

FIRST LIGHT

RESEARCH

Mphasis | Target: Rs 840 | -25% | SELL

Strong deal wins; DXC remains soft

ICICI Bank | Target: Rs 450 | +18% | BUY

Prudent provisions reassuring

SUMMARY

Mphasis

Mphasis (MPHL) reported weak revenue but an operating margin beat in Q1FY21. Dollar revenue declined 5.1% QoQ as DXC business dropped 15%. Margins dipped 70bps QoQ vs. an estimated decline of 220bps. TCV was robust at US\$ 259mn, growing 29% QoQ on the back of a healthy order book. We increase FY21/FY22 EPS by 14%/5% and roll over to a revised Jun'21 TP of Rs 840 (vs. Rs 780). Despite strong contract wins, we stay apprehensive on overall growth prospects considering risks to the DXC business. Reiterate SELL.

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

ICICI Bank

ICICI Bank's (ICICIBC) Q1FY21 PAT at Rs 26bn was supported by 20% YoY growth in NII and strong core operating profits (+15% YoY). Gains of Rs 30bn from stake sales in the life and general insurance subsidiaries were used to raise Covid-linked provisions to 1.3% of loans, among the highest buffers for large private banks. Loans under moratorium dropped to 17.5% under phase-2 but may rise marginally as some customers that haven't rolled over from phase-1 are still in overdue category. Maintain BUY as we roll forward to a Sep'21 TP of Rs 450 (vs. Rs 420).

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

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 4,000 |
| Cipla | Buy | 690 |
| GAIL | Buy | 150 |
| Petronet LNG | Buy | 305 |
| Tech Mahindra | Buy | 690 |

MID-CAP IDEAS

| Company | Rating | Target |
|----------------------------------|--------|--------|
| Alkem Labs | Buy | 2,950 |
| Chola Investment | Buy | 200 |
| Laurus Labs | Buy | 630 |
| Transport Corp | Buy | 240 |
| Mahanagar Gas | Sell | 710 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|------------|-----------|
| US 10Y yield (%) | 0.58 | (2bps) | (13bps) | (150bps) |
| India 10Y yield (%) | 5.81 | (1bps) | (7bps) | (70bps) |
| USD/INR | 74.77 | 0 | 1.7 | (8.3) |
| Brent Crude (US\$/bbl) | 43.31 | (2.2) | 0.5 | (31.7) |
| Dow | 26,652 | (1.3) | 2.4 | (1.8) |
| Shanghai | 3,325 | (0.2) | 12.1 | 13.2 |
| Sensex | 38,140 | 0.7 | 9.2 | 0.8 |
| India FII (US\$ mn) | 22 Jul | MTD | CYTD | FYTD |
| FII-D | (29.8) | (185.7) | (14,467.6) | (4,708.1) |
| FII-E | 232.9 | 294.7 | (2,146.8) | 4,456.2 |

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 840 | ▼ 25%

MPHASIS

| IT Services

| 24 July 2020

Strong deal wins; DXC remains soft

Mphasis (MPHL) reported weak revenue but an operating margin beat in Q1FY21. Dollar revenue declined 5.1% QoQ as DXC business dropped 15%. Margins dipped 70bps QoQ vs. an estimated decline of 220bps. TCV was robust at US\$ 259mn, growing 29% QoQ on the back of a healthy order book. We increase FY21/FY22 EPS by 14%/5% and roll over to a revised Jun'21 TP of Rs 840 (vs. Rs 780). Despite strong contract wins, we stay apprehensive on overall growth prospects considering risks to the DXC business. Reiterate SELL.

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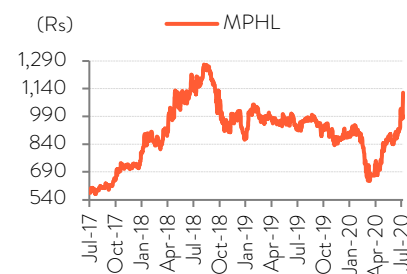
Weak revenue but beat on margins: Dollar revenues declined 4.6% QoQ CC (vs. a 3.1% decline estimated) due to the pandemic impact and a 12.6% CC fall in DXC business. Operating margin at 15.7% dipped 70bps QoQ vs. our forecast of a sharper 220bps decline, aiding a slight beat on operating performance. Management has guided for EBIT margins in the range of 15.5-16.5% for FY21.

| | |
|------------------|------------------|
| Ticker/Price | MPHL IN/Rs 1,117 |
| Market cap | US\$ 2.8bn |
| Shares o/s | 186mn |
| 3M ADV | US\$ 4.2mn |
| 52wk high/low | Rs 1,175/Rs 630 |
| Promoter/FPI/DII | 52%/29%/14% |

Source: NSE

Strong deal wins: TCV was at an all-time high of US\$ 259mn in Q1, increasing 29% QoQ, boosted by a large US\$ 105mn deal. So far in Q2, MPHL has bagged a three-year contract worth US\$ 216mn with an existing client in the technology services space. Deal ramp-up is expected in Q2 and Q3FY21.

