

RESEARCH
ICICI Bank | Target: Rs 465 | +12% | BUY

Stable on most fronts

Mphasis | Target: Rs 1,150 | +24% | BUY

In-line operating performance

SUMMARY
ICICI Bank

ICICI Bank's (ICICIBC) Q1FY20 PAT at Rs 19.1bn was above our estimate due to below-expected provisions. Slippages were lower overall at Rs 27.8bn (Rs 35.5bn in Q4), but higher in the Kisan credit card portfolio at Rs 4.5bn, pushing the retail GNPA ratio up ~20bps QoQ to 1.9%. Early warning signals do not indicate any stress on the unsecured portfolio. Management continues to guide for 1.2-1.3% credit costs in FY20. CASA ratio dropped over 400bps QoQ to 45.2% given higher accretion of term deposits. Maintain BUY.

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

Mphasis

Mphasis' (MPHL) Q1FY20 revenue at US\$ 297mn met expectations, marked by balanced growth in both direct and DXC/HP channels. Hedging gains after four quarters supported in-line reported EBIT margins of 15.5% (-30bps QoQ). Management is targeting above-industry growth in the direct core business and industry-level growth in DXC/HP for FY20. The guided EBIT margin range remains at 15-17%. We trim FY20/FY21 EPS by 2%/3.6% on a lower currency reset and higher delivery costs. On rollover to Jun'20, our TP stays at Rs 1,150.

[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 (%)	2.08	4bps	7bps	(90bps)
India 10Y yield (%)	6.51	7bps	(34bps)	(125bps)
USD/INR	69.04	(0.1)	0.4	(0.5)
Brent Crude (US\$/bbl)	63.39	0.3	(2.3)	(15.0)
Dow	27,141	(0.5)	1.5	6.3
Shanghai	2,937	0.5	(2.4)	1.9
Sensex	37,831	0	(3.3)	2.3
India FII (US\$ mn)	24 Jul	MTD	CYTD	FYTD
FII-D	139.0	1,269.7	2,698.0	2,153.4
FII-E	(209.6)	(2,082.7)	9,256.1	2,410.9

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 465 | ▲ 12%

ICICI BANK

| Banking

| 27 July 2019

Stable on most fronts

ICICI Bank's (ICICIB) Q1FY20 PAT at Rs 19.1bn was above our estimate due to below-expected provisions. Slippages were lower overall at Rs 27.8bn (Rs 35.5bn in Q4), but higher in the Kisan credit card portfolio at Rs 4.5bn, pushing the retail GNPA ratio up ~20bps QoQ to 1.9%. Early warning signals do not indicate any stress on the unsecured portfolio. Management continues to guide for 1.2-1.3% credit costs in FY20. CASA ratio dropped over 400bps QoQ to 45.2% given higher accretion of term deposits. Maintain BUY.

Vikesh Mehta

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Stressed loan pool at 10.9%: ICICIB's stressed pool declined to 10.9% of loans vs. 11.4% in Q4FY19 as its GNPA ratio fell to 6.5% (6.7% in Q4). Stress from the Kisan credit card portfolio post the farm loan waivers led to higher retail slippages (Rs 15.1bn vs. Rs 8.2bn in Q4). Management remains cautious on this portfolio as it could slip further in Q3 vs. Q1. However, loans are priced to factor in credit losses over the cycle. Retail portfolio delinquency is below industry levels.

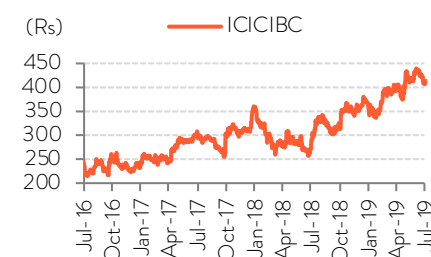
NIM stable excl. one-offs: Domestic loan growth at ~18% YoY was propelled by ~22% growth in the retail segment. CASA ratio plunged to 45.2% vs. 49.6% in Q4 as growth in term deposits outpaced that in CASA deposits. Global NIM adjusted for one-offs was largely stable QoQ at 3.44%. Management stated that 88.5% of Q1 corporate disbursements were to companies rated 'A- and above'.

No immediate plans to raise capital: The bank's CET-1 ratio remains strong at 13.2% and hence management does not intend to raise capital in the near term.

Maintain BUY: We like ICICIB for its receding asset quality pangs, normalising credit costs and reviving loan growth. In our view, the bank is well placed to play the turning asset quality cycle. We maintain our Mar'20 TP of Rs 465 which values the core business at 1.9x FY21E P/BV.

Ticker/Price	ICICIB IN/Rs 416
Market cap	US\$ 38.8bn
Shares o/s	6,435mn
3M ADV	US\$ 101.5mn
52wk high/low	Rs 444/Rs 282
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	67,774	33,633	147,225	195,651	237,151
EPS (Rs)	11.1	5.2	22.8	30.3	36.8
P/E (x)	37.6	79.6	18.2	13.7	11.3
P/BV (x)	2.5	2.5	2.3	2.0	1.8
ROA (%)	0.8	0.4	1.4	1.6	1.7
ROE (%)	6.6	3.2	13.1	15.8	16.9

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,150 | ▲ 24%

MPHASIS

| IT Services

| 27 July 2019

In-line operating performance

Mphasis' (MPHL) Q1FY20 revenue at US\$ 297mn met expectations, marked by balanced growth in both direct and DXC/HP channels. Hedging gains after four quarