

## FIRST LIGHT

### RESEARCH

#### Swaraj Engines | Target: Rs 1,600 | -10% | SELL

Healthy Q1; cut to SELL on recent stock rally

#### BOB Economics Research | Weekly Wrap

India's economic activity improves further

#### HCL Technologies | Target: Rs 1,260 | +26% | BUY

Second Covid wave hinders growth

### SUMMARY

#### Swaraj Engines

- Above-expected volumes and higher ASP supported healthy revenue growth in Q1FY22 while limited RM cost impact further drove adj. PAT
- Recent channel checks suggest a slow pace of harvesting due to delayed monsoon arrival
- We revise FY22/FY23 EPS estimates upward by ~7%, leading to a new TP of Rs 1,600 (vs. Rs 1,500). Cut from ADD to SELL post stock rally

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

#### India Economics: Weekly Wrap

Global yields fell led by US and Germany as global growth worries resurfaced. Fed Chair remained dovish and ECB also hinted at continuing with dovish policy. DXY closed 0.6% higher with supportive macro data. However, global equity markets reacted negatively to rising Covid-19 cases. Indian equity markets went up as cases continue to fall. India's 10Y rose by 3bps on the back of RBI buying off-the run securities in its G-SAP auction. Our weekly economic tracker has inched up to 94 from 93 last week (Feb'20=100), signalling further revival in economic activity.

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

#### Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.29	(1bps)	(20bps)	66bps
India 10Y yield (%)	6.21	2bps	17bps	41bps
USD/INR	74.56	0.0	(1.7)	0.6
Brent Crude (US\$/bbl)	73.59	0.2	(0.5)	70.6
Dow	34,688	(0.9)	1.1	30.1
Shanghai	3,539	(0.7)	(0.5)	10.1
Sensex	53,140	0.0	0.7	43.5
India Fil (US\$ mn)	15-Jul	MTD	CYTD	FYTD
FII-D	100.3	80.8	(3,086.0)	(1,058.7)
FII-E	51.4	(453.7)	7,630.4	304.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

researchreport@bobcaps.in



### HCL Technologies

- HCLT reported 0.9% QoQ dollar revenue growth in Q1FY22, underperforming our estimate of 1.5% due to the Covid2.0 impact
- Growth was primarily driven by life sciences and BFSI with other verticals muted. New TCV grew 37% YoY to US\$ 1.6bn
- We revise FY22/FY23 EPS by -4%/-6% and roll over to a new Jun'22 TP of Rs 1,260 (vs. Rs 1,190). Retain BUY as FY22 guidance remains intact

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

**SELL**  
 TP: Rs 1,600 | ▼ 10%

**SWARAJ ENGINES**

| Auto Components

| 19 July 2021

**Healthy Q1; cut to SELL on recent stock rally**

- Above-expected volumes and higher ASP supported healthy revenue growth in Q1FY22 while limited RM cost impact further drove adj. PAT
- Recent channel checks suggest a slow pace of harvesting due to delayed monsoon arrival
- We revise FY22/FY23 EPS estimates upward by ~7%, leading to a new TP of Rs 1,600 (vs. Rs 1,500). Cut from ADD to SELL post stock rally

Mayur Milak | Nishant Chowhan, CFA  
 researchreport@bobcaps.in

**Healthy volumes propel profitability:** SWE's volumes grew by a strong 145% YoY to 33.7k units (25k expected) but were flattish QoQ in Q1FY22. A 10% YoY (+3% QoQ) improvement in ASP further supported revenue growth of 169% YoY to Rs 3.1bn. Gross margin contraction was limited to only 30bps QoQ (-120bps est.) led by price hikes which aided an above-estimated EBITDA margin of 15%. EBITDA grew 268% YoY to Rs 473mn and adj. PAT was up 330% YoY to Rs 337mn.

**Tractor industry expected to log 5% CAGR over FY21-FY23:** We expect the Indian tractor industry to grow at 5% over FY21-FY23, with SWE keeping pace, aiding a revenue/EBITDA/PAT CAGR of 10%/9%/8% for the company. Our channel checks suggest a delay in monsoon arrival in most parts of Maharashtra, Uttar Pradesh, Punjab and Haryana, which may affect the current season's harvest. We could also see a spike in crop MSPs (minimum support prices) ahead of the crucial UP elections.

**Earnings revised upward:** We retain our FY22/FY23 volume estimates but build in better ASPs through price hikes, leading to a ~5% increase in our revenue forecasts. This adds 20bps to EBITDA margins, resulting in upward EPS revision of ~7% each for FY22/FY23. We are now broadly in line with consensus EPS.

