BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

11 October 2019

RESEARCH

India Economics: Monthly Chartbook

Sentiment improves, growth to follow

IndusInd Bank

Asset quality blip, loan growth drops

Tata Consultancy Services

Disappoints for second consecutive quarter

IT Services

ISG Index call takeaways: Mixed signals for Q3CY19

SUMMARY

India Economics: Monthly Chartbook

Economic sentiment improved after Centre's surprise announcement to cut corporate tax even as consumption slowdown continued for another month. RBI also pitched in with 25bps rate cut with room for another 25bps cut in Dec'19. Centre and states also stepped up spending to prop the economy (11% vs. 4%). Yields increased in Sep'19 as muted GST collections imply Centre may find it difficult to meet fiscal targets. Disinvestments and more policy announcements by Centre will improve sentiment and ability to spend. Surplus rains and procurement will boost rural consumption. Private capex will follow with a lag.

Click here for the full report.

IndusInd Bank

IndusInd Bank's (IIB) Q2FY20 PAT grew 52% YoY to Rs 14bn, largely due to 32% YoY growth in NII and 5bps QoQ NIM expansion to 4.1%. IIB made accelerated provisions worth Rs 3.6bn which drove PCR higher to 50% vs. 43% in Q1. Tax savings adjusted for DTA mark-down were Rs 1.9bn. Exposure to stressed groups fell to 1.1% but asset quality deteriorated as slippages rose to Rs 9.6bn and SMA-2 loan share spiked to 0.58%. Loan growth plunged to 21% YoY – we cut FY20-FY22 EPS by 12-20% on slow growth and lower our Sep'20 TP to Rs 1,550 (vs. Rs 1,850).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
ONGC	Buy	200
TCS	Add	2,230
HPCL	Buy	400

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	5bps	(15bps)	(158bps)
India 10Y yield (%)	6.66	(2bps)	8bps	(137bps)
USD/INR	71.07	(0.1)	0.9	4.2
Brent Crude (US$/bbl)	58.32	0.1	(6.5)	(29.8)
Dow	26,346	0.7	(2.1)	2.9
Shanghai	2,925	0.7	(3.2)	7.3
Sensex	38,178	1.7	2.8	9.8
India FII (US$ mn)	**7 Oct**	**MTD**	**CYTD**	**FYTD**
FII-D	50.4	68.1	4,041.4	3,496.8
FII-E	(51.8)	(548.7)	7,612.1	766.9

Source: Bank of Baroda Economics Research
Note: Markets in India were closed on 8 Oct 2019

BOBCAPS Research
research@bobcaps.in

Tata Consultancy Services

TCS reported a dull Q2FY20 operating performance with both revenues (+1.6% QoQ CC) and EBIT margins (flat at 24%) disappointing for the second straight quarter. This virtually rules out the possibility of double-digit growth for FY20 and marks a deepening revenue slowdown. We trim FY21/ FY22 EPS by 5%/6%, lower our target P/E to 22.5x (vs. 23x) and roll over to a new Sep'20 TP of Rs 2,230 (from Rs 2,360). We like the company's strong structural backbone but expect near-term stock weakness on growth concerns.

Click here for the full report.

IT Services

ISG's global commercial annual contract value (ACV) for Q3CY19 stood at US$ 13.8bn, an increase of 13% YoY (vs. 5% YoY in Q2CY19), supported by a growth rebound in America and turnaround in managed services growth (formerly referred to as 'traditional sourcing'). America ACV rose 25% YoY backed by record high managed services deals. Q2 and Q3 America trends read together suggest that deal activity surged in the telecom (possibly led by AT&T deal) and travel & transportation verticals, while slackening in financial services and retail/CPG.

Click here for the full report.

Sentiment improves, growth to follow

Economic sentiment improved after Centre's surprise announcement to cut corporate tax even as consumption slowdown continued for another month. RBI also pitched in with 25bps rate cut with room for another 25bps cut in Dec'19. Centre and states also stepped up spending to prop the economy (11% versus 4%). Yields increased in Sep'19 as muted GST collections imply Centre may find it difficult to meet its fiscal targets. Disinvestments and more policy announcements by Centre will improve sentiment and ability to spend. Surplus rains and procurement will boost rural consumption. Private capex will follow with a lag.

