

RESEARCH
BOB Economics Research | Wholesale Inflation

Food inflation drives WPI higher

Infosys | Target: Rs 1,210 | +6% | ADD

Stellar recovery based on strong TCV

SUMMARY
India Economics: Wholesale Inflation

WPI rose to 1.3% in Sep'20 from 0.2% in Aug'20 led by increase in food (6.9% in Sep'20 from 4.1% in Aug'20) and manufactured inflation (1.6% in Sep'20 from 1.3% Aug'20). Vegetable prices increased by 36.5% in Sep'20. Inflation in protein based items also accelerated. Core inflation too increased in-line with higher global commodity prices. We expect WPI inflation to remain at current levels in Q3FY21 and decelerate in Q4FY21. A US stimulus and vaccine availability may drive commodity prices and WPI higher.

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

Infosys

Infosys' (INFO) Q2 topline grew ahead of estimates at 4% QoQ CC and it also posted its highest ever TCV of US\$ 3.15bn. Cloud migration, automation-based cost takeout and vendor consolidation were primary growth drivers. Management upped FY21 guidance to 2-3% CC vs. 0-2% earlier, which indicates a lukewarm H2. We hike FY21/FY22/FY23 EPS by 10%/9%/7% and raise our target P/E by 10% to 23x, baking in the enhanced performance, pipeline and outlook. On rollover, we have a new Sep'21 TP of Rs 1,210 (vs. Rs 1,020). Retain ADD.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.73	(5bps)	6bps	(104bps)
India 10Y yield (%)	5.90	1bps	(14bps)	(59bps)
USD/INR	73.36	(0.1)	0.3	(2.5)
Brent Crude (US\$/bbl)	42.45	1.7	6.6	(27.7)
Dow	28,680	(0.5)	3.7	6.1
Shanghai	3,360	0	3.0	12.3
Sensex	40,626	0.1	4.6	5.5
India FII (US\$ mn)	12 Oct	MTD	CYTD	FYTD
FII-D	78.1	14.9	(14,664.9)	(4,905.4)
FII-E	241.5	821.4	4,861.5	11,464.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



WHOLESALE INFLATION

14 October 2020

Food inflation drives WPI higher

WPI rose to 1.3% in Sep'20 from 0.2% in Aug'20 led by increase in food (6.9% in Sep'20 from 4.1% in Aug'20) and manufactured inflation (1.6% in Sep'20 from 1.3% Aug'20). Vegetable prices increased by 36.5% in Sep'20. Inflation in protein based items also accelerated. Core inflation too increased in-line with higher global commodity prices. We expect WPI inflation to remain at current levels in Q3FY21 and decelerate in Q4FY21. A US stimulus and vaccine availability may drive commodity prices and WPI higher.

Sameer Narang

Jahnavi | Sonal Badhan

chief.economist@bankofbaroda.com

Food inflation accelerates: WPI inflation inched to 1.3% in Sep'20 from 0.2% in Aug'20. This was largely led by food inflation increasing to 6.9% in Sep'20 from 4.1% in Aug'20 driven by acceleration in vegetable prices (increase of 36.5% in Sep'20 from 7% in Aug'20). Potato prices rose by an all-time high of 107.6% (in this series) in Sep'20 compared with 82.9% in Aug'20. Prices of protein based items such as pulses, milk and eggs have also risen by 12.5%, 5.6% and 14% respectively in Sep'20. However, cereal prices fell by 3.9% in Sep'20 led by sharp decline in wheat prices (decline of 5.2% in Sep'20 from 1.5% in Aug'20).

Deflation in fuel and power continues: Fuel and power inflation contracted by 9.5% in Sep'20 compared with decline of 9.7% in Aug'20. Mineral oil index (7.95% weight) fell by 14.1% versus 14.4% in Aug'20. Electricity prices declined by 8.2% versus 8.8% drop in Aug'20. The dip in mineral oil index is attributable to lower pace of contraction in petrol and industrial fuels (Naphtha, Bitumen, and Furnace Oil) and disinflation in LPG. International oil prices were down by 32.8% in Sep'20 (YoY) versus 24.3% decline in Aug'20. We expect deflation in fuel and power to continue going forward.

