

## RESEARCH

### BOB Economics Research | Weekly Wrap

Indian yields rise on inflation and fiscal concerns

### BOB Economics Research | Wholesale Inflation

WPI inflation turns positive

### BOB Economics Research | Inflation

Food inflation moderates, core persists

### HCL Technologies | Target: Rs 920 | +16% | BUY

Favourable quarter ahead; earnings upgraded

## SUMMARY

### India Economics: Weekly Wrap

Global recovery gained steam led by higher exports by China and Taiwan. Industrial production in Italy and UK also improved. US 10Y yield closed lower as jobless claims increased. Brexit stalemate pushed GBP and UK 10Y yields lower. ECB kept rates on hold and shrugged-off an exchange rate target. This week, US Fed, BoE and BoJ policy meet will be in focus. India's 10Y yield rose by 11bps on concerns over higher inflation and fiscal deficit. Inflation data and parliament session will drive domestic markets.

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

### India Economics: Wholesale Inflation

WPI rose to 0.2% in Aug'20 after declining for 4 straight months (0.6% in Jul'20) led by increase in manufactured inflation. Fuel & power index contracted at a marginally slower pace of 9.7% in Jul'20 (9.8% in Jul'20). Food inflation eased to 4.1% in Aug'20. However, protein based food items are showing an increase. Higher global commodity prices may drive WPI higher in the coming months once vaccine is launched. This along with supply side bottlenecks in India is likely to drive WPI higher in the coming months.

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## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	4,000
<a href="#">Cipla</a>	Buy	850
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	310
<a href="#">Tech Mahindra</a>	Buy	910

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Chola Investment</a>	Buy	280
<a href="#">Laurus Labs</a>	Buy	1,200
<a href="#">Transport Corp</a>	Buy	270
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.67	(1bps)	(6bps)	(123bps)
India 10Y yield (%)	6.04	(1bps)	18bps	(60bps)
USD/INR	73.54	(0.1)	1.7	(3.7)
Brent Crude (US\$/bbl)	39.83	(0.6)	(11.4)	(33.9)
Dow	27,666	0.5	(0.8)	1.6
Shanghai	3,260	0.8	(1.8)	7.9
Sensex	38,855	0	1.4	3.9
India FII (US\$ mn)	9 Sep	MTD	CYTD	FYTD
FII-D	2.3	223.9	(14,866.1)	(5,106.6)
FII-E	125.4	(155.2)	4,652.1	11,255.1

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## India Economics: Inflation

CPI eased to 6.7% in Aug'20 driven by lower food inflation at 9.1%. Core remains sticky at 5.8% despite sharp deceleration in education. Housing inflation is also muted. Core should have moderated but higher fuel and gold prices kept it elevated. While demand conditions call for lower interest rates, negative real rates and risk of supply side cost pressures from higher international commodity prices and vegetable prices imply RBI has limited room to cut rates. Liquidity and financial stability will be focus areas.

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## HCL Technologies

HCL Technologies (HCLT) provided a surprising mid-quarter update today, guiding for above-expected revenue growth of at least 3.5% QoQ CC and operating margin in the range of 20.5-21% for Q2FY21. This bold announcement indicates good market share gains, operational efficiency and impressive pipeline conversion across life sciences, telecom and BFSI. We upgrade FY21-FY23 EPS estimates by ~3-5% and raise our Sep'21 TP to Rs 920 from Rs 810. Maintain BUY.

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

## WEEKLY WRAP

14 September 2020

**Indian yields rise on inflation and fiscal concerns**

**Global recovery gained steam led by higher exports by China and Taiwan. Industrial production in Italy and UK also improved. US 10Y yield closed lower as jobless claims increased. Brexit stalemate pushed GBP and UK 10Y yields lower. ECB kept rates on hold and shrugged-off an exchange rate target. This week, US Fed, BoE and BoJ policy meet will be in focus. India's 10Y yield rose by 11bps on concerns over higher inflation and fiscal deficit. Inflation data and parliament session will drive domestic markets.**

