FIRST LIGHT

12 March 2025

RESEARCH

IT SERVICES

FY26 unlikely to be better than FY25

INDUSIND BANK | TARGET: Rs 870 | -3% | HOLD

Net worth impact led by accounting discrepancy; HOLD

BOB ECONOMICS RESEARCH | INTEREST RATES

Impact of VRR auctions on interest rates

SUPREME INDUSTRIES | TARGET: Rs 5,150 | +55% | BUY

Wavin acquisition to bolster SI's market share and return ratios

SUMMARY

IT SERVICES

- Trump 2.0 triggered higher uncertainty will mean FY26 growth will at best match that of FY25. A US recession could mean a decline
- Cut FY26/FY27 USD revenue by ~2-6% across our universe. Upside and downside risks depend on probabilities of a recession/soft landing
- Maintain UW with no BUYs, 7 HOLDs and 6 SELLs. TECHM and FSOL remain our top picks. PSYS and COFORGE remain top SELLs

Click here for the full report.

INDUSIND BANK

- Discrepancy in derivative portfolio account to adversely impact net worth by 2.35%, indicates weak internal controls
- RBI's one-year extension of CEO's tenure reflects management uncertainty at IIB and need for succession planning
- One-time impact of derivative portfolio, MFI book stress to hit near-term earnings; downgrade to HOLD; TP of Rs 870 valued at 0.9x FY27 ABV

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INDIA ECONOMICS: INTEREST RATES

The last two months have witnessed increasing frequency of conduct of VRR as an effective liquidity management tool. The current exercise looks at historical episodes of such actions and examines if the auctions had any announcement effect on interest rates. Interestingly, announcement effects are expected for daily VRRs as RBI generally announces it a day before or on that day itself. This should theoretically align with market expectations. However, for certain longer tenor VRRs which have been announced based on evolving liquidity conditions, an impact is observed in market interest rates such as WACR.

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SUPREME INDUSTRIES

- Wavin acquisition will enable SI to gain market share in North and South India
- Wavin acquisition to be return-accretive step for SI as acquisition cost per tonne is Rs 35,892/t vs industry benchmark of Rs50,000-60,000/t
- SI remains our preferred pick in plastic pipe space; maintain BUY with TP of Rs 5,150

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Factors that drove 2H2024 outperformance reversing: As stated in our recent sector report (**Slow is the (new/old) normal**), Indian IT services sector's PE multiple-driven outperformance in H2CY24 was due to (1) expectations of a sharp pickup in growth in FY26 and (2) resilience of FY25 earnings in contrast to cuts across many domestic-facing companies. We were of the view that the situation in FY26 could potentially reverse. Recent Trump 2.0 moves, and domestic stimulus driven by both Indian government and RBI are supportive of our thesis.

Trump 2.0 focus on structural repair could pressure growth near term: The current regime seems serious about structurally correcting US excesses regarding debt and fiscal deficits. Tariffs/DOGE/immigration reforms could mean slower growth and elevated inflation/interest rates. Slower growth and heightened inflation (tariff related) in the short term will be dampeners for IT demand, in our view. It remains to be seen if Trump 2.0 sticks it out despite a stock market correction, slower growth (and a potential recession), higher unemployment and looming mid-term election in 2026. Economic weakness is already visible. Atlanta Fed's 1QCY25 most recent real GDP growth forecast was -2.8%. While this may not be the final number, directionally it points to a patch of soft growth.

Paring estimates: In view of all these developments we have cut revenue/EPS for FY26/FY27 by ~2-6% across our coverage universe. With demand likely to be constrained we expect some level of margin pressure to emerge. We expect player commentary to go back to cost take out and vendor consolidation deals rather than about continued improvement in discretionary spending. We expect a modest reversal in the latter which has largely been constrained to a few verticals. We believe that Accenture is likely to become very aggressive in bidding for managed services contracts as its Federal Government business comes under pressure due to DOGE. This is on top of the share gains it has already made.

