

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI also inches up - Rate cut off the table

IndusInd Bank | Target: Rs 1,700 | +15% | BUY

Asset quality amiss

Mindtree | Target: Rs 780 | -10% | SELL

Impressive margin show but growth grounds weak ahead

SUMMARY

India Economics: Wholesale Inflation

WPI inflation edged up to 7-month high of 2.6% in Dec'19 from 0.6% in Nov'19 led by food inflation which rose to 11% in Dec'19 (9% in Nov'19). At the same time, deflation in fuel and power index and manufactured products eased. We see WPI inflation increasing further in the months ahead as upward momentum in food and energy prices continue. In the above backdrop, we believe RBI will remain vigilant but on hold as growth impulses remain weak. A rate cut will have to wait for inflation pressures to ease, perhaps in H2FY21.

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

IndusInd Bank

IndusInd Bank's (IIB) Q3FY20 PAT grew 33% YoY to Rs 13bn, largely due to 34% YoY growth in NII and 5bps QoQ NIM expansion to 4.15%. Asset quality was a miss as slippages rose to ~Rs 19bn driven by three large corporate accounts worth Rs 7bn while SMA-2 loans stood at Rs 14bn (0.5% of loans). Exposure to three stressed groups declined to 0.5% of loans given recoveries and repayments. IIB made accelerated provisions worth Rs 2.5bn and raised its coverage on IL&FS exposure to 73% in Q3. We raise our TP to Rs 1,700 on roll over to Mar'21.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.85	3bps	2bps	(86bps)
India 10Y yield (%)	6.60	1bps	(19bps)	(63bps)
USD/INR	70.86	0.1	(0.1)	0.1
Brent Crude (US\$/bbl)	64.20	(1.2)	(1.6)	8.8
Dow	28,907	0.3	2.7	20.9
Shanghai	3,116	0.8	5.0	22.9
Sensex	41,860	0.6	2.1	16.8
India FII (US\$ mn)	10 Jan	MTD	CYTD	FYTD
FII-D	(38.2)	(938.4)	(938.4)	2,005.7
FII-E	92.6	363.1	363.1	7,752.3

Source: Bank of Baroda Economics Research

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Mindtree

Mindtree's (MTCL) Q3FY20 operating performance was buoyed by operating margin beat as revenue fell short on expectations. Soft deal wins, subpar digital business growth, top client dominated growth mix and moderation of quarterly annualized attrition characterized Q3FY20 operating metrics. Management is hopeful of sustaining growth momentum and operating margin improvement. We largely retain FY21/22 EPS estimates and reiterate SELL, rolling over to Dec'20 TP of Rs 780 (V/s Rs690 earlier).

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

WHOLESALE INFLATION

14 January 2020

WPI also inches up-Rate cut off the table

WPI inflation edged up to 7-month high of 2.6% in Dec'19 from 0.6% in Nov'19 led by food inflation which rose to 11% in Dec'19 (9% in Nov'19). At the same time, deflation in fuel and power index and manufactured products eased. We see WPI inflation increasing further in the months ahead as upward momentum in food and energy prices continue. In the above backdrop, we believe RBI will remain vigilant but on hold as growth impulses remain weak. A rate cut will have to wait for inflation pressures to ease, perhaps in H2FY21.

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Food prices spike: In-line with sharp acceleration in food CPI inflation, even WPI food inflation soared to more than 6-year high of 11% in Dec'19 (9% in Nov'19). Vegetable prices at wholesale level increased by 69.7% in Dec'19 (45.3% in Nov'19) compared with 60.5% increase seen at retail level. Within vegetables, uptick in onion prices accelerated further to 455.8% in Dec'19 from 172.3% in Nov'19. On the other hand, cereal inflation eased marginally to 7.7% in Dec'19 compared with 7.9% in Nov'19 as prices of paddy decelerated (4% in Dec'19 vs 4.2% in Nov'19). Pulses prices also moderated to 13.1% in Dec'19 (16.6% in Nov'19). Prices of protein based items such as milk and eggs increased by 2.6% and 7.9% respectively in Dec'19.

Fuel inflation feeling upward pressure: Fuel and power inflation fell by (-) 1.5% in Dec'19 compared with (-) 7.3% in Nov'19. The sharp decline in the pace of contraction was driven by higher oil and coal prices. Coal prices inched by 2.5% in Dec'19 versus 1.1% in Nov'19. Mineral oil index contracted by only (-) 3.2% versus (-) 13.2% in Nov'19. International oil prices had risen by 12.6% on a YoY basis in Dec'19 compared with (-) 4.9% decline in Nov'19. In Jan'20 as well, international oil prices remain higher (+13.7% MTD), indicating build-up of price pressure.

Deflation in core eases: Deflation in core moderated to (-) 1.5% in Dec'19 from (-) 1.9% in Nov'19. Manufactured inflation dropped to (-) 0.3% in Dec'19 from (-) 0.8% in Nov'19. Of the 22 commodities, 10 witnessed upward momentum in prices led by pharma, basic metals and computer & electronic products. On the other hand, prices of other manufacturing products, furniture and printing declined steeply. The decline in international commodity prices too eased in Dec'19 on a YoY basis to (-) 1.9% from (-) 6.7% in Nov'19. In Jan'20 the decline in prices has eased further to (-) 1.3%.