**Cut to SELL post recent rally:** SWE has been a zero-debt company, clocking healthy ROE and ROCE of ~35% each for the past three years. We expect the company to incur capex of Rs 450mn-500mn over FY22-FY23 to increase production capacity. We continue to value the stock at 18x FY23E EPS, in line with its 10-year average P/E multiple, yielding a new Mar'22 TP of Rs 1,600 (vs. Rs 1,500 earlier) post estimate revision. Given the recent rally of ~30% since the Q4FY21 results, we believe the stock is overvalued at 22x/20x FY22E/FY23E EPS and thus downgrade our rating to SELL (from ADD).

**Key changes**

Target	Rating
▲	▼

Ticker/Price	SWE IN/Rs 1,773
Market cap	US\$ 288.5mn
Free float	48%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 2,000/Rs 1,268
Promoter/FPI/DII	52%/1%/11%

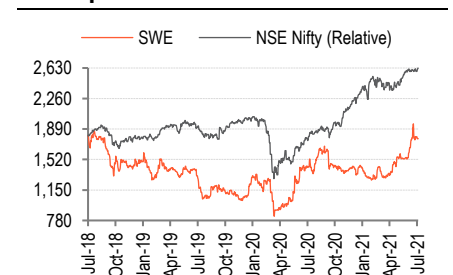
Source: NSE | Price as of 16 Jul 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	9,866	11,140	11,927
EBITDA (Rs mn)	1,357	1,488	1,602
Adj. net profit (Rs mn)	925	992	1,086
Adj. EPS (Rs)	76.3	81.7	89.6
Consensus EPS (Rs)	0.0	81.2	88.7
Adj. ROAE (%)	37.9	36.9	37.2
Adj. P/E (x)	23.2	21.7	19.8
EV/EBITDA (x)	15.7	14.0	12.9
Adj. EPS growth (%)	30.2	7.1	9.6

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## WEEKLY WRAP

19 July 2021

**India's economic activity improves further**

Global yields fell led by US and Germany as global growth worries resurfaced. Fed Chair remained dovish and ECB also hinted at continuing with dovish policy. DXY closed 0.6% higher with supportive macro data. However, global equity markets reacted negatively to rising Covid-19 cases. Indian equity markets went up as cases continue to fall. India's 10Y rose by 3bps on the back of RBI buying off-the run securities in its G-SAP auction. Our weekly economic tracker has inched up to 94 from 93 last week (Feb'20=100), signalling further revival in economic activity.

Sameer Narang | Sonal Badhan  
 chief.economist@bankofbaroda.com

**Markets**

- **Bonds:** Growth worries pulled global yields lower. US 10Y yield fell by 7bps (1.29%) supported by dovish comments from Fed Chair. Germany's 10Y yield fell by 6bps (-0.35%) as ECB Board Member also spoke about monetary stimulus to support the economy. Crude prices fell by 2.6% (US\$ 74/bbl). India's 10Y yield (5.85 GS2030) rose by 3bps (6.21%) as RBI did not include on-the-run securities under current G-SAP auction. System liquidity surplus was steady at Rs 5.6tn as on 16 Jul 2021 unchanged from last week.
- **Currency:** Global currencies closed mixed. DXY rose by 0.6% as US data remained positive (jobless claims, retail sales). AUD (1.2%) and GBP (1%) fell amidst rising Covid-19 cases and a slowing global economy. INR rose by 0.1% as oil prices eased. FII outflows were muted at US\$ 84mn.
- **Equity:** Global indices closed mixed, with US and European markets closing lower and Asian markets ending in green. FTSE fell (1.6%) the most led by higher inflation, BoE Deputy Governor's comments on tightening of monetary policy and rising Covid-19 cases. Sensex rose the most by 1.4%, led by realty and cap good stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.5mn this week versus 3mn last week. Fresh cases increased in UK (0.3mn versus 0.2mn), US (0.2mn versus 0.1mn) and APAC (1.1mn versus 0.9mn). In India, cases rose at a slower pace of 0.27mn versus 0.29mn. Our weekly economic activity tracker index rose to 94 (100=Feb'20) from 93. Israel has fully vaccinated 60% of its population, UK is at 52% and US at 48%. India is at 5.6%.
- **Upcoming key events:** Major events this week include rate decisions of ECB and BoI, global flash PMIs and US housing data (starts and existing home sales). RBA's minutes are scheduled for release. On the domestic front, Covid-19 cases, rains and Monsoon session of Parliament will drive markets.



