
Hang Seng	20,331	20,485	0.8
Sensex	59,847	60,158	0.5
India FII (US$ mn)	**06-Apr**	**10-Apr**	**Chg ($ mn)**
FII-D	37.7	93.5	55.8
FII-E	55.4	168.9	113.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: IMF WORLD ECONOMIC OUTLOOK

The International Monetary Fund (IMF) in its recent report has flagged risks to the global growth recovery. Recognizing the impact of steep monetary policy tightening as well as signs of stress in the global banking sector, growth forecasts for major economies have been trimmed. For India, growth has been projected at 5.9% for FY24, significantly lower than RBI's forecast of 6.5%. We maintain our GDP estimate in the range of 6%-6.5%; however risks remain on both upside and downside and will revisit our forecasts based on incoming data.

Click here **for the full report.**

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INDIA ECONOMICS: CPI AND IIP

CPI print in Mar'23 got comfort from a favourable statistical base. For FY23, inflation averaged to 6.7%, 20bps higher than RBI's estimate. Going forward, even in H1FY24, favourable base would comfort India's CPI. Apart from this, normal monsoon would comfort cereal inflation, which is noting some moderation off late. However, any upside risks cannot be absolutely ruled out in the current juncture. This is on account of volatility in oil and gold prices. Apart from this, deviations of monsoon from its normal pattern is also likely in the face of El Nino. Also generally in H1, vegetable prices see an uptrend due to seasonal factors. However, we do not foresee any significant uptick in inflation H1FY24. This is likely to keep RBI in a wait and watch mode. Any deviation of the actual print from its forecast will be viewed with caution and the' pivot' action might swing both ways contingent on the inflation trajectory in the near term. On the growth front, IIP data came in above our expectation, driven by a favorable base. The sequential numbers reflect some pain underneath. Going forward, weak exports due to uncertainty on external front also poses considerable risks to production data.

Click here for the full report.

INDIA ECONOMICS: MONTHLY CHARTBOOK

All eyes were around the surprise pause delivered by RBI. OIS curve immendiately responded with 2-month paper falling by 14bps post policy. On growth front, domestic high frequency indicators reflected mixed picture. Even the credit numbers have started showing the impact of transmission of earlier rate hike, thus moderating a bit in Mar'23. Going forward, with some degree of slowdown in India's growth in FY24, monetary tightening seems off the table. India's 10Y yield has also shown some moderation post RBI's policy. We expect the CPI to soften to 5.8%. The Fed rhetoric has again changed with markets now pricing a 71% probability for a rate hike of 25bps. Hence some pressure on DXY and thus INR cannot be ruled out.

Click here for the full report.

HDFC BANK

- Expect a healthy March quarter with deposits outpacing loan growth (196bps QoQ decline in CD ratio)
- NIM forecast to reduce 15bps QoQ on a higher cost of funds; CI ratio likely to remain flat at 39.5%
- We pare FY24/FY25 PAT estimates 1%/8% and retain BUY with a revised TP of Rs 1,943 (vs. Rs 2,000)

Click here for the full report.

TATA CONSULTANCY SERVICES

- Q4 dollar revenue growth of 1.7% QoQ in line with our estimate and broad-based across verticals
- EBIT margin strong at 24.5% but 40bps below our forecast; order book stable at US$ 10bn
- Maintain HOLD with unchanged TP of Rs 3,580, set at 25x FY25E EPS

Click here **for the full report.**

ABB INDIA

- CY22 order inflows strong at Rs 100bn (+31% YoY) and revenue growth robust at 24% YoY
- Portfolio oriented towards short-to-medium-cycle orders with rising revenue share of products (80% vs. 63% in CY16) over projects
- Balance sheet healthy with cash & equivalents at Rs 36.4bn and ROE at 15.3%; retain HOLD, TP unchanged at Rs 3,220

Click here **for the full report.**

IMF WORLD ECONOMIC OUTLOOK

12 April 2023

IMF flags risks to recovery

The International Monetary Fund (IMF) in its recent report has flagged risks to the global growth recovery. Recognizing the impact of steep monetary policy tightening as well as signs of stress in the global banking sector, growth forecasts for major economies have been trimmed. For India, growth has been projected at 5.9% for FY24, significantly lower than RBI's forecast of 6.5%. We maintain our GDP estimate in the range of 6%-6.5%; however risks remain on both upside and downside and will revisit our forecasts based on incoming data.

