

RESEARCH

Mindtree | Target: Rs 670 | -11% | SELL

Painful transition begins; downgrade to SELL

Yes Bank | Target: Rs 90 | -9% | SELL

Yet another miss on asset quality

Wipro | Target: Rs 230 | -11% | SELL

Another disappointing quarter

SUMMARY

Mindtree

Mindtree's (MTCL) Q1FY20 reported EBIT missed estimates by 46% as both revenue and operating margins fell short. Distractions and uncertainty from L&T's unsolicited takeover translated into flattish sequential topline growth, though deal wins at US\$ 324mn grew 6% YoY. We cut FY20/FY21 EPS by 31%/18% and reduce our target P/E multiple from 17x to 13.6x to factor in transition risks, which lowers our TP from Rs 990 to Rs 670. Downgrade from REDUCE to SELL on risks of further operational slippage.

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

Yes Bank

Yes Bank's (YES) Q1FY20 PAT at Rs 1.1bn beat our/consensus estimates on higher non-interest income and below-expected provisions. But Q1 was marred by key negatives: (a) a rise in the 'BB & below' rated pool to 9.4% of exposure post rating downgrades; (b) a spike in slippages to Rs 62bn with only 40% coming from the watchlist, raising concerns over the list's authenticity; and (c) a ~50bps QoQ drop in CET-1 to 8%, increasing the risk of high dilution. We slash FY20/ FY21 EPS by 70%/40%, leading to a revised Mar'20 TP of Rs 90 (vs. Rs 210).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.10	1bps	1bps	(76bps)
India 10Y yield (%)	6.33	(10bps)	(68bps)	(141bps)
USD/INR	68.71	(0.2)	1.2	(0.4)
Brent Crude (US\$/bbl)	64.35	(3.2)	5.0	(10.8)
Dow	27,336	(0.1)	4.7	8.8
Shanghai	2,938	(0.2)	0.9	5.0
Sensex	39,131	0.6	(1.5)	7.1
India FII (US\$ mn)	15 Jul	MTD	CYTD	FYTD
FII-D	153.0	1,213.5	2,641.8	2,097.2
FII-E	(27.7)	(769.9)	10,569.0	3,723.8

Source: Bank of Baroda Economics Research

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Wipro

Wipro (WPRO) reported another tepid quarter as a wind-down of large projects in the retail & CPG verticals and delayed ramp-up of some contracts led to a dollar revenue decline of 1.8% QoQ. Adj. IT services EBIT margin at 17.9% was below estimates. Q2 revenue growth guidance of 0-2% QoQ was uninspiring. We tweak estimates but retain our TP at Rs 230 upon rollover to Jun'20. A muted BFSI outlook, regulatory uncertainty in healthcare, and restructuring of India & Middle East operations continue to hamper recovery prospects.

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SELL

TP: Rs 670 | ▼ 11%

MINDTREE

| IT Services

| 18 July 2019

Painful transition begins; downgrade to SELL

Mindtree's (MTCL) Q1FY20 reported EBIT missed estimates by 46% as both revenue and operating margins fell short. Distractions and uncertainty from L&T's unsolicited takeover translated into flattish sequential topline growth, though deal wins at US\$ 324mn grew 6% YoY. We cut FY20/FY21 EPS by 31%/18% and reduce our target P/E multiple from 17x to 13.6x to factor in transition risks, which lowers our TP from Rs 990 to Rs 670. Downgrade from REDUCE to SELL on risks of further operational slippage.

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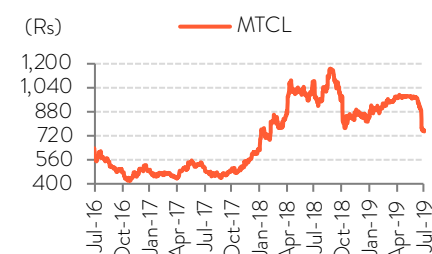
Dull operating performance: MTCL's sequential dollar revenue growth of 0.8% was below our/consensus estimates of 1.7%/2.2%. Reported EBIT margins at 6.4% contracted 650bps QoQ due to employee compensation revision, adverse currency movements, visa costs and a one-time charge from additional rewards to employees to commemorate the company's 20th anniversary. Excluding the 260bps impact from one-off employee rewards, adjusted EBIT margins at 9% were also below our estimate of 11.6%. Reported EBIT was 46% short of estimates led by both the revenue and margin miss.

