

RESEARCH**BOB ECONOMICS RESEARCH | CPI**

Inflation picks up

BOB ECONOMICS RESEARCH | WPI

WPI inflation scales up

RELIANCE INDUSTRIES | TARGET: Rs 3,440 | +25% | BUY

Earnings bottomed out but softness may persist near term

HCL TECHNOLOGIES | NOT RATED

Modest beat. Guidance broadly maintained

SUMMARY**INDIA ECONOMICS: CPI**

CPI inflation inched up sharply to 5.5% in Sep'24 from 3.7% in Aug'24, as the favorable base effect waned. Further, food inflation inched up sharply to 9.2% from 5.7% in Aug'24. This can be attributed to higher prices of vegetables, particularly tomato and onion. Significant price pressures were also visible in case of edible oils, in line with an uptick in global prices. Prices of cereals and pulses saw some much-needed correction, and are expected to ease further as fresh kharif harvest enter the market. Higher gold prices also fed into core inflation, which picked up to 3.5%.

[Click here](#) for the full report.

INDIA ECONOMICS: WPI

WPI inflation climbs up to 1.8% in Sep'24 compared with 1.3% in Aug'24 driven by food inflation. Our forecast for headline WPI inflation was at 2.2%. Uptick in both onion and tomato prices pushed vegetables inflation higher. Under foodgrains, moderation in prices of paddy and pulses was noted. Fuel and power inflation remained in deflation at 4% supported by dip in both domestic and global oil prices. Manufactured products inflation softened to 1% from 1.2% in Aug'24.

[Click here](#) for the full report.



RELIANCE INDUSTRIES

- Q2 results were broadly in line with muted expectations, earnings likely bottomed out but softness may persist for couple of quarters
- While we lower FY25 EBITDA growth to reflect short-term hiccups, we continue to bake in structural growth and see widening growth canvass
- We lower TP to Rs 3,440 (from Rs 3,585) due to slower retail growth; RIL's consumer business remains key beneficiary of India growth story

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HCL TECHNOLOGIES

- Broad-based and better-than-expected growth. Guidance is broadly left unchanged. HCLT does not want to extrapolate strong 2Q into 2H
- Order inflow is the only weak spot, in our view. Believe Verizon likely contributed a large part of the incremental FY25 revenue
- 2Q performance is unlikely to push up consensus EPS much. Stock unrated currently. Will be initiating coverage soon

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CPI

14 October 2024

Inflation picks up

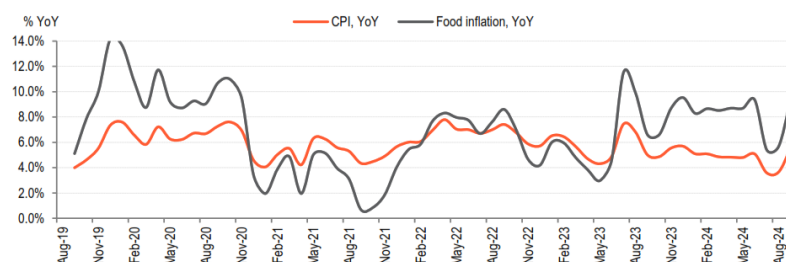
CPI inflation inched up sharply to 5.5% in Sep'24 from 3.7% in Aug'24, as the favorable base effect waned. Further, food inflation inched up sharply to 9.2% from 5.7% in Aug'24. This can be attributed to higher prices of vegetables, particularly tomato and onion. Significant price pressures were also visible in case of edible oils, in line with an uptick in global prices. Prices of cereals and pulses saw some much-needed correction, and are expected to ease further as fresh kharif harvest enter the market. Higher gold prices also fed into core inflation, which picked up to 3.5%.

Aditi Gupta
Economist

The outlook on inflation hinges on how food prices behave. High frequency price data shows that prices of key items such as tomato and onion have maintained an upward momentum even in Oct'24. Hence, we expect inflation to remain elevated in Oct'24 as well, barring any adverse weather shock. Unseasonal rains remain a key risk, specially since prices of perishables is highly sensitive to weather shocks. We expect inflation to average ~4.5-5% in FY25. The possibility of a rate cut is likely to open up only in Feb'25, as inflation is likely to peak in Q3 FY25.

CPI inflation: CPI inflation inched up sharply to 5.5% in Sep'24 from 3.7% in Aug'24. This was higher than our estimate of a 5.1% increase. The increase in headline inflation can be attributed to higher food inflation. Food inflation inched up to 9.2% in Sep'24 after moderating to 5.7% in Aug'24. Within food, significant upward momentum was witnessed in vegetable prices. In fact, vegetable prices rose sharply by 36% in Sep'24 from 10.7% in Aug'24. While a part of this can be attributed to base effect (vegetable prices had increased by 3.4% in Sep'23), prices of key vegetables, particularly tomato and onion inched up sequentially in Sep'24. Apart from vegetables, prices of edible oils also increased by 2.5% in Sep'24, after remaining in deflation in the last 19-months. Prices of fruits also inched up by 7.6% compared with 6.5% in Aug'24. On the positive side, inflation in both pulses and cereals eased. For pulses, the moderation in inflation was significant at 9.8% (lowest since May'23) versus 13.6% in Aug'24. For cereals, the rate of inflation eased to a 27-month low of 6.8% in Sep'24 versus 7.3% in Aug'24.