Aditi Gupta
Economist

Growth projections

In the latest World Economic Outlook report, IMF has projected global GDP growth to decelerate to 2.8% in CY23 from 3.4% in CY22. It notes that while growth had shown signs of recovering in early 2023, developments pertaining to financial sector instability in major economies along with monetary policy tightening by global central banks is pushing the World towards a "hard landing". Notably, Advanced Economies (AEs) have been the most severely impacted. Growth in AEs is expected to slow down precipitously to 1.3% in CY23 from 2.7% in CY22. Within this group, UK and Germany are likely to experience a recession in CY23, with growth expected to contract by 0.3% and 0.1% respectively. For Euro Area as a whole, GDP is expected to rise by only 0.8%, after increasing by 3.5% in CY22. Even in US, growth will be lower at 1.6% compared with a 2.1% increase in CY22. Japan is the only major economy which may witness an expansion in GDP growth in CY23..

Table 1: Global growth expected to moderate in CY23

Country	2022	2023E	2024E
World	**3.4**	**2.8**	**3.0**
Advanced economies (AEs)	**2.7**	**1.3**	**1.4**
Euro area	3.5	0.8	1.4
--France	2.6	0.7	1.3
--Germany	1.8	(0.1)	1.1
Japan	1.1	1.3	1.0
UK	4.0	(0.3)	1.0
US	2.1	1.6	1.1
Emerging market and developing economies (EMDEs)	**4.0**	**3.9**	**4.2**
Brazil	2.9	0.9	1.5
China	3.0	5.2	4.5
India	6.8	5.9	6.3
Russia	(2.1)	0.7	1.3
South Africa	2.0	0.1	1.8

Source: IMF World Economic Outlook Database April 2023, Bank of Baroda Research | For India 2023 refers to FY23 and 2024 refers to FY25

CPI AND IIP

12 April 2023

CPI cools, IIP growth stable

Dipanwita Mazumdar
Economist

CPI print in Mar'23 got comfort from a favourable statistical base. For FY23, inflation averaged to 6.7%, 20bps higher than RBI's estimate. Going forward, even in H1FY24, favourable base would comfort India's CPI. Apart from this, normal monsoon would comfort cereal inflation, which is noting some moderation off late. However, any upside risks cannot be absolutely ruled out in the current juncture. This is on account of volatility in oil and gold prices. Apart from this, deviations of monsoon from its normal pattern is also likely in the face of El Nino. Also generally in H1, vegetable prices see an uptrend due to seasonal factors. However, we do not foresee any significant uptick in inflation H1FY24. This is likely to keep RBI in a wait and watch mode. Any deviation of the actual print from its forecast will be viewed with caution and the' pivot' action might swing both ways contingent on the inflation trajectory in the near term. On the growth front, IIP data came in above our expectation, driven by a favorable base. The sequential numbers reflect some pain underneath. Going forward, weak exports due to uncertainty on external front also poses considerable risks to production data.

CPI inflation moderates

CPI inflation eased: CPI inflation eased to its lowest since Dec'22 to 5.7% in Mar'23 compared to 6.4% in Feb'23 and against our estimate of 5.8%. This was on account of favourable base (7% in Mar'22 from 6.1% in Feb'22). For FY23, headline CPI averaged to 6.7% against RBI's estimate of 6.5%.

Food inflation: CPI food index moderated to 4.8% in Mar'23 from 6% in Feb'23, on YoY basis. Amongst major food items, oils and fats (-7.9% in Mar'23 from -0.5% in Feb'23), meat and fish (-1.4% from 3.3%), spices (18.2% from 20.2%-albeit double digit) and cereals (15.3% from 16.7% -albeit double digit), showed moderation.