Sameer Narang | Aditi Gupta

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**Markets**

- **Bonds:** Long end yields in China inched up by 2bps (3.15%) supported by higher exports. In UK, 10Y yield fell the most by 8bps (0.18%) over growing discord between EU and UK over the Internal Market Bill. US 10Y yield fell by 5bps (0.67%) over strain in the employment scenario. Oil prices fell by 6.6% (US\$ 40/bbl) due to rising US inventory. India's 10Y yield rose the most by 11bps (6.04%) amidst growing fiscal and inflationary concerns. System liquidity surplus was lower at Rs 3.6tn as on 11 Sep 2020 compared with Rs 4.1tn in the previous week.
- **Currency:** Global currencies closed mixed. DXY recovered and rose by 0.7% on hopes of an economic recovery. GBP depreciated by 3.6% in the week amidst lack of progress on Brexit trade deal between EU and UK. EUR rose by 0.1% as ECB Chair noted that the bank does not target exchange rate. INR depreciated by 0.5% even as oil prices fell sharply. FII inflows were US\$ 61mn.
- **Equity:** Barring Dow and Shanghai Comp, global indices ended higher on hopes of resumption of trials of COVID-19 vaccine. European indices closed higher with FTSE (4%) leading the gains. Dow declined (1.7%) for the second straight week, led by steep fall in tech stocks. On other hand, Sensex rose by 1.3% in the week supported by oil and gas stocks.
- **Upcoming key events:** In the current week, markets keenly await rate decisions by Central Banks of US, UK, Japan, Indonesia and Taiwan. In addition, industrial production data of China, US and Eurozone will also be released. On the domestic front, CPI, WPI, trade data and parliamentary proceedings in context of fiscal numbers will be closely watched.



## WHOLESALE INFLATION

14 September 2020

### WPI inflation turns positive

WPI rose to 0.2% in Aug'20 after declining for 4 straight months (0.6% in Jul'20) led by increase in manufactured inflation. Fuel & power index contracted at a marginally slower pace of 9.7% in Jul'20 (9.8% in Jul'20). Food inflation eased to 4.1% in Aug'20. However, protein based food items are showing an increase. Higher global commodity prices may drive WPI higher in the coming months once vaccine is launched. This along with supply side bottlenecks in India is likely to drive WPI higher in the coming months.

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**Food inflation moderates:** Food inflation eased to 4.1% in Aug'20 from 4.3% in Jul'20 driven by a drop in vegetable prices (7% in Aug'20 from 8.2% in Jul'20). Onion prices contracted to an 18-month low of 34.5% in Aug'20 compared with 25.6% in Jul'20. Tomato prices eased to 15.1% in Aug'20 (19% in Jul'20). Additionally, cereal inflation also contracted by 1.8% in Aug'20 led by wheat prices declining to a near 3-year low (declining by 1.5% in Aug'20 from an increase of 2.7% in Jul'20). Prices of paddy too dropped to 2.5% in Aug'20 from 3.8% in Jul'20. However, prices of protein based items such as eggs, meat and fish accelerated to 6-month high of 6.2% in Aug'20 (5.3% in Jul'20).

**Deflation in fuel and power steady:** Fuel and power inflation continued to contract at a steady pace of 9.7% in Aug'20 compared with decline of 9.8% in Jul'20. The sub-indices showed mixed trend. While coal prices increased at the same pace as last month at 1.9%, electricity prices witnessed steeper decline of 8.8% in Aug'20 versus 6.7% in Jul'20. Mineral oil index contracted less sharply by 14.4% in Aug'20 versus 15.5% drop in Jul'20. This is in line with the trend seen in international oil prices, wherein prices fell by 24.3% in Aug'20 (YoY) versus 32.7% decline seen in Jul'20. We expect deflation in fuel and power to continue going forward as international crude prices are down again (-30.6% in MTD Sep'20 versus -24.3% in Aug'20).

**Core inflation rises:** Core inflation rose by 0.6% in Aug'20 following a 0.3% decline in Jul'20. Manufactured inflation too gathered pace and rose by 1.3% versus 0.5% increase in Jul'20. Of the 22 commodities, prices of 16 commodities rose, with basic metals, print and record media, electronic equipment and other manufacturing items taking the lead. With improvement in global demand, international commodity prices are now inching up and are up by 4.1% in Sep'20 on YoY basis versus increase of 2% seen in Aug'20.



## INFLATION

14 September 2020

### Food inflation moderates, core persists

**CPI eased to 6.7% in Aug'20 driven by lower food inflation at 9.1%. Core remains sticky at 5.8% despite sharp deceleration in education. Housing inflation is also muted. Core should have moderated but higher fuel and gold prices kept it elevated. While demand conditions call for lower interest rates, negative real rates and risk of supply side cost pressures from higher international commodity prices and vegetable prices imply RBI has limited room to cut rates. Liquidity and financial stability will be focus areas.**

Sameer Narang

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**CPI moderates:** CPI inflation surprised positively and eased to 6.69% in Aug'20 from a revised estimate of 6.73% (previously 6.9%) in Jul'20. Last month's revision is due to 30bps dip in food inflation to 9.3% from 9.6% earlier.

**Food inflation decelerates:** Food inflation edged down to 9.1% in Aug'20 from 9.3% in Jul'20 led by decline in cereal inflation (5.9% in Aug'20 from 6.9% in Jul'20), meat and fish (16.5% from 17.3%) and pulses (14.4% from 15.7%). However, acceleration was visible in eggs (10.1% from 7.7%), fruits (1% from 0.1%) and sugar (3.9% from 3.6%). Vegetable prices remain uncomfortably high at 11.4% compared with 11.1% in Jul'20. Out of twelve, six food items reported double digit inflation.