Figure 1: CPI inflation inches up sharply



Source: CEIC, Bank of Baroda Research



WPI

14 October 2024

WPI inflation scales up

WPI inflation climbs up to 1.8% in Sep'24 compared with 1.3% in Aug'24 driven by food inflation. Our forecast for headline WPI inflation was at 2.2%. Uptick in both onion and tomato prices pushed vegetables inflation higher. Under foodgrains, moderation in prices of paddy and pulses was noted. Fuel and power inflation remained in deflation at 4% supported by dip in both domestic and global oil prices. Manufactured products inflation softened to 1% from 1.2% in Aug'24.

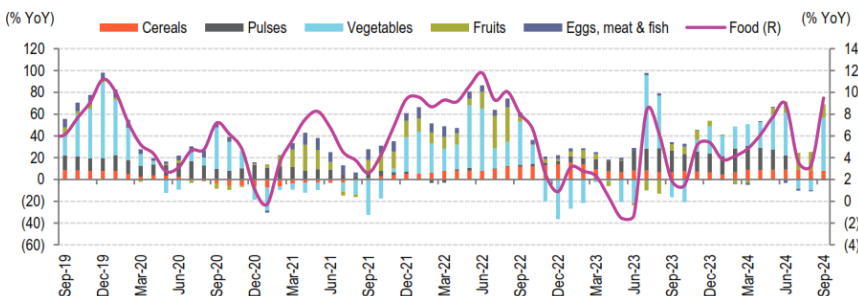
Jahnvi Prabhakar
Economist

The evolving geopolitical condition needs careful monitoring specially in terms of outlook on global commodity prices for oil and metals. With higher sowing better than last year, the arrivals of kharif crops is likely to be better this year. Against this back drop, we expect WPI to ease in Q4 in line with CPI provided oil and food shocks are not triggered. Any rate action by RBI is warranted only by Q4FY25.

Food inflation surges:

Headline WPI inflation rose to 1.8% in Sep'24 from 1.3% in Aug'24, marginally lower than our estimate of a 2.2% increase. This was driven by acceleration in food inflation at 9.5% (2 year-high) from 3.3% in Aug'24 owing to unfavourable base. After contracting in Aug'24 (-10%), vegetable inflation climbed up sharply to a 14-month high of 48.7% in Sep'24. Within vegetables, onion (78.8% in Sep'24 from 65.8%) and tomato prices (74.5% from -52.6%) soared higher due to untimely and excessive rains. On the other hand, cereal inflation registered some moderation (8.1% from 8.4%) as paddy prices eased down to 8.1% (9.1% previously). However, wheat prices continue to inch up at 7.6% from 7.3% in Aug'24. Even globally, wheat prices have edged up due to unfavourable weather conditions which resulted in harvest delays and hence there is an expectation of a cut in production output too. Domestic price of pulses cooled off further down to 13% (from 18.6%). Notably, prices of milk (3.2% from 3.5%) and eggs (3.3% from 5.7%) have also registered some moderation in Sep'24.

Figure 1: Spike in Food inflation



Source: CEIC, Bank of Baroda Research



BUY
 TP: Rs 3,440 | ▲ 25%

RELIANCE INDUSTRIES

Oil & Gas

15 October 2024

Earnings bottomed out but softness may persist near term

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Kirtan Mehta, CFA
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Q2 broadly in line with muted expectations: RIL’s Q2FY25 EBITDA at Rs 391bn was 3% below Bloomberg consensus and 2% below our forecasts, reflecting largely in-line results amid muted expectations. Segmental results were also within -2% to +3% range across all segments. Capex spend eased 33% YoY to Rs 628bn in H1 allowing net debt to remain flat at Rs 1,164bn over H1.

Earnings likely bottomed out: While pullback in margins in O2C and retail rationalisation weighed on earnings, Q2 consolidated EBITDA was still up 3% QoQ on resumption of growth in Digital Services with the tariff hike in July. Q3 earnings will gain support from further capture of tariff hike in Digital Services and retail growth in festive season. Management guides for softness for the next couple of quarters in both Retail and O2C businesses.

Structural growth intact: While we had slowed down FY25 EBITDA growth to a mid-single digit (6%) from 9% earlier on the slowdown in Retail and O2C, we continue to bake in 11% CAGR in EBITDA over FY24-FY27E, led by 22% CAGR in consumer business profits. Besides consumer businesses linked to growth aspirations of India, RIL is also developing New Energy as the next growth pillar.

