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FIRST LIGHT

11 May 2020

RESEARCH

BOB Economics Research | Interest Rate Outlook

Government alters H1 borrowing calendar

ICICI Bank | Target: Rs 420 | +24% | BUY

Upfronting provisions to brace for impact

HDFC AMC | Target: Rs 3,040 | +16% | BUY

In-line results, FY21-FY22 equity flows to be subdued

Reliance Industries | Target: Rs 1,515 | +1% | ADD

RJio spearheads deleveraging

Dr Reddy's Labs | Target: Rs 3,350 | –13% | ADD

EIR for Srikakulam (CTO-VI) API unit

SUMMARY

India Economics: Interest Rate Outlook

Central government has revised its borrowing to Rs 12tn in FY21 from Rs 7.8tn earlier. Now borrowing in H1 and H2 is split in half at Rs 6tn each compared with Rs 4.88tn and Rs 2.92tn. In addition to this, borrowing of states will also increase to meet their revenue shortfall. Thus overall issuance by centre and states will be closer to Rs 20tn as against Rs 12.8tn in FY20. The large liquidity surplus (Rs 5.6tn) with RBI and OMOs by RBI can absorb higher supply. Thus we believe 10-year yield is likely to remain in 5.5-6% range in the near-term.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.64	(6bps)	(3bps)	(180bps)
India 10Y yield (%)	6.03	(5bps)	(28bps)	(137bps)
USD/INR	75.77	(0.2)	0.5	(8.3)
Brent Crude (US$/bbl)	29.46	(0.9)	(10.9)	(58.1)
Dow	23,876	0.9	5.3	(7.6)
Shanghai	2,872	(0.2)	3.9	0.7
Sensex	31,443	(0.8)	14.0	(16.3)
India FII (US$ mn)	**5 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(7.7)	(46.6)	(11,390.3)	(1,630.8)
FII-E	(42.9)	(166.1)	(6,799.6)	(196.7)

Source: Bank of Baroda Economics Research

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ICICI Bank

ICICI Bank's (ICICIBC) Q4FY20 PAT at Rs 12bn (+26% YoY) missed estimates as the bank made Covid-related provisions of Rs 27bn. About 30% of its portfolio is under moratorium. Asset classification benefit was offered to Rs 13bn worth of loans (18bps GNPA impact ex-benefit). Slippages rose to Rs 53bn as two overseas accounts slipped into NPA. NIM was up 10bps QoQ to 3.9% but could see pressure on higher liquidity, low credit demand and rate reduction. We cut FY21/FY22 EPS 39%/32% on higher credit cost and reset our Mar'21 TP to Rs 420 (vs. Rs 465).

Click here for the full report.

HDFC AMC

HDFC Asset Management (HDFCAMC) reported a ~Rs 500bn sequential AUM decline in Q4FY20, largely due to the mark-to-market effect. The company was able to maintain overall market share at ~14%. We expect cost control to continue over FY21-FY22 and forecast EBITDA/core PBT margins of ~78%/75% during this period. We cut FY21-FY22 EPS estimates by 10% as the high-yielding equity business is likely to see subdued growth. Maintain BUY with a revised Mar'21 TP of Rs 3,040 (vs. Rs 3,470 earlier).

Click here for the full report.

Reliance Industries

Reliance Industries' (RIL) deleveraging initiatives have accelerated in the last three weeks, with ~Rs 610bn raised from a ~13.5% stake sale in RJio. Adding in the upcoming rights issue and BP deal, visibility on the total fund raise in Q1FY21 improves to Rs 1.2tn against net debt of ~Rs 3.5tn. We see potential for RIL to end the year with zero debt if the Rs 1.2tn Saudi Aramco deal and added fund raising from RJio (Rs 400bn) materialise. Valuations at 13.6x FY22E EPS factor deleveraging to a large extent. Earnings delivery holds the key to rerating.

Click here for the full report.

