

RESEARCH

Mphasis | Target: Rs 740 | -8% | SELL

HP-DXC business losing steam; downgrade to SELL

BOB Economics Research | Government Stimulus Measures

Stimulus for farmers, real estate, migrants and vendors

BOB Economics Research | Wholesale Inflation

WPI food and fuel inflation eases

Manappuram Finance | Target: Rs 150 | +22% | BUY

Gold finance on steady wicket, MFI to face Covid-19 overhang

SUMMARY

Mphasis

Mphasis (MPHL) reported a satisfactory Q4 on the back of (1) 1.5% QoQ/11.1% YoY CC revenue growth, (2) stable 16.3% EBIT margins, and (3) healthy deal wins. But HP-DXC business declined 2.8% QoQ and was also negative YoY for the first time in 12 quarters. Q1FY21 is guided to be weak due to Covid-19. In our view, management's target of stable margins in FY21 looks difficult. We cut FY21/ FY22 EPS 21%/10%, revise our Mar'21 TP to Rs 740 (vs. Rs 1,050) and downgrade to SELL (from ADD) on HP-DXC vulnerability and pandemic-related volatility.

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

India Economics: Government Stimulus Measures

The second stimulus is worth Rs 3.2tn out of which farmers have got benefit of Rs 2.3tn in the form of higher credit allocation. Real estate sector will see incremental spending of Rs 700bn. Migrants and vendors will benefit from foodgrain allotment and credit to restart operations. Government has also streamlined changes to labour code to cover all workers under minimum wages and national floor on minimum wages. This should boost wages and is positive for consumption. We await the remaining set of measures of Rs 3.8tn.

[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 (%)	0.65	(1bps)	(7bps)	(172bps)
India 10Y yield (%)	5.80	(37bps)	(69bps)	(158bps)
USD/INR	75.46	0.1	1.1	(7.3)
Brent Crude (US\$/bbl)	29.19	(2.6)	(7.3)	(59.3)
Dow	23,248	(2.2)	(2.0)	(9.4)
Shanghai	2,898	0.2	3.6	(1.4)
Sensex	32,009	2.0	2.7	(13.8)
India FII (US\$ mn)	12 May	MTD	CYTD	FYTD
FII-D	(565.3)	(1,393.4)	(12,737.2)	(2,977.7)
FII-E	(242.7)	2,224.6	(4,408.9)	2,194.1

Source: Bank of Baroda Economics Research

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India Economics: Wholesale Inflation

The trend of food, fuel and available categories of manufactured products shows a decline in wholesale inflation. Food inflation eased to 3.6% in Apr'20 (5.5% in Mar'20) and fuel inflation contracted at near 4-year low of 10.1% in Apr'20 (1.8% in Mar'20). Apart from pharma, downward pressure in manufactured products was also visible. Retail inflation is also expected to ease once supply side constraints are removed. We believe there is room to cut rates by 50bps to bring real rates further lower to support aggregate demand.

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

Manappuram Finance

Manappuram Finance's (MGFL) gold AUM surged 31% YoY to Rs 170bn in Q4FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 59% on the gold book. Strong spreads and range-bound opex fuelled 57% YoY growth in operating profit to Rs 5bn. PAT increased 59% YoY to Rs 3.4bn aided by low credit cost of 20bps. We raise FY21-FY22 earnings estimates by 4-6% but cut our Mar'21 TP to Rs 150 (vs. Rs 225) as we see incremental asset quality pressure in MFI and vehicle financing businesses.

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

SELL

TP: Rs 740 | ▼ 8%

MPHASIS

| IT Services

| 14 May 2020

HP-DXC business losing steam; downgrade to SELL

Mphasis (MPHL) reported a satisfactory Q4 on the back of (1) 1.5% QoQ/11.1% YoY CC revenue growth, (2) stable 16.3% EBIT margins, and (3) healthy deal wins. But HP-DXC business declined 2.8% QoQ and was also negative YoY for the first time in 12 quarters. Q1FY21 is guided to be weak due to Covid-19. In our view, management's target of stable margins in FY21 looks difficult. We cut FY21/FY22 EPS 21%/10%, revise our Mar'21 TP to Rs 740 (vs. Rs 1,050) and downgrade to SELL (from ADD) on HP-DXC vulnerability and pandemic-related volatility.

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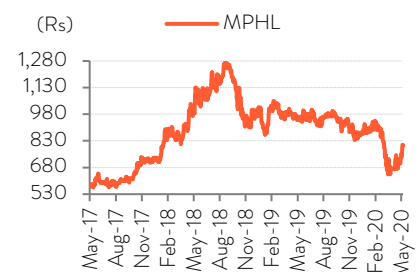
Decent Q4 but DXC/HP channel disappoints: Q4 revenue increased 1.5% QoQ CC and 11.1% YoY CC (0.2% QoQ and 10.8% YoY in dollar terms). The DXC/HP channel, however, saw a sharp 2.8% QoQ decline in USD revenue on the heels of a slowdown over the past three quarters. MPHL's EBIT margin was stable for the quarter, standing at 16.3% (+10bps QoQ), within the guided range of 15.5-17%. Akin to industry peers, TCV was strong at US\$ 201mn, growing 37% YoY.