Subdued consumption: Consumption demand remained subdued as reflected in muted non-oil-gold imports and auto sales. While on MoM basis, auto dispatches improved, festive season retail sales are disappointing. With RBI's consumer confidence index dipping to 89.4 in Sep'19, consumer spending is likely to remain muted. However, rural spending may improve with above normal monsoon (110% of LPA) which brightens prospects for Rabi sowing. With higher government procurement, farm incomes should improve and thus spur consumption.

Government spending got a boost, so did sentiment: In Aug'19, centre's capex spending saw an improvement led by higher non-tax revenues (RBI dividend) and direct taxes. Indirect taxes were lacklustre with GST collections hitting an 18-month low. States also boosted spending to prop up the economy. This is driven by pick-up in tax revenues to 3.1% in Aug'19 from (-) 5.3% in Jul'19. Market borrowings (SDLs) have been source of inflows to spend (Rs 1439bn in Q2FY20 vs Rs 815bn in Q1FY20). Centre's announcement to cut corporate tax came as a surprise and has led to a vast improvement in sentiment.

Room for another 25bps rate cut: India's 10Y yield rose by 14bps in Sep'19 after Centre cut corporate taxes. Yields have fallen in Oct'19 after RBI reduced rates by 25bps. RBI maintained accommodative stance with a commitment to cut rates to induce growth. With slowdown continuing, we believe another 25bps rate cut is around the corner in Dec'19. This will bring real policy rates in the range of 1-1.25% (3.7% inflation in FY21). Accommodative liquidity conditions will continue for transmission. Centre may have to continue with its disinvestments and investment boosting measures to increase growth trajectory.

INR to remain stable: INR rose by 0.8% in Sep'19 after depreciating sharply by (-) 3.6% in Aug'19. This was on the back of FII inflows of US$ 681mn, even as oil prices rose marginally in the month. Though INR has depreciated marginally by (-) 0.3% in Oct'19, lower oil prices will be positive for INR. In addition, subdued domestic demand, higher FDI inflows and a reversal in FII outflows implies that INR is likely to remain in the range of 70-72/$, with an appreciation bias. A sharp increase in global oil prices and depreciation in CNY remain a key risk to our view.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,550 | ▲26%

INDUSIND BANK | Banking | 10 October 2019

Asset quality blip, loan growth drops

IndusInd Bank's (IIB) Q2FY20 PAT grew 52% YoY to Rs 14bn, largely due to 32% YoY growth in NII and 5bps QoQ NIM expansion to 4.1%. IIB made accelerated provisions worth Rs 3.6bn which drove PCR higher to 50% vs. 43% in Q1. Tax savings adjusted for DTA mark-down were Rs 1.9bn. Exposure to stressed groups fell to 1.1% but asset quality deteriorated as slippages rose to Rs 9.6bn and SMA-2 loan share spiked to 0.58%. Loan growth plunged to 21% YoY – we cut FY20-FY22 EPS by 12-20% on slow growth and lower our Sep'20 TP to Rs 1,550 (vs. Rs 1,850).

Vikesh Mehta
research@bobcaps.in

Miss on asset quality: IIB's exposure to stressed groups declined to 1.1% in Q2 (1.7% in Q1) and is expected to dip further to 0.8% in Q3 given repayments. But overall slippages (ex-technicals) climbed to Rs 9.6bn vs. Rs 7.3bn in Q1. Also, SMA-2 loans rose to Rs 11.4bn (0.58% of loans) vs. Rs 3.2bn (0.17%) in Q1.

GNPA in the MFI segment rose to 0.94% (vs. 0.61% in Q1) given floods across multiple states. However, repayments have begun and collection efficiency in the portfolio is back to 98-99%. IIB has signed inter-creditor agreements for 0.18% of loans and, barring the vehicle finance (VF) portfolio, recognises NPAs on a daily basis across segments.