Dr Reddy's Labs

Dr Reddy's Labs (DRRD) announced that it has received an EIR (establishment inspection report) from the USFDA for its Srikakulam (CTO-VI) API facility. This plant was last inspected in Feb'20 (warning letter status since Nov'15), wherein the FDA issued six observations. These observations are now classified under VAI (voluntary action indicated) status. The EIR implies closure of both the observations and the warning letter. Site clearance comes as good surprise to the street. However, we do not expect any material swing in our FY21/FY22 EPS estimates which are at Rs 158/Rs 186. Considering the uncertain environment due to Covid-19, we will review our rating and target price once more clarity emerges after the Q4FY20 results.

Click here for the full report.

INTEREST RATE OUTLOOK

08 May 2020

Government alters H1 borrowing calendar

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Central government has revised its borrowing to Rs 12tn in FY21 from Rs 7.8tn earlier. Now borrowing in H1 and H2 is split in half at Rs 6tn each compared with Rs 4.88tn and Rs 2.92tn. In addition to this, borrowing of states will also increase to meet their revenue shortfall. Thus overall issuance by centre and states will be closer to Rs 20tn as against Rs 12.8tn in FY20. The large liquidity surplus (Rs 5.6tn) with RBI and OMOs by RBI can absorb higher supply. Thus we believe 10-year yield is likely to remain in 5.5-6% range in the near-term.

KEY HIGHLIGHTS

- Gross borrowing in FY21 revised higher to Rs 12tn as against Rs 7.8tn in BE.
- H1 borrowing is pegged higher at Rs 6tn.
- We are revising our fiscal deficit projection upward to 5.5% (of GDP) from BE of 3.5%.

Centre's borrowing calendar revised to Rs 12tn: Gross borrowing for FY21 has been revised to Rs 12tn (54% increase) as against Rs 7.8tn as per FY21BE. Net borrowing is also pegged higher at Rs 9.6tn (Rs 5.4tn estimated earlier). H1FY21 borrowing is also revised upward to 6tn (50% of total issuance) as against Rs 4.8tn earlier. Net issuances in H1FY21 are higher at Rs 4.62tn as against Rs 3.5tn earlier and (Rs 3.3tn last year). In H2FY20, remaining Rs 6tn issuances will be carried on with lower repayment of Rs 0.97tn. State borrowing for Q1FY21 is pegged at Rs 1.27tn as against Rs 1.1tn last year.

Maturity pattern skewed towards long-end: Issuance pattern is skewed towards 10 year and above bucket at 38% (Rs 2.28tn) compared with 35% (Rs 1.48tn) in H1FY20. Issuances in 1-5-year category has come off to 25% (Rs 1.5tn) in H1FY21 compared to 32% (1.36tn) in H1FY20. Markets had already priced-in an inevitable increase in long-end yields with a steepening bias as spread between 1year T-Bill and 10Y G-Sec increased to 220bps in Apr'20 (126bps in Mar'20). FRB issuances are also pegged higher in the revised calendar at Rs 400bn (6.7% of overall issuance) as against Rs 240bn earlier.

Fiscal deficit revised upward: With borrowing program increased by 2% of GDP to Rs 12tn in FY21 from Rs 7.8tn budgeted earlier, we expect a similar increase in the fiscal deficit from FY21BE of 3.5% of GDP to 5.5% of GDP. States too would require additional borrowing in FY21 as their own tax revenues from GST, VAT from petroleum products and excise on alcohol have been impacted. Thus consolidated fiscal deficit is estimated to be 10% of GDP.

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BUY
TP: Rs 420 | ⮝ 24%

ICICI BANK | Banking | 09 May 2020

Upfronting provisions to brace for impact

Vikesh Mehta
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ICICI Bank's (ICICIBC) Q4FY20 PAT at Rs 12bn (+26% YoY) missed estimates as the bank made Covid-related provisions of Rs 27bn. About 30% of its portfolio is under moratorium. Asset classification benefit was offered to Rs 13bn worth of loans (18bps GNPA impact ex-benefit). Slippages rose to Rs 53bn as two overseas accounts slipped into NPA. NIM was up 10bps QoQ to 3.9% but could see pressure on higher liquidity, low credit demand and rate reduction. We cut FY21/FY22 EPS 39%/32% on higher credit cost and reset our Mar'21 TP to Rs 420 (vs. Rs 465).

