FIRST LIGHT

17 July 2023

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI at lowest since Oct'15

BOB ECONOMICS RESEARCH | TRADE

Q1FY24 performance

WIPRO | TARGET: Rs 420 | +7% | HOLD

Another muted quarter; BFSI the biggest drag

FEDERAL BANK | TARGET: Rs 165 | +28% | BUY

Strong business growth but margins under pressure

Daily macro indicators

Ticker	12-Jul	13-Jul	Chg (%)
US 10Y yield (%)	3.86	3.76	(9bps)
India 10Y yield (%)	7.12	7.08	(4bps)
USD/INR	82.25	82.07	0.2
Brent Crude (US$/bbl)	80.1	81.4	1.6
Dow	34,347	34,395	0.1
Hang Seng	18,861	19,351	2.6
Sensex	65,394	65,559	0.3
India FII (US$ mn)	**11-Jul**	**12-Jul**	**Chg ($ mn)**
FII-D	39.1	(48.5)	(87.5)
FII-E	178.4	(40.6)	(219.0)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation continued to remain in deflation in Jun'23 as it fell to (-) 4.1% from (-) 3.5% in May'23. All three sub-indices continued to remain in deflation, however the pace of contraction eased in case of food and manufactured products. It accelerated further in case of fuel and power inflation. While drop in food inflation was helped by continued decline in vegetable and fruit prices, cereal and pulses inflation inched up, thus showing signs of upside pressure. Fuel and power inflation was supported by decline in mineral oil and electricity price index. However, coal prices are showing build up in pressure.

Click here **for the full report.**

INDIA ECONOMICS: TRADE

India's merchandise trade deficit narrowed to US$ 57.6bn in Q1FY24 from US$ 62.6bn in the same period last year. While imports declined by US$ 23.3bn, exports were lower by US$ 18.3bn. Lower commodity prices contributed to the decline in the trade deficit. With global commodity prices now normalizing imports may see further reduction in value terms. Even domestic demand may see some correction which will also keep the import bill muted. Exports, both services and merchandise have been impacted due to the weakness in global economic activity, which is likely to continue. Overall we expect CAD to moderate in FY24. This along with a recovery in FDI and FPI inflows will support the rupee.

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WIPRO

- Q1 weaker than peers due to a higher mix of consulting services (Capco, Rizing), especially in BFSI and telecom
- Strong order book and revenue growth decoupled; margin pickup to be gradual
- Consulting business remains volatile; maintain HOLD with an unchanged TP of Rs 420

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FEDERAL BANK

- High-yield retail assets drove 42% YoY PAT growth; NIM (calc) dipped 13bps QoQ to 3.1% on a higher cost of funds
- Management confident of margin improvement from Q2FY24; full-year NIM guidance retained at 3.3%
- Strong growth, stable asset quality and focus on other income likely to aid return ratios; maintain BUY with TP unchanged at Rs 165

Click here **for the full report.**

WPI

14 July 2023

Sonal Badhan
Economist

WPI at lowest since Oct'15

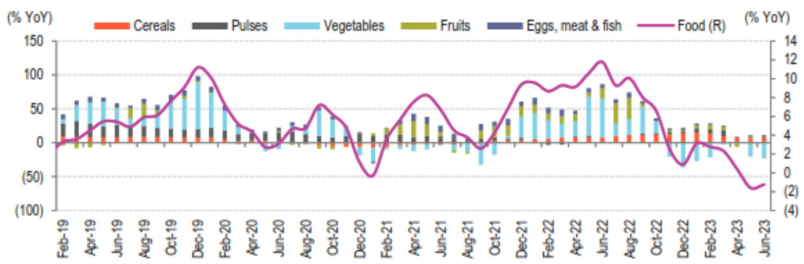
WPI inflation continued to remain in deflation in Jun'23 as it fell to (-) 4.1% from (-) 3.5% in May'23. All three sub-indices continued to remain in deflation, however the pace of contraction eased in case of food and manufactured products. It accelerated further in case of fuel and power inflation. While drop in food inflation was helped by continued decline in vegetable and fruit prices, cereal and pulses inflation inched up, thus showing signs of upside pressure. Fuel and power inflation was supported by decline in mineral oil and electricity price index. However, coal prices are showing build up in pressure.