BUY

TP: Rs 1,700 | ▲ 15%

INDUSIND BANK

| Banking

| 14 January 2020

Asset quality amiss

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Slippages mount: Two accounts in the HFC (investment book) and travel sectors were proactively termed as NPAs post detection of fraud. IIB routed Rs 2.4bn (25%) provisions on these accounts via P&L in Q3 and the balance (75%) were drawn down from the reserves which shall be later debited to P&L equally over the next 3 quarters. This apart a paper/diversified group (subsequently recovered) account worth Rs 1.8bn/Rs 2.5bn too slipped into NPA.

Ticker/Price	IIB IN/Rs 1,482
Market cap	US\$ 12.6bn
Shares o/s	603mn
3M ADV	US\$ 82.4mn
52wk high/low	Rs 1,834/Rs 1,188
Promoter/FPI/DII	17%/52%/31%

Source: NSE

IIB raised its coverage on IL&FS exposure to 73% and expects its exposures in tunnel/road project SPVs to be resolved in Q4. SMA-2 exposure stands at Rs 14bn (0.5% of loans) vs Rs 11bn (0.6%) in Q2.

STOCK PERFORMANCE



Source: NSE

Loan growth moderates further: IIB's loan growth at <20% YoY continues to moderate largely due to subdued 8% corporate loan growth. The bank received repayments/recoveries worth Rs 70bn in the last three quarters and sold corporate loans Rs 15bn in Q3.

Maintain BUY with revised TP of Rs 1,700: We continue to value the stock at 2.3x FY22E P/BV as merger synergies are expected to raise ROE to ~19% by FY22E but raise our TP to Rs 1,700 (revised from Rs 1,550 earlier) on roll over to Mar'21.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Net interest income	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)	24.6	27.0	18.0	15.2	11.7
P/BV (x)	3.8	3.4	2.9	2.4	2.0
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



SELL

TP: Rs 780 | ▼ 10%

MINDTREE

| IT Services

| 14 January 2020

Impressive margin show but growth grounds weak ahead

Mindtree's (MTCL) Q3FY20 operating performance was buoyed by operating margin beat as revenue fell short on expectations. Soft deal wins, subpar digital business growth, top client dominated growth mix and moderation of quarterly annualized attrition characterized Q3FY20 operating metrics. Management is hopeful of sustaining growth momentum and operating margin improvement. We largely retain FY21/22 EPS estimates and reiterate SELL, rolling over to Dec'20 TP of Rs 780 (V/s Rs690 earlier).

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Operating margin beat: MTCL reported 1% QoQ cc growth in Dec'19 quarter falling short on our estimate of 1.8% QoQ cc growth. However, operating margin beat rounded better than expected operating performance. EBIT margin at 12%, up 280bps QoQ, was ahead of our/consensus estimate of 130/150bps QoQ improvement. Higher other income and lower taxes further aided net profits resulting into ~31% beat on our estimate V/s ~13.5% beat on EBIT.

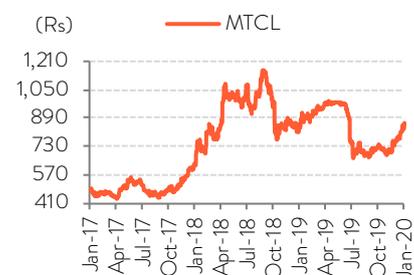
Weak deal wins and subpar Digital business growth: Deal wins for the quarter were soft at US\$ 207mn (-33% QoQ and -19% YoY) led by delay in client decision making. We highlight that deal win expiring in 1 year stood lowest since Sep'16 quarter impairing near-term growth visibility. Digital revenue contributed 38.2% revenues with mere 2.1% QoQ/13.6% YoY growth.

Top client skewed growth for yet another quarter: MTCL's top client continued to dominate growth with 13.9% QoQ dollar revenue growth. We highlight that over last 2 years MTCL's top client revenue concentration has inched up 650bps to 23.1%.

Ticker/Price	MTCL IN/Rs 864
Market cap	US\$ 2.0bn
Shares o/s	165mn
3M ADV	US\$ 8.2mn
52wk high/low	Rs 995/Rs 652
Promoter/FPI/DII	74%/11%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	54,628	70,215	76,826	84,822	95,259
EBITDA (Rs mn)	7,405	10,645	10,615	13,142	15,286
Adj. net profit (Rs mn)	5,701	7,542	6,067	7,690	9,268
Adj. EPS (Rs)	34.7	45.8	36.8	46.7	56.3
Adj. EPS growth (%)	39.5	32.1	(19.6)	26.8	20.5
Adj. ROAE (%)	21.4	24.9	17.4	19.8	21.2
Adj. P/E (x)	24.9	18.9	23.5	18.5	15.4
EV/EBITDA (x)	19.1	13.3	13.3	10.5	8.7

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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