FIRST LIGHT

22 July 2019

RESEARCH

Reliance Industries | Target: Rs 1,335 | +7% | ADD

Concerns on cyclicals

HDFC Bank | Target: Rs 2,510 | +6% | ADD

Mixed quarter

L&T Infotech | Target: Rs 2,010 | +33% | BUY

Client-specific challenges to hamper growth in FY20

SUMMARY

Reliance Industries

Reliance Industries' (RIL) Q1 FY20 EBITDA marginally beat estimates at Rs 213bn (+3% YoY, +2.3% QoQ). Key highlights: a) GRMs inline at US$ 8.1/bbl; b) Petchem EBITDA at Rs88 bn (-4.4% YoY) beat estimates on higher polyester margins; c) in-line retail business EBITDA at Rs 20.5bn (+70% YoY); and d) RJio EBITDA at Rs49 bn (+9% QoQ). Outlook on cyclical businesses remains challenging, making us cut FY20E/FY21E earnings by 23.6%/18.4%, resulting in lower TP of Rs 1,335 (vs. Rs 1510).

Click here **for the full report.**

HDFC Bank

HDFC Bank's (HDFCB) Q1FY20 PAT at Rs 56bn (+21% YoY) was largely in line with our estimates. GNPA inched up to 1.4% but was stable ex-agri at 1.17%. The bank created contingent/additional general provisions worth Rs 1.7bn/Rs 0.9bn which led to a sharp rise in provisions for Q1. Loan growth at 17% YoY slipped to a 10-quarter low following a rundown of corporate loans due to repayments. Gross impaired assets for HDB Financial Services rose 50bps QoQ to 2.3% of loans. Maintain ADD with a Mar'20 TP of Rs 2,510.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.02	(2bps)	(7bps)	(81bps)
India 10Y yield (%)	6.39	4bps	(54bps)	(140bps)
USD/INR	68.96	(0.2)	1.3	0.1
Brent Crude (US$/bbl)	61.93	(2.7)	1.6	(14.7)
Dow	27,223	0	4.3	8.6
Shanghai	2,901	(1.0)	0.5	4.6
Sensex	38,897	(0.8)	(0.2)	7.0
India FII (US$ mn)	**17 Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	(88.5)	1,240.0	2,668.3	2,123.6
FII-E	(12.5)	(834.6)	10,504.2	3,659.0

Source: Bank of Baroda Economics Research

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L&T Infotech

L&T Infotech (LTI) reported a sedate Q1FY20 with 1% QoQ CC revenue growth and 16% EBIT margins against our estimate of 1.5% growth and 16.9% margins. Management indicated that top account challenges have bottomed out, though revenue from another key BFS client is on the decline. We prune FY20/FY21 EPS by 6%/7% and roll forward to a new Jun'20 TP of Rs 2,010 (vs. Rs 2,100). FY20 challenges are likely to be transient and we build in a return to double-digit growth in FY21. Reiterate BUY on solid long-term business prospects.

Click here for the full report.

ADD
TP: Rs 1,335 | ⮝ 7%

RELIANCE INDUSTRIES | Oil & Gas | 21 July 2019

Concerns on cyclicals

Reliance Industries' (RIL) Q1 FY20 EBITDA marginally beat estimates at Rs 213bn (+3% YoY, +2.3% QoQ). Key highlights: a) GRMs inline at US$ 8.1/bbl; b) Petchem EBITDA at Rs88 bn (-4.4% YoY) beat estimates on higher polyester margins; c) in-line retail business EBITDA at Rs 20.5bn (+70% YoY); and d) RJio EBITDA at Rs49 bn (+9% QoQ). Outlook on cyclical businesses remains challenging, making us cut FY20E/FY21E earnings by 23.6%/18.4%, resulting in lower TP of Rs 1,335 (vs. Rs 1510).

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Investment in Tower Invit: RIL announced Rs250 bn investment by Brookefield in the Tower InvIT (RJIPL). This would be in the form of quasi equity, against which RJIPL will raise another Rs110 bn debt to clear out the entire Rs370 bn liability associated with this asset. The deal for the Fibre assets is expected on similar lines in Q2 FY20 (InvIT carrying Rs1,660 bn liabilities).