Key stock catalysts: (a) Jio: Signs of monetising standalone 5G roll-out beyond Jio AirFiber. (b) Retail: Resumption of growth trajectory towards delivery on 3x growth target over five years. (c) New Energy: More visibility on delivery of initial milestones over FY25-26. d) O2C: Guidance on cost reduction with the deployment of new energy. (e) Public offers: Listing of the Jio and retail businesses.

Reiterate BUY: We lower our SOTP-based TP to Rs 3,440 (from Rs 3,585) factoring in changes to estimates and lower target multiple for Retail at 32x (from 34x) reflecting slower growth assumptions of 18% (22%) CAGR over FY24-27E. We retain target multiples for other businesses – Refining (7.5x), Petrochemicals (8.5x), and Jio Infocomm (11x). Given 25% upside, we reiterate BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RIL IN/Rs 2,745
Market cap	US\$ 221.0bn
Free float	50%
3M ADV	US\$ 245.1mn
52wk high/low	Rs 3,218/Rs 2,220
Promoter/FPI/DII	50%/22%/17%

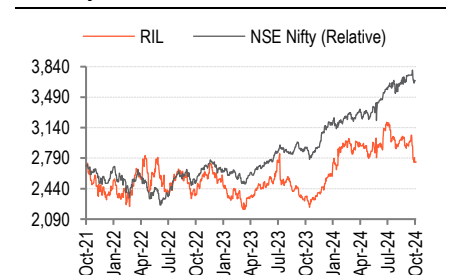
Source: NSE | Price as of 14 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,010,640	9,116,495	9,935,189
EBITDA (Rs mn)	1,622,187	1,715,022	1,986,179
Adj. net profit (Rs mn)	696,067	727,977	878,396
Adj. EPS (Rs)	102.9	107.6	129.8
Consensus EPS (Rs)	102.9	113.4	132.8
Adj. ROAE (%)	9.2	8.8	9.8
Adj. P/E (x)	26.7	25.5	21.1
EV/EBITDA (x)	13.1	12.4	10.6
Adj. EPS growth (%)	5.0	4.6	20.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



NOT RATED**HCL TECHNOLOGIES**

| IT Services

| 15 October 2024

Modest beat. Guidance broadly maintained

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- **2Q performance is unlikely to push up consensus EPS much. Stock unrated currently. Will be initiating coverage soon**

Girish Pai

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Revenue growth better than HCLT's own expectation: 1.6% constant currency (CC) QoQ (2.4% US\$ QoQ) was a tad better than our 1.2% estimate. HCLT stated that it was better than its own expectation by US\$ 22mn (~65bps) as it witnessed broad-based strength. There was a 90bps negative impact due to State Street JV divestment QoQ.

Margin a tad better too: EBIT margin at 18.6% was better than our estimate of 18.3%. Of the 149bps increase QoQ, 54bps came from better performance of HCLT Software. The services margin increased by 110bps QoQ driven by operating efficiencies.

Broad-based growth: BFSI growth would have been 4% QoQ had it not been for the State Street divestment. Called out European Auto and Aerospace in general to be areas of worry. Indicated that discretionary spending was a tad better than in 1QFY25.

Guidance increased marginally: HCLT raised its FY25 revenue growth guidance to 3.5-5% from 3-5% due to the better performance in 2Q. This implies 0.7-2.6% CQGR growth for the next two quarters. It held on to its 18-19% EBIT margin guidance.

Cautious in extrapolating 2Q strength into 2H: Sounded cautious due to issues around macro, geopolitics and elections in the US. Indicated existence of client-specific issues in automotive and aerospace sub verticals.

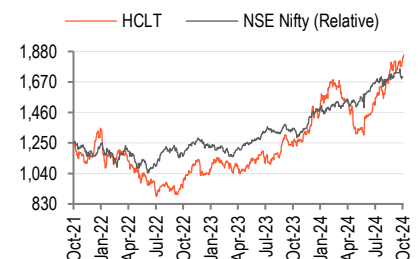
TCV is a bit disappointing: Just as in the case of TCS, we were a bit disappointed by the TCV (all net new) of US\$ 2.23bn as HCLT too had indicated that deals were pushed back from 1QFY25.

Large client impact: Just as the BSNL deal has likely driven growth for TCS in FY25, similarly we believe the Verizon deal has likely contributed to 60% of incremental revenue in FY25 for HCLT.

Ticker/Price	HCLT IN/Rs 1,856
Market cap	US\$ 59.9bn
Free float	39%
3M ADV	US\$ 57.2mn
52wk high/low	Rs 1,866/Rs 1,209
Promoter/FPI/DII	61%/18%/16%

Source: NSE | Price as of 14 Oct 2024

Stock performance



Source: NSE



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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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