Loans under moratorium in line with peers: ICICIBC has offered an opt-in/ opt-out moratorium option to borrowers depending on the type of asset. About 30% of its loan portfolio is under moratorium as on April-end. The share is higher for the CV/rural/two-wheeler segments which form 10-11% of total loans, where moratorium was offered by default and customers had to opt out. Loans worth Rs 13.1bn received the classification standstill benefit (recognition as NPA would have worsened the GNPA ratio by 18bps). ICICIBC made standard asset provisions worth ~Rs 27bn linked to Covid-19 in Q4, including Rs 6bn towards loans that were extended the asset classification benefit.

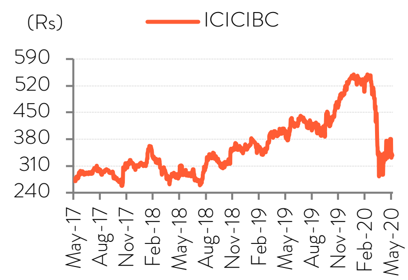
Slippages rise but coverage ratio remains high: ICICIBC's slippages increased to Rs 53bn (vs. Rs 44bn in Q3), predominantly on classifying two overseas portfolio accounts (in healthcare and oil trading) as NPA. The BB-&-below rated pool declined to Rs 167bn (2.6% of loans) vs. Rs 177bn (2.8%) in Q3 while PCR including technical write-offs held strong at 87%. The overseas book forms ~8% of loans with 63% exposure to Indian corporates, subsidiaries and JVs.

Maintain BUY: We reduce FY21/FY22 EPS estimates by 39%/32% to factor in higher credit costs and slower growth. Our SOTP-based Mar'21 TP reduces to Rs 420, with the core business being valued at 1.6x FY22E P/BV.

Ticker/Price	ICICIBC IN/Rs 338
Market cap	US$ 28.8bn
Shares o/s	6,453mn
3M ADV	US$ 197.2mn
52wk high/low	Rs 552/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	230,258	270,148	332,671	356,544	408,785
NII growth (%)	5.9	17.3	23.1	7.2	14.7
Adj. net profit (Rs mn)	67,774	33,633	79,308	108,321	144,016
EPS (Rs)	11.1	5.2	12.3	16.7	22.2
P/E (x)	30.5	64.6	27.5	20.2	15.2
P/BV (x)	2.1	2.0	1.9	1.8	1.6
ROA (%)	0.8	0.4	0.8	0.9	1.1
ROE (%)	6.6	3.2	7.1	9.1	11.3

Source: Company, BOBCAPS Research

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BUY
TP: Rs 3,040 | ⮝ 16%

HDFC ASSET MANAGEMENT COMPANY | Diversified Financials | 10 May 2020

In-line results, FY21-FY22 equity flows to be subdued

Shubhranshu Mishra
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HDFC Asset Management (HDFCAMC) reported a ~Rs 500bn sequential AUM decline in Q4FY20, largely due to the mark-to-market effect. The company was able to maintain overall market share at ~14%. We expect cost control to continue over FY21-FY22 and forecast EBITDA/core PBT margins of ~78%/75% during this period. We cut FY21-FY22 EPS estimates by 10% as the high-yielding equity business is likely to see subdued growth. Maintain BUY with a revised Mar'21 TP of Rs 3,040 (vs. Rs 3,470 earlier).

AUM decline driven by MTM loss: AUM (end of period) saw a rundown of ~Rs 500bn on a sequential basis in Q4 – management attributed this decline primarily to the mark-to-market (MTM) effect and not redemptions. HDFCAMC has largely maintained its pricing; the decline in income (–18% YoY) was driven by MTM losses. Market share has been maintained at ~14% overall and 15% in the equity segment.

