

## RESEARCH

### BOB Economics Research | Inflation and IIP

IIP falls and inflation inches up

### Balrampur Chini | NOT RATED

Sugar prices subdued; ethanol sales to support profitability

### IT Services

Reskilling to bridge workforce demand-supply gap

## SUMMARY

### India Economics: Inflation and IIP

India's industrial output fell by 1.6% in Jan'21 (+1.6% in Dec'20) led by drop in capital goods and consumer non-durables. CPI inflation inched up to 5% in Feb'21 from 4.1% in Jan'21 led by jump in food inflation to 3.9% (2% in Jan'21). Core inflation too edged up to 6% in Feb'21. We expect CPI inflation at 4.6% in FY22 (6.2% in FY21). However, upside risk from higher global commodity prices and domestic core inflation are not ruled out. Food inflation is likely to be benign on the back of ample cereals stock and normal monsoon.

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

### Balrampur Chini

Key takeaways from our interaction with the management of Balrampur Chini Mills (BRCM): (1) Sugar production in India is estimated to rise to ~29.7mn tonnes for sugar season 2020-21 (from ~27.4mt in SS19-20) aided by higher output in Maharashtra and Karnataka. Uttar Pradesh would see a decline due to lower yield, recovery and red rot disease in some parts of the state. (2) Management estimates exports from India at ~6mt this season. BRCM has already contracted its export quota obligation of ~0.25mt at a profit.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">GAIL</a>	Buy	160
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,710
<a href="#">Tech Mahindra</a>	Buy	1,130

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	330
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.54	2bps	37bps	73bps
India 10Y yield (%)	6.25	4bps	21bps	1bps
USD/INR	72.92	0	0.1	1.8
Brent Crude (US\$/bbl)	69.63	2.5	15.0	109.6
Dow	32,486	0.6	3.5	53.2
Shanghai	3,437	2.4	(2.7)	17.6
Sensex	51,280	0.5	(0.1)	56.4
India FII (US\$ mn)	9 Mar	MTD	CYTD	FYTD
FII-D	(176.3)	(1,113.4)	(2,597.6)	(6,691.2)
FII-E	365.3	950.6	5,944.4	35,920.2

Source: Bank of Baroda Economics Research

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## IT Services

With the acceleration in digital demand post Covid-19, reskilling has gained prominence for IT players. Accenture spends ~US\$ 1bn (~2.2% of annual revenue) towards reskilling per year. Similarly, companies such as Verizon, AT&T, Amazon and PwC have spent sums ranging from US\$ 50mn to US\$ 3bn. Indian IT majors have also stepped-up efforts here, deploying 1-1.5% of revenue to upskill their employees. This figure is expected to rise in coming years. Nasscom has taken it upon itself to digitally train 4mn IT professionals in the next five years.

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

## INFLATION AND IIP

12 March 2021

### IIP falls and inflation inches up

**India's industrial output fell by 1.6% in Jan'21 (+1.6% in Dec'20) led by drop in capital goods and consumer non-durables. CPI inflation inched up to 5% in Feb'21 from 4.1% in Jan'21 led by jump in food inflation to 3.9% (2% in Jan'21). Core inflation too edged up to 6% in Feb'21. We expect CPI inflation at 4.6% in FY22 (6.2% in FY21). However, upside risk from higher global commodity prices and domestic core inflation are not ruled out. Food inflation is likely to be benign on the back of ample cereals stock and normal monsoon.**

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**IIP contracts:** Industrial output slipped back into contraction zone with a print of (-) 1.6% in Jan'21 from an increase of 1.6% in Dec'20. This was led by manufacturing sector which contracted by 2% in Jan'21 compared with an increase of 2.1% in Dec'20. Within manufacturing, both capital and consumer non-durable good contracted sharply by 9.6% (from an increase of 1.5%) and 6.8% (from an increase of 0.5%) respectively in Jan'21. Consumer durable goods too declined by 0.2% in Jan'21. Electricity output improved to 5.5% in Jan'21 from 5.1% in Dec'20. This data is a bit at odds with manufacturing PMI, export growth seen in Jan'21 and consistently rising GST collections.

**CPI inched up:** CPI inflation edged up to 5% in Feb'21 after two consecutive months of sub-5% print. This was led by jump in food inflation (3.9% in Feb'21 versus 2% in Jan'21). Vegetable prices fell only by 6.3% versus a large decline of 15.8% seen in Jan'21. Prices of fruits also went up by 6.3% from 5%. Oil and fat index continued to surge at 20.8% in Feb'21. Other food categories which exhibited double digit inflation in Feb'21 are pulses and products (12.5%), meat and fish (11.3%) and eggs (11.1%). Notably, cereal inflation fell to its lowest (in the 2011-12 series) due to large stock built-up. With a prediction of normal monsoon, outlook on food inflation is positive.

**Core inflation also rises:** Core inflation rose by 30bps to 6% from 5.7% in Jan'21. This was led by transport and communication which rose to 11.4% in Feb'21 from 9.4% in Jan'21. Upward momentum was seen in clothing and footwear at 4.2% from 3.8%, health at 6.3% from 6.1% and recreation and amusement at 5.8% from 5.5%. However, lower gold prices drove moderation in personal care and effects at 8.6% from 10.7%. We expect CPI inflation to stabilise at 5% in H1FY22. While it is expected to come down in H2, an upward push from higher commodity prices and core inflation cannot be ruled out.

#### KEY HIGHLIGHTS

- CPI inflation edged up to 5% in Feb'21 from 4.1% in Jan'21.
- Core inflation increased to 6%. RBI may be more watchful of rising core inflation.
- IIP growth contracts by 1.6% in Jan'21 from 1.6% in Dec'20.