Ticker/Price	MTCL IN/Rs 751
Market cap	US\$ 1.8bn
Shares o/s	164mn
3M ADV	US\$ 12.7mn
52wk high/low	Rs 1,184/Rs 735
Promoter/FPI/DII	13%/42%/45%

Source: NSE

Loss of business momentum: A slow start to the year and derailed profitability in the Jun'19 quarter mark a loss of business momentum for MTCL. We cut our FY20/FY21 EPS estimates by 31%/18% and build in lower dollar revenue growth of 8.5%/10.8% and 13.9%/15.5% EBITDA margins.

STOCK PERFORMANCE



Source: NSE

Downgrade to SELL: We value MTCL at a one-year forward P/E of 13.6x, a 20% discount to our earlier multiple of 17x to factor in transition risks in the wake of L&T's hostile takeover of the company. On rolling valuations forward, we have a revised Jun'20 TP of Rs 670 (vs. Rs 990), and downgrade the stock to SELL. The speed and efficacy with which L&T (which now has a 60%+ stake in MTCL) is able to execute a leadership overhaul will be a key monitorable.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	5,701	7,542	5,742	7,812	9,354
Adj. EPS (Rs)	34.7	45.8	34.9	47.4	56.8
Adj. EPS growth (%)	39.5	32.1	(23.9)	36.0	19.7
Adj. ROAE (%)	21.4	24.9	16.5	20.2	21.4
Adj. P/E (x)	21.7	16.4	21.5	15.8	13.2
EV/EBITDA (x)	16.5	11.6	11.6	8.9	7.4

Source: Company, BOBCAPS Research



SELL

TP: Rs 90 | ▼ 9%

YES BANK

| Banking

| 17 July 2019

Yet another miss on asset quality

Yes Bank's (YES) Q1FY20 PAT at Rs 1.1bn beat our/consensus estimates on higher non-interest income and below-expected provisions. But Q1 was marred by key negatives: (a) a rise in the 'BB & below' rated pool to 9.4% of exposure post rating downgrades; (b) a spike in slippages to Rs 62bn with only 40% coming from the watchlist, raising concerns over the list's authenticity; and (c) a ~50bps QoQ drop in CET-1 to 8%, increasing the risk of high dilution. We slash FY20/FY21 EPS by 70%/40%, leading to a revised Mar'20 TP of Rs 90 (vs. Rs 210).

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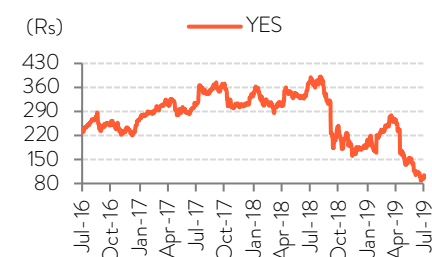
Exposure to 'BB & below' pool rises to 9.4%: YES's Q1 GNPA ratio rose to 5% due to a spike in slippages to Rs 62bn (Rs 35bn in Q4). Management stated that ~40% of slippages were from its Rs 100bn watchlist, while the rest were from the 'BB & below' book. The share of this book increased to 9.4% vs. 7.1% in Q4 driven by ratings downgrades for investments in two financial services groups. YES made Rs 11.1bn MTM provision (20-30% of exposure) on these investments. Real estate exposure is at Rs 240bn, 25% being sub-investment grade/NPA with the rest at minimal risk of slippage. Corporate SMA-2 exposure is at ~Rs 4bn.