**Core inflation remained firm:** CPI excluding food and fuel rose to 5.84% in Aug'20 from 5.78% in Jul'20. This was led by higher inflation in the personal care items (14.5% in Aug'20 from 13.7% in Jul'20). Higher gold prices (6.7% MoM) contributed towards this. Transport and communication inflation was also higher at 11% from 10.3% in Jul'20 led by higher retail fuel prices due to increase in dealer commissions and local taxes. The growth slowdown had an impact on education inflation which fell to 1.6% from 2.9% in Jul'20. Housing inflation too remained muted at 3.1%.

**Inflation concerns persist:** Current inflation trajectory points to decline in inflation to 4.5% in H2FY21 from 6.6% in H1FY21. The decline will be on account of base effect. On the other hand, there is an upside risk which can come from higher commodity and oil prices in the event a vaccine is launched. In the near term, vegetable inflation is still on an uptrend (7.2% MoM in Sep'20 led by tomato prices) and global commodity prices have gone up (1.1% in Sep'20 MoM). Thus, we don't see RBI cutting policy rates any further. The focus of the policy will be on liquidity and financial stability.

#### KEY HIGHLIGHTS

- CPI moderated to 6.7% in Aug'20 led by food inflation at 9.1%.
- Core remains elevated at 5.8%.
- CPI to moderate on base effect. Upside risks may emerge from higher international commodity prices.



**BUY**

TP: Rs 920 | ▲ 16%

**HCL TECHNOLOGIES**

| IT Services

| 14 September 2020

## Favourable quarter ahead; earnings upgraded

**HCL Technologies (HCLT) provided a surprising mid-quarter update today, guiding for above-expected revenue growth of at least 3.5% QoQ CC and operating margin in the range of 20.5-21% for Q2FY21. This bold announcement indicates good market share gains, operational efficiency and impressive pipeline conversion across life sciences, telecom and BFSI. We upgrade FY21-FY23 EPS estimates by ~3-5% and raise our Sep'21 TP to Rs 920 from Rs 810. Maintain BUY.**

Ruchi Burde | Seema Nayak

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**Surprise outlook upgrade:** HCLT's updated QoQ CC revenue growth for Q2FY21 stands at upwards of 3.5% vs. our previous estimate of 1% and the company's earlier indication of 1.5-2.5% CQGR for the residual three quarters of FY21. EBIT margin is now pegged at 20.5-21% for Q2 vs. 20.5% in Q1 and 19.5-20.5% last guided for FY21. This bold announcement indicates HCLT's strong execution capability and sets the stage for an FY21 guidance upgrade.

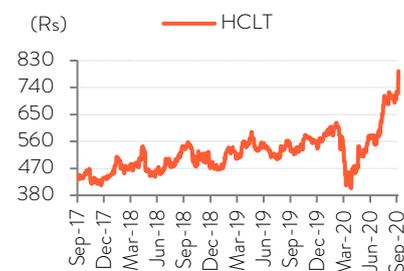
**Strong pipeline conversion:** In Q1FY21, HCLT had reported 11 new transformational deals across the telecom, manufacturing, life sciences and healthcare verticals. Though the company hadn't provided the TCv figure, it had reported 40% QoQ growth in pipeline. The current announcement indicates that it has been able to convert these deals, with good momentum in life sciences, telecom, media and financial services.

**Positive on HCLT:** We were already expecting a BFSI-led recovery for the sector starting Q2FY21 (see [Deep Dive 3: Swift BFSI recovery ahead](#)). The outlook upgrade by HCLT further reinforces our positive stance and BUY recommendation on the stock. We believe its digital capabilities, commitment towards expanding Mode-2 and 3 portfolios, and operational efficiencies have helped the company gain market share as it benefits from vendor consolidation.

Ticker/Price	HCLT IN/Rs 795
Market cap	US\$ 29.3bn
Shares o/s	2,713mn
3M ADV	US\$ 59.5mn
52wk high/low	Rs 825/Rs 375
Promoter/FPI/DII	60%/27%/13%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	604,280	706,780	752,867	842,502	921,977
EBITDA (Rs mn)	140,020	166,930	196,347	217,607	241,057
Adj. net profit (Rs mn)	99,757	110,940	124,938	135,450	153,388
Adj. EPS (Rs)	36.7	40.9	46.0	49.9	56.5
Adj. EPS growth (%)	16.3	11.5	12.6	8.4	13.2
Adj. ROAE (%)	25.2	23.5	22.5	21.8	22.0
Adj. P/E (x)	21.7	19.4	17.3	15.9	14.1
EV/EBITDA (x)	15.3	12.8	10.9	9.8	8.4

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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