Core inflation inches up: Core inflation rose to 1% in Sep'20 following a 0.6% increase in Aug'20. Manufactured inflation too rose further to 1.6% from 1.3% in Aug'20. Of the 22 commodities, prices of 15 commodities rose, with basic metals, tobacco, rubber and plastic products and furniture items taking the lead. With improvement in global demand, international commodity prices are up by 4.8% in Oct'20 on YoY basis versus an increase of 4.3% seen in Sep'20. A US stimulus and availability of vaccine may drive international prices higher.



ADD
 TP: Rs 1,210 | ▲ 6%

INFOSYS

| IT Services

| 14 October 2020

Stellar recovery based on strong TCV

Infosys' (INFO) Q2 topline grew ahead of estimates at 4% QoQ CC and it also posted its highest ever TCV of US\$ 3.15bn. Cloud migration, automation-based cost takeout and vendor consolidation were primary growth drivers. Management upped FY21 guidance to 2-3% CC vs. 0-2% earlier, which indicates a lukewarm H2. We hike FY21/FY22/FY23 EPS by 10%/9%/7% and raise our target P/E by 10% to 23x, baking in the enhanced performance, pipeline and outlook. On rollover, we have a new Sep'21 TP of Rs 1,210 (vs. Rs 1,020). Retain ADD.

Ruchi Burde | Seema Nayak

research@bobcaps.in

Strong operational performance: On the heels of a solid Q1, INFO beat our expectations, clocking 4% QoQ CC revenue growth vs. 2.2% estimated. Growth was driven by exceptional traction in hi-tech, BFSI and retail. BFSI saw a pickup in the mortgage and lending service subsegments as well as digital transformation programmes. Digital business grew 12.8% QoQ, forming 47% of revenues. EBIT margin at 25.3% rose 260bps QoQ helped by lower employee and sales costs from an improved onsite-offshore mix. INFO will carry out salary hikes and promotions from Q3 through to Jan'21.

Ticker/Price	INFO IN/Rs 1,137
Market cap	US\$ 67.5bn
Shares o/s	4,349mn
3M ADV	US\$ 163.8mn
52wk high/low	Rs 1,166/Rs 509
Promoter/FPI/DII	13%/35%/52%

Source: NSE

Robust deal pipeline: INFO clocked its highest ever deal TCV of US\$ 3.15bn, an increase of 81% QoQ and 11% YoY. Net new deals stood at 86% of TCV. Out of the 16 large contracts signed in Q2FY21, 6 were from the BFSI vertical, 3 from retail, 2 from communication and hi-tech each, and 1 each from energy-utilities, manufacturing, and others.

STOCK PERFORMANCE



Source: NSE

Upbeat outlook: Management has upgraded its FY21 growth guidance to 2-3% YoY CC from 0-2% earlier based on the stellar TCV showing. The Vanguard deal will also ramp-up from Q3FY21. Operating margin guidance for the year has been revised upward to 23-24% from 21-23%. Q3 will be impacted by furloughs. Based on the guidance, growth will normalise in H2FY21.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	1,000,614	1,141,036	1,248,535
EBITDA (Rs mn)	208,890	222,680	272,750	306,794	327,875
Adj. net profit (Rs mn)	154,100	167,350	192,696	215,908	231,657
Adj. EPS (Rs)	35.4	39.0	45.2	50.7	54.4
Adj. EPS growth (%)	(4.0)	10.3	15.9	12.0	7.3
Adj. ROAE (%)	24.5	26.5	27.7	27.7	26.7
Adj. P/E (x)	32.1	29.1	25.1	22.4	20.9
EV/EBITDA (x)	22.7	21.4	17.5	15.5	14.5

Source: Company, BOBCAPS Research



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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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