Ticker/Price	MPHL IN/Rs 803
Market cap	US\$ 2.0bn
Shares o/s	186mn
3M ADV	US\$ 3.9mn
52wk high/low	Rs 1,018/Rs 630
Promoter/FPI/DII	52%/29%/14%

Source: NSE

DXC revenue commitment nearing an end: DXC had committed minimum revenue of US\$ 990mn over five years when it sold its stake in MPHL to Blackstone in 2016. This commitment ends in Sep'21, leading to a diminishing margin of safety for the HP/DXC business (~26% gross revenue share in Q4 and 27% in FY20). MPHL's management stated that US\$ 300mn is pending over the remaining six-quarter term, implying a quarterly run-rate of US\$ 50mn vs. US\$ 72mn of DXC revenue or US\$ 82mn of HP-DXC revenue for Q4.

STOCK PERFORMANCE



Source: NSE

EBIT margin stability unlikely: Management expects the Jun'20 quarter to be weak due to Covid-19, with growth recovery from Q2FY21. MPHL is targeting operating margin stability in FY21 which we believe looks unlikely considering pandemic-led unknowns and weak growth dynamics.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	65,459	77,311	88,436	91,984	1,00,184
EBITDA (Rs mn)	10,626	13,240	16,505	15,276	18,918
Adj. net profit (Rs mn)	8,507	10,734	11,849	9,837	12,523
Adj. EPS (Rs)	44.1	57.7	63.7	52.8	67.3
Adj. EPS growth (%)	14.9	30.9	10.4	(17.0)	27.3
Adj. ROAE (%)	14.6	20.0	21.4	16.2	19.1
Adj. P/E (x)	18.2	13.9	12.6	15.2	11.9
EV/EBITDA (x)	13.7	11.1	9.0	9.8	8.0

Source: Company, BOBCAPS Research



GOVERNMENT STIMULUS MEASURES

14 May 2020

Stimulus for farmers, real estate, migrants and vendors

The second stimulus is worth Rs 3.2tn out of which farmers have got benefit of Rs 2.3tn in the form of higher credit allocation. Real estate sector will see incremental spending of Rs 700bn. Migrants and vendors will benefit from foodgrain allotment and credit to restart operations. Government has also streamlined changes to labour code to cover all workers under minimum wages and national floor on minimum wages. This should boost wages and is positive for consumption. We await the remaining set of measures of Rs 3.8tn.

Sameer Narang

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Farm sector, migrants and vendors to benefit: Government today announced Rs 2tn (1% of GDP) concessional credit boost to 25mn farmers through Kisan Credit Card scheme. Additional funding of Rs 300bn to NABARD for farmers for emergency funding through RRBs and Co-op Banks. This is over and above Rs 900bn already provided to NABARD. Centre will spend Rs 35bn on provision of free foodgrains for 80mn migrant workers for the next 2 months. In addition to this, Rs 50bn allocated to 5mn street vendors as initial working capital for re-starting operations.

Boost to affordable housing: Government has announced Rs 700bn stimulus to affordable housing through extension of Credit Linked Subsidy Scheme (CLSS) for MIG till Mar'21 from Mar'20 earlier. Apart from this, government also launched affordable rental housing complexes (ARHC) for migrant workers, which will also boost demand for these units. Till now under PMAY-U, pace of construction of houses has picked up with 3.3mn completed houses compared with 2.6mn a year back. For Shishu loans covering loan upto Rs 50,000, government has provided relief of Rs 15bn.

Labour codes changes: Government announced universalisation of minimum wages to all workers from current 30% along with national wage floor thus reducing wage parity. Annual health check-ups for all workers along with extension of ESIC coverage for all workers in establishments with 10 or more workers has also been proposed.

Today's stimulus at Rs 3.2tn: Today's announcement totalled Rs 3.2tn. Out of Rs 20tn, Rs 16.2tn has been detailed out. The remaining Rs 3.8tn will be announced in the coming days.

KEY HIGHLIGHTS

- Focus on migrant workers, street vendors and small farmers.
- Affordable housing and real estate sector too receive a boost.
- Overall stimulus announced till date stands at above 8.1% of GDP.



WHOLESALE INFLATION

14 May 2020

WPI food and fuel inflation eases

The trend of food, fuel and available categories of manufactured products shows a decline in wholesale inflation. Food inflation eased to 3.6% in Apr'20 (5.5% in Mar'20) and fuel inflation contracted at near 4-year low of 10.1% in Apr'20 (1.8% in Mar'20). Apart from pharma, downward pressure in manufactured products was also visible. Retail inflation is also expected to ease once supply side constraints are removed. We believe there is room to cut rates by 50bps to bring real rates further lower to support aggregate demand.

