FIRST LIGHT

15 July 2024

RESEARCH

BOB ECONOMICS RESEARCH | FY25 BUDGET PREVIEW

Focus to remain on consolidation

OIL & GAS | Q1FY25 PREVIEW

Q1FY25 marks normalisation of margins in oil & gas

HCL TECHNOLOGIES | NOT RATED

1QFY25 broadly in line. No material change in demand

SUMMARY

INDIA ECONOMICS: FY25 BUDGET PREVIEW

The main budget for 2024-25 is most likely to shed light on vision of the government for the next five years and bring to focus the key themes that will help achieve the dream of making India a 'Viksit Bharat' by 2047. This budget will remain committed to the path of fiscal consolidation, and inch closer to the FY26 target of <4.5%, by bringing the fiscal deficit in FY25 to 4.9-5.1%, from 5.2% in interim budget (GDP for FY24 came in lower than what was assumed in the Interim Budget). This will be helped by additional fiscal space made available by RBI's more than estimated surplus transfer and hopes of better than expected GDP growth this year.

Click here **for the full report.**

OIL & GAS: Q1FY25 PREVIEW

- Refining, marketing and gas distribution margins have normalised in Q1 and are likely to still remain in the healthy range
- Investors' focus on volume growth likely to improve. RIL, PLNG and CGDs in our coverage are key contenders for growth ahead
- Growth in consumer and New Energy for RIL, pace of volume ramp-up for CGD and impact of make-up cargoes on PLNG are key monitorables

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HCL TECHNOLOGIES

- 1QFY25 revenue and margins were broadly along expected lines. Full-year revenue and growth guidance maintained
- Points to weakness in Auto ERDS space in Europe in EVs. Also indicates irrational competitive intensity in ADM/IMS renewals
- Client breadth is very narrow and like that of TCS. We are in the process of initiating coverage on the sector and on HCLT

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FY25 BUDGET PREVIEW

12 July 2024

Focus to remain on consolidation

Sonal Badhan
Economist

The main budget for 2024-25 is most likely to shed light on vision of the government for the next five years and bring to focus the key themes that will help achieve the dream of making India a 'Viksit Bharat' by 2047. This budget will remain committed to the path of fiscal consolidation, and inch closer to the FY26 target of <4.5%, by bringing the fiscal deficit in FY25 to 4.9-5.1%, from 5.2% in interim budget (GDP for FY24 came in lower than what was assumed in the Interim Budget). This will be helped by additional fiscal space made available by RBI's more than estimated surplus transfer and hopes of better than expected GDP growth this year.

Normal monsoon, gradual decline in inflation, softening of interest rates and government's measures to boost consumption and investment will aid growth this year. As a result, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. We also expect capex at Rs 11.2-11.3 lakh crore for this year, to help crowd-in private investments. Markets will keep a watchful eye on borrowings which can change in case the fiscal deficit is altered from 5.2% as per the Interim Budget. Also the sharing of the total borrowings between market and small savings would be of interest.

Expectations from final FY25 Budget

Since the latest budget presentation for 2024-25 (FY25) will be the 1st after government begins its third term, we expect the budget to be more of a visionary document, presenting key focus areas for the new government.

First and foremost, it will continue to adhere to the path of fiscal consolidation, without compromising on the quality of expenditure. As a result, we expect 10-30bps reduction in the fiscal deficit (% of GDP) target to 4.9-5.1%. Given the extra fiscal room available with the government from additional Rs 1 lakh crore surplus from RBI we can expect announcements to boost consumption, saving and investment. If the budget assumes GDP level for FY25 to be at the level of Rs 327.7 lakh crore as per the Interim Budget the implicit GDP growth rate would be 11%. However, if the forecast of growth is increased to 11.5%, then GDP would be Rs 329.3 lakh crore which would then offer more space for the fiscal deficit. This combined space will vary from Rs 1-2.6 lakh crore depending on the forecast made for GDP growth.

These savings can be used for lowering the fiscal deficit target, making allowances for higher expenditure, lower collections on disinvestment or loss of revenue due to tax concessions.

OIL & GAS | Q1FY25 Preview | 12 July 2024

Q1FY25 marks normalisation of margins in oil & gas

- **Refining, marketing and gas distribution margins have normalised in Q1 and are likely to still remain in the healthy range**
- **Investors' focus on volume growth likely to improve. RIL, PLNG and CGDs in our coverage are key contenders for growth ahead**
- **Growth in consumer and New Energy for RIL, pace of volume ramp-up for CGD and impact of make-up cargoes on PLNG are key monitorables**

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Margins normalise in Q1FY25: We forecast a 29% YoY decline in EBITDA across our coverage universe, driven by 57% pullback in oil marketing companies and 25% decline in city gas distribution. Sequentially, we estimate a 10% drop in EBITDA for our coverage. RIL and PLNG are likely to stand-out with positive YoY growth.

