

RESEARCH

BOB Economics Research | Weekly Wrap

Uphill climb for global recovery

IT Services | Q2FY21 Preview

A positive growth quarter after Q1 slump

Oil & Gas

Macros for gas still below pre covid levels

SUMMARY

India Economics: Weekly Wrap

Global manufacturing PMIs and US consumer confidence supported higher global yields. However, lower than estimated US payroll data shows the uphill climb to recovery. US\$ was under pressure and oil prices fell by 6.3% in the week. India's 10Y yield fell by 4bps as government kept its borrowing calendar unchanged. Latest GST data (up by 3.9%), manufacturing PMI (8-year high) and exports (rose by 5.3%) show recovery is gaining pace. We hold the view that growth in Q4 may be positive as more sectors are unlocked gradually.

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

IT Services: Q2FY21 Preview

We expect Q2FY21 to be the growth recovery quarter with most companies in our coverage universe showing low-mid single digit QoQ growth, barring few exceptions. Growth pick-up is expected to be driven by receding supply side issues and accelerated demand for cloud and digital. BFSI, healthcare-life sciences and hi-tech will be the verticals with steady demand. Pipelines will be healthier across the board. Operating margins will remain strong QoQ. We will be watchful of management's commentary regarding troubled verticals.

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

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 (%)	0.70	2bps	3bps	(83bps)
India 10Y yield (%)	6.00	(1bps)	5bps	(69bps)
USD/INR	73.15	0.8	(0.4)	(3.2)
Brent Crude (US\$/bbl)	39.27	(4.1)	(13.8)	(32.7)
Dow	27,683	(0.5)	(3.4)	4.2
Shanghai	3,218	(0.2)	(5.6)	10.8
Sensex	38,697	1.7	(0.5)	2.7
India FII (US\$ mn)	29 Sep	MTD	CYTD	FYTD
FII-D	(159.2)	410.2	(14,679.8)	(4,920.3)
FII-E	(35.9)	(767.3)	4,040.1	10,643.0

Source: Bank of Baroda Economics Research

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Oil & Gas

Natural gas consumption in August declined to 148.8mmscmd (-7.8% YoY, 3.4% MoM), as ensuing lockdowns across states hampered demand. Barring fertiliser (47.6 mmscmd, +5.3% YoY) and power (30.9 mmscmd, +4.2% YoY) offtake plunged across sectors, viz. CGD (20.8 mmscmd, -31% YoY), refineries (21.2 mmscmd, -0.8% YoY), petrochemicals (9.7 mmscmd, -6.5% YoY) and others (18.6 mmscmd, -24.7% YoY).

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

WEEKLY WRAP

05 October 2020

Uphill climb for global recovery

Global manufacturing PMIs and US consumer confidence supported higher global yields. However, lower than estimated US payroll data shows the uphill climb to recovery. US\$ was under pressure and oil prices fell by 6.3% in the week. India's 10Y yield fell by 4bps as government kept its borrowing calendar unchanged. Latest GST data (up by 3.9%), manufacturing PMI (8-year high) and exports (rose by 5.3%) show recovery is gaining pace. We hold the view that growth in Q4 may be positive as more sectors are unlocked gradually.

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Markets

- **Bonds:** Barring India and Germany, global yields closed higher. UK and US 10Y yield rose by 6bps and 5bps respectively. Underlying economic data supported higher yields with less than estimated decline in UK and US Q2 GDP, fewer jobless claims in the US and progress on additional fiscal stimulus. Oil prices fell by 6.3% (US\$ 39/bbl) due to fears of oversupply and US President testing positive for COVID-19. India's 10Y yield fell by 4bps (6%) as government left its borrowing program unchanged. System liquidity surplus was at Rs 3.7tn as on 1 Oct 2020 compared with Rs 2.8tn in the previous week.
- **Currency:** Global currencies closed higher this week as dollar weakened. DXY fell by 0.8% as US payroll additions were lower than estimated. GBP rose by 1.5% as UK and EU continued negotiations on the trade deal. INR rose by 0.6% on the back of lower oil prices and a record current account surplus in Q1FY21. FII outflows were US\$ 242mn in the week.
- **Equity:** Barring Nikkei and Shanghai Comp (flat), other global indices ended higher this week on expectation of US fiscal package. Sensex (3.5%) surged the most in a truncated week, as the government announced unlock 5.0 guidelines. Banking and consumer durable stocks advanced the most.
- **Upcoming key events:** In the current week, markets await services PMIs of major economies and minutes of US FOMC meeting. Apart from this, RBA's policy decision and industrial production of European economies will be in focus. On the domestic front, services PMI, new MPC members, GST council meeting and COVID-19 curve will be closely watched.



A positive growth quarter after Q1 slump

We expect Q2FY21 to be the growth recovery quarter with most companies in our coverage universe showing low-mid single digit QoQ growth, barring few exceptions. Growth pick-up is expected to be driven by receding supply side issues and accelerated demand for cloud and digital. BFSI, healthcare-life sciences and hi-tech will be the verticals with steady demand. Pipelines will be healthier across the board. Operating margins will remain strong QoQ. We will be watchful of management's commentary regarding troubled verticals.

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A growth recovery quarter: For most of the IT companies, Q2FY21 will be a positive growth quarter after sharp contraction in Q4FY20 and Q1FY21. HCLT's guidance update of at least 3.5% growth echoes the same. Despite the uncertainty regarding a covid-19 second wave, businesses are ramping up their tech spend to remain operational. Supply side issues have abated completely, even for BPS businesses. Verticals driving growth are: BFSI, Healthcare, Hi-Tech and technology. Communications and Manufacturing have not gone back to pre-covid levels but are improving m-o-m. Retail and Travel and hospitality will take longer to recover. We have factored in a sharp 7% QoQ cc growth for NIIT Tech and low single digit growth for the rest.

