FIRST LIGHT

20 January 2020

RESEARCH

Reliance Industries | Target: Rs 1,860 | +18% | BUY

RJio and Retail drive earnings; cyclicals struggle

Tata Consultancy Services | Target: Rs 2,390 | +8% | ADD

Margins resilient

HCL Technologies | Target: Rs 690 | +15% | BUY

IP business drives robust Q3

HDFC Bank | Target: Rs 1,480 | +16% | BUY

Better retail asset quality trends

SUMMARY

Reliance Industries

Key highlights from Reliance Industries' (RIL) Q3 financials: (a) Cyclicals under-performed on low GRMs (US$9.2/bbl, Vs US$10.7 ests); and tepid petchem margins (US$100/MT EBITDA, -23% QoQ)); (b) higher than expected earnings from retail – Rs27 bn (+62% YoY, 6% margins) and (c) lower than estimates earnings from RJIO – Rs58 bn (+9.6% YoY). We trim earnings estimates for RIL by 4%/5% for FY21/22, on cut in RJio earnings (set off by higher retail earnings), as unchanged Mar'21 TP of Rs 1860.

Click here for the full report.

Tata Consultancy Services

TCS reported a mixed Q3FY20 as revenue missed the mark for the third quarter in a row but EBIT margins staged a strong beat. Challenges persisted in the BFSI vertical, translating into a poor showing, while retail offered relief. A revamped recruitment engine should help correct the employee pyramid. We tweak estimates and roll forward to a Mar'21 TP of Rs 2,390 (Rs 2,230 earlier). We like TCS for its strong structural backbone and believe near-term stock weakness on growth concerns should be used to build positions.

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	2,390

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 (%)	1.81	2bps	(6bps)	(94bps)
India 10Y yield (%)	6.60	(2bps)	(20bps)	(67bps)
USD/INR	70.93	(0.2)	0.1	0.1
Brent Crude (US$/bbl)	29,298	0.9	3.8	20.2
Dow	3,074	(0.5)	3.0	20.1
Shanghai	41,933	0.1	2.4	15.3
Sensex	64.62	1.0	(1.1)	5.6
India FII (US$ mn)	**15 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(124.9)	(1,162.8)	(1,162.8)	1,781.3
FII-E	8.9	342.4	342.4	7,731.6

Source: Bank of Baroda Economics Research

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HCL Technologies

HCL Tech (HCLT) reported an above-expected operating performance in Q3FY20, supported by a modest beat on both revenue and margins. The products & platform business led the way, clocking 14.6% QoQ dollar revenue growth. Growth prospects look upbeat with management putting out more positive demand commentary than tier-I peers. We raise FY21/FY22 EPS by 3% each as we increase margin assumptions. On rollover, we have a new Mar'21 TP of Rs 690 (vs. Rs 630 earlier), based on an unchanged target P/E of 14.2x.

Click here for the full report.

HDFC Bank

HDFC Bank's (HDFCB) Q3FY20 PAT at Rs 74bn (+33% YoY) was ahead of our estimates largely due to strong non-interest income. GNPA inched up to 1.42%, and a corporate account as well as the agri segment drove ~40% of slippages. Management stated that delinquency trends across retail products were steady, barring the CV/CE segments. The SMA-2 book was stable in Q3 and remains low in absolute terms. HDFCB will apply to RBI with a list of candidates for the new CEO in Jul/Aug'20. BUY with a revised TP of Rs 1,480 (vs. Rs 1,440) on rollover.

Click here for the full report.

BUY
TP: Rs 1,860 | ⮝ 18%

RELIANCE INDUSTRIES | Oil & Gas | 19 January 2020

RJio and Retail drive earnings; cyclicals struggle

Key highlights from Reliance Industries' (RIL) Q3 financials: (a) Cyclicals under-performed on low GRMs (US$9.2/bbl, Vs US$10.7 ests); and tepid petchem margins (US$100/MT EBITDA, -23% QoQ)); (b) higher than expected earnings from retail – Rs27 bn (+62% YoY, 6% margins) and (c) lower than estimates earnings from RJIO – Rs58 bn (+9.6% YoY). We trim earnings estimates for RIL by 4%/5% for FY21/22, on cut in RJio earnings (set off by higher retail earnings), as unchanged Mar'21 TP of Rs 1860.