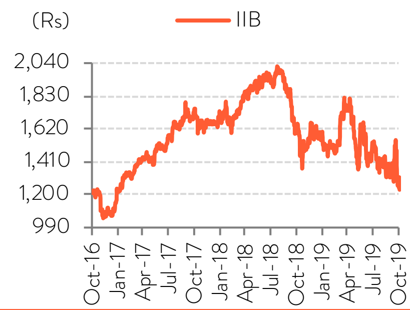
Loan growth moderates: Loan growth at 21% YoY was the lowest in recent times. IIB's VF book grew 21% YoY and non-VF retail was up 18% while MFI grew 23%. Corporate loans grew ~14% on average but with repayments and sale of assets worth Rs 30bn (Rs 60bn in Q1), overall growth slipped to ~7% YoY.

Maintain BUY with revised TP of Rs 1,550: We pare FY20-FY22 EPS by 12-20% to factor in slower growth and a marginal rise in credit costs. We now value the stock at 2.3x Sep'21E BV to arrive at a TP of Rs 1,550 (vs. Rs 1,850).

Ticker/Price	IIB IN/Rs 1,229
Market cap	US$ 10.4bn
Shares o/s	603mn
3M ADV	US$ 109.7mn
52wk high/low	Rs 1,834/Rs 1,188
Promoter/FPI/DII	17%/52%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Net interest income (Rs mn)	74,974	88,462	121,131	141,941	177,991
NII growth (%)	23.7	18.0	36.9	17.2	25.4
Adj. net profit (Rs mn)	36,060	33,011	54,079	69,042	89,751
EPS (Rs)	60.2	54.9	82.5	97.5	126.8
P/E (x)	20.4	22.4	14.9	12.6	9.7
P/BV (x)	3.1	2.8	2.4	2.0	1.7
ROA (%)	1.8	1.3	1.7	1.7	1.8
ROE (%)	16.2	13.1	17.2	17.2	18.7

Source: Company, BOBCAPS Research

ADD

TP: Rs 2,230 | ⮝ 11%

TATA CONSULTANCY SERVICES

| IT Services | 11 October 2019

Disappoints for second consecutive quarter

Ruchi Burde
research@bobcaps.in

TCS reported a dull Q2FY20 operating performance with both revenues (+1.6% QoQ CC) and EBIT margins (flat at 24%) disappointing for the second straight quarter. This virtually rules out the possibility of double-digit growth for FY20 and marks a deepening revenue slowdown. We trim FY21/ FY22 EPS by 5%/6%, lower our target P/E to 22.5x (vs. 23x) and roll over to a new Sep'20 TP of Rs 2,230 (from Rs 2,360). We like the company's strong structural backbone but expect near-term stock weakness on growth concerns.

Operating performance misses the mark for second straight quarter: TCS reported a soft Q2FY19 with 1.6% QoQ CC revenue growth and largely flat EBIT margins vs. our/consensus estimates of 2.6% QoQ CC growth and ~120bps QoQ margin improvement. The revenue miss stemmed from continued weakness in the BFSI and retail verticals, while a double whammy from cost-revenue mismatch and the absence of currency tailwinds cramped margins.

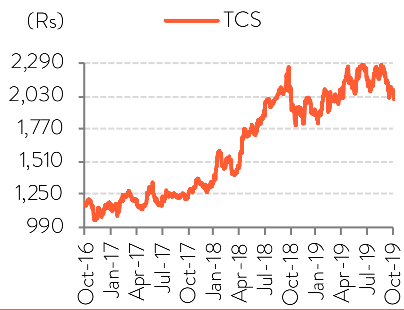
Soft showing in BFSI and retail yet again: TCS posted just 1.2% QoQ growth in BFSI and a 0.8% decline in retail (in US$ terms). Management highlighted increasing stress in North American capital markets and at European banks that hurt BFSI performance, while broad-based weakness and delayed deal closures hurt retail performance.

Healthy deal wins and industry-low attrition were the bright spots: Deal wins at US$ 6.4bn were the highest for the company in the last six quarters. Similarly, BFSI engagements at US$ 2.2bn also marked a six-quarter high. LTM attrition at 11.6%, up 10bps QoQ, was stable and one of the lowest in the industry.