**BUY**

TP: Rs 1,260 | ▲ 26%

**HCL TECHNOLOGIES**

| IT Services

| 19 June 2021

## Second Covid wave hinders growth

- HCLT reported 0.9% QoQ dollar revenue growth in Q1FY22, underperforming our estimate of 1.5% due to the Covid2.0 impact
- Growth was primarily driven by life sciences and BFSI with other verticals muted. New TCV grew 37% YoY to US\$ 1.6bn
- We revise FY22/FY23 EPS by -4%/ -6% and roll over to a new Jun'22 TP of Rs 1,260 (vs. Rs 1,190). Retain BUY as FY22 guidance remains intact

Ruchi Burde | Seema Nayak  
researchreport@bobcaps.in

**Covid impacts growth:** HCLT's Q1 revenue grew 0.9% QoQ USD, falling short of our estimate of 1.5% as employees in the national capital region (NCR) were hampered by Covid-19 restrictions. Growth was led by life sciences and BFSI, which were up 5.2% and 3.2% respectively. Retail, manufacturing, ENU, and media, publishing & entertainment remained weak. New TCV stood at US\$ 1.6bn (+37% YoY) vs. US\$ 3.1bn in Q4FY21. Mode-2 business grew the most at 2.3% QoQ CC. Geography-wise, the Europe pipeline remains strong despite an underwhelming quarterly performance. In terms of services, engineering and R&D posted good growth of 2.2% QoQ CC led by digital engineering demand in hi-tech and life sciences.

**Margin in line:** EBIT margin was in line at 19.6%, down 70bps QoQ. Employee cost/SG&A as a percentage of sales increased 100bps/50bps QoQ. The Q1 margin decline stemmed from (1) the pandemic-led impact (-90bps), (2) investments in sales, marketing and R&D (-30bps), and (3) talent retention costs (-30bps). This was partly offset by a lack of amortisation cost (+60bps) and forex gains (+20bps).

**Hiring ramped up:** HCLT has been able to rein in attrition at 11.4% by using various measures such as special allowances, retention bonuses and onshore fresher hiring. The company hired ~7,500 employees in Q1FY22 to meet the increasing demand and help backfill attrition. Management expects to maintain hiring at the current level for the next couple of quarters.

**FY22 guidance intact:** In Q4FY21, management had guided for double-digit revenue growth and EBIT margin of 19-21% for FY22. This guidance remains unchanged, based on 12 deal wins in the first quarter (vs. 19 in Q4FY21 and 11 in Q1FY21). HCLT expects the growth lost in Q1 to be recouped in Q2.

**Maintain BUY:** In our view, Q1 was an aberration due to the impact of Covid and seasonality. Growth is guided to recover and the FY22 margin outlook also remains robust. We lower EPS estimates post Q1 and roll to a new Jun'22 TP of Rs 1,260 (vs. Rs 1,190), set at an unchanged 20.8x P/E (30% discount to TCS' multiple). We retain BUY on strong sector demand, robust bookings and steady growth guidance.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HCLT IN/Rs 1,000
Market cap	US\$ 36.2bn
Free float	38%
3M ADV	US\$ 61.9mn
52wk high/low	Rs 1,067/Rs 627
Promoter/FPI/DII	60%/27%/13%

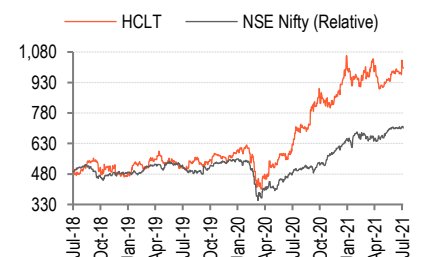
Source: NSE | Price as of 19 Jul 2021

### Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	753,790	868,806	986,201
EBITDA (Rs mn)	200,560	221,729	255,566
Adj. net profit (Rs mn)	130,660	141,546	160,138
Adj. EPS (Rs)	48.1	52.2	59.0
Consensus EPS (Rs)	48.1	50.8	57.4
Adj. ROAE (%)	22.9	21.5	21.8
Adj. P/E (x)	20.8	19.2	16.9
EV/EBITDA (x)	13.5	12.2	10.3
Adj. EPS growth (%)	17.8	8.3	13.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



## Disclaimer

### 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.

### Rating distribution

As of 30 June 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 7 have HOLD ratings, 17 are rated ADD\*, 4 are rated REDUCE\* and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

### 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 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 Institutional 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 has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

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 where such an offer or solicitation would be illegal. 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.

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 act as market makers or 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.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

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.