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Food inflation moderates: Food inflation edged downwards to a 13-month low of 3.6% in Apr'20 from 5.5% in Mar'20. This was led by moderation in vegetable prices, slipping to a 15-month low of 2.2% in Apr'20 compared with 11.9% in Mar'20. Onion prices eased to 73.5% from 112.3% in Mar'20. Paddy inflation moderated to 1.4% (1.7% in Mar'20). On the other hand, wheat and milk prices accelerated to 7.3% (4.8% in Mar'20) and 5.9% (5.4% in Mar'20) respectively. Fruit prices contracted to 11-month low of 1.7% in Apr'20 from a decline of 0.4% in Mar'20. Prices of eggs fell to an all-time low of 17.4% in the current series in Apr'20. The underlying trend of lower wholesale food inflation should be visible in retail as well once the lockdown restrictions are removed.

Fuel inflation nose-dives: Fuel and power inflation contracted by 10.1% in Apr'20 from decline of 1.8% in Mar'20, as mineral oil price index fell by 21.5% compared with 8.2% drop in Mar'20. The dip in mineral oil index can be explained by 63% decline in international crude prices in Apr'20 on a YoY basis versus a 50% contraction in Mar'20. Coal prices continue to remain steady while electricity price index increased by 6.2% versus 9.9% in Mar'20. We expect headline fuel inflation to remain muted as international oil prices are 59% lower on a YoY basis.

Downward price pressure in core: Within the core index, data for only manufactured food, beverage, chemical products, pharma items and basic metals is available. Amongst these, barring pharma products (4.2% increase versus 3.3% in Mar'20), prices of all other items eased led by 4.3% decline in basic metals and 2.6% drop in chemical products. Prices of food and beverages eased from 6.6% and 1.7% in Mar'20 to 5.5% and 1.4% in Apr'20 respectively. This is in-line with international commodity prices which have declined sharply in Apr'20 on a YoY basis by 16.8% versus a decrease of 13.2% in Mar'20.



BUY

TP: Rs 150 | ▲ 22%

**MANAPPURAM
FINANCE**

| NBFC

| 15 May 2020

Gold finance on steady wicket, MFI to face Covid-19 overhang

Manappuram Finance's (MGFL) gold AUM surged 31% YoY to Rs 170bn in Q4FY20. Despite buoyant gold prices, MGFL prudently maintained LTV at 59% on the gold book. Strong spreads and range-bound opex fuelled 57% YoY growth in operating profit to Rs 5bn. PAT increased 59% YoY to Rs 3.4bn aided by low credit cost of 20bps. We raise FY21-FY22 earnings estimates by 4-6% but cut our Mar'21 TP to Rs 150 (vs. Rs 225) as we see incremental asset quality pressure in MFI and vehicle financing businesses.

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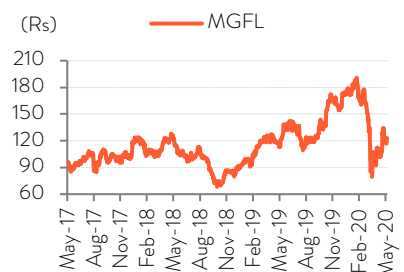
Better productivity fuels AUM growth: At Rs 170bn, MGFL's gold loan AUM increased 31% YoY in Q4FY20, continuing its growth streak for the ninth consecutive quarter. This was largely aided by 7% YoY volume growth to ~73tonnes and 25% YoY growth in AUM per branch to Rs 47mn. MGFL prudently maintained 59% LTV on its gold portfolio.

Ticker/Price	MGFL IN/Rs 123
Market cap	US\$ 1.4bn
Shares o/s	845mn
3M ADV	US\$ 17.5mn
52wk high/low	Rs 195/Rs 74
Promoter/FPI/DII	35%/39%/9%

Source: NSE

Strong spreads and cost control bolster operating profit: Spreads (calc.) on gold finance increased 40bps YoY to 19.4%, driven by better yields at 28.6% (+60bp YoY). Range-bound opex of Rs 2.9bn-3.0bn in the last 7-8 quarters resulted in a lower expense ratio of 7.3% (-220bps YoY). Thus, operating profit grew 57% YoY to Rs 5bn.

STOCK PERFORMANCE



Credit costs to spike; MFI performance faces Covid-19 overhang: Credit costs were contained at 22bps of AUM in Q4, resulting in 59% YoY growth in PAT to Rs 3.4bn. Asirvad MFI AUM grew 43% YoY to Rs 55bn largely fuelled by new customers. We believe the MFI business will see a spike in delinquencies post-lockdown as the company voluntarily extended the moratorium to all MFI customers. Collections will take 4-6 months to scale up and hence management has taken Rs 550mn of Covid-19 provisions. The MFI business remains well capitalised at ~25% to absorb any increased provisioning from event risks.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	20,943	23,525	28,340	31,086	33,428
NII growth (%)	5.0	12.3	20.5	9.7	7.5
Adj. net profit (Rs mn)	6,889	7,884	12,242	13,506	14,513
EPS (Rs)	8.2	9.4	14.6	16.0	17.2
P/E (x)	15.0	13.1	8.5	7.7	7.2
P/BV (x)	2.7	2.4	1.9	1.7	1.4
ROA (%)	5.0	4.9	5.9	5.4	5.4
ROE (%)	19.4	19.3	25.2	23.2	21.3

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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