RIL to post modest YoY growth: We expect RIL to post 4% YoY EBITDA growth as consumer businesses and oil & gas production offset the decline in O2C margins. RIL is likely to see a 7% QoQ contraction in EBITDA on weaker refining margins. Commentary on 5G penetration, roll-out of Jio AirFiber, subscriber consolidation, start-up of giga factories and listing of Digital and Retail are key monitorables.

OMC margins to normalise: We build in a 57% YoY/17% QoQ decline in OMCs EBITDA in Q1 with a simultaneous easing of refining and marketing margins. While refining margin comes off the high base with the ramp-up of a couple of global refineries, marketing margin eases due to retail price cuts in March (LPG to play a larger role). R&M EBITDA margin is still likely to remain healthy at Rs4.2k/t or US$6.9/bbl of marketing volume at our estimates. Delivery timelines on expansion projects and commentary on stability of marketing margin are key monitorables.

CGDs to see modest volume growth, normalisation of margins: Collectively for IGL and MAHGL, we build in a 25% YoY/ 5% QoQ decline in EBITDA. Margins are likely to decline due to reduction in CNG prices, higher shortage of APM gas and increase in spot LNG prices. We factor in an EBITDA margin of Rs 10.6/scm for MAHGL and Rs6.2/scm for IGL in Q1FY25. Commentary on the pace of CNG vehicle additions, additional success in the industrial segment, availability of APM gas and guidance on EBITDA margin are key monitorables.

Other gas utilities: Benefitting from a surge in LNG consumption, PLNG is likely to clock 19% YoY/11% QoQ growth in adj EBITDA ex provisions for TOP recovery. In contrast, GUJS is likely to post a sharp 34% YoY/42% QoQ cut in EBITDA impacted by the **recent cut in HP Gas Grid's tariff**. Actual underlying tariff post cut and volume outlook is key for GUJS; visibility on **timing for make-up cargos** is key for PLNG.

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HCL TECHNOLOGIES | IT Services | 13 July 2024

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HCLT's revenue declined less than expected: HCLT's 1QFY25 revenue decline of 1.6% in constant currency (CC) terms was a tad better than its guidance of 2% decline. EBIT margin at 17.1% came in a tad below our estimate of 17.4%. HCLT's top five clients drove growth in the quarter. PAT beat was driven by other income from the State Street divestment. HCLT held on to its FY25 guidance of 3-5% CC revenue growth and 18-19% EBIT margin growth. Consensus EPS for FY25 will stay put post 1QFY25, in our view.

Deals got pushed out: The order inflow at ~US$ 1.96bn came in at the lower end of our expected range (US$ 2bn-2.5bn) as it saw some deals being pushed out (like what TCS indicated).

Seasonal weakness comes into play: HCLT saw US$ QoQ weakness in BFSI (-4.7%), Manufacturing (-6.7%) and Life Sciences and Healthcare (-4.3%). The decline in BFSI was driven by the offshoring of a large client. The manufacturing decline was due to productivity gains being passed back to clients (typical during this time of the fiscal year), weakness in the auto segment (European) and asset revenue falling QoQ (US$ 10mn). Pressure from the Med-tech business led to the decline in the Life Sciences and Healthcare parts of the business.

Broadbased growth indicated for 2QFY25: HCLT sees broad-based QoQ revenue growth in 2QFY25 across verticals and geographies. The only vertical that is not likely to grow QoQ will be BFSI because of the impact of the State Street divestiture (80bps impact).

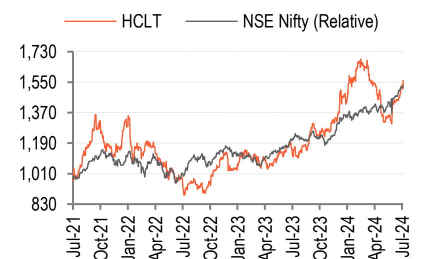
Demand conditions remain the same: HCLT indicated the business environment would be like what it was over the last few quarters – echoing the commentary of TCS.

Discretionary spends still under pressure: Management indicated discretionary spending would be under pressure, though there were a few pockets where such spends would happen. Especially if that led to cost benefits for the customer.

Ticker/Price	HCLT IN/Rs 1,560
Market cap	US$ 51.5bn
Free float	38%
3M ADV	US$ 69.8mn
52wk high/low	Rs 1,697/Rs 1,087
Promoter/FPI/DII	61%/17%/22%

Source: NSE | Price as of 11 Jul 2024

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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