On a MoM basis, cereals, egg, oils and fats and sugar prices showed decline in Mar'23. However, fruits, vegetables, pulses and milk prices showed an uptick. In Apr'23, amongst major essential commodities, milk and pulses prices have shown an increase. On the other hand, comfort would persist from cereals, due to falling rice and wheat prices as well as from edible oil prices.

In FY23, food inflation rose to 6.6% from 3.8% in FY22. Going forward we expect, food inflation to soften on account of normal monsoon, falling commodity prices and progressive normalization of supply chains.

Core CPI (excl. food and fuel) came down to 5.8% in Mar'23 from 6.1% in Feb'23. Major comfort came from moderation in personal care and effects (8.3% from 9.4%). This is despite ~3.3% increase in international gold prices in Mar'23 on MoM basis. Apart from this, recreation and amusement (4.3% from 4.9%), transport and communication (4% from 4.5%) and household goods and services (7% from 7.4%) also comforted core.

Rate hike off the table; Inflation holds the key

All eyes were around the surprise pause delivered by RBI. OIS curve immendiately responded with 2-month paper falling by 14bps post policy. On growth front, domestic high frequency indicators reflected mixed picture. Even the credit numbers have started showing the impact of transmission of earlier rate hike, thus moderating a bit in Mar'23. Going forward, with some degree of slowdown in India's growth in FY24, monetary tightening seems off the table. India's 10Y yield has also shown some moderation post RBI's policy. We expect the CPI to soften to 5.8%. The Fed rhetoric has again changed with markets now pricing a 71% probability for a rate hike of 25bps. Hence some pressure on DXY and thus INR cannot be ruled out.

Eyeing sustainable demand: High frequency indicators have been signalling mixed movement with electricity demand and non-oil –non gold imports registering moderation. However, steady growth in personal loan, digital payment and pick up in electronic imports have surprised positively. Sequentially, passenger vehicle sale have registered improvement. RBI's Consumer confidence (87 from 84.8) recovered from historic low.On rural front, sequential improvement in two wheeler sales along with robust rabi sowing and higher demand for work (MGNREGA) is positive. SKYMET has projected below normal monsoon threat of El Nino while IMD's expects normal one.

Centre set to meet fiscal target: Union government managed to bring down its fiscal deficit (% of GDP) as of Feb'23 to 6.4% from 6.9% as of Jan'23 (12MMA basis). As centre mainly front loads its spending, the momentum eases towards the end of the year and overall expenditure registered 11.1% growth (FYTD basis) versus 12.8% noted as of Jan'23. Capex growth moderated (21.7% versus 29%) more than revenue expenditure (9.2% versus 9.7%). So far, centre has met 83% of its overall expenditure target, 81% of its capex target and 84% of its revenue spending target. On the revenue front, gross tax collections eased in Feb'23 (12% versus 12.6%), while net revenue jumped (10.6% versus 4.4%). So far, government has collected 78% of the targeted amount in direct taxes, 91% in indirect taxes and 84% in net revenue.

India's 10Y yield to remain stable: India's 10Y yield fell by 12bps in Mar'23, in line with major global yields. In Apr'22, India's 10Y yield fell by another 11bps. This is following RBI's surprise move of a pause in policy rate against market expectation of 25bps hike. Even the 2-month OIS paper has fallen sharply by 14bps and is not pricing in any more rate hike. While situation in the global yields have reversed again as market are pricing in a 71% probability of 25bps hike in US Fed fund rate due to stickiness in wage data. Overall we expect India's 10Y yield to remain stable. Also any deficit in liquidity is likely to be supported by RBI through its fine tuning operations.

