

**BOB Economics Research | Weekly Wrap**

RBI to maintain status quo

**Tech Mahindra | Target: Rs 1,040 | +19% | BUY**

Analyst meet takeaways – Growth acceleration ahead

**Automobiles**

Festive Auto Sales – 4Ws do well, 2Ws steady; tractors strong

**Oil & Gas**

Gas consumption surges

**SUMMARY**
**India Economics: Weekly Wrap**

US\$ weakened by 0.7% in the week with positive development on vaccine. Global equity markets too rose. Dow rose by 11.8% MoM in Nov'20, best month in 30 years. Crude oil also went up by 27% in Nov'20. On the domestic front, FPI inflows continue into India, now at US\$ 21.5bn in the current financial year. GDP growth surprised positively at (-) 7.5%. RBI is expected to keep rates on hold as inflation continues to be higher than its target. However, liquidity conditions are likely to remain accommodative.

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

**Tech Mahindra**

In its analyst meet today, Tech Mahindra (TECHM) emphasised its focus on reviving growth and appeared optimistic about demand traction and margins. Though the 5G timeline stands delayed, management is confident of growth acceleration in FY22 and is targeting a 15% EBIT margin. BFSI, manufacturing and HLS verticals are seeing a growth uptick. Cloud TCV has risen 2x TTM YoY. Factoring guidance given in the analyst meet, we raise FY22/FY23 EPS by 7%/10% and revise our Sep'21 TP to Rs 1,040 (vs. Rs 980). Retain BUY.

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

**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 (%)	0.84	0bps	(3bps)	(98bps)
India 10Y yield (%)	5.91	4bps	3bps	(58bps)
USD/INR	74.04	(0.2)	0.1	(3.3)
Brent Crude (US\$/bbl)	47.59	(1.2)	27.0	(21.9)
Dow	29,639	(0.9)	11.8	6.7
Shanghai	3,392	(0.5)	5.2	17.9
Sensex	44,150	(0.2)	11.4	8.2
India FII (US\$ mn)	26 Nov	MTD	CYTD	FYTD
FII-D	(60.3)	(307.8)	(14,537.5)	(4,778.0)
FII-E	406.6	8,321.8	14,868.2	21,471.2

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

research@bobcaps.in



## Automobiles

Auto sales continued their upward trajectory in November with healthy YoY growth propelled by festive demand. Domestic PV industry sales increased 9% YoY and HMCL's 2W volumes surged 14%. MHCV sales continued to improve from previous months though volumes still slipped 14% YoY for AL while its LCVs were up 32%. Tractor sales grew 56%/33% YoY for MM/ESC. Our channel checks suggest that 4W festive demand was better than expected while 2W sales languished. Inventories continue to be high for 2Ws.

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

## Oil & Gas

Natural gas consumption surged to 160.5mmscmd in October (+5% YoY, +12.6% MoM), boosted by the industrials segment. Consumption from the fertiliser sector increased to 50mmscmd (+15% YoY), matched by other industrials at 51mmscmd (flat YoY). Power sector offtake declined to 31mmscmd (-35% MoM, +6.4% YoY) while CGD showed some recovery at 28mmscmd (+9% MoM, -3% YoY). This augurs well for our investment argument favouring B2B gas utilities such as GAIL, Petronet LNG and Gujarat State Petronet.

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

## WEEKLY WRAP

01 December 2020

**RBI to maintain status quo**

**US\$ weakened by 0.7% in the week with positive development on vaccine. Global equity markets too rose. Dow rose by 11.8% MoM in Nov'20, best month in 30 years. Crude oil also went up by 27% in Nov'20. On the domestic front, FPI inflows continue into India, now at US\$ 21.5bn in the current financial year. GDP growth surprised positively at (-) 7.5%. RBI is expected to keep rates on hold as inflation continues to be higher than its target. However, liquidity conditions are likely to remain accommodative.**