Recommendation snapshot

Ticker	Price	Target	Rating
BSOFT IN	410	402	HOLD
COFORGE IN	7,535	6,052	SELL
ECLX IN	2,697	2,785	HOLD
FSOL IN	340	357	HOLD
HCLT IN	1,549	1,417	SELL
INFO IN	1,701	1,565	SELL
LTIM IN	4,671	4,104	SELL
MPHL IN	2,265	2,214	HOLD
PSYS IN	5,167	3,699	SELL
TCS IN	3,590	3,458	HOLD
TECHM IN	1,487	1,592	HOLD
WPRO IN	281	267	HOLD
ZENT IN	726	600	SELL

Price & Target in Rupees | Price as of 10 Mar 2025

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 870 | ▼ 3%

INDUSIND BANK | Banking | 11 March 2025

Net worth impact led by accounting discrepancy; HOLD

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Pre-tax earnings impact of ~Rs 21bn due to discrepancy in derivative portfolio accounting: IIB in its internal review of processes has disclosed discrepancies in its derivative portfolio accounts related to foreign currency deposits and borrowings. The discrepancies in these derivative transactions pertain to the five to seven years prior to 1 April 2024. IIB has not entered any internal derivative trades post 1 April 2024. The bank estimates an adverse impact of ~Rs 21bn pre-tax or ~2.35% of its net worth as of Dec'24. IIB identified the discrepancy in the month of September / October 2024, post which it hired an external agency to review processes. The external agency's final findings are expected by the end of Mar'25 and the adverse impact is likely to be passed through NII in the income statement in Q4FY25.

Management uncertainty as RBI extends CEO's tenure by one year: We note that RBI was aware of the discrepancy in the derivative accounting. This could have led to the RBI approving the extension of Mr. Sumant Kathpalia's (MD & CEO) term by a year rather than the three years as requested by the bank's board. Also, IIB's CFO (Mr. Gobind Jain) resigned in Jan'25, before the Q3FY25 results were published. We believe the one-year extension of the CEO's term seems to be a stop-gap arrangement in the search for a replacement. This could likely result in lack of strategic direction and management uncertainty in the near term, in our view.

Downgrade to HOLD; weak earnings visibility and management uncertainty: The bank's stock price took a hit due to various headwinds: (a) the RBI approving the CEO's extension by one year vs. the three-year extension sought by the board, and (b) discrepancies in its derivative portfolio accounting leading to pre-tax one-off adverse impact of ~Rs 21bn, coupled with upfronting of provisions related to its microfinance portfolio in Q4FY25 expected to result in weak earnings visibility. We downgrade the stock to HOLD from BUY and a TP of Rs 870 (earlier Rs 1,190), valuing it at 0.9x FY27 ABV.

Key changes

Target	Rating
▼	▼

Ticker/Price	IIB IN/Rs 901
Market cap	US$ 8.0bn
Free float	84%
3M ADV	US$ 60.1mn
52wk high/low	Rs 1,576/Rs 881
Promoter/FPI/DII	16%/25%/42%

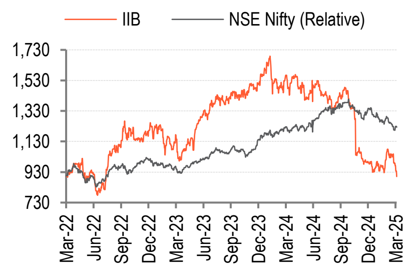
Source: NSE | Price as of 10 Mar 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	2,06,159	1,99,410	2,40,009
NII growth (%)	17.2	(3.3)	20.4
Adj. net profit (Rs mn)	89,770	48,840	84,975
EPS (Rs)	115.5	62.7	109.1
Consensus EPS (Rs)	115.6	125.0	158.0
P/E (x)	7.8	14.4	8.3
P/BV (x)	1.1	1.1	1.0
ROA (%)	1.8	0.9	1.4
ROE (%)	15.2	7.6	12.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

INTEREST RATES

11 March 2025

Impact of VRR auctions on interest rates

Dipanwita Mazumdar
Economist

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For 10Y GSec and TBill rates, the impact is minimal as these market rates are influenced by other factors such as global yields and evolving liquidity dynamics. Statistical results also show that WACR is more susceptible to VRR announcements. Hence it also attests to RBI's choice of WACR as the operating target of monetary policy.

Liquidity situation and VRR

One of the effective liquidity management tools that has gained prominence in recent times has been the variable rate repo. As liquidity sprung into deficit from mid Dec'24 onwards, the recourse to VRR became a regular route to finetune system level liquidity. From nil auctions conducted during Jul'24 and Aug'24 (average system liquidity surplus of Rs 1.3 lakh crore during those two months), the frequency of conduct of VRR became a day-to-day alternative. In fact, on 15 Jan 2025 RBI announced conduct of daily VRRs. The short tenor VRRs was harmonised with long tenor VRRs, ranging from 45, 49 and 56 days VRRs. In this exercise, an attempt has been made to capture announcement effects of VRR on different rates such as weighted average call rate (WACR), 10Y GSec yield and TBill rates of different tenors under ceteris paribus conditions.