Core WPI also fell at a slower pace. With prices of certain metals inching up at the international level, deceleration in basic metals sub-index also eased. Going ahead, as Fed is expected to end its rate hike cycle soon, oil and other metal prices may see inching up in the coming months, in the hope of improved global demand. This can add to upside pressures on WPI.

Food inflation still in deflation, but pressure building up:

Headline WPI fell more than expected in Jun'23. It was down by (-) 4.1% versus our estimate of (-) 2.7% and (-) 3.5 % in May'23, to reach its lowest point since Nov'15. Food inflation eased, albeit at a slower pace in Jun'23 (-1.2%) compared with last month (-1.6%), and continues to remain in deflation for the second consecutive month now. Within food, deflation accelerated in the category of vegetables (-22% in Jun'23 versus -20.1% in May'23), and fruit price index also fell (-0.9% versus 1.9%). Within vegetables, price index for potato, radish, cucumber, cabbage fell at a faster pace. On the other hand, pressure was visible in case of price index for food grains (8.5% versus 6.6%). within this, index for both cereals (8.3% versus 6.9%) and pulses (9.2% versus 5.8%) reversed its declining trends and inched up in Jun'23. Within cereals, both paddy and wheat price index jumped higher. This is broadly in line with the trend seen in international prices. As indicated by World Bank's pink sheet, paddy prices rose by 16.8% in Jun'23 following 11.1% increase in May'23, and wheat prices declined at a slower pace (-28.2% versus -34.6%). Domestically, price index for milk and spices also increase in Jun'23.

Figure 1: Food inflation dropped further in Jun'23



Source: CEIC, Bank of Baroda Research

TRADE

14 July 2023

Q1FY24 performance

Aditi Gupta
Economist

India's merchandise trade deficit narrowed to US$ 57.6bn in Q1FY24 from US$ 62.6bn in the same period last year. While imports declined by US$ 23.3bn, exports were lower by US$ 18.3bn. Lower commodity prices contributed to the decline in the trade deficit. With global commodity prices now normalizing imports may see further reduction in value terms. Even domestic demand may see some correction which will also keep the import bill muted. Exports, both services and merchandise have been impacted due to the weakness in global economic activity, which is likely to continue. Overall we expect CAD to moderate in FY24. This along with a recovery in FDI and FPI inflows will support the rupee.

Trade performance in Jun'23: India's export growth weakened further and declined by 22.1% in Jun'23 compared with a 10.2% decline in May'23. Even imports declined at an accelerated pace of 17.5% in Jun'23 versus 6.7% in May'23. On a MoM basis, while exports declined by US$ 2bn, imports were lower by US$ 3.9bn, thus leading to a narrowing of trade deficit. Trade deficit moderated to US$ 20.1bn from US$ 22bn in May'23.

Trade performance in Q1FY24: On a quarterly basis, exports are lower by 15.3% in Q1FY24 compared with an increase of 26.6% in Q1FY23. In terms of commodity wise exports, maximum decline was seen in the exports of petroleum products which have declined by 33.2%, as oil prices declined by 30.6% in Q1. Other major items which showed a substantial drop include: gems and jewellery (-26.4%), organic and inorganic chemicals (-19.4%) and textiles (-15.4%). On the other hand, though weaker than last year, exports of drugs and pharmaceuticals (5.4%) and agricultural products (1.3%) remained in the positive territory.