INR appreciates: INR has seen a positive momentum in the last few weeks, amidst an improvement in risk sentiment and softening in dollar. Rangebound oil prices as well as buoyant services receipts have also worked in favour of the rupee. We do foresee further gains for INR. This is because while the Fed may hike rates by another 25bps in May'23, softening domestic activity may force it to lower rates in H2CY23. This will keep the dollar under pressure. Further, despite the surprise production cuts by OPEC+, oil prices have not jumped up significantly which is positive for India's trade deficit. Resilience in services earnings and remittances also suggests that the external sector is well insulated against a drop in merchandise exports.

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

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BUY
TP: Rs 1,943 | ↑ 15%

HDFC BANK | Banking | 12 April 2023

Q4 likely to see sustained growth momentum

- **Expect a healthy March quarter with deposits outpacing loan growth (196bps QoQ decline in CD ratio)**
- **NIM forecast to reduce 15bps QoQ on a higher cost of funds; CI ratio likely to remain flat at 39.5%**
- **We pare FY24/FY25 PAT estimates 1%/8% and retain BUY with a revised TP of Rs 1,943 (vs. Rs 2,000)**

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Sustained growth momentum: Per business updates issued by HDFCB, loan growth has improved by 6.2% QoQ in Q4FY23 from 1.8% in Q3, albeit with some moderation in YoY growth from the previous quarter (16.9% vs. 19.5%). Credit offtake was mainly led by a focus on commercial and rural banking (9.5% QoQ, 30% YoY) as well as retail (5% QoQ, 21% YoY), while wholesale growth remained muted (4.5% QoQ, 12.5% YoY).

Deposits increased 8.7% QoQ (20.8% YoY) vs. 3.6% QoQ (19.9% YoY) in Q3FY23, outpacing loan growth, resulting in a 196bps QoQ drop in CD ratio. The high sequential deposit growth was driven by an increase in retail deposits (7.5% QoQ, 23.5% YoY), which are likely to remain in focus. CASA ratio stood at 44.4% vs. 44% in Q3FY23.

NII and PAT to stay flat QoQ: Given robust business growth, we expect NII to rise 22% YoY in Q4FY23 while staying flat on a sequential basis due to a higher cost of funds from increased deposit cost. NIM (calc.) is thus projected to decline 15bps QoQ to 4.2% (+22bps YoY). Operating cost is likely to moderate QoQ and CI ratio could be flat at 39.5%. In terms of provisions, we expect credit cost to remain flattish QoQ at 81bps (75bps in Q3). GNPA and NNPA are forecast at 1.3% and 0.4% respectively with 72.5% PCR. We estimate flat sequential PAT at Rs 123.1bn with a 22% jump YoY.

Estimates pared: HDFCB is likely to deliver a solid Q4FY23 performance although we do anticipate some moderation in credit offtake, leading us to tone down our FY24/FY25 loan and deposit growth estimates by 4%/5% and 1%/3% respectively, while reducing PAT forecasts by 1%/8%. The bank's continued focus on retail, commercial and rural banking is likely to aid margins.

Retain BUY: Over FY22-FY25, we expect HDFCB to post a robust credit CAGR of 18.6% and PPOP CAGR of 15% backed by healthy business dynamics. Credit quality is likely to remain stable at current levels with ample provisioning (70%). We bake in a 17% PAT CAGR with ROA/ROE of 1.9%/17.7% in FY25. Considering the healthy growth outlook, we retain BUY. Post estimate revision, we have a new SOTP-based TP of Rs 1,943 (vs. Rs 2,000), set at 3.5x FY25E ABV (vs. 3.3x) based on the Gordon Growth Model and add in Rs 58/sh for subsidiaries.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,685
Market cap	US$ 114.5bn
Free float	74%
3M ADV	US$ 211.1mn
52wk high/low	Rs 1,702/Rs 1,272
Promoter/FPI/DII	21%/45%/34%