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Wait continues for GRM surge from IMO: RIL's GRMs remain muted at US$9.2/bbl, as diesel cracks have not expanded. The company has increased use of FO to take advantage of low cracks (-US$30/bbl), to maximise diesel output, placing itself in a favorable position to cash in whenever diesel spreads expand.

Petchem too beaten down: Crash in polymer and polyester spreads have led to a decline in Petchem EBITDA to Rs73 bn (-19% QoQ), marginally above our estimates on lower costs. However, recovery in the Chinese economy, followed by easing trade tension between US and China, is expected to lead to some recovery in integrated polyester margins from Q4 FY20.

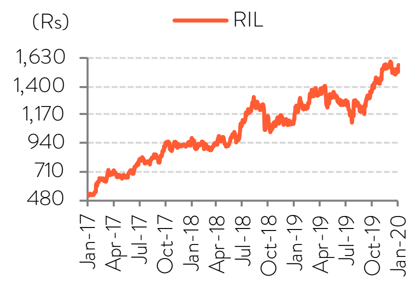
RJio – tepid ARPU expansion: As we had highlighted in our **recent report**, RJIO's restated (incl. IUC revenues) ARPUs were muted at Rs128.4 (+0.7% QoQ). We now build in a more staggered expansion in ARPUs to Rs165 (incl. IUC) over FY20-22, that leads to ~18%/22%/13% cut in FY20/21/22 EBITDA estimates.

Retail momentum to continue: Retail business EBITDA at Rs27 bn (+62% YoY) outperformed on better margins and higher revenues (Rs453 bn, +27% YoY). EBITDA margins in consumer retail segments surged to 9.6% (+160bps YoY), on sustain like for like sales growth (>20%).

Ticker/Price	RIL IN/Rs 1,581
Market cap	US$ 141.0bn
Shares o/s	6,339mn
3M ADV	US$ 180.9mn
52wk high/low	Rs 1,618/Rs 1,095
Promoter/FPI/DII	50%/24%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,082,650	5,810,200	5,452,811	6,127,632	6,086,989
EBITDA (Rs mn)	641,760	839,180	957,625	1,257,035	1,539,078
Adj. net profit (Rs mn)	352,869	398,370	466,865	648,476	855,988
Adj. EPS (Rs)	59.6	67.2	73.6	102.3	135.0
Adj. EPS growth (%)	17.4	12.8	9.6	38.9	32.0
Adj. ROAE (%)	12.7	11.7	11.4	14.1	16.1
Adj. P/E (x)	26.5	23.5	21.5	15.5	11.7
EV/EBITDA (x)	18.5	14.2	12.8	10.2	8.1

Source: Company, BOBCAPS Research

ADD
TP: Rs 2,390 | ⮝ 8%

TATA CONSULTANCY SERVICES | IT Services | 18 January 2020

Margins resilient

TCS reported a mixed Q3FY20 as revenue missed the mark for the third quarter in a row but EBIT margins staged a strong beat. Challenges persisted in the BFSI vertical, translating into a poor showing, while retail offered relief. A revamped recruitment engine should help correct the employee pyramid. We tweak estimates and roll forward to a Mar'21 TP of Rs 2,390 (Rs 2,230 earlier). We like TCS for its strong structural backbone and believe near-term stock weakness on growth concerns should be used to build positions.

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Margins resilient but revenues miss the mark: TCS reported 0.3% QoQ CC revenue growth (vs. our/consensus estimates of 0.8%/0.9%), accompanied by 25% EBIT margins (up 100bps QoQ vs. estimates of 30bps/60bps QoQ). Margins were resilient aided by operational efficiency and currency gains.