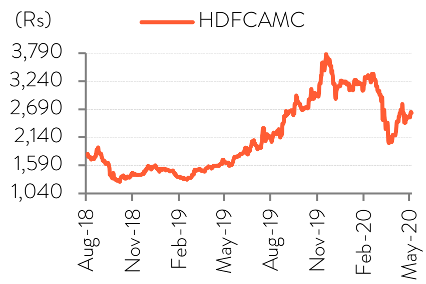
Opex control leads to stable margins: Strong opex control led to stable EBITDA margins of 78% in Q4. Core PBT margin also remained steady at 75%. We expect cost control initiatives to continue over FY21-FY22 and forecast EBITDA and core PBT margins at ~78% and 75% respectively during this period.

Maintain BUY: In our view, the high-yielding equity business will see subdued growth in FY21-FY22 due to the impact of Covid-19. We thus lower FY21-FY22 earnings estimates by 10% each. The company earns fees on the legacy book as well as on flows and has a lower investor churn as compared to industry.

Ticker/Price	HDFCAMC IN/ Rs 2,619
Market cap	US$ 7.4bn
Shares o/s	213mn
3M ADV	US$ 16.3mn
52wk high/low	Rs 3,844/Rs 1,962
Promoter/FPI/DII	80%/8%/1%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Core PBT (Rs mn)	9,452	11,931	15,129	16,087	18,593
Core PBT (YoY)	36.6	26.2	26.8	6.3	15.6
Adj. net profit (Rs mn)	7,113	9,306	12,624	13,160	15,119
EPS (Rs)	33.8	43.8	59.3	61.8	71.0
P/E (x)	77.5	59.8	44.2	42.4	36.9
MCap/AAAUM (%)	20.0	17.3	14.9	13.4	11.7
RoAAAUM (in bp)	25.6	28.8	33.9	31.6	31.7
ROE (%)	37.7	35.0	35.6	30.8	31.9

Source: Company, BOBCAPS Research

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ADD
TP: Rs 1,515 | ⮝ 1%

RELIANCE INDUSTRIES | Oil & Gas | 08 May 2020

RJio spearheads deleveraging

Reliance Industries' (RIL) deleveraging initiatives have accelerated in the last three weeks, with ~Rs 610bn raised from a ~13.5% stake sale in RJio. Adding in the upcoming rights issue and BP deal, visibility on the total fund raise in Q1FY21 improves to Rs 1.2tn against net debt of ~Rs 3.5tn. We see potential for RIL to end the year with zero debt if the Rs 1.2tn Saudi Aramco deal and added fund raising from RJio (Rs 400bn) materialise. Valuations at 13.6x FY22E EPS factor deleveraging to a large extent. Earnings delivery holds the key to rerating.

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Strategic stake sale in RJio: After Facebook, interest from marquee PE firms – Vista Equity Partners (for a 2.3% stake) and Silver Lake (for a 1.15% stake) – raises the potential value of RJio's integrated technology platform. These investors have AUMs of >US$ 100bn invested primarily in technology-related opportunities. RIL's investments of >Rs 4tn in its telecom arm are likely to spearhead RJio's transformation into an integrated technology company.

Facebook synergies create valuation differential: At US$ 65bn, the PE deals value RJio ~12.5% higher than the Facebook stake sale, given that these are purely strategic investments. Facebook through its WhatsApp platform brings in technology-related synergies for RIL's JioMart initiative. The synergies can expand into areas such as e-payments and social media transactions. Facebook gets one board seat in RJio as well.

Debt-free vision on track: RIL clearly has many more avenues open to it for deleveraging – the Rs 1.2tn Saudi Aramco deal appears to be on track, while the company can opt to sell another 7-8% in RJio to garner ~Rs 400bn in cash. IPOs of the retail or Jio businesses could offer another windfall of >Rs 250bn (at least).

Time for a bold inorganic move: With the aggressive fund raise, we believe RIL has enough ammunition to target a major inorganic move that taps into the massive valuation discounts on offer during the ongoing global economic freeze. This transaction could be in (a) cyclicals – globally several large integrated cyclical businesses are available at low valuations due to distressed GRMs/petrochemical cracks; (b) E&P – to tap fire sales of any large oil and gas producing company or asset amid low oil prices; (c) retail – many global retail majors could be under bankruptcy proceedings; or (d) telecom/technology.