Sameer Narang | Sonal Badhan

chief.economist@bankofbaroda.com

**Markets**

- **Bonds:** Global 10Y yield closed mixed. US 10Y yield fell by 1bps (0.84%) amidst rising jobless claims. UK 10Y yield fell by 1bps (0.31) over progress in trade talks with EU. Germany 10Y yield rose by 1bps (-0.57%) as services economy slowed down. Oil prices rose by 3.3% (US\$ 48/bbl) with hope of a potential vaccine to revive economic activity. Thus, India's 10Y yield rose by 1bps (5.91%). System liquidity surplus rose to Rs 5.4tn as on 27 Nov 2020 compared with Rs 5.2tn in the previous week.
- **Currency:** Except GBP (flat), other global currencies closed higher against the dollar. DXY index fell by 0.7% in the week. Dollar weakened as risk appetite of investors improved supported by progress on vaccine development. INR appreciated by 0.1% in the week supported by foreign inflows of US\$ 1.2bn.
- **Equity:** Barring FSTE and Shanghai Comp, other global indices closed higher. Positive flash manufacturing PMIs and hopes of an effective vaccine boosted risk sentiment. Dax rose even as services activity was weak and consumer confidence fell in Germany. Following global cues, Sensex rose by 0.2%, led by metals, consumer durables and realty stocks. FPI inflows have now reached US\$ 21.5bn in current FYTD.
- **Upcoming key events:** In current week, markets will await final manufacturing and services PMI data of major economies. Apart from this, US employment data will also shed light on underlying labour market conditions. On the domestic front, markets await RBI's policy decision, PMI data and progress of Covid-19 cases.



**BUY**

TP: Rs 1,040 | ▲19%

**TECH MAHINDRA**

| IT Services

| 01 December 2020

## Analyst meet takeaways – Growth acceleration ahead

In its analyst meet today, Tech Mahindra (TECHM) emphasised its focus on reviving growth and appeared optimistic about demand traction and margins. Though the 5G timeline stands delayed, management is confident of growth acceleration in FY22 and is targeting a 15% EBIT margin. BFSI, manufacturing and HLS verticals are seeing a growth uptick. Cloud TCV has risen 2x TTM YoY. Factoring guidance given in the analyst meet, we raise FY22/FY23 EPS by 7%/10% and revise our Sep'21 TP to Rs 1,040 (vs. Rs 980). Retain BUY.

Ruchi Burde | Seema Nayak

research@bobcaps.in

**Huge 5G opportunity:** Despite 5G timeline delays due to Covid-19, TECHM has identified key areas of collaboration with communication service providers (CSP) such as: (1) supply chain transformation, (2) open network on cloud, (3) intelligent & cognitive managed operations, (4) digital OSS, and (5) enterprise network modernisation. 5G is potentially a ~US\$ 130bn market, which will be shared by OEMs, CSPs and IT companies. This still gives TECHM enough room for growth.

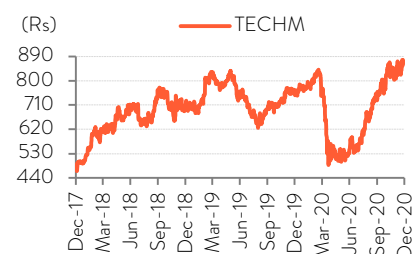
Within 5G, the areas of 'open 5G network' and 'network on cloud' are expected to grow at 65-70% and 20-25% CAGR respectively over CY20-CY25. TECHM has developed a network automation and managed services framework called 'Netops.ai' as its own organic product in the 5G field.

**Growth acceleration in FY22:** TECHM has entered a repair phase in H2FY21 following the Covid outbreak and management expects growth to accelerate in FY22. Its enterprise segment (60% of revenue) is seeing increased demand from the BFSI, manufacturing and HLS verticals. TECHM expects to achieve at least high-single-digit YoY growth (ex-5G). Management also has an ambitious EBIT margin target of 15% for FY22 (vs. 11.6% in FY20). BPS segment's uplifted margins are expected to sustain in the near-to-midterm due to cost reductions coming from relaxed work-from-home guidelines.