Table 1: Exports by major commodities

Item	Share in FYTD24	Q1FY23, US$ bn	Q1FY24, US$ bn	Q1FY23, % YoY	Q1FY24, % YoY
Engineering goods	26.1	29.0	26.8	11.9	(7.4)
Oil	17.5	26.9	18.0	108.9	(33.2)
Agriculture and allied products	9.9	10.0	10.2	12.2	1.3
Textiles	7.8	9.5	8.0	10.7	(15.4)
Gems and jewellery	7.3	10.2	7.5	11.6	(26.4)
Drugs and pharmaceuticals	6.4	6.3	6.6	8.1	5.4
Chemicals	6.4	8.2	6.6	18.6	(19.4)

Source: CEIC, Bank of Baroda Research

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HOLD
TP: Rs 420 | ⮝ 7%

WIPRO | Technology & Internet | 14 July 2023

Another muted quarter; BFSI the biggest drag

- **Q1 weaker than peers due to a higher mix of consulting services (Capco, Rizing), especially in BFSI and telecom**
- **Strong order book and revenue growth decoupled; margin pickup to be gradual**
- **Consulting business remains volatile; maintain HOLD with an unchanged TP of Rs 420**

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Muted Q1: WPRO posted soft Q1FY24 revenue of US$ 2.8bn (-2.8% QoQ CC, +1.1% YoY CC) and guided for -2% to +1% QoQ CC growth in Q2. Despite healthy deal wins, the softness in revenue is expected to continue into the second quarter due to adverse macro conditions and a slowdown in discretionary spends for key verticals such as BFS, consumer and hi-tech. We note that WPRO has underperformed peers (TCS and HCLT) in Q1 due to a higher mix of consulting services (Capco, Rizing) and a steeper impact from discretionary projects in the BFSI and telecom verticals.

Resilient deal bookings: WPRO signed 10 large deals for a TCV of US$ 1.2bn (+11% QoQ) in Q1, above the past-four-quarter average of US$ 1bn. The total order book stood at US$ 3.7bn, up 3% YoY CC. Despite multiple large deal signings, the company could not prevent sequential revenue deceleration. On the AI front, WPRO has earmarked an investment of US$ 1bn (largely organic) to advance its AI capabilities over the next three years, and recently announced the launch of 'ai360'.

Margin guided to hold at 16% in Q2; aspirational band still at 17-17.5%: The IT services EBIT margin declined 30bps QoQ to 16% in Q1 as the company incurred costs toward employee separations, onsite as well as in India, aimed at realigning the employee pyramid. Management expects margins to hold at the current level in the near term, with gradual improvement on the back of higher utilisation, a better employee pyramid and increased automation on fixed price projects.

Maintain HOLD: The stock is trading at 16.5x/14.5x FY24E/FY25E EPS. The decline in Q1FY24 revenue and muted Q2 guidance could portend the lowest FY24 growth for WPRO among large-caps IT peers. In addition, with the EBIT margin coming in well below management's medium-term guidance of 17.0-17.5%, we see no immediate growth trigger for the company. We thus retain HOLD and continue to value the stock at 15.5x FY25E EPS for an unchanged TP of Rs 420.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	WPRO IN/Rs 394
Market cap	US$ 26.3bn
Free float	26%
3M ADV	US$ 23.3mn
52wk high/low	Rs 445/Rs 352
Promoter/FPI/DII	73%/7%/20%

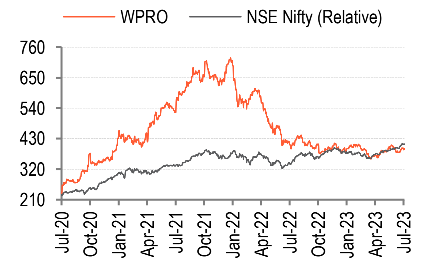
Source: NSE | Price as of 13 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	9,19,636	10,20,406	11,10,930
EBITDA (Rs mn)	1,64,671	1,94,460	2,20,889
Adj. net profit (Rs mn)	1,10,515	1,31,326	1,48,955
Adj. EPS (Rs)	20.1	23.9	27.2
Consensus EPS (Rs)	20.1	25.8	26.8
Adj. ROAE (%)	16.7	19.5	21.3
Adj. P/E (x)	19.6	16.5	14.5
EV/EBITDA (x)	12.4	10.7	9.4
Adj. EPS growth (%)	(6.8)	18.8	13.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BUY
TP: Rs 165 | ⮝ 28%