**NOT  
RATED**
**BALRAMPUR CHINI**

| Agriculture

| 12 March 2021

## Sugar prices subdued; ethanol sales to support profitability

We recently interacted with the management of Balrampur Chini Mills (BRCM). Below are the key takeaways:

- Sugar production in India is estimated to rise to ~29.7mn tonnes for sugar season 2020-21 (from ~27.4mt in SS19-20) aided by higher output in Maharashtra and Karnataka. Uttar Pradesh would see a decline due to lower yield, recovery and red rot disease in some parts of the state.
- Management estimates exports from India at ~6mt this season aided by improvement in international sugar prices and the government subsidy of ~Rs 6/kg. About 4mt of contracts have been executed to date.
- BRCM has already contracted its export quota obligation of ~0.25mt for this season at a profit. Physical movement of sugar through a third party is underway.

### Sugar

- The company expects to crush ~17% less sugarcane (~8.7mn quintals) in SS20-21 and produce ~90bn kg of sugar. Output of the sweetener is likely to decline YoY due to diversion of cane to produce B-heavy molasses and lower recovery.
- Sugar recovery is estimated at 10.5% for the season after factoring in diversion of ~70% of cane for B-heavy molasses (11.6-11.7% if not diverted).
- Management pegs production cost at Rs 31-31.25/kg on average at the EBIT level. Current selling prices of the sweetener are at ~Rs 32/kg and should increase with the onset of summer and end of the crushing season.

### Ethanol

- The company plans to sell ~160mn litres of ethanol/ENA in FY21.
- Per management, the government and OMCs have been supportive of the ethanol programme and are ensuring maximum offtake.
- The 4-6% hike in ethanol prices from B-heavy and C-heavy molasses by the government for the Dec'20 to Nov'21 period will aid profitability.
- The 320klpd ethanol capacity addition at BRCM's Maizapur (UP) plant is on track and is expected to capture ethanol supply year 2022-23 (Dec-Nov). This plant will directly produce ethanol from sugarcane during the crushing season and from food grains during the off season.

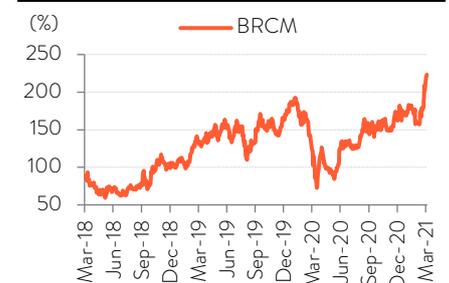
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Ticker/Price	BRCM IN/Rs 221
Market cap	US\$ 636mn
Shares o/s	220mn
3M ADV	US\$ 4.1mn
52wk high/low	Rs 225/Rs 69
Promoter/FPI/DII	41%/20%/39%

Source: NSE

### STOCK PERFORMANCE



Source: NSE



## IT SERVICES

12 March 2021

### Reskilling to bridge workforce demand-supply gap

With the acceleration in digital demand post Covid-19, reskilling has gained prominence for IT players. Accenture spends ~US\$ 1bn (~2.2% of annual revenue) towards reskilling per year. Similarly, companies such as Verizon, AT&T, Amazon and PwC have spent sums ranging from US\$ 50mn to US\$ 3bn. Indian IT majors have also stepped-up efforts here, deploying 1-1.5% of revenue to upskill their employees. This figure is expected to rise in coming years. Nasscom has taken it upon itself to digitally train 4mn IT professionals in the next five years.

**Booming demand for digital skills:** The top 5 in-demand digital skills are AI, machine learning (ML), data science & analytics, data engineering, and visualisation. Cybersecurity is also in high demand. Gartner predicts that 70% of big enterprises will need to integrate AI to raise productivity in 2021. To work on AI and ML projects, data scientists must learn coding languages such as Java, R and Python.

With the technology upcycle expected to continue for the next 3-5 years, demand for digital expertise will accelerate further. Reskilling or training existing employees in new areas lowers the proportion of workforce on the bench as it gives them broader expertise, improving utilisation.

**Bridging the demand-supply gap:** Currently, the demand for digital capabilities is eight times higher than the available talent pool and is expected to go up to 20x by 2024, per Nasscom. Considering the ever-evolving nature of the IT market, reskilling will be a way through which companies can pivot fast, avoid hiring more laterals and preserve margin gains. Indian IT firms will continue to have an edge given their much lower re-skilling costs.

**Indian IT large-caps go big on reskilling:** As per Nasscom, the US\$ 190bn-200bn Indian IT industry spends 1-1.5% to reskill employees. This outlay is likely to rise further in the next couple of years. Nasscom is collaborating with companies like Wipro and Tech Mahindra to train employees and graduates in advanced technology. TCS's secure borderless workspaces model has enabled it to upskill employees during the pandemic and move them to higher value roles.

Infosys has a dedicated 'Reskill and Restart' platform and has created more than 75 new courses to make its staff future-ready. At Wipro, ~40k employees are being re-skilled every quarter. Tech Mahindra had already trained 75% of its workforce in digital technology before Covid-19 hit. We believe Indian IT large-caps have an advantage over mid-cap players in terms of capturing the ongoing demand upcycle because of their timely investments in reskilling.

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Ticker	Price	Target	Rating
TCS IN	3,070	3,710	BUY
INFO IN	1,368	1,500	ADD
WPRO IN	427	450	ADD
HCLT IN	989	1,150	BUY
TECHM IN	1,009	1,130	BUY
LTI IN	4,129	4,740	BUY
MPHL IN	1,647	1,550	REDUCE
MTCL IN	1,892	1,850	ADD
PSYS IN	1,793	1,260	SELL
COFORGE IN	2,734	2,800	BUY
ECLX IN	975	950	REDUCE

Price &amp; Target in Rupees



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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