VRR auction since Apr'19 have been analysed in this exercise. The frequency and quantum of auctions are contingent on the evolving system liquidity conditions. India experienced liquidity overhang for a considerable period especially during Covid which obviated need for VRR. During the period Dec'19 to Jun'22, the period was marked by significant liquidity surplus and there were just 5 VRRs that have been conducted and 4 of them were overnight/3 day's tenor. Further, emphasis was given on variable rate repos/reverse repos as part of liquidity management tool.

FLASH NOTE

BUY
TP: Rs 5,150 | ⮝ 55%

SUPREME INDUSTRIES | Building Materials | 11 March 2025

Wavin acquisition to bolster SI's market share and return ratios

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Please find our take on SI's announcement of the acquisition of pipes & fittings business of Wavin India.

News update: SI signed an MoU with Wavin Industries (Wavin) on 10 March 2025 for the acquisition of its Indian piping and fittings business for a cash consideration of US$ 30mn plus net working capital. SI will have exclusive access to all existing technologies from Wavin B.V. – Netherlands (parent company) and other new technologies to be developed during a period of seven years for India and SAARC countries. The deal is expected to be completed by Jun'25.

About Wavin: Wavin, part of Netherland-based Orbia group, started the plastic pipe business in India in 2017 and operates pipes and fittings capacity of 73,052mtpa at three locations (Banmore, Madhya Pradesh; Hyderabad, Telengana; Neemrana, Rajasthan). Wavin reported operating loss of Rs 959mn (Rs 716mn in FY23) on revenue of Rs 6,232mn in FY24 (Rs 6,674mn in FY23). In 7MFY25, Wavin posted operating loss of Rs 684mn on revenue of Rs 4,129mn due to low operating rate.

Rationale for acquisition: This acquisition will enable SI to expand its piping manufacturing capacity from 820ktpa in Dec'24 to 973ktpa by Jun'25. It will help SI to cater to North and South India in a more economical and efficient manner. SI will have access to improved technology for building product and infrastructure segment from Wavin (parent) for the next seven years. Furthermore, SI's management believes that it could quickly turnaround the operations of the acquired entity by the fast ramp up of the existing plant capacity and could add more capacities at the existing site in a cost-effective way due to brownfield nature of expansion.

Our view: We believe this acquisition would enable SI to further expand its market share and be a return-accretive step (as the acquisition cost per tonne is estimated to be Rs 35,892/t vs the industry benchmark of Rs 50,000-60,000/t). SI remains our top pick in the plastic pipe space. We have a BUY rating on the stock with a TP of Rs 5,150. At CMP, the stock trades at 33.2x on 1Y fwd P/E vs 5Y avg of 34.9x (without factoring this acquisition in our projections).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SI IN/Rs 3,319
Market cap	US$ 4.8bn
Free float	51%
3M ADV	US$ 11.3mn
52wk high/low	Rs 6,460/Rs 3,284
Promoter/FPI/DII	49%/25%/12%

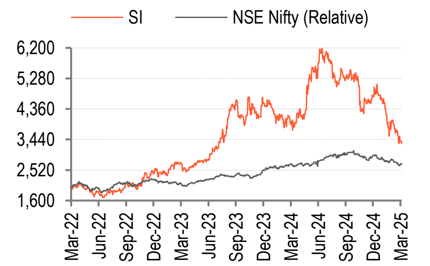
Source: NSE | Price as of 10 Mar 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	101,343	110,566	128,330
EBITDA (Rs mn)	15,473	15,649	19,472
Adj. net profit (Rs mn)	10,697	10,411	12,869
Adj. EPS (Rs)	84.2	81.9	101.3
Consensus EPS (Rs)	84.2	93.5	112.1
Adj. ROAE (%)	22.5	19.2	21.0
Adj. P/E (x)	39.4	40.5	32.8
EV/EBITDA (x)	27.7	27.6	22.2
Adj. EPS growth (%)	23.6	(2.7)	23.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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