Ticker/Price	TECHM IN/Rs 877
Market cap	US\$ 10.4bn
Shares o/s	873mn
3M ADV	US\$ 64.5mn
52wk high/low	Rs 890/Rs 471
Promoter/FPI/DII	36%/39%/25%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	347,421	368,677	385,822	448,388	506,640
EBITDA (Rs mn)	63,368	57,261	66,649	85,553	97,783
Adj. net profit (Rs mn)	42,975	42,505	45,483	55,259	63,907
Adj. EPS (Rs)	47.7	48.3	51.7	62.8	72.7
Adj. EPS growth (%)	11.9	1.2	7.0	21.5	15.6
Adj. ROAE (%)	21.4	19.8	19.4	21.0	21.6
Adj. P/E (x)	18.4	18.1	17.0	14.0	12.1
EV/EBITDA (x)	12.0	13.3	11.4	8.7	7.2

Source: Company, BOBCAPS Research



**AUTOMOBILES**

01 December 2020

**Festive Auto Sales: 4Ws do well, 2Ws steady; tractors strong**

**Auto sales continued their upward trajectory in November with healthy YoY growth propelled by festive demand. Domestic PV industry sales increased 9% YoY and HMCL's 2W volumes surged 14%. MHCV sales continued to improve from previous months though volumes still slipped 14% YoY for AL while its LCVs were up 32%. Tractor sales grew 56%/33% YoY for MM/ESC. Our channel checks suggest that 4W festive demand was better than expected while 2W sales languished. Inventories continue to be high for 2Ws.**

Mayur Milak | Nishant Chowhan, CFA  
research@bobcaps.in

**PV sales rise:** Maruti's (MSIL) dispatches increased 2% YoY to 153.2k units in Nov'20 with exports rising sharply by 30%. Growth was led by the midsize segment (+29% albeit off a low base), vans (+10%) and UVs (+2%). Our dealer checks suggest that 'WagonR' and 'Ertiga' formed ~50% of sales during the festive season and the supply from MSIL to dealers fell short of demand. PV sales for M&M (MM) were up 24% YoY while Hyundai Motors saw a 9% rise. New entrant KIA continued to outperform, growing 50% YoY. Tata Motors also posted strong 104% growth.

**2W sales steady; 3Ws struggle:** Hero's (HMCL) wholesale volumes surged 14% YoY to 591.1k in Nov'20, with scooter sales clocking 32% growth and motorcycles increasing 13% YoY. 2W sales for Bajaj Auto (BJAUT) rose 12% YoY to 384.9k, while TVS Motor (TVSL) saw a 25% increase to 311.5k units. 3W sales for TVSL and BJAUT continued to languish, falling 35% and 38% YoY respectively. Royal Enfield reported total 2W sales of 63.8k units (+6% YoY).

**MHCV sales improving on monthly basis:** Ashok Leyland's (AL) CV sales increased 5% YoY to 10.7k units. MHCVs continued to improve MoM but were down 14% YoY, whereas LCVs were up 32% YoY. In FY21 YTD, AL's sale volumes have plunged 50% YoY, led by a steep 66% drop in MHCVs and a 26% decline in LCVs.

**Tractors dispatches strong on low inventory levels:** MM sold 32.7k tractors (+56% YoY) in Nov'20 and competitor Escorts (ESC) sold 10.2k units (+33% YoY). Tractor demand outlook remains healthy. According to MM, demand continues to be robust, fuelled by an excellent festive season with strong retail sales during Dhanteras and Diwali and lower inventories at the dealer level.



## OIL &amp; GAS

01 December 2020

## Gas consumption surges

**Consumption spikes on fertiliser plant offtake:** Natural gas consumption surged to 160.5mmscmd in October (+5% YoY, +12.6% MoM), boosted by the industrials segment. Consumption from the fertiliser sector increased to 50mmscmd (+15% YoY), matched by other industrials at 51mmscmd (flat YoY). Power sector offtake declined to 31mmscmd (-35% MoM, +6.4% YoY) while CGD showed some recovery at 28mmscmd (+9% MoM, -3% YoY). This augurs well for our investment argument favouring B2B gas utilities such as GAIL, Petronet LNG and Gujarat State Petronet.

