

FIRST LIGHT

RESEARCH

BOB Economics Research | WPI

WPI inflation accelerates, peak in Q1

Infosys | Target: Rs 1,540 | +10% | ADD

FY22 guidance in line; first signs of supply pressure

Wipro | Target: Rs 470 | +9% | ADD

Good execution; FY22 guidance robust

SUMMARY

India Economics: WPI

WPI accelerated to 7.4% in Mar'21 from 4.2% in Feb'21 led by broad based increase in food, fuel and manufactured products inflation. A low base effect and rising global commodity prices imply there is room for WPI inflation to go up. Further, localized lockdowns can push food inflation higher. We expect WPI to average at 7% in FY22 with upside risks emanating from higher global commodity and oil prices and now a weaker INR. RBI to first increase reverse repo rate in H2FY22 and then repo rate in early FY23.

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

Infosys

Infosys' (INFO) Q4FY21 revenue growth of 2% CC QoQ was in line with our estimate of 1.9%, with the company also posting robust TCV of US\$ 2.1bn. Management has guided for 12-14% CC growth in FY22, on par with our estimates. FY22 EBIT margin guidance of 22-24% appears to bake in some supply pressure which is already evident in the sharp uptick in Q4 attrition. We raise FY22/FY23 EPS by 4.2%/0.2% and retain our target P/E at 26x. On rollover, we have a new Mar'22 TP of Rs 1,540 (vs. Rs 1,500). Retain ADD.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.64	0bps	12bps	94bps
India 10Y yield (%)	6.01	(1bps)	(19bps)	(47bps)
USD/INR	75.14	0.3	(2.5)	2.0
Brent Crude (US\$/bbl)	66.25	4.1	(9.6)	100.0
Dow	33,731	0.2	4.0	42.5
Shanghai	3,417	0.6	0.4	22.1
Sensex	48,544	1.4	(2.8)	59.2
India FII (US\$ mn)	9 Apr	MTD	CYTD	FYTD
FII-D	(94.3)	(407.0)	(2,434.3)	(407.0)
FII-E	(81.1)	44.4	7,370.7	44.4

Source: Bank of Baroda Economics Research

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Wipro

Wipro (WPRO) delivered an upbeat QoQ performance in Q4FY21 with 3% CC revenue growth, ahead of our estimate of 2.6%. Growth was driven by BFSI, ENU, hi-tech and retail. Operating margin at 21% also came in above expectations. TCV was robust at US\$ 1.4bn and included 12 large deals. We increase FY22/FY23 EPS by 7.5%/4.5% factoring in the Q4 performance, management's guidance and a strong deal pipeline. Reiterate ADD as we raise our Mar'22 TP to Rs 470 (vs. Rs 450) based on an unchanged 18.8x P/E.

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

WHOLESALE INFLATION

15 April 2021

WPI inflation accelerates, peak in Q1

WPI accelerated to 7.4% in Mar'21 from 4.2% in Feb'21 led by broad based increase in food, fuel and manufactured products inflation. A low base effect and rising global commodity prices imply there is room for WPI inflation to go up. Further, localized lockdowns can push food inflation higher. We expect WPI to average at 7% in FY22 with upside risks emanating from higher global commodity and oil prices and now a weaker INR. RBI to first increase reverse repo rate in H2FY22 and then repo rate in early FY23.

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Food inflation accelerates: Food inflation rose to a 5-month high of 5.3% in Mar'21 from 3.3% in Feb'21. This was led by jump in fruits and vegetables index to 4% in Mar'21 from 2.2% in Feb'21 on the back of acceleration in fruit prices (19-month high) to 16.3% in Mar'21 (9.5% in Feb'21). Tomato prices are up by 4.7% versus 3.4% in Feb'21. Prices of protein-based items too rose sharply to 5.4% in Mar'21 with egg prices skyrocketing to 5-month high of 19.9% in Mar'21. The decline in cereal prices moderated to 4.1% versus 6.6% in Feb'21 on the back of a 7.8% decline in wheat prices versus dip of 10.6% in Feb'21. Prices of pulses too edged upwards to 13% in Mar'21 from 10.2% in Feb'21.

