FIRST LIGHT

14 January 2025

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Food pacifying CPI

HCL TECHNOLOGIES | TARGET: Rs 1,739 | -13% | SELL

Organic guidance maintained. Discretionary spend broadening

CONSUMER DURABLES | Q3FY25 PREVIEW

EMS & cables lead the charge

SUMMARY

INDIA ECONOMICS: CPI

CPI showed some softening led by food inflation. Reversal in TOP (Tomato, Onion and Potato) trajectory has provided the desired comfort. Core (CPI excl. food and fuel) also softened led by range-bound global commodity prices. In Q4, albeit some unfavourable basis, we expect the downtrend in vegetable inflation will pull down headline CPI. Outlook of food inflation seems favourable as mandi arrivals statistics of perishables have improved in harvesting months. Rabi sowing data also remains promising for cereal inflation going forward. Key risks to overall inflation outlook stem from a depreciating INR which might escalate risks of imported inflation.

Click here **for the full report.**

HCL TECHNOLOGIES

- 4.25% CC YoY organic revenue growth maintained. Sectors beyond BFSI and Hi-Tech called out for pickup in discretionary spend
- TCV underwhelms but ACV pickup indicates smaller deals are making a comeback. 4QFY25 to see softness as some mega deals wind down
- Maintain sell on valuations. The PE discount to TCS (30% average in the last 5 years) has vanished completely in the last 9 months

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

CONSUMER DURABLES: Q3FY25 PREVIEW

- Cables and wires on opposite tracks in Q3, while appliances stay on course with seasonal trends
- EMS companies poised for continued growth, fueled by strong order book, PLI boost, Make-in-India initiatives
- Expect revenue/EBIDTA/PAT growth of 30%/30%/39% YoY for our coverage universe

Click here for the full report.

CPI

13 January 2025

Food pacifying CPI

Dipanwita Mazumdar
Economist

CPI showed some softening led by food inflation. Reversal in TOP (Tomato, Onion and Potato) trajectory has provided the desired comfort. Core (CPI excl. food and fuel) also softened led by range-bound global commodity prices. In Q4, albeit some unfavourable basis, we expect the downtrend in vegetable inflation will pull down headline CPI. Outlook of food inflation seems favourable as mandi arrivals statistics of perishables have improved in harvesting months. Rabi sowing data also remains promising for cereal inflation going forward. Key risks to overall inflation outlook stem from a depreciating INR which might escalate risks of imported inflation.

Apart from this, any volatility in energy prices on account of ongoing sanctions might feed into higher intermediate input prices and hence to overall inflation print. On the policy front, RBI is likely to be watchful in its Feb'25 meeting. It will closely evaluate the Budget, and its policies redirected especially towards fueling consumption demand before taking any call on rates. Policy space opens only in H1FY26 as global environment also hints at a stickier financial condition amidst anticipation of US President elect's upcoming policies.

Food inflation providing some breather

CPI inflation sees some moderation: CPI inflation moderated to 5.2% in Dec'24 (BoB est.: 5%) compared to 5.5% in Nov'24, on YoY basis. This comes in the wake of an elevated base and food inflation losing steam. Food inflation went down by 65bps to 8.4% in Dec'24 from 9% in Nov'24. The major correction has emanated from vegetables (26.6% in Dec'24 from 29.4% in Nov'24), pulses (3.8% from 5.4%) and cereals (6.5% from 6.9%). Improvement in mandi arrival statistics (of TOP vegetables: Tomato, Onion and Potato), bumper Kharif harvest and favourable global commodity prices have resulted in the same.

Apart from seasonal blip in prices of Eggs (6.9% from 4.8%), meat and fish (5.3% from 4.7%) which is a usual phenomenon, food prices have remained broadly contained. On a sequential basis, 8 out of 12 broad categories of food and beverages inflation have shown moderation in Dec'24. Going forward, correction in food inflation is likely to continue. In Jan'25 (first 12 days), food prices are showing considerable correction especially there has been continued decline in prices of TOP vegetables which is likely to keep a lid on food inflation, going forward. Our BoB ECI is running lower at 4.7% in Jan'25 (YoY).

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,739 | ∀ 13%

HCL TECHNOLOGIES | IT Services | 14 January 2025

Organic guidance maintained. Discretionary spend broadening

- **4.25% CC YoY organic revenue growth maintained. Sectors beyond BFSI and Hi-Tech called out for pickup in discretionary spend**
- **TCV underwhelms but ACV pickup indicates smaller deals are making a comeback. 4QFY25 to see softness as some mega deals wind down**
- **Maintain sell on valuations. The PE discount to TCS (30% average in the last 5 years) has vanished completely in the last 9 months**

Girish Pai
research@bobcaps.in

Revenue fell short but margin in line: HCLT's overall CC QoQ revenue growth at 3.8% fell short of our expectation of 5%. The underperformance has been driven by HCL Software where some renewals did not happen, and some new deals did not close. Software grew 18.7% CC QoQ and declined by 2.1%. EBIT margin came in line at 19.5%.

