

RESEARCH
BUILDING MATERIALS | Q4FY24 PREVIEW

Earnings Preview: Q4FY24 performance to remain lacklustre

IT SERVICES | Q4FY24 PREVIEW

A couple of quarters of pain seem unavoidable

Daily macro indicators

Indicator	04-Apr	05-Apr	Chg (%)
US 10Y yield (%)	4.31	4.40	9bps
India 10Y yield (%)	7.09	7.12	3bps
USD/INR	83.45	83.29	0.2
Brent Crude (US\$/bbl)	90.7	91.2	0.6
Dow	38,597	38,904	0.8
Hang Seng	16,725	16,724	0.0
Sensex	74,228	74,248	0.0
India FII (US\$ mn)	03-Apr	04-Apr	Chg (\$ mn)
FII-D	(438.0)	(101.7)	336.3
FII-E	(150.4)	(117.2)	33.3

Source: Bank of Baroda Economics Research

SUMMARY
BUILDING MATERIALS: Q4FY24 PREVIEW

- Our building materials universe revenue to grow at a tepid pace for the fifth consecutive quarter on weak demand and lower realisations
- We expect our BM universe EBITDA to be flat YoY in Q4FY24 due to the rise of competitive intensity in a muted demand environment
- On a relative basis, plastic pipes is likely to perform the best, whereas wood panel is likely to perform the worst in Q4FY24

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IT SERVICES: Q4FY24 PREVIEW

- Pressure on margins for IT companies to continue in the medium term, in our view, given dominance of cost take-out projects
- Delayed decision making, slower project ramp up and higher usage of in-house resources impacting deal wins for listed IT space
- We assume coverage on Infosys, TCS, Tech Mahindra, Persistent Systems with HOLD and Coforge with BUY

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Building materials (BM): We believe our BM universe revenue will likely grow at a tepid pace for the fifth consecutive quarter (Q4FY24: +7.8% YoY), driven by weak demand and lower realisations. We expect the consolidated EBITDA of our BM universe to be flat YoY in Q4FY24 due to weak performance across segments on account of the rise in competitive intensity in a subdued demand environment and high base effect. On a relative basis, we believe plastic pipes is likely to post better performance driven by strong volume growth (+21.3% YoY), whereas wood panels is likely to post the worst performance due to sharp margin contraction in MDF (medium density fibreboard) and particleboard in Q4FY24.

Plastic pipes: We expect our pipe universe volume to grow at a healthy 21.3% YoY in Q4FY24, driven by continued good demand from the plumbing and infrastructure segments. However, we believe our pipe universe EBITDA will decline by 3.2% YoY in Q4FY24 due to margin pressure from aggressive pricing action by the industry leader (i.e. SI took aggressive pricing action in Q3FY24 to gain market share) and high base. On a relative basis, SI (+30% YoY) is likely to post better volume growth, whereas PRINCPIN (+13% YoY) is likely to post inferior volume growth in Q4FY24.

Bathware: We believe our bathware universe revenue/EBITDA will grow at a nominal 5.8%/4.4% YoY in Q4FY24 due to weak consumer sentiments.

Tiles: We forecast our tiles universe revenue will grow at a nominal 5.0% YoY in Q4FY24 due to weak demand and rise in competitive intensity from Morbi players in the domestic market. We expect our tiles universe EBITDA to increase by 11.6% YoY in Q4FY24 due to the impact of favourable gas prices and weak base effect.

Wood panels: We expect our wood panels universe revenue to grow at a healthy 15.2% YoY in Q4FY24 due to contributions from newly commissioned units. However, we believe the segment EBITDA will rise at a nominal 4.2% YoY in Q4FY24 due to continued margin pressure in the MDF and particleboard segments. On a relative basis, we expect MTLM (+44.5% YoY) to post superior EBITDA growth whereas CPBI will likely report inferior EBITDA (-10.3% YoY) in Q4FY24.

Recommendation snapshot

Ticker	Price	Target	Rating
APOLP IN	668	600	SELL
ASTRA IN	2,025	2,000	HOLD
CPBI IN	644	700	HOLD
CRS IN	7,418	7,700	HOLD
FNXP IN	255	230	HOLD
GREENP IN	329	400	HOLD
GRLM IN	588	500	HOLD
HINDWARE IN	406	600	BUY
KJC IN	1,253	1,400	HOLD
MTLM IN	265	300	BUY
PRINCPIN IN	609	650	HOLD
SI IN	4,310	4,300	HOLD
SOMC IN	619	900	BUY

Price & Target in Rupees | Price as of 8 Apr 2024



A couple of quarters of pain seem unavoidable

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- Delayed decision making, slower project ramp up and higher usage of in-house resources impacting deal wins for listed IT space
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Global concerns cloud Indian IT's growth trajectory in CY24: The International Monetary Fund (IMF) expects nominal GDP growth for the US/Europe to reach pre-Covid levels. Despite the Information Services Group's order outlook and Gartner's forecast of 8.7% of IT services spend in CY24, higher interest rates, higher energy prices, high dollar index and the probability of changes in the Fed interest rate over the next three months have led Indian IT majors to lower their growth guidance.

Spread differentials for guidance ranges contracted: Typically, Q4 is impacted by lower billing days but reversal of furloughs has been slower. INFO cut its Q4FY24 guidance to 1.5-2% (1-2.5% earlier) and HCLT to 5-5.5% (5-6% earlier) but TCS should lead within the Tier-I IT companies. Coforge maintained its revenue guidance of 13-16% but has indicated growth may end at the lower end of the guided range.

Focus on improving operating strategy: We believe Indian IT companies are focusing more on improving operating metrics, such as pricing, productivity, utilisation, employee pyramid and portfolio mixes, as the cost optimisation deal wins are margin competitive in nature. Barring Coforge, we see limited potential for expansion among the midcap IT companies in our coverage.

Expect better ordering activity for CY24E: We expect the ordering activity outlook of Indian IT companies under our coverage to improve, backed by Gartner's forecast of 8.7% IT services spend in CY24. Q4 seems steady with large deal wins such as Infosys-Pacific international line and TCS-AVIVA, but there is no mega deal as of now. PSYS may see a sequential drop in total contract value (TCV) but Coforge may deliver much more than the average run-rate of US\$ 300mn.

Valuation: Despite the muted outlook for the Indian IT sector, moderation in deal signing, and uncertainty related to the rate cuts by US Fed, the Nifty IT index has rallied in recent times, which limits upside in our view. Coforge is our only Buy with TP of Rs 6,779.

Recommendation snapshot

Ticker	Price	Target	Rating
COFORGE IN	5,682	6,779	BUY
INFO IN	1,477	1,592	HOLD
PSYS IN	4,050	3,938	HOLD
TCS IN	3,973	4,050	HOLD
TECHM IN	1,265	1,366	HOLD

Price & Target in Rupees | Prices as of 8 Apr 2024



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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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