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FIRST LIGHT

13 June 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP

CPI cools, IIP growth improves

INFOSYS | TARGET: Rs 1,760 | 39% | BUY

Annual report analysis – Sentiments weak; Cobalt to drive growth

CONSUMER STAPLES

Agri expert call – El Nino to have negligible impact

OIL & GAS

Expert call – Progressing on ethanol journey but delays possible

Daily macro indicators

Ticker	08-Jun	09-Jun	Chg (%)
US 10Y yield (%)	3.72	3.74	2bps
India 10Y yield (%)	7.02	7.04	1bps
USD/INR	82.57	82.47	0.1
Brent Crude (US$/bbl)	76.0	74.8	(1.5)
Dow	33,834	33,877	0.1
Hang Seng	19,299	19,390	0.5
Sensex	62,849	62,626	(0.4)
India FII (US$ mn)	**07-May**	**08-May**	**Chg ($ mn)**
FII-D	18.1	(33.5)	(51.6)
FII-E	175.0	74.2	(100.7)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI AND IIP

CPI print cooled off to its lowest since Apr'21 to 4.3% in May'23. This was supported by a favourable base of 6.95% in May'22 and also significant drop in food inflation by 90bps. Even some high frequency price indicators of Jun'23 are showing moderation in food inflation with BoB ECI running lower at 0.5% in Jun'23 (till 12 Jun 2023) compared to 1.4% in May'23, on YoY basis. Going forward we expect CPI to be at 4.5% in Q1, slightly below at RBI's projection of 4.6% for Q1FY24. For full year our estimate stands in the range of 5.0-5.5%. We expect headline CPI to peak in Q3FY24. Hence we rule out the possibility of any rate action in CY23 based on the growth inflation dynamics. Further, the inflation trajectory require some vigil with regard to cereal inflation and upward spiraling of vegetable prices due to seasonality.

Click here **for the full report.**

INFOSYS

- Key spending areas in FY23 included cloud, generative AI, cybersecurity, IoT, and immersive technologies
- Focus shift towards digital channels led to a decline in core (non-digital) revenue share; margin pressure continued
- Expect digital transformation (Cobalt) and cost takeout to spur growth; maintain BUY with unchanged TP of Rs 1,760

Click here **for the full report.**

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CONSUMER STAPLES

- El Nino unlikely to impact crops this year as India has adequate reservoirs and an improved irrigation system
- Tax reform on input costs along with adequate pricing necessary for farm produce to become profitable
- Investment in technology such as drones would improve the health of the agriculture sector

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OIL & GAS

- India is progressing on the 15bn target of ethanol production, but delivery target could be delayed by a couple of years beyond ESY25
- Ethanol project progress is slow with 2.6bn litres of capacity granted consent to establish by Mar'23
- 2G ethanol projects are far from establishing viability and need high-value added byproducts to support viability

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CPI AND IIP

12 June 2023

CPI cools, IIP growth improves

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Dipanwita Mazumdar
Jahnavi
Economists

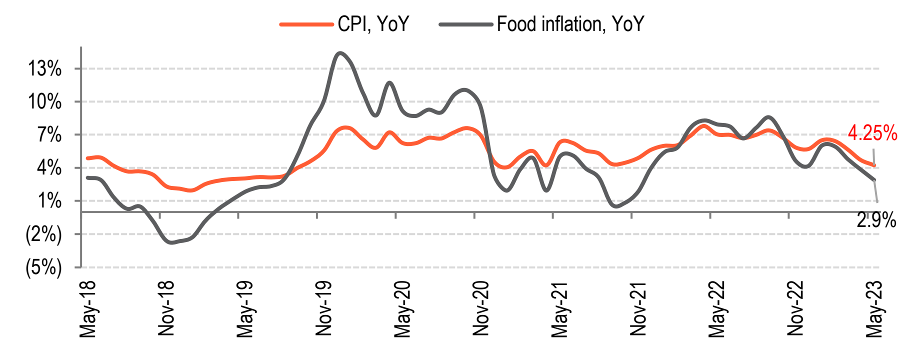
CPI inflation eases further

CPI inflation eased: CPI inflation dropped to its lowest since Apr'21 to 4.3% from 4.7% in Apr'23, on YoY basis. This is slightly below our estimate of 4.5%. The significant moderation in CPI was on the back of favourable food inflation and also supported by an elevated base of 6.95% in May'22.