**Industrials continue to take advantage of low prices:** The industrials sector is driving gas consumption due to the decline in average gas prices – long-term LNG remains below US\$ 6/mmbtu while domestic gas prices were slashed by ~25% from Oct'20. The spike in spot LNG to >US\$ 7/mmbtu levels may impact consumption in certain pockets but the average gas price for industrials still trends ~20% lower YoY. LNG consumption at 103mmscmd (+27%) is close to all-time high, primarily led by low prices for long-term LNG contracts.

**Domestic gas production recovers a bit:** Gas production improved to 80.6mmscmd in October (+5% MoM). ONGC and Oil India's output increased to 63.4mmscmd (flat YoY, +6% MoM) and 7.4mmscmd (+10% YoY) respectively. Power and fertiliser would be key consumers of domestic gas over the next few months given low prices and could more than make up for any decline in consumption from CGD.

### GAS CONSUMPTION TREND

(mmscmd)	Oct'20	Oct'19	YoY (%)	Sep'20	MoM (%)	H1FY21	H1FY20	YoY (%)
Fertiliser	50.2	43.5	15.4	26.9	86.5	44.7	42.2	5.9
Power	31.1	29.2	6.4	47.5	(34.6)	33.5	33.4	0.3
CGD	28.4	29.2	(3.0)	26.1	8.5	18.6	28.0	(33.5)
Other Industrials:	51.0	51.3	(0.6)	42.1	21.2	52.2	50.6	3.1
Refineries	21.8	21.7	0.3	21.3	2.2	24.7	20.5	20.4
Petrochemicals	9.4	9.7	(3.3)	5.7	66.2	8.4	10.0	(15.6)
Miscellaneous	19.7	19.8	(0.3)	15.1	31.0	19.1	20.1	(5.2)
<b>Total</b>	<b>160.5</b>	<b>153.2</b>	<b>4.8</b>	<b>142.6</b>	<b>12.6</b>	<b>149.0</b>	<b>154.2</b>	<b>(3.4)</b>

Source: PPAC, BOBCAPS Research

Rohit Ahuja

research@bobcaps.in

### KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG IN	330	BUY
IGL IN	565	BUY
GUJGA IN	400	BUY
GUJS IN	270	BUY
MAHGL IN	750	SELL
GAIL IN	155	BUY

Target in Rupees

### GAS CONSUMPTION

(mmscmd)	Oct'20	Oct'19	YoY (%)
<b>Fertiliser</b>			
Domestic	13.4	19.3	(30.8)
R-LNG	36.8	24.2	52.1
<b>Total</b>	<b>50.2</b>	<b>43.5</b>	<b>15.4</b>
<b>Power</b>			
Domestic	18.6	21.2	(12.0)
R-LNG	12.4	8.0	233.9
<b>Total</b>	<b>31.1</b>	<b>29.2</b>	<b>55.4</b>
<b>CGD</b>			
Domestic	14.9	15.8	(5.7)
R-LNG	13.5	13.4	0.2
<b>Total</b>	<b>28.4</b>	<b>29.2</b>	<b>(3.0)</b>
<b>Other Industrials</b>			
Domestic	10.4	15.5	(33.3)
R-LNG	40.6	35.8	13.5
<b>Total</b>	<b>51.0</b>	<b>51.3</b>	<b>(0.6)</b>
<b>Total Consumption</b>	<b>160.5</b>	<b>153.2</b>	<b>4.8</b>
<b>Total Domestic</b>	<b>57.3</b>	<b>71.8</b>	<b>(20.3)</b>
<b>Total R-LNG</b>	<b>103.3</b>	<b>81.4</b>	<b>26.9</b>

Source: PPAC, BOBCAPS Research



## Disclaimer

### 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)

### Rating distribution

As of 30 November 2020, out of 87 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 15 have ADD ratings, 5 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

#### **Other disclosures**

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.