Fuel and power inflation noted sharp uptick: Fuel and power inflation rose steeply by 10.3% in Mar'21 from 0.6% in Feb'21. This was led by mineral oil index which rose by 18% in Mar'21 from 0.9% in Feb'21 driven by base effect (index was - 8.7% in Mar'20 as against 1.1% in Feb'20). Petrol index increased by 18.5% (0.8% in Feb'21), HSD by 18.3% (from -0.1%), LPG by 10.3% (from 0.5%) and Naptha by 30.2% (from 2.4%). International oil prices rose to US\$ 65.7/bb in Mar'21 from US\$ 62/bbl in Feb'21. Mineral oil index during Apr-Dec FY21 was 20.4% below Apr-Dec FY20 levels. Thus we expect much sharper increase in coming months at these oil price levels.

Core inflation solidifies: Core inflation rose to its highest level in 2011-12 series at 7% in Mar'21 from 5.5% in Feb'21. Manufactured products inflation rose by ~150bps to 7.3% in Mar'21 from 5.8% in Feb'21. Of the 22 commodities, prices of 12 commodities rose, with basic metals, rubber, food and chemical products taking the lead. With international commodity prices firming up another 1% in Apr'21, we expect manufactured product inflation to remain elevated. Restrictions in India and opening up of global economy point to supply demand imbalance building up of which may drive inflation higher.



ADD
 TP: Rs 1,540 | ▲ 10%

INFOSYS

| IT Services

| 15 April 2021

FY22 guidance in line; first signs of supply pressure

Infosys' (INFO) Q4FY21 revenue growth of 2% CC QoQ was in line with our estimate of 1.9%, with the company also posting robust TCV of US\$ 2.1bn. Management has guided for 12-14% CC growth in FY22, on par with our estimates. FY22 EBIT margin guidance of 22-24% appears to bake in some supply pressure which is already evident in the sharp uptick in Q4 attrition. We raise FY22/FY23 EPS by 4.2%/0.2% and retain our target P/E at 26x. On rollover, we have a new Mar'22 TP of Rs 1,540 (vs. Rs 1,500). Retain ADD.

Ruchi Burde | Seema Nayak

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Performance in line: INFO grew 2.8% USD/2% CC QoQ in Q4FY21, broadly in keeping with our estimates of 2.5% USD/1.9% CC. Growth was backed by momentum across verticals, especially manufacturing/retail/BFSI which were up 6.1%/3.5%/2.4% QoQ, USD. TCV at US\$ 2.1bn declined 70% QoQ due to the large Daimler deal win in Q3FY21, while rising 28% YoY. EBIT margin at 24.5% (est. 23.8%) fell 94bps QoQ owing to compensation hikes. As expected, attrition shot up to 15.2% (vs. 10% in Q3FY21), indicating supply pressure.

Ticker/Price	INFO IN/Rs 1,397
Market cap	US\$ 79.2bn
Shares o/s	4,258mn
3M ADV	US\$ 146.2mn
52wk high/low	Rs 1,478/Rs 604
Promoter/FPI/DII	13%/35%/52%

Source: NSE

BFSI leads demand uptick: Financial services showed industry-leading growth due to increased demand from areas such as customer experience, mortgage operations, end-to-end digital transformation and call centre technology. Despite continued weakness in a few retail subsegments, management is optimistic that the vertical will bounce back in FY22. In manufacturing, automotive is improving but aerospace could take longer to recover.