Organic revenue growth guidance maintained: Revenue growth guidance for FY25 at the mid-point (CC YoY) has been raised to 4.75% versus 4.25% given post 2QFY25. However, if we strip the inorganic element due to the CTG acquisition (which merged from the month of December 2024), the organic growth is the same at 4.25%

The TCV (entirely net new) was underwhelming at US$2bn: HCLT itself had indicated at a recent analyst meet that it desires to grow this number to US$2.5bn at least. However, it maintained that the tenure of newly signed deals has gone down. ACV was up 9% QoQ and 23% YoY. There are more small deals. Something similar was indicated by TCS too post is 3QFY25.

Commentary better than the delivery: HCLT indicated that the tenure of newly signed deals has gone down. It stated that the pipeline is the second best in its history consisting of large deals but does not have any mega deals at this point. In 2025 it is seeing a pickup in discretionary spending in more verticals beyond BFSI and Hi-tech. It says that it budgets will see an uptick. HCLT says it has not seen any Gen AI related revenue compression yet. Contract renewals are business as usual and there is no specific competitive pressure to call out

HCLT celebrated 25 years since listing: It has delivered US$ revenue/US$ PAT and TSR CAGR of 18% /19.4%/20.6% respectively.

EPS estimates do not change much: We trimmed our US$ growth estimate, raised our INR/USD estimate in future years, kept margins broadly constant resulting in minor changes in EPS estimates.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HCLT IN/Rs 1,995
Market cap	US$ 62.4bn
Free float	39%
3M ADV	US$ 54.5mn
52wk high/low	Rs 2,002/Rs 1,235
Promoter/FPI/DII	61%/19%/16%

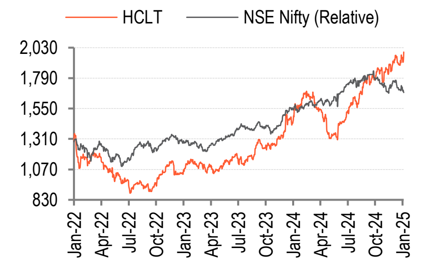
Source: NSE | Price as of 10 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	10,99,130	11,70,248	12,85,652
EBITDA (Rs mn)	2,42,000	2,56,271	2,85,786
Adj. net profit (Rs mn)	1,57,020	1,74,606	1,86,538
Adj. EPS (Rs)	57.9	64.4	68.8
Consensus EPS (Rs)	57.9	63.9	70.2
Adj. ROAE (%)	23.5	25.4	26.6
Adj. P/E (x)	34.5	31.0	29.0
EV/EBITDA (x)	22.1	20.8	18.7
Adj. EPS growth (%)	5.5	11.3	6.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CONSUMER DURABLES | Q3FY25 Preview | 13 January 2025

EMS & cables lead the charge

- **Cables and wires on opposite tracks in Q3, while appliances stay on course with seasonal trends**
- **EMS companies poised for continued growth, fueled by strong order book, PLI boost, Make-in-India initiatives**
- **Expect revenue/EBIDTA/PAT growth of 30%/30%/39% YoY for our coverage universe**

Arshia Khosla
research@bobcaps.in

Expect 3QFY25 revenue/PAT growth of 30%/39%: We expect strong 30% YoY revenue growth for 3QFY25 across our coverage universe. We expect this revenue growth to be driven mainly by the cables segment, driven by infra and industrial capex. Cables are also to outperform wires on robust power sector demand and commodity inflation. The EMS sector shows continued strength, with a growing order book and healthy customer additions across segments. Leading this growth are DIXON (92% YoY), followed by SYRMA (33% YoY) and AMBER (30% YoY) in EMS, and POLYCAB (23% YoY) and KEII (20% YoY) in wires and cables. This overall growth is underpinned by a 30% increase in EBITDA and a 39% rise in PAT.

Cables & wires poised for contrasting Q3 trends: Cables are set to sustain their strong growth momentum in Q3FY25, driven by increased infrastructure and industrial capex, with a notable boost from the BharatNet project awarded by BSNL for optical fibre cables. We expect this segment to outperform, supported by rising demand in the power sector for transmission and distribution (T&D), along with commodity price inflation, as copper and aluminum prices rise 15% YoY. However, wires are likely to remain subdued due to elevated inventory levels from Sep'24 and weak real estate demand. Fluctuations in commodity prices and an unfavourable revenue mix may weigh on wire margins, but anticipated improvements in exports could partially mitigate these pressures.

Appliances demand steady with seasonal trends: We expect the appliances segment to do well in Q3FY25, with water heaters benefiting from winter-driven demand and pumps witnessing steady growth. Fan sales, initially moderate, are projected to accelerate in late December, fueled by channel filling ahead of the summer season. We expect decent demand for room air conditioners due to a warmer October and lower inventory levels at the end of the previous quarter. We expect refrigerators and washing machines to see stronger traction in premium categories, such as frost-free refrigerators and fully automatic washing machines, while entry-level variants, including DC refrigerators and semi-automatic washing machines, may see comparatively weaker demand. The lighting segment may see good volume growth due to festive season, tough price erosion may offset growth.

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “**Losses**”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) (“**MSL**”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as **“MAYBANK**”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.