

**RESEARCH**
**[SECTOR REPORT] Technology & Internet**

Deep Dive 4 - 5G juggernaut gains momentum; BUY TECHM

**BOB Economics Research | WPI**

WPI inflation at elevated levels, food inflation dips

**SUMMARY**
**Technology & Internet**

- Rebound in 5G rollout post Covid-led blip; set to reach ~1bn connections globally by CY22-CY23 and unlock growth opportunity for Indian IT
- China and the US maintain supremacy; Europe racing to scale up 5G commercial services following first pandemic wave
- BUY TECHM for its highest telecom exposure among large-cap IT at 40%; reiterate BUY with a Sep'22 TP of Rs 1,660

[Click here for the full report.](#)
**India Economics: WPI**

WPI inflation inched up to 11.4% in Aug'21 from 11.2% in Jul'21. While food inflation did moderate due to lower fruits and vegetable inflation, manufactured products and fuel and power inflation remained entrenched at elevated levels. WPI inflation is likely to remain elevated upto Q3 after which base effect will ensure some moderation. The dip in CPI inflation is a positive but high international commodity prices imply pass-through into domestic prices in the foreseeable future.

[Click here for the full report.](#)
**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.33	(2bps)	5bps	65bps
India 10Y yield (%)	6.19	1bps	(5bps)	16bps
USD/INR	73.68	(0.2)	0.8	(0.3)
Brent Crude (US\$/bbl)	73.51	0.8	4.1	85.6
Dow	34,870	0.8	(1.8)	24.6
Shanghai	3,715	0.3	5.7	13.3
Sensex	58,178	(0.2)	4.9	50.1
India FII (US\$ mn)	09-Sep	MTD	CYTD	FYTD
FII-D	157.7	328.1	(1,085.8)	941.5
FII-E	161.4	377.5	7,768.1	441.7

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## TECHNOLOGY & INTERNET

14 September 2021

### Deep Dive 4: 5G juggernaut gains momentum – BUY TECHM

- Rebound in 5G rollout post Covid-led blip; set to reach ~1bn connections globally by CY22-CY23 and unlock growth opportunity for Indian IT
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**US and China at the fore; Europe fast catching up:** Due to Covid-19, 5G spectrum allocation took a backseat in 2020. However, spectrum assignment is now complete in most parts of the US, China, Europe, South Korea, Japan, Russia, Canada, and Australia. Further, 24 more countries will add 1-6GHz of spectrum by end-CY21. GSMA expects ~1bn 5G connections globally by CY22-CY23. While the US, China, South Korea and Japan are well ahead in terms of network rollout, investments and subscriber addition, European telcos are fast catching up.

**Emerging use cases across sectors:** With resurgent digitisation demand post Covid, there is no dearth of new use cases for 5G. Industries that will particularly benefit from this technology in the near term are communications, business services, financial services, automobiles, healthcare and life sciences, and gaming.

**OEMs signal accelerated 5G momentum:** US chipmaker Qualcomm is the driving force behind the global development, launch and expansion of 5G, and has scaled up 5G licensing in tandem with the rising demand. The company has also doubled its forecast of 5G handset sales for CY21 vs. CYs20. Similar upbeat sentiments have been echoed by major OEMs such as Intel, Ericsson and Samsung. In a historic deal this July, Ericsson expanded its longstanding partnership with US telecom giant Verizon to deliver 5G solutions in the North American market for US\$ 8.3bn.

**TECHM to be prime beneficiary:** Following robust Jun'21 quarter results and a rebound in the telecom vertical across our IT services coverage in general and Tech Mahindra (TECHM: 40% telecom exposure) in particular, we reiterate TECHM as our top large-cap pick. We expect strong growth given deal wins worth US\$ 815mn TCV (+180% YoY) in Q1FY22 and clientele comprising all major US and European telcos.