STOCK PERFORMANCE



Source: NSE

FY22 guidance matches estimates: New FY22 growth guidance of 12-14% CC is in line with our estimates, based on a strong deal pipeline. With costs returning as the Covid-19 impact recedes and supply pressure rising, management has guided for FY22 operating margin in the range of 22-24%, which also matches our estimates.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	1,004,730	1,201,038	1,358,040
EBITDA (Rs mn)	208,890	222,680	279,350	323,051	356,654
Adj. net profit (Rs mn)	154,100	167,350	196,630	233,906	248,365
Adj. EPS (Rs)	35.4	39.0	46.1	55.6	59.0
Adj. EPS growth (%)	(4.0)	10.3	18.2	20.4	6.2
Adj. ROAE (%)	24.5	26.5	27.6	30.4	30.3
Adj. P/E (x)	39.5	35.8	30.3	25.1	23.7
EV/EBITDA (x)	27.5	25.9	20.7	17.7	16.2

Source: Company, BOBCAPS Research



ADD

TP: Rs 470 | ▲ 9%

WIPRO

| IT Services

| 15 April 2021

Good execution; FY22 guidance robust

Wipro (WPRO) delivered an upbeat QoQ performance in Q4FY21 with 3% CC revenue growth, ahead of our estimate of 2.6%. Growth was driven by BFSI, ENU, hi-tech and retail. Operating margin at 21% also came in above expectations. TCV was robust at US\$ 1.4bn and included 12 large deals. We increase FY22/FY23 EPS by 7.5%/4.5% factoring in the Q4 performance, management's guidance and a strong deal pipeline. Reiterate ADD as we raise our Mar'22 TP to Rs 470 (vs. Rs 450) based on an unchanged 18.8x P/E.

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Strong broad-based growth: WPRO reported 3.9% USD/3% CC QoQ revenue growth vs. 3% USD/2.6% CC estimated, landing in the high end of the guided range of 1.5-3.5% QoQ CC for Q4FY21. TCV was reported at US\$ 1.4bn (vs. US\$ 1.2bn in Q3, up 16.7% QoQ), of which a significant portion represents net new contracts. Growth was helped by technology at 10.5% along with retail/energy & utilities (ENU)/BFSI at 7.7%/4.7%/3.9% QoQ, USD. BFSI demand is on the rise and manufacturing is recovering while ENU remains volatile. Both healthcare and manufacturing saw sequential weakness.

Margin gains to sustain partially: IT services EBIT margin was at 21% (-60bps QoQ), above our estimate of 17.6% due to cost optimisation from higher offshoring, utilisation and automation – the beat occurred despite salary hikes and INR appreciation, indicating some structural margin gains. Gross utilisation and offshore revenue share were the highest ever at 76.7% and 54.5% respectively.

Healthy FY22 guidance: With the five-year deal from Telefonica, the large Metro-AG deal (ramping up from Q1FY22) and a robust overall pipeline, management is confident of achieving 2-4% CC QoQ growth in Q1, ex-Capco. Salary increases and promotion cycles will be carried out in Q1 for 20% of the remaining employees, which will impact the margin.

Ticker/Price	WPRO IN/Rs 431
Market cap	US\$ 32.5bn
Shares o/s	5,661mn
3M ADV	US\$ 75.8mn
52wk high/low	Rs 467/Rs 174
Promoter/FPI/DII	74%/9%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	622,425	752,966	875,308
EBITDA (Rs mn)	121,661	124,867	144,560	151,783	189,034
Adj. net profit (Rs mn)	90,074	95,295	108,783	111,565	137,020
Adj. EPS (Rs)	14.9	16.7	19.2	20.2	24.8
Adj. EPS growth (%)	12.3	11.6	15.2	5.1	22.8
Adj. ROAE (%)	17.1	16.9	19.5	18.5	20.6
Adj. P/E (x)	28.8	25.8	22.4	21.3	17.4
EV/EBITDA (x)	20.8	19.7	16.4	15.6	12.4

Source: Company, BOBCAPS Research



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Recommendation scale: 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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