FEDERAL BANK | Banking | 14 July 2023

Strong business growth but margins under pressure

- **High-yield retail assets drove 42% YoY PAT growth; NIM (calc) dipped 13bps QoQ to 3.1% on a higher cost of funds**
- **Management confident of margin improvement from Q2FY24; full-year NIM guidance retained at 3.3%**
- **Strong growth, stable asset quality and focus on other income likely to aid return ratios; maintain BUY with TP unchanged at Rs 165**

Ajit Agrawal
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Strong business growth: FB's advances increased 21% YoY (+5% QoQ) in Q1FY24 with broad-based growth across segments. Retail and wholesale loans both grew ~20% YoY (~5% QoQ), with retail growth backed by recent high-yield launches such as personal loans (+62% YoY), credit cards (+267% YoY), microfinance (+245% YoY) and commercial vehicles/construction equipment (+72% YoY). Deposits swelled 21% YoY (+4% QoQ) driven by term deposits. Management reiterated its loan and deposit growth guidance of 18-20% YoY for FY24.

NIM dips sequentially: The bank's CASA ratio declined 84bps QoQ and 500bps YoY to 31.8%. As the cost of funds increased 20bps QoQ vs. an 8bps rise in loan yields, NIM (Calc.) softened by 13bps QoQ to 3.1%. Management is confident of margin improvement from Q2 as a bulk of the deposit repricing is complete while a better loan mix should aid yields. FB thus maintained its NIM target at 3.3% for FY24. Q1 PAT grew 42% YoY to Rs 8.5bn (-5% QoQ) backed by strong other income and stable opex.

Slippages up QoQ but asset quality stable: Gross slippages increased from Rs 4.4bn in Q4FY23 (1.7% of loans) to Rs 5bn (1.9%) in Q1, mainly from the restructured book. GNPA/NNPA ratios were stable QoQ while reported credit cost stood at 41bps. We build in credit cost at 60bps for FY24 and FY25 with stable PCR.

Improving growth prospects: Over the past year, FB's conservative approach towards asset quality vs. asset pricing has resulted in lower margins than peers and ultimately lower ROA. Going forward, we expect the bank's focus on shoring up other income along with gradual operational leverage to aid better return ratios (ROA of 1.2% by FY24E). In line with management guidance, we expect business growth to remain strong in the high teens in FY24 along with NIM at 3.3%.

Maintain BUY: The stock is trading at 1x FY25E ABV. We expect FB to gradually improve its return ratios, narrowing the gap with peers and aiding a rerating. We retain BUY with an unchanged TP of Rs 165, set at 1.3x FY25E ABV (Gordon Growth Model.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	FB IN/Rs 129
Market cap	US$ 3.3bn
Free float	100%
3M ADV	US$ 21.0mn
52wk high/low	Rs 143/Rs 96
Promoter/FPI/DII	0%/27%/73%

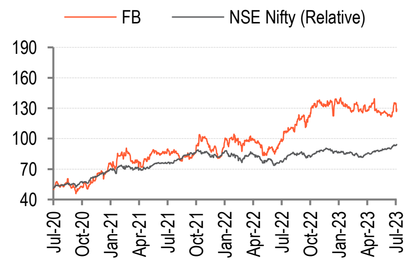
Source: NSE | Price as of 14 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	72,322	84,473	95,642
NII growth (%)	21.3	16.8	13.2
Adj. net profit (Rs mn)	30,106	33,137	37,552
EPS (Rs)	14.3	15.7	17.7
Consensus EPS (Rs)	14.3	16.0	18.5
P/E (x)	9.1	8.3	7.3
P/BV (x)	1.3	1.1	1.0
ROA (%)	1.3	1.2	1.2
ROE (%)	14.9	14.5	14.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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