Ticker/Price	RIL IN/Rs 1,507
Market cap	US$ 125.9bn
Shares o/s	6,339mn
3M ADV	US$ 313.3mn
52wk high/low	Rs 1,618/Rs 876
Promoter/FPI/DII	50%/24%/26%

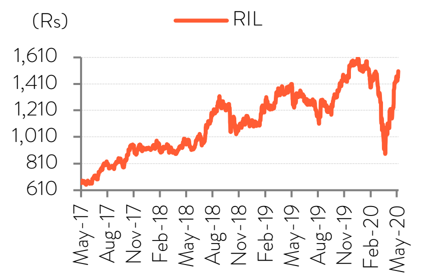
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs bn)	6,116	3,697	4,508
EBITDA (Rs bn)	882	949	1,378
Adj. net profit (Rs bn)	443	421	749
Adj. EPS (Rs)	65.6	62.3	110.8
Adj. EPS growth (%)	10.6	(4.9)	77.8
Adj. ROAE (%)	11.1	9.2	13.6
Adj. P/E (x)	23.0	24.2	13.6
EV/EBITDA (x)	13.3	12.9	9.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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ADD
TP: Rs 3,350 | ⮟ 13%

DR REDDY'S LABS | Pharmaceuticals | 08 May 2020

EIR for Srikakulam (CTO-VI) API unit

Event: Dr Reddy's Labs (DRRD) announced that it has received an EIR (establishment inspection report) from the USFDA for its Srikakulam (CTO-VI) API facility. This plant was last inspected in Feb'20 (warning letter status since Nov'15), wherein the FDA issued six observations. These observations are now classified under VAI (voluntary action indicated) status. The EIR implies closure of both the observations and the warning letter.

Implications: The site accounted for US$ 100mn in end product sales (~4% of revenues) in FY16, which should have moderated to some extent in our view. Copaxone is one of the key products from the plant pending approval (CRL or complete response letter submission is in progress on the queries raised by USFDA on DMF). As the regulatory issues at CTO-VI have now been resolved, we believe supplies of new APIs and ANDAs that were held back would recommence.

DRRD should also be able to gradually increase sales for the current portfolio as backward linkages to key raw materials get restored, including supplies for products which were outsourced over the last five years. This would provide a greater cushion to margins.

View: Site clearance comes as good surprise to the street. However, we do not expect any material swing in our FY21/FY22 EPS estimates which are at Rs 158/Rs 186. Following the recent stock rally, valuations appear stretched and we see limited upside potential at the current P/E of 21x and EV/EBITDA of 13x on FY22E (close to the five-year mean). Considering the uncertain environment due to Covid-19, we will review our rating and target price once more clarity emerges after the Q4FY20 results.

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Ticker/Price	DRRD IN/Rs 3,838
Market cap	US$ 8.4bn
Shares o/s	166mn
3M ADV	US$ 53.0mn
52wk high/low	Rs 4,094/Rs 2,351
Promoter/FPI/DII	27%/27%/18%

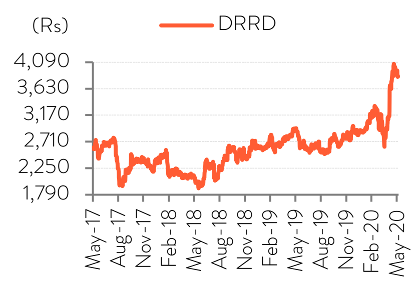
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs bn)	174	185	203
EBITDA (Rs bn)	42	41	47
Adj. net profit (Rs bn)	28	26	31
Adj. EPS (Rs)	168.1	157.7	185.8
Adj. EPS growth (%)	56.0	(6.2)	17.9
Adj. ROAE (%)	19.1	15.7	16.1
Adj. P/E (x)	22.8	24.3	20.7
EV/EBITDA (x)	15.8	15.6	13.2

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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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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