Ticker/Price	YES IN/Rs 98
Market cap	US\$ 3.3bn
Shares o/s	2,309mn
3M ADV	US\$ 172.0mn
52wk high/low	Rs 404/Rs 86
Promoter/FPI/DII	20%/40%/41%

Source: NSE

Capital raising in Q2: The bank's CET-1 ratio dropped ~50bps QoQ to 8% due to revised RBI regulations, investment rating downgrades and a change in operational risks. However, management highlighted that it may raise capital in Q2 and sees scope for diluting >10% equity.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We scale back our FY20/FY21 earnings estimates by 70%/40% to factor in slower loan growth, higher slippages and a rise in credit costs, while cutting our target P/ABV multiple to 1.2x FY21E (from 1.7x earlier). Despite the stock trading at low valuations of 0.9x FY21E P/BV, we remain sellers as we await clarity on stabilisation of the 'BB & below' rated pool, adherence to credit cost guidance, and capital raising.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	42,245	17,203	10,117	28,573	42,520
EPS (Rs)	18.4	7.5	3.9	9.6	13.0
P/E (x)	5.3	13.2	24.9	10.2	7.6
P/BV (x)	0.9	0.8	0.8	0.9	0.9
ROA (%)	1.6	0.5	0.2	0.6	0.8
ROE (%)	17.7	6.5	3.4	8.4	11.4

Source: Company, BOBCAPS Research



SELL

TP: Rs 230 | ▼ 11%

WIPRO

| IT Services

| 18 July 2019

Another disappointing quarter

Wipro (WPRO) reported another tepid quarter as a wind-down of large projects in the retail & CPG verticals and delayed ramp-up of some contracts led to a dollar revenue decline of 1.8% QoQ. Adj. IT services EBIT margin at 17.9% was below estimates. Q2 revenue growth guidance of 0-2% QoQ was uninspiring. We tweak estimates but retain our TP at Rs 230 upon rollover to Jun'20. A muted BFSI outlook, regulatory uncertainty in healthcare, and restructuring of India & Middle East operations continue to hamper recovery prospects.

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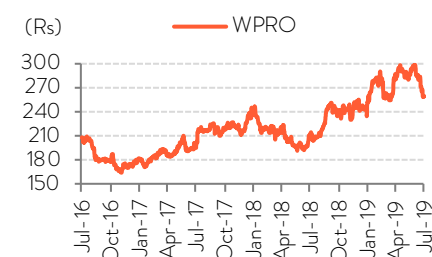
Poor operating performance: WPRO reported a 1.8% QoQ drop in dollar revenues for Q1FY20 vs. our/street estimates of a 0.9%/0.2% QoQ decline. Reported IT services EBIT margins at 18.4% (-80bps QoQ) were in line, albeit aided by Rs 669mn of exceptional gains on divestment of businesses. Adjusted for this, margins at 17.9% came in lower than estimates.

Ticker/Price	WPRO IN/Rs 260
Market cap	US\$ 17.0bn
Shares o/s	4,512mn
3M ADV	US\$ 27.3mn
52wk high/low	Rs 302/Rs 198
Promoter/FPI/DII	74%/9%/17%

Source: NSE

Uninspiring Sep'19 quarter guidance: Q2FY20 revenue growth guidance of 0-2% QoQ was subdued and below our estimate of 1-3% sequential growth. We highlight that the Sep'19 quarter will include inorganic revenues from consolidation of International TechneGroup (which had annual revenues of US\$ 23.2mn in FY18). The midpoint of the guided range implies moderation of WPRO's annual growth trajectory to low single-digits for FY20.

STOCK PERFORMANCE



Source: NSE

Retain SELL: We cut FY20/FY21 EPS estimates by 1.6%/2.1% as we accommodate the muted Jun'19 quarter performance. In our view, a growth recovery will continue to elude WPRO, inviting downside risks to consensus earnings estimates. We model for a 6.4% earnings CAGR over FY19-FY21 and retain SELL with an unchanged Jun'20 TP of Rs 230, valuing the stock at 13.5x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19A	FY20E	FY21E
Adj. net profit (Rs mn)	82,723	80,046	90,074	89,218	96,547
Adj. EPS (Rs)	12.8	13.3	14.9	15.6	16.9
Adj. EPS growth (%)	(5.8)	4.0	12.3	4.6	8.2
Adj. ROAE (%)	16.7	15.9	17.1	16.0	16.4
Adj. P/E (x)	20.3	19.5	17.4	16.6	15.3
EV/EBITDA (x)	10.6	12.0	10.0	9.3	8.7

Source: Company, 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)

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