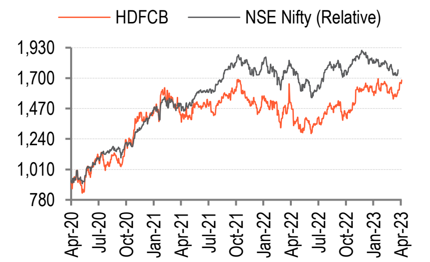
Source: NSE | Price as of 12 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income	720,096	865,531	1,011,732
NII growth (%)	11.0	20.2	16.9
Adj. net profit (Rs mn)	369,614	443,731	512,404
EPS (Rs)	66.8	79.8	91.9
Consensus EPS (Rs)	0.0	0.0	0.0
P/E (x)	25.2	21.1	18.3
P/BV (x)	3.9	3.5	3.0
ROA (%)	1.9	2.0	2.0
ROE (%)	16.7	17.3	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 3,580 | 10%

TATA CONSULTANCY SERVICES | Technology & Internet | 12 April 2023

Steady quarter but macro headwinds cloud outlook

- Q4 dollar revenue growth of 1.7% QoQ in line with our estimate and broad-based across verticals
- EBIT margin strong at 24.5% but 40bps below our forecast; order book stable at US$ 10bn
- Maintain HOLD with unchanged TP of Rs 3,580, set at 25x FY25E EPS

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Broad-based revenue growth: Considering recent global headwinds in the BFSI space, TCS has reported a steady Q4FY23 performance with dollar revenue growth of 1.7% QoQ and 7.5% YoY to US$ 7.2bn. The quarter saw a broad-based uptick across services, led by cloud, consulting & service integration, cognitive business operations and enterprise application services. Revenue growth was driven by North America (+9.6% CC YoY) and the UK (+17% CC YoY), along with market share gains through vendor consolidation. All the verticals grew, with a strong uptick in retail & CPG (+13% CC YoY) and life sciences & healthcare (+12.3% CC YoY).

Deal wins to drive growth: TCS registered deal bookings worth US$ 10bn in Q4, with a book-to-bill ratio of 1.4x (vs. 1.1x in Q3FY23), above the average deal TCV of US$ 8.4bn for the last six quarters. Wins included contracts worth US$ 3.1bn in BFSI and US$ 1.3bn in retail & CPG, with US$ 5bn coming from North America. TCS also saw positive traction in cost takeout and transformation projects

Hiring strategy led to higher utilisation: A meagre addition of ~900 employees in Q4 led to a total addition of ~22,000+ staff which pushed up the utilisation Attrition decreased to 20% in Q4 (-120bps QoQ), and management expects further moderation in FY24.

Margin expected to stabilise at 25% near term: TCS's EBIT margin remained flattish at 24.5%in Q4 as pressure from higher onsite expenses offset utilisation gains. We are likely to see improvement by end-H1FY24 on the back of a more efficient employee pyramid, lower subcontracting costs and productivity gains as it appears that the high costs towards backfilling attrition, wage revision, subcontracting and capacity building have peaked out.

Maintain HOLD: The stock is trading at 24.7x/22.6x FY24E/FY25E EPS. We believe TCS is well positioned to deliver industry-leading growth and margins in the long run. However, considering the current volatile macro environment, poor quality of deal wins and delays in client decision-making, we retain HOLD and continue to value the stock at 25x FY25E EPS for an unchanged TP of Rs 3,580.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TCS IN/Rs 3,242
Market cap	US$ 144.5bn
Free float	28%
3M ADV	US$ 72.4mn
52wk high/low	Rs 3,710/Rs 2,926
Promoter/FPI/DII	72%/17%/11%

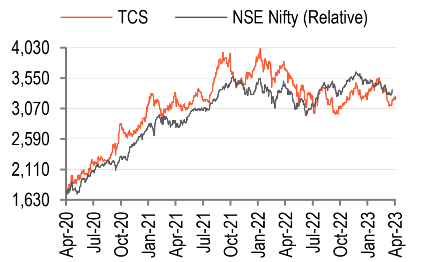
Source: NSE | Price as of 12 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	19,17,540	22,23,757	24,76,435
EBITDA (Rs mn)	5,30,570	5,82,248	6,66,207
Adj. net profit (Rs mn)	3,83,270	4,16,294	4,80,791
Adj. EPS (Rs)	103.6	113.8	131.4
Consensus EPS (Rs)	103.6	113.8	131.4
Adj. ROAE (%)	43.3	43.5	44.5
Adj. P/E (x)	31.3	28.5	24.7
EV/EBITDA (x)	22.3	20.3	17.7
Adj. EPS growth (%)	13.9	9.8	15.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 3,220 | ⮝ 1%

