

## RESEARCH

### BOB Economics Research | December MPC Minutes

Balancing growth and inflation

### IT Services

Strong outsourcing growth continues; FY21 guidance raised

## SUMMARY

### India Economics: December MPC Minutes

MPC members stated that growth has surprised positively. However, inflation is a teething issue. RBI's monetary policy and accommodative stance has helped in economic recovery. But at the same time, asset prices have moved higher, in India and globally. Fiscal spending is likely to pick up in Q4FY21. However, fiscal space is constrained because of which monetary policy needs to remain accommodative. But given the inflation outlook, RBI may look at calibrated withdrawal of liquidity support starting in FY22.

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### IT Services

Accenture's (ACN) Q1 dollar revenues beat the guided range by US\$ 200mn, up 4% YoY and 2% CC. QoQ growth at 8.6% was a swift recovery from the negative performance of the last three quarters. FY21 guidance has been hiked to 4-6% CC (vs. 2-5% guided in Q4FY20). At US\$ 12.9bn (+25% YoY), bookings held strong led by outsourcing which grew 9%, signaling positive momentum for Indian counterparts. We remain upbeat on the sector; prefer TCS, HCLT, TECHM (large-caps) & LTI, Coforge (mid-caps).

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## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	1,040

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.93	2bps	3bps	(99bps)
India 10Y yield (%)	5.95	1bps	7bps	(80bps)
USD/INR	73.59	0	1.4	(3.6)
Brent Crude (US\$/bbl)	51.50	0.8	17.5	(22.6)
Dow	30,303	0.5	1.2	6.8
Shanghai	3,405	1.1	1.7	12.9
Sensex	46,890	0.5	7.9	12.5
India FII (US\$ mn)	16 Dec	MTD	CYTD	FYTD
FII-D	(48.7)	763.3	(13,855.9)	(4,096.4)
FII-E	274.3	5,035.7	21,141.4	27,744.4

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## DECEMBER MPC MINUTES

18 December 2020

### Balancing growth and inflation

**MPC members stated that growth has surprised positively. However, inflation is a teething issue. RBI's monetary policy and accommodative stance has helped in economic recovery. But at the same time, asset prices have moved higher, in India and globally. Fiscal spending is likely to pick up in Q4FY21. However, fiscal space is constrained because of which monetary policy needs to remain accommodative. But given the inflation outlook, RBI may look at calibrated withdrawal of liquidity support starting in FY22.**

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**Recovery on tight rope:** MPC members agreed that while GDP growth in Q2FY21 was much better than anticipated, risks to growth remain. RBI Governor, Shri Shaktikanta Das, pointed out that investment recovery is yet to gain traction even as transmission has been quicker and sharper. Dr. Patra termed the current recovery as hesitant and uneven. Dr. Saggar expects capacity utilization to remain below 70% in FY21 and the output gap to close only in H2FY22. All members agreed monetary support is required till growth stabilizes particularly when government spending is weak.

**Inflationary pressures remained elevated:** All MPC members unanimously agreed that upside risks to inflation are likely to persist in the near term. Dr. Bhide pointed out that "Imbalances in the supply and demand conditions are impacting the price scenario". Dr. Patra said that elevated inflation has checked in and may be here to stay. Prof. Varma said that low rates have been feeding into asset markets rather than goods price inflation. Reduction of rates carries significant risks and very little rewards. We expect CPI inflation to come down to 4.5% in FY22 from 6.5% in FY21.

**Policy space is limited:** Dr. Patra pointed out that with growth gaining momentum, window available to MPC to look through inflation pressures is narrower than before. However, Shri Das reiterated that premature rollback of monetary and liquidity policies of RBI would be detrimental to nascent recovery and growth. Thus all threats to price stability and possible spill overs to broader macroeconomic and financial stability is to be monitored. The discussion on liquidity by members shows that MPC is discussing the impact of current liquidity on asset markets, inflation and financial stability. A gradual recovery implies calibrated liquidity management by RBI going forward.

### KEY HIGHLIGHTS

- MPC members see inflationary concerns to persist till H1FY22.
- MPC optimistic on growth.
- Further rate cuts unlikely.



## IT SERVICES

18 December 2020

**Strong outsourcing growth continues; FY21 guidance raised**

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**Strong outsourcing pipeline:** ACN's Q1FY21 (Y/E Aug) pipeline was robust at US\$ 12.9bn, up by a stellar 25% YoY (nine-year high). The pipeline includes 16 new clients with over US\$ 100mn in bookings each. Consulting formed 51.2% of the pipeline, growing at a modest 10% YoY. Outsourcing formed the balance 48.8%, increasing by a robust 46.5% YoY with a strong book-to-bill ratio of 1.2x, indicating green shoots for Indian IT.

**High utilisation; broad-based growth:** Utilisation at 93% was at a 10-year peak despite strong headcount addition in Q1, indicating strong demand pickup. Revenue growth was broad-based across verticals, especially driven by 12.3% YoY uptick in public and health services. The products business remained weak with a flattish performance and resources declined 4% YoY (USD terms).

BFSI and communication-hi-tech grew by 4-7%. Pressure moderated in the troubled verticals of travel, energy and retail (~20% of revenue), which declined by low double digits vs. a mid-teen decline in Q4FY20. Europe recovered, rising 4.7% YoY led by Italy and flat growth in the UK.

**Cloud growth acceleration:** ACN's four key strategic priorities are cloud, Industry X (digitised manufacturing), interactive and security. The company launched a US\$ 3bn initiative 'Accenture Cloud First' to help enterprises re-platform their businesses. The initiative spurred strong double-digit YoY growth in Q1 on a high base of US\$ 12bn in the cloud segment vs. low double-digit growth in FY20. Among ACN's 10 acquisitions in Q1, 4 are in cloud. This indicates a thriving market for cloud for the next couple of years.

Industry X (~US\$ 3bn in size) grew by low double digits in Q1. The interactive business which comprises mostly of severely disrupted verticals (travel and retail) recovered to low-single-digit growth vs. a low-single-digit decline in FY20.

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**RECOMMENDATION SNAPSHOT**

Ticker	Price	Target	Rating
TCS IN	2,838	3,180	BUY
INFO IN	1,159	1,210	ADD
WPRO IN	357	290	SELL
HCLT IN	879	980	BUY
TECHM IN	930	1,040	BUY
LTI IN	3,306	3,860	BUY
MPHL IN	1,340	1,410	REDUCE
MTCL IN	1,452	1,540	ADD
PSYS IN	1,305	840	SELL
COFORGE IN	2,511	2,690	BUY
ECLX IN	805	800	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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