STOCK PERFORMANCE



Source: NSE

Derisking of DXC segment looks difficult: DXC had committed to minimum revenue of US\$ 990mn over five years when it sold its stake in MPHL to Blackstone in CY16. Subsequently, the HP/DXC business was a growth lynchpin for MPHL in FY18 and FY19, posting >20% YoY dollar revenue growth each year.

This revenue commitment ends in Sep'21, diminishing the margin of safety for the HP/DXC business (~26% gross revenue share in Q4, 27% in FY20). MPHL now aims to derisk its dependence on DXC. We believe it will be hard to replace this revenue stream fully in the near term despite strong deal wins in the direct channel.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|---------|---------|
| Total revenue (Rs mn) | 77,311 | 88,436 | 94,885 | 106,781 | 117,982 |
| EBITDA (Rs mn) | 13,240 | 16,505 | 17,478 | 20,984 | 23,218 |
| Adj. net profit (Rs mn) | 10,734 | 11,849 | 11,610 | 13,944 | 15,538 |
| Adj. EPS (Rs) | 57.7 | 63.7 | 62.4 | 74.9 | 83.5 |
| Adj. EPS growth (%) | 30.9 | 10.4 | (2.0) | 20.1 | 11.4 |
| Adj. ROAE (%) | 20.0 | 21.4 | 19.0 | 20.9 | 21.1 |
| Adj. P/E (x) | 19.4 | 17.5 | 17.9 | 14.9 | 13.4 |
| EV/EBITDA (x) | 15.5 | 12.5 | 11.9 | 9.9 | 8.7 |

Source: Company, BOBCAPS Research



BUY

TP: Rs 450 | ▲ 18%

ICICI BANK

Banking

25 July 2020

Prudent provisions reassuring

ICICI Bank's (ICICIB) Q1FY21 PAT at Rs 26bn was supported by 20% YoY growth in NII and strong core operating profits (+15% YoY). Gains of Rs 30bn from stake sales in the life and general insurance subsidiaries were used to raise Covid-linked provisions to 1.3% of loans, among the highest buffers for large private banks. Loans under moratorium dropped to 17.5% under phase-2 but may rise marginally as some customers that haven't rolled over from phase-1 are still in overdue category. Maintain BUY as we roll forward to a Sep'21 TP of Rs 450 (vs. Rs 420).

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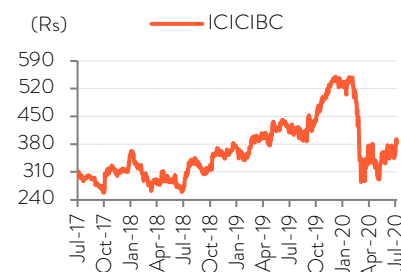
Moratorium share drops; builds strong provisioning buffer: ICICIB's moratorium loan share at end-Jun'20 declined to 17.5% vs. 30% as at end-Apr'20, with 90% of customers continuing from phase-1. Moratorium share is higher for CV, builder loans and dealer funding portfolios. The bank prudently made additional Covid-related provisions worth Rs 55.5bn and hiked the overall provisioning buffer to 1.3% of loans and 7.5% of the moratorium portfolio, which is comforting.

| | |
|------------------|------------------|
| Ticker/Price | ICICIB IN/Rs 382 |
| Market cap | US\$ 33.0bn |
| Shares o/s | 6,476mn |
| 3M ADV | US\$ 211.8mn |
| 52wk high/low | Rs 552/Rs 268 |
| Promoter/FPI/DII | 0%/45%/55% |

Source: NSE

Headline NPAs remain stable: Gross slippages moderated to Rs 11.6bn given the moratorium but GNPA was stable at 5.5% due to lower recoveries and write-offs. The bank increased PCR on overall/retail loans to 79%/64%. The BB-&-below rated pool, however, increased to Rs 171bn (vs. Rs 167bn in Q4) owing to downgrades worth ~Rs 15bn.

STOCK PERFORMANCE



Source: NSE

Loan growth slows; margins decline: Loan growth moderated to ~7% YoY in Q1. Disbursements in home, auto & personal loans/commercial business dropped 65%/85% QoQ. As on 22 July, the bank has sanctioned and disbursed credit worth Rs 50bn and Rs 38bn respectively under the Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs. NIMs declined 18bps QoQ to 3.7% given higher liquidity due to strong deposit inflows and limited credit demand.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|---------|---------|---------|---------|---------|
| Net interest income | 270,148 | 332,671 | 354,664 | 406,522 | 470,197 |
| NII growth (%) | 17.3 | 23.1 | 6.6 | 14.6 | 15.7 |
| Adj. net profit (Rs mn) | 33,633 | 79,308 | 107,869 | 144,215 | 166,886 |
| EPS (Rs) | 5.2 | 12.3 | 16.2 | 21.0 | 24.3 |
| P/E (x) | 73.1 | 31.1 | 23.6 | 18.2 | 15.7 |
| P/BV (x) | 2.3 | 2.1 | 1.9 | 1.8 | 1.6 |
| ROA (%) | 0.4 | 0.8 | 0.9 | 1.1 | 1.2 |
| ROE (%) | 3.2 | 7.1 | 8.5 | 10.1 | 10.8 |

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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