

BOB Economics Research | Monetary Policy Review

RBI revises its growth and inflation estimates

Mindtree | Target: Rs 1,540 | +7% | ADD

Analyst meet takeaways - 4x4x4 strategy laid out

SUMMARY
India Economics: Monetary Policy Review

While revising GDP growth to (-) 7.5% from (-) 9.5% earlier, MPC members unanimously voted to keep policy rate unchanged and maintain accommodative stance in the current and next financial year to support growth. Notably, RBI acknowledged that inflation has turned adverse and revised its inflation estimate by 1.4% and 1.3% in Q3/ Q4 respectively. In H1 FY22, RBI expects CPI inflation at 5.2-4.6%. This constrains RBI to cut policy rate any further. Liquidity will support yields but broader direction will come from Budget.

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Mindtree

Mindtree (MTCL) is optimistic about achieving above-industry growth, aided by a new three-year '4x4x4' strategy aimed at narrowing its focus on four verticals, service lines and markets each. With margins now at a comfortable level, management will not shy away from acquisitions. The L&T management clarified that an LTI-MTCL merger is not on the cards in the midterm. We see limited valuation upside given flatish growth in the CMT vertical (0.7% QoQ in Q2FY21). Retain ADD with a Sep'21 TP of Rs 1,540 on a target P/E of 21.5x.

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.91	(3bps)	6bps	(90bps)
India 10Y yield (%)	5.93	1bps	4bps	(68bps)
USD/INR	73.93	(0.2)	0.7	(3.7)
Brent Crude (US\$/bbl)	48.71	1.0	25.0	(23.2)
Dow	29,970	0.3	11.3	8.3
Shanghai	3,442	(0.2)	6.7	18.7
Sensex	44,633	0	12.3	9.4
India FII (US\$ mn)	2 Dec	MTD	CYTD	FYTD
FII-D	(46.0)	(109.0)	(14,728.2)	(4,968.7)
FII-E	22.2	503.5	16,609.2	23,212.2

Source: Bank of Baroda Economics Research

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MONETARY POLICY REVIEW

04 December 2020

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Status quo: MPC members unanimously voted to keep key policy rates unchanged and continue with accommodative stance during current financial year and into next one. RBI did revise its inflation forecast up by 1.4% in Q3, 1.3% in Q4. Growth estimates too have been revised upwards to (-) 7.5% from (-) 9.5% earlier with positive growth in Q3 and Q4.

GDP to contract by 7.5% in FY21: Upward revision in growth assumes positive growth in Q3 and Q4 at 0.1% (5.6% contraction earlier) and 0.7% (+0.5% earlier) respectively. With a benign base, growth will accelerate to 21.9-6.5% in H1FY22. However, in its assessment, recovery is not broad based and requires policy support. Thus the need for accommodative liquidity.

CPI forecasts see sharp upward revision: The statement clearly points out that inflation has turned adverse relative to expectations in the last two months. While RBI had projected inflation in Q3 at 5.4% earlier, the new estimate is as high as 6.8%. A similar revision has taken place in Q4. The new estimates are in sync with underlying trend seen in food and core inflation. For instance, as many as 6 out of 12 sub-indices of food are showing double digit inflation. Core inflation too remain sticky at 5.8% and higher international oil prices are likely to push inflation upwards (Indian pump prices are at record high).

Forward guidance: Given the above backdrop, RBI reiterated its guidance to support growth through adequate liquidity in this and next financial year. Policy rate is expected to remain on hold given India has very large negative policy rate. We expect bond yields to remain range bound between 5.75-6.00% in the near-term with clearer direction emerging after the Union Budget. Since the last policy, FX reserves have increased by ~US\$ 30bn. The inflow into the economy not only supports RBI's liquidity stance but implies appreciating bias for INR is likely to continue.

KEY HIGHLIGHTS

- Policy rate kept unchanged at 4%.
- CPI forecast has been revised upward by 1.4% and 1.3% in Q3/Q4 respectively.
- GDP to contract by 7.5% in FY21 from 9.5% estimated earlier.



ADD

TP: Rs 1,540 | ▲ 7%

MINDTREE

| IT Services

| 04 December 2020

Analyst meet takeaways – 4×4×4 strategy laid out

Mindtree (MTCL) is optimistic about achieving above-industry growth, aided by a new three-year '4×4×4' strategy aimed at narrowing its focus on four verticals, service lines and markets each. With margins now at a comfortable level, management will not shy away from acquisitions. The L&T management clarified that an LTI-MTCL merger is not on the cards in the midterm. We see limited valuation upside given flattish growth in the CMT vertical (0.7% QoQ in Q2FY21). Retain ADD with a Sep'21 TP of Rs 1,540 on a target P/E of 21.5x.

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4×4×4 strategy over three years: Management intends to follow a broad strategic path of (1) building on existing strengths, (2) enhanced focus on growth opportunities, and (3) developing strategic relationships. As part of its 4x4x4 roadmap, MTCL's focus will be narrowed to four industry groups (retail-CPG-manufacturing, BFSI, TTHL, and communication, media & technology or CMT), four service lines (customer service, data & intelligence, cloud, and enterprise IT) and four geographies (US, Continental Europe, UK & Ireland, and APAC (mostly Australia, New Zealand and India)).

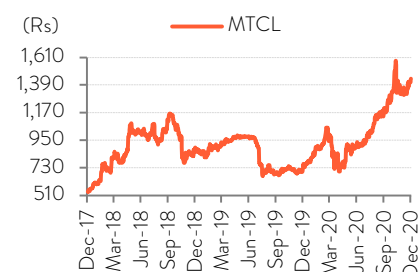
Management plans to rejuvenate the consulting arm to stitch together service lines for large deals. It also intends to align the delivery engine to the four new focus geographies.

New healthcare vertical: To tap into increased demand coming from the healthcare sector post the Covid outbreak, MTCL will be carving out a new vertical that is currently in its incubation phase. This healthcare vertical will focus on payers, device manufacturers and insurance providers, but will stay away from life sciences. Work here has already begun with a few large deals coming from insurance providers and medical device manufacturers.

Ticker/Price	MTCL IN/Rs 1,442
Market cap	US\$ 3.2bn
Shares o/s	165mn
3M ADV	US\$ 29.3mn
52wk high/low	Rs 1,606/Rs 692
Promoter/FPI/DII	74%/11%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	70,215	77,643	79,171	91,883	100,695
EBITDA (Rs mn)	10,645	10,623	15,286	18,377	19,650
Adj. net profit (Rs mn)	7,542	6,309	9,698	11,511	12,354
Adj. EPS (Rs)	45.8	38.3	58.9	69.9	75.0
Adj. EPS growth (%)	32.1	(16.3)	53.7	18.7	7.3
Adj. ROAE (%)	24.9	19.5	28.2	28.4	26.1
Adj. P/E (x)	31.5	37.6	24.5	20.6	19.2
EV/EBITDA (x)	22.2	22.2	15.3	12.4	11.3

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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