Deal wins to recover as well: Deal wins had got postponed as clients took time to assess their own budgets and reassess their tech spending in the light of covid-19. Post two quarters of delayed decision making, deal pipelines are returning to pre-covid levels. Most deals focus on cost reduction, digital transformation, vendor consolidation and captive takeover. Client requests for pricing discounts have also thinned down significantly since March. Most new deals are from BFSI, Healthcare, Hi-Tech and Retail-CPG.

Green shoots: Within Hi-Tech, demand for cloud adoption has picked up the most with most companies upping their investment in cloud. Apart from all pervasive increased demand for cloud, Infosys' newly launched 'Cobalt'-a set of solutions and platforms to accelerate cloud transformation journey of enterprises is a testament to that. Mortgage part of BFSI is seeing better traction because of lower interest rates. IMS and run-the-business will see demand for higher productivity. E-commerce adjacent investments in retail are also seeing increased demand. Greater demand for automation will be seen from BPO segment.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,523	2,620	BUY
INFO IN	1,018	1,020	ADD
WPRO IN	313	246	SELL
HCLT IN	813	920	BUY
TECHM IN	823	910	BUY
LTI IN	2,527	3,290	BUY
MPHL IN	1,357	950	SELL
MTCL IN	1,336	1,220	ADD
PSYS IN	1,304	840	SELL
NITEC IN	2,336	2,110	ADD
ECLX IN	697	580	SELL

Price & Target in Rupees



OIL & GAS

05 October 2020

Macros for gas still below pre covid levels

Second consecutive fall in consumption during the year...: Natural gas consumption in August declined to 148.8mmscmd (-7.8% YoY, 3.4% MoM), as ensuing lockdowns across states hampered demand. Barring fertiliser (47.6 mmscmd, +5.3% YoY) and power (30.9 mmscmd, +4.2% YoY) offtake plunged across sectors, viz. CGD (20.8 mmscmd, -31% YoY), refineries (21.2 mmscmd, -0.8% YoY), petrochemicals (9.7 mmscmd, -6.5% YoY) and others (18.6 mmscmd, -24.7% YoY).

...but the situation seems to be improving with the unlocking of the economy:

CGD offtake has increased 26.7% MoM as the increase in demand from PNG consumers offset the demand drop in CNG. LNG imports have increased for the second consecutive month by 8.6% YoY and LNG consumption has increased by 1.2% YoY after two consecutive declines. Spot LNG prices have surged to about US\$4.8/mmbtu currently, reducing the gap with long term LNG prices. This may ease concerns on salability for GAIL's long term contracted LNG volumes.

Domestic gas production remains muted: Gas production continued its declining trajectory to 78.5 mmscmd (-9.5% YoY) in August. ONGC and Oil India's output declined to 61.9 mmscmd (-4.3% YoY) and 6.1 mmscmd (-20.3% YoY) respectively. ONGC's production ramp up remains hampered by force majeure imposed by many of its consumers (mostly CGD). Exploration and production prospects look bleak as producers are likely to refrain from increasing its output in the current low-price regime (aggravated by 25% cut in domestic gas price from Oct'20).

GAS CONSUMPTION TREND

(mmscmd)	Aug'20	Aug'19	YoY (%)	Jul'20	MoM (%)	Q2TDFY21	Q2TDFY20	YoY (%)
Fertiliser	47.6	45.3	5.3	47.5	0.2	47.6	43.6	9.1
Power	30.9	29.6	4.2	32.0	(3.6)	31.5	29.9	5.3
CGD	20.8	30.2	(31.0)	16.4	26.7	18.6	30.2	(38.4)
Other Industrials:	49.5	56.5	(12.3)	48.0	3.2	48.7	54.6	(10.7)
Refineries	21.2	21.3	(0.8)	21.3	(0.5)	21.2	21.0	1.3
Petrochemicals	9.7	10.4	(6.5)	9.3	4.8	9.5	10.3	(7.8)
Miscellaneous	18.6	24.8	(24.7)	17.4	7.0	18.0	23.3	(22.7)
Total	148.8	161.5	(7.8)	144.0	3.4	146.4	158.3	(7.5)

Source: PPAC, BOBCAPS Research

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KEY RECOMMENDATIONS

Ticker	Target	Rating
PLNG IN	310	BUY
IGL IN	440	REDUCE
GUJGA IN	335	ADD
GUJS IN	310	BUY
MAHGL IN	750	SELL
GAIL IN	155	BUY

Target in Rupees

GAS CONSUMPTION

(mmscmd)	Aug'20	Aug'19	YoY (%)
Fertiliser			
Domestic	17.0	19.0	(10.5)
R-LNG	30.7	26.3	16.7
Total	47.6	45.3	5.3
Power			
Domestic	19.7	20.8	(5.6)
R-LNG	11.2	8.8	27.6
Total	30.9	29.6	4.2
CGD			
Domestic	13.3	15.7	(15.0)
R-LNG	7.5	14.5	(48.3)
Total	20.8	30.2	(31.0)
Other Industrials			
Domestic	12.3	20.5	(40.2)
R-LNG	37.3	36.0	3.5
Total	49.5	56.5	(12.3)
Total Consumption	148.8	161.5	(7.8)
Total Domestic	62.2	76.0	(18.1)
Total R-LNG	86.6	85.5	1.2

Source: PPAC, 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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