Food inflation moderates: CPI food index moderated to 2.9% in May'23 from 3.8% in Apr'23, on YoY basis. Amongst major food items, oils and fat (-16% from -12.3%), vegetables (-8.2% in May'23 from -6.5% in Apr'23), fruits (0.7% from 2.1%) and cereals (12.7% from 13.7%) have noted considerable drop in inflation. However, 5 out of 10 major food items still remain above 6%, with cereal and spices inflation remaining in double digits.

On sequential basis, cereals, protein based items such as meat and fish and eggs, vegetables as well as spices noted an increase in inflation. Going forward, the outlook on food inflation seems murky and contingent on the evolution of El Nino. However, government's efforts to assuage supply side concerns would provide some degree of comfort.

Figure 1: CPI cools down; led by food



Source: CEIC, Bank of Baroda Research

BUY
TP: Rs 1,760 | 39%

INFOSYS | Technology & Internet | 12 June 2023

Annual report analysis: Sentiments weak; Cobalt to drive growth

- **Key spending areas in FY23 included cloud, generative AI, cybersecurity, IoT, and immersive technologies**
- **Focus shift towards digital channels led to a decline in core (non-digital) revenue share; margin pressure continued**
- **Expect digital transformation (Cobalt) and cost takeout to spur growth; maintain BUY with unchanged TP of Rs 1,760**

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Digital revenue continues to grow apace: INFO reported revenue growth of 15% YoY CC in FY23, driven by the manufacturing (+39% YoY) and energy (23% YoY) verticals. Digital revenue contributed ~62% of total revenue and grew 26% YoY CC while the company reported flattish growth of ~1.9% YoY CC in core (non-digital) revenue. It won 95 large deals during the year with TCV of US$ 9.8bn.

Sustained margin pressure: EBIT margin slipped 200bps to 21.1% primarily due to an increase in headcount, higher compensation costs as well as higher expenses related to third-party items (software and hardware). A bulk of the margin dilution came from the retail segment where EBIT margin contracted 440bps YoY to 30.2%, although the vertical grew 15% CC YoY. Subcontracting cost was under control (9.6% of revenue vs. 10.4% in FY22) due to deployment of fresh graduates, easing of travel restrictions and successful reskilling/upskilling of existing employees.

Return profile solid with robust cash conversion: INFO has maintained a robust payout ratio and has given out 114% of FCF, against its payout policy of at least 85% of FCF. The company generated ROE and ROCE of 32% and 26% in FY23 vs. 29% and 24% respectively in FY22. Cash conversion remained strong – while pre-tax OCF/EBITDA came in at 90.2%, FCF/PAT for the year stood at 84.8%.

Steady hiring leads to well-balanced pyramid: INFO added 29,000+ employees on a net basis in FY23 while gross fresher recruitment stood at 50,000, including ~10,000 employees locally to boost its onshore strategy. Voluntary attrition declined significantly to 20.9% (-680bps YoY), though utilisation (including trainees) reduced to 77.1% (-540bps YoY).

Maintain BUY: The stock is trading at 17.3x/14.8x FY24E/FY25E EPS. Despite INFO's cautious outlook on a few verticals, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. We maintain our BUY rating and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INFO IN/Rs 1,266
Market cap	US$ 64.8bn
Free float	86%
3M ADV	US$ 129.3mn
52wk high/low	Rs 1,673/Rs 1,185
Promoter/FPI/DII	15%/36%/49%

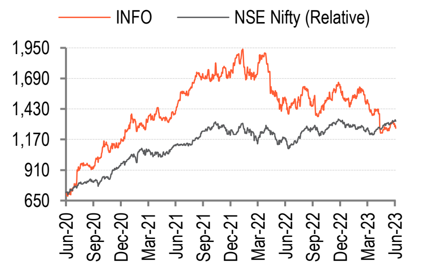
Source: NSE | Price as of 9 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	14,93,753	17,29,592	19,71,116
EBITDA (Rs mn)	3,57,354	4,39,059	5,02,757
Adj. net profit (Rs mn)	2,47,056	3,07,276	3,61,187
Adj. EPS (Rs)	58.7	73.0	85.8
Consensus EPS (Rs)	58.7	69.3	81.0
Adj. ROAE (%)	30.6	33.5	34.4
Adj. P/E (x)	21.6	17.3	14.8
EV/EBITDA (x)	14.3	11.6	9.9
Adj. EPS growth (%)	11.3	24.4	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CONSUMER STAPLES