**Reiterate BUY on 5G-led demand pickup:** At ~20x FY23E P/E, TECHM is the lowest valued stock among tier-I IT services players. It is trading at ~40% discount to TCS compared to an average ~22% discount over FY14-FY15 – the phase of strong 4G-led growth pickup at TECHM. We have an unchanged Sep'22 TP of Rs 1,660, set at a one-year forward P/E of 20x. Maintain BUY.

#### Recommendation snapshot

Ticker	Price	Target	Rating
AFFLE IN	4,909	6,200	BUY
COFORGE IN	5,178	5,860	BUY
ECLX IN	2,194	2,880	BUY
HCLT IN	1,208	1,360	BUY
INFO IN	1,692	2,020	BUY
INMART IN	8,706	7,200	HOLD
JUST IN	989	1,330	BUY
LTI IN	5,489	5,960	BUY
MPHL IN	3,000	3,020	HOLD
MTCL IN	3,935	2,400	SELL
PSYS IN	3,588	3,050	HOLD
TCS IN	3,845	4,270	BUY
TECHM IN	1,430	1,660	BUY
WPRO IN	671	620	HOLD

Price & Target in Rupees | Price as of 13 Sep 2021



## WHOLESALE INFLATION

14 September 2021

### WPI inflation at elevated levels, food inflation dips

WPI inflation inched up to 11.4% in Aug'21 from 11.2% in Jul'21. While food inflation did moderate due to lower fruits and vegetable inflation, manufactured products and fuel and power inflation remained entrenched at elevated levels. WPI inflation is likely to remain elevated upto Q3 after which base effect will ensure some moderation. The dip in CPI inflation is a positive but high international commodity prices imply pass-through into domestic prices in the foreseeable future.

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**Food inflation moderates:** Food inflation eased to a 7-month low of 3.4% in Aug'21 from 4.5% in Jul'21. Fruits and vegetables index declined sharply by 10.1% in Aug'21 compared with a decline of 6.7% in Jul'21. Within this, prices of potatoes (declined by 39.8% from 36.4% in Jul'21) and onion (62.8% from 72% in Jul'21) dropped the most. Egg inflation moderated to a 6-month low of 9.1% in Aug'21 from 22.8% in Jul'21. However, slower pace of decline was noted in cereal prices (-1.1% from -2.8% in Jul'21) led by both wheat (-0.2% from -2.4% in Jul'21) and paddy (-2.2% from -2.7% in Jul'21). Prices of both pulses and milk accelerated to 9.4% and 3% respectively in Aug'21. Uptick in September rains and cut in duties on edible oils is a positive for reigning in food inflation.

**Fuel and power inflation steady:** Fuel and power inflation remained entrenched at an elevated level of 26.1% in Aug'21 compared with 26% in Jul'21. Within the index, electricity prices reported a decline of 5% compared with 2.8% dip in Jul'21. At the same time, coal index went up by 1%. Minerals oils index continued to be at elevated levels with an increase of 52.7% (51.8% in Jul'21). Notably, international oil prices were a tad bit lower in Aug'21 on the back of concerns over Delta variant. However, prices have seen an upward trajectory in Sep'21. International oil prices remained below US\$ 50/bbl until Nov'21. Hence, fuel and power index is likely to remain entrenched at these levels and only see easing from Dec'21 onwards.

**Core inflation rises further:** Core inflation rose to 11.1% in Aug'21 from 10.8% in Jul'21. Manufactured products inflation also hardened to 11.4% from 11.2% in Jul'21. Of the 22 commodity indices, 14 indices rose at a faster pace in Aug'21 than Jul'21 led by electrical equipment, tobacco, textiles, fabricated metal products and rubber products. While on an aggregate basis, in Sep'21 (MTD), international commodity prices (CRB index) is down by 0.8% (MoM) in Sep'21 after a 0.5% decline seen in Aug'21, aluminium and copper prices are still scaling up. Slowdown in activity in China may lead to dip in international commodity prices.



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### 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.

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