Cyclicals outlook remains cloudy: While refining margins were in-line at US$8.1/bbl, guidance on impact from IMO regulations seems unclear. We cut GRM estimates to US$10-11/bbl (from US$12/bbl) for FY20/21, based on current trend of low GRMs. Petrochemicals earnings outperformed estimates on better margins. However, production declined (with utilisation at ~90% levels across product categories), as demand concerns outweigh. We trim both production and margin estimates for Petrochemicals by 10%/20% for FY20/21.

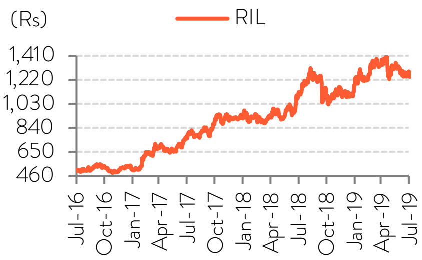
RJio gaining ground, retail surges: RJio touched 331 mn in gross subscribers, while ARPUs were below estimates at Rs122. EBITDA was still in-line at Rs49bn (+8.7% QoQ), on Rs3.7 bn gain from IND AS 116. Retail EBITDA surged to Rs 20.5bn (+70% YoY) led by core margins of 8.9% (+130bps YoY).

Maintain ADD: Uncertainty on cyclicals (~65% of EBITDA in Q1 FY20) raises concerns on RIL's earnings outlook, capping upside.

Ticker/Price	RIL IN/Rs 1,249
Market cap	US$ 107.4bn
Shares o/s	5,927mn
3M ADV	US$ 159.5mn
52wk high/low	Rs 1,418/Rs 1,016
Promoter/FPI/DII	47%/24%/28%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	352,869	398,370	465,776	587,439	757,409
Adj. EPS (Rs)	59.6	67.2	78.6	99.1	127.8
Adj. EPS growth (%)	17.4	12.8	16.9	26.1	28.9
Adj. ROAE (%)	12.4	11.7	11.7	13.2	14.9
Adj. P/E (x)	21.0	18.6	15.9	12.6	9.8
EV/EBITDA (x)	14.7	10.9	10.6	8.3	6.9

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 2,510 | ⮝ 6%

HDFC BANK | Banking | 20 July 2019

Mixed quarter

HDFC Bank's (HDFCB) Q1FY20 PAT at Rs 56bn (+21% YoY) was largely in line with our estimates. GNPA inched up to 1.4% but was stable ex-agri at 1.17%. The bank created contingent/additional general provisions worth Rs 1.7bn/Rs 0.9bn which led to a sharp rise in provisions for Q1. Loan growth at 17% YoY slipped to a 10-quarter low following a rundown of corporate loans due to repayments. Gross impaired assets for HDB Financial Services rose 50bps QoQ to 2.3% of loans. Maintain ADD with a Mar'20 TP of Rs 2,510.

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Loan growth disappoints: At 17% YoY, HDFCB's loan growth was at a 10-quarter low, due to slower growth in both corporate (~18%) and retail (~16%) loans. Excluding the tepid vehicle finance segment, retail advances grew 19.3%.

Buffers to strengthen balance sheet: Slippages rose to ~Rs 42bn (Rs 36bn in Q4), which led to a 4bps QoQ increase in GNPA ratio to 1.4%. Provisions shot up 40% QoQ as specific provisions were stepped up on the unsecured portfolio, contingent provisions worth Rs 1.65bn were created, and additional general provisions were made on standard assets in the NBFC/HFC categories. Management highlighted the rise in customer leverage, frequency of borrowing and ticket size for the industry in the personal loan segment.

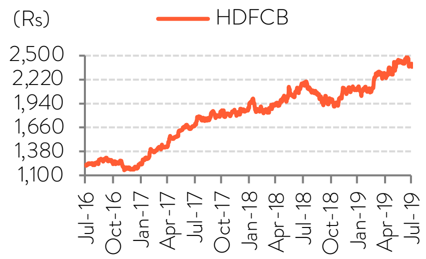
Poor show by HDB Fin Services: HDB's gross impaired loans increased to 2.3% due to stress in its CE/CV portfolio and higher losses on repossession. NII growth slowed to 12.9% YoY as NIM dipped 30-40bps.