12 June 2023

Agri expert call: El Nino to have negligible impact

- **El Nino unlikely to impact crops this year as India has adequate reservoirs and an improved irrigation system**
- **Tax reform on input costs along with adequate pricing necessary for farm produce to become profitable**
- **Investment in technology such as drones would improve the health of the agriculture sector**

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To gain a deeper perspective on India's rural and agricultural economy, we hosted a call with Chengal Reddy, Chairman – Federation of Farmers Associations, Andhra Pradesh; Co-Chairman – Indian Farmers & Industries Alliance; and Chief Advisor – Consortium of Indian Farmers Associations (CIFA). Key takeaways:

El Nino impact to be negligible: With advancements in technology and better affordability, the irrigation system has improved in many parts of India. This, along with sufficient water reservoirs across the country, has reduced farmers' dependency on the monsoons to some extent. El Nino is, thus, likely to have minimal to no impact on the broader health of the rural economy this year.

Tax reforms needed on input costs: Agricultural inputs have undergone steep inflation over the last five years, whereas minimum support price (MSP) hikes by the government have been relatively lower, making the produce unprofitable for farmers. Tax reforms in key inputs such as pesticides and farm equipment are necessary for farmers to turn a profit.

Technology key for India to meet global standards: The introduction of technology such as drones is likely to transform the farm sector. Farm mechanisation is needed at scale for India to become competitive in global markets and to combat labour scarcity and control input and labour costs.

Growth in non-agri income a boost to rural India: Over the years, more small businesses, and allied activities in rural markets together with remittances from migrant labourers have reduced the dependency on farm income in rural India, though the latter still plays a significant role in the overall health of the economy.

Investments in farm sector must be scaled up: Governments over the years have taken multiple steps to bolster the farm sector, but investments at scale are still lacking. For instance, India needs investments to build adequate storage facilities that can prevent the spoilage of crops. This apart, investments in technology would make agricultural activities viable for marginal farmers as well.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,879	5,623	BUY
DABUR IN	550	628	BUY
GCPL IN	1,035	1,159	BUY
HUVR IN	2,636	3,069	BUY
ITC IN	438	486	BUY
MRCO IN	533	629	BUY
NEST IN	22,074	24,670	BUY
TATACONS IN	801	924	BUY
ZYWL IN	1,504	1,631	HOLD

Price & Target in Rupees | Price as of 9 Jun 2023

OIL & GAS

12 June 2023

Expert call: Progressing on ethanol journey but delays possible

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- **Ethanol project progress is slow with 2.6bn litres of capacity granted consent to establish by Mar'23**
- **2G ethanol projects are far from establishing viability and need high-value added byproducts to support viability**

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We interacted with Deepak Desai, Chief Consultant of Ethanol India, to understand India's progress on its ethanol journey and the feasibility of targets. Key takeaways:

India is progressing on expanding inputs for ethanol: India has ramped up ethanol blending in petrol to 4.1bn litres in ESY22 from just 0.3-0.4bn litres two decades ago. Sugar use for ethanol has increased to 4.5mn tonnes (mt) of sugar in ESY23 from total production of 40.2-41.0mt. While use of B-heavy molasses has increased to 59.96% of total inputs in ESY23 YTD, use of C molasses has come down to 3%. Contribution of grain has also improved with damaged food grains and maize accounting for 9.5% and surplus rice from FCI improving to 8.6%.

ESY25 target for ethanol production is steep: India has advanced its 20% ethanol blending target to ESY26 and is looking to ramp up availability of ethanol for blending to 5.4bn litres in ESY23 and 9.9bn litres in ESY25. This together with traditional use requires ethanol production of 15bn litres by ESY25.

Ethanol projects progress is slow: While consent to establish has so far been granted to 2.6bn litres of capacity, consent to operate has been granted to 0.26bn litres. India needs more than 5bn litres of capacity to deliver on its target of 15bn litres. Looking at the current progress of projects, achievement of the target could be delayed by a couple of years.

2G ethanol commercial projects under implementation: Under Phase 1 of the JI-VAN scheme, OMCs are implementing four commercial projects to assess economic feasibility. While IOCL is in the advanced stage of commissioning, plants of BPCL, HPCL and NRL are due for implementation over the next couple of years.

2G ethanol still far from establishing viability: Deriving significant value from byproducts is key for 2G ethanol projects to establish economic feasibility to offset high capital intensity and higher conversion cost (i.e. higher power and steam usage). While availability of biomass is adequate, support of the agriculture ministry would be essential to develop organised procurement.

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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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