ABB INDIA | Capital Goods | 12 April 2023

Annual report highlights: Agile business model

- **CY22 order inflows strong at Rs 100bn (+31% YoY) and revenue growth robust at 24% YoY**
- **Portfolio oriented towards short-to-medium-cycle orders with rising revenue share of products (80% vs. 63% in CY16) over projects**
- **Balance sheet healthy with cash & equivalents at Rs 36.4bn and ROE at 15.3%; retain HOLD, TP unchanged at Rs 3,220**

Vinod Chari | Tanay Rasal
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Growth focused: ABB clocked a 31% rise in order inflows to Rs 100bn in CY22 backed by strong execution. Revenue increased 24% YoY led by growth in sectors such as food & beverages, data centres, transportation, energy efficiency, and building automation. ABB also enhanced its presence in various segments, including AI-enabled city gas distribution networks, advanced process control for lime kilns, and energy efficiency projects with specialised drives and motors. Additionally, the company launched new products such as flame-proof motors for explosive atmospheres and smart electric metering and energy monitoring solutions.

Agile business: Over the past five years, ABB has reoriented its focus by paring the projects business to a tenth of the revenue mix from 25% in CY16 via a series of hive-offs. Today, the company has a portfolio that serves short-to-medium-cycle orders with an element of robotics, discrete automation and electrification. As of CY22, its revenue mix has a higher share of products at 80% (63% in CY16), with services at 12% (12%).

Focus on capex to deepen penetration: The company has opened three facilities during the year catering to the demand for innovation in various industries. The smart power division added an Industry 5.0 shopfloor using ABB collaborative robots (cobots) while the digital substation products and digital systems factory has been expanded to meet increasing global demand. The measurement & analytics division opened a smart instrumentation factory producing field devices for multiple industries.

Healthy balance sheet: Cash & cash equivalents has risen 36% YoY to Rs 36.4bn in CY22 and net D/E is negative (-0.7x). ROE stood at 15.3% (vs. 11.6% in CY21).

Positives priced in; retain HOLD: We remain positive on ABB's structural growth story given a portfolio oriented towards short-cycle products focused on digitalisation, electrification and automation. However, current valuations at 69x CY24E earnings price in most of the positives. We maintain our HOLD rating with a TP of Rs 3,220, valuing the stock at an unchanged P/E multiple of 65x on Dec'24E earnings.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ABB IN/Rs 3,204
Market cap	US$ 8.3bn
Free float	25%
3M ADV	US$ 12.9mn
52wk high/low	Rs 3,468/Rs 2,000
Promoter/FPI/DII	75%/4%/9%

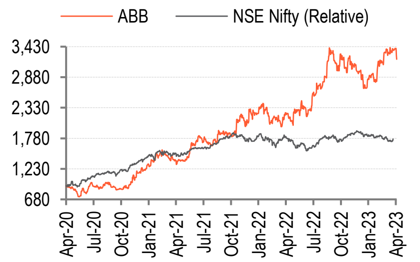
Source: NSE | Price as of 12 Apr 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	85,675	1,02,044	1,23,098
EBITDA (Rs mn)	9,619	10,423	13,379
Adj. net profit (Rs mn)	6,864	8,267	10,513
Adj. EPS (Rs)	32.4	39.0	49.6
Consensus EPS (Rs)	31.8	40.3	50.3
Adj. ROAE (%)	15.3	15.6	17.3
Adj. P/E (x)	98.9	82.1	64.6
EV/EBITDA (x)	70.6	65.1	50.7
Adj. EPS growth (%)	54.8	20.5	27.2

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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