Maintain ADD: We like HDFCB for its strong processes, risk management practices and stable asset quality, but do see risks emerging for the bank on NII (from slowing loan growth) and margins (declining CASA ratio, tepid growth in high-yield unsecured retail credit). Retain ADD.

Ticker/Price	HDFCB IN/Rs 2,376
Market cap	US$ 93.9bn
Shares o/s	2,723mn
3M ADV	US$ 100.8mn
52wk high/low	Rs 2,503/Rs 1,885
Promoter/FPI/DII	27%/39%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	174,867	210,782	258,229	318,769	382,952
EPS (Rs)	67.8	79.3	94.8	117.1	140.6
P/E (x)	35.0	30.0	25.1	20.3	16.9
P/BV (x)	5.8	4.3	3.8	3.3	2.9
ROA (%)	1.8	1.8	1.9	1.9	1.8
ROE (%)	17.9	16.5	16.2	17.6	18.4

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,010 | ⮝ 33%

L&T INFOTECH | IT Services | 20 July 2019

Client-specific challenges to hamper growth in FY20

L&T Infotech (LTI) reported a sedate Q1FY20 with 1% QoQ CC revenue growth and 16% EBIT margins against our estimate of 1.5% growth and 16.9% margins. Management indicated that top account challenges have bottomed out, though revenue from another key BFS client is on the decline. We prune FY20/FY21 EPS by 6%/7% and roll forward to a new Jun'20 TP of Rs 2,010 (vs. Rs 2,100). FY20 challenges are likely to be transient and we build in a return to double-digit growth in FY21. Reiterate BUY on solid long-term business prospects.

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Soft operating performance: Revenues stood at US$ 357mn for the Jun'19 quarter, rising 1% QoQ CC vs. 1.5% estimated. EBIT margins also fell short, contracting 170bps QoQ to 16%. We highlight that the muted revenue performance stemmed from a seasonal dip in India (manufacturing) revenue; international revenue grew at a healthy 2.2% QoQ (in dollar terms). Moreover, BFS revenue increased 1.4% QoQ CC despite earlier indications of softness in the top account.

PAT at Rs 3.5bn was down 6.1% QoQ and 1.6% YoY, below our estimate due to the operational miss. Cash flow from operations stood at Rs 3.3bn with a 94% PAT to CFO conversion ratio.

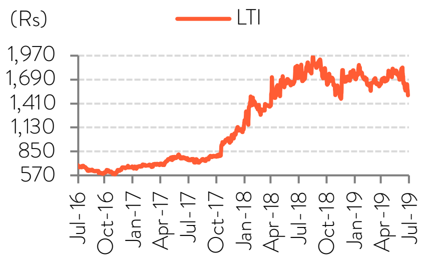
Large deal wins continue: LTI added yet another new client (in the insurance vertical) with a TCV of US$ 44mn, highlighting its strong service offerings. This also marks the eighth consecutive quarter of large deal wins.

Retain BUY: Account-specific constraints could pose transient growth challenges in FY20, but we believe LTI has laid the foundation for structural long-term growth. Retain BUY with a revised Jun'20 TP of Rs 2,010, based on an unchanged one-year forward P/E of 20x.

Ticker/Price	LTI IN/Rs 1,516
Market cap	US$ 3.9bn
Shares o/s	175mn
3M ADV	US$ 4.4mn
52wk high/low	Rs 1,987/Rs 1,437
Promoter/FPI/DII	75%/8%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	11,124	15,157	14,980	17,238	18,717
Adj. EPS (Rs)	63.5	86.5	85.5	98.4	106.8
Adj. EPS growth (%)	(8.2)	36.1	(1.1)	15.1	8.6
Adj. ROAE (%)	31.8	34.6	28.1	27.5	25.6
Adj. P/E (x)	23.9	17.5	17.7	15.4	14.2
EV/EBITDA (x)	22.0	13.9	13.9	11.3	9.8

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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