Ticker/Price	TCS IN/Rs 2,004
Market cap	US$ 105.9bn
Shares o/s	3,753mn
3M ADV	US$ 76.4mn
52wk high/low	Rs 2,296/Rs 1,784
Promoter/FPI/DII	72%/17%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	12,31,040	14,64,630	15,62,041	16,87,009	18,56,580
EBITDA (Rs mn)	3,25,160	3,95,050	4,14,138	4,56,047	5,01,944
Adj. net profit (Rs mn)	2,58,260	3,15,240	3,21,615	3,53,699	3,93,304
Adj. EPS (Rs)	67.1	84.0	85.7	94.3	104.8
Adj. EPS growth (%)	0.6	25.3	2.0	10.0	11.2
Adj. ROAE (%)	29.3	35.5	32.7	30.5	29.1
Adj. P/E (x)	29.9	23.9	23.4	21.3	19.1
EV/EBITDA (x)	23.0	18.9	18.0	16.0	14.2

Source: Company, BOBCAPS Research

IT SERVICES

10 October 2019

ISG Index call takeaways: Mixed signals for Q3CY19

Ruchi Burde
+91 22 6138 9352
ruchi.burde@bobcaps.in

ISG Q3 Index reflects uptick in deal activity, return to double-digit growth...: ISG's global commercial annual contract value (ACV) for Q3CY19 stood at US$ 13.8bn, an increase of 13% YoY (vs. 5% YoY in Q2CY19), supported by a growth rebound in America and turnaround in managed services growth (formerly referred to as 'traditional sourcing'). America ACV rose 25% YoY backed by record high managed services deals. Q2 and Q3 America trends read together suggest that deal activity surged in the telecom (possibly led by AT&T deal) and travel & transportation verticals, while slackening in financial services and retail/CPG.

...but CY19 outlook toned down: ISG expects managed services (50% of 9MCY19 ACV) to grow 2.6% in CY19 vs. 3.6% forecast earlier on account of currency headwinds and likely topline weakness at a few of the large service providers. The growth outlook for 'software-as-a-service' (50% of 9MCY19 ACV) has been raised slightly to 22.2% from 22%.

Other highlights: (1) Digital as Default continues. About 48% of transactions awarded in Q3CY19 had digital-based scope vs. 38% in Q3CY18. Also, the size of digital-based contracts continues to trend up – 9MCY19 average ACV of digital-based awards stood at US$ 18.2mn, an increase of 14% YoY.

(2) Talent availability limits largescale insourcing but select few instances continue. The trend of 'IT getting closer to business' underpins the insourcing moves of clients. However, constrained (digital) talent availability and the disconnect between cost and capability limit large-scale insourcing.

(3) Incumbency not an advantage. As per ISG, 66% of managed service deal renewals underwent competitive renegotiations where incumbents lost some or all of the scope in 70% of such renegotiations. Moreover, the larger the deal size, the higher the risk of loss for incumbents.

Our view: While frequent revisions to the ISG index base make us cautious on data interpretation, the mixed signals from its Q3CY19 index are similar to those from recent industry newsflow. Challenges in traditional sourcing and opportunities in the digital field continue to shape demand trends for the IT services industry. We remain optimistic on the sector's long-term growth prospects, but see near-term headwinds from accelerating global trade tensions and flagging economic growth. We stay selective and prefer HCL Tech and TCS among large-caps and NIIT Tech and Mphasis among mid-caps.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,006	2,360	ADD
INFO IN	781	820	ADD
WPRO IN	238	230	SELL
HCLT IN	1,063	1,230	BUY
TECHM IN	709	660	REDUCE
LTI IN	1,477	1,910	BUY
MPHL IN	909	1,150	BUY
MTCL IN	725	670	SELL
HEXW IN	356	390	ADD
PSYS IN	567	630	REDUCE
NITEC IN	1,362	1,550	BUY
ECLX IN	397	490	SELL

Price & Target in Rupees

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 September 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 15 are rated ADD, 6 are rated REDUCE and 9 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 2020. 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.