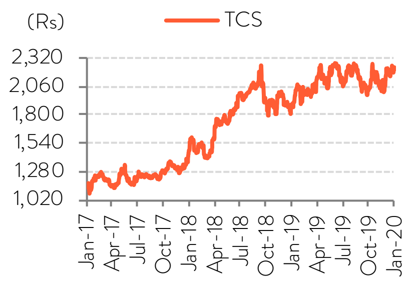
Modest deal signings; excludes Phoenix Group win: TCS bagged deals worth a modest US$ 6bn TCV in Q3 (1.07x book-to-bill ratio). 9MFY20 TCV at US$ 18.1bn was up 15% YoY. We highlight that the Phoenix Group deal with ~US$ 2bn TCV was not included in Q3FY20 as the company is awaiting regulatory approval (likely in Q4FY20).

BFSI market share expands but growth stagnant: Since Q1FY19, TCS has gained ~200bps market share in BFSI. But the enhanced cost optimisation and productivity focus at large BFS clients in North America and the UK is weighing on growth. Q3 BFSI revenue declined by 0.7% QoQ in dollar terms and the near-term outlook remains gloomy. Retail & distribution vertical revenues inched up 4% QoQ on a strong uptick in CPG/travel transportation. Retail was a mixed bag with growth in the UK and EU, but challenges in US retail business. Management remains optimistic about growth in CPG/travel/transport.

Ticker/Price	TCS IN/Rs 2,219
Market cap	US$ 117.2bn
Shares o/s	3,753mn
3M ADV	US$ 107.1mn
52wk high/low	Rs 2,296/Rs 1,870
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	15,67,306	16,77,784	18,46,210
EBITDA (Rs mn)	3,25,160	3,95,050	4,21,386	4,56,066	5,09,411
Adj. net profit (Rs mn)	2,58,260	3,15,240	3,25,887	3,53,803	3,99,265
Adj. EPS (Rs)	67.1	84.0	86.8	94.3	106.4
Adj. EPS growth (%)	0.6	25.3	3.4	8.6	12.8
Adj. ROAE (%)	29.3	35.5	33.1	30.5	29.4
Adj. P/E (x)	33.1	26.4	25.6	23.5	20.9
EV/EBITDA (x)	25.5	21.0	19.6	17.9	15.8

Source: Company, BOBCAPS Research

BUY
TP: Rs 690 | ⮝ 15%

HCL TECHNOLOGIES | IT Services | 18 January 2020

IP business drives robust Q3

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HCL Tech (HCLT) reported an above-expected operating performance in Q3FY20, supported by a modest beat on both revenue and margins. The products & platform business led the way, clocking 14.6% QoQ dollar revenue growth. Growth prospects look upbeat with management putting out more positive demand commentary than tier-I peers. We raise FY21/FY22 EPS by 3% each as we increase margin assumptions. On rollover, we have a new Mar'21 TP of Rs 690 (vs. Rs 630 earlier), based on an unchanged target P/E of 14.2x.

Operating performance robust: HCLT reported 2.1% QoQ CC revenue growth and 30bps QoQ EBIT margin expansion in Q3, both slightly ahead of our estimates.

IP business leads the way: Mode3 revenues inched up 10% QoQ in dollar terms and contributed 15.8% of revenue. Management indicated that the acquired IBM products reached desired revenue levels, marking improvement over the Q2FY20 tally of ~US$ 105mn. Core business (mode1 + mode2) growth was soft at 1% QoQ in dollar terms, hobbled by higher furloughs and trimming of select low-profit accounts.

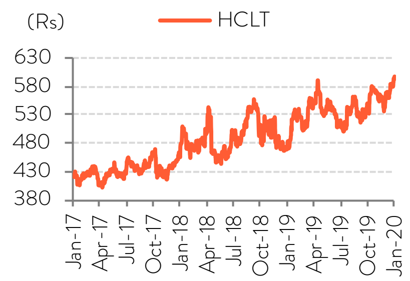
Refined guidance: Management narrowed the FY20 revenue guidance range to 16.5-17% YoY CC growth vs. 15-17% earlier. This builds in 10.5-11% organic growth and ~6% inorganic growth. EBIT margin guidance has also been refined to 19-19.5% vs. 18.5-19.5% earlier.

Deal wins soft: Unlike FY19, the company did not record any US$ 1bn+ TCV signings in the current fiscal. Management indicated that deal wins in the Dec'19 quarter were slightly soft due to decision-making delays, but is confident of enhanced wins in the current quarter backed by a record deal pipeline.

Ticker/Price	HCLT IN/Rs 599
Market cap	US$ 22.9bn
Shares o/s	2,713mn
3M ADV	US$ 18.4mn
52wk high/low	Rs 602/Rs 469
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,05,700	6,04,280	7,00,670	7,63,457	8,38,320
EBITDA (Rs mn)	1,14,400	1,39,690	1,65,576	1,94,173	2,13,210
Adj. net profit (Rs mn)	87,820	99,761	1,06,701	1,16,203	1,32,082
Adj. EPS (Rs)	31.5	36.7	39.3	42.8	48.7
Adj. EPS growth (%)	5.4	16.3	7.3	8.9	13.7
Adj. ROAE (%)	26.5	25.4	24.0	23.1	23.3
Adj. P/E (x)	19.0	16.3	15.2	14.0	12.3
EV/EBITDA (x)	14.2	11.6	9.7	8.1	7.0

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,480 | ⮝ 16%

HDFC BANK | Banking | 18 January 2020

Better retail asset quality trends

HDFC Bank's (HDFCB) Q3FY20 PAT at Rs 74bn (+33% YoY) was ahead of our estimates largely due to strong non-interest income. GNPA inched up to 1.42%, and a corporate account as well as the agri segment drove ~40% of slippages. Management stated that delinquency trends across retail products were steady, barring the CV/CE segments. The SMA-2 book was stable in Q3 and remains low in absolute terms. HDFCB will apply to RBI with a list of candidates for the new CEO in Jul/Aug'20. BUY with a revised TP of Rs 1,480 (vs. Rs 1,440) on rollover.

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Stable outlook on retail asset quality: HDFCB's core slippages were stable at Rs 38.4bn, which included lumpy corporate and agriculture slippages worth Rs 15bn (60-65% from agri). Ex-agri, the GNPA ratio held at 1.2%. Retail asset quality trends across auto, credit cards and personal loans were steady with an improving bias, though the CV/CE portfolio is facing stress due to economic factors. Gross stage 3 impaired assets in HDB Financials increased to 3% (vs. 2.72% in Q2), largely on account of stress in the CV portfolio. Provisions rose 38% YoY/13% QoQ to Rs 30bn as they included accelerated provisions and one-off corporate provisions worth Rs 7bn.

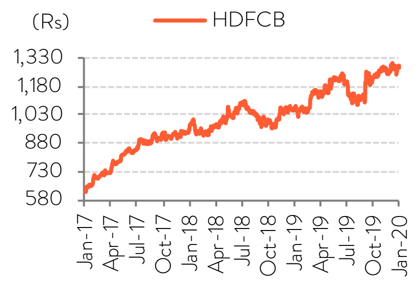
Strong growth in corporate portfolio: Overall loan growth remained strong at 20% YoY backed by 27% growth in the corporate book. As per management, corporate growth was led by new customer acquisition and deepening of relationships with existing clients among PSUs and the energy, agri, power, fertiliser and consumer segments. NIM was broadly stable at 4.2% and would have been higher but for excess liquidity in Q3.

Maintain BUY: We like HDFCB for its strong processes, risk management practices and steady asset quality. Maintain BUY as we roll forward to a Mar'21 TP of Rs 1,480, revised from Rs 1,440 earlier.

Ticker/Price	HDFCB IN/Rs 1,278
Market cap	US$ 49.1bn
Shares o/s	2,733mn
3M ADV	US$ 99.4mn
52wk high/low	Rs 1,306/Rs 1,011
Promoter/FPI/DII	27%/39%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	400,949	482,432	592,722	724,667	882,660
NII growth (%)	21.0	20.3	22.9	22.3	21.8
Adj. net profit (Rs mn)	174,867	210,782	276,225	358,062	435,247
EPS (Rs)	33.9	39.6	50.7	65.7	79.9
P/E (x)	37.7	32.3	25.2	19.4	16.0
P/BV (x)	6.2	4.7	4.1	3.5	3.0
ROA (%)	1.8	1.8	2.0	2.1	2.1
ROE (%)	17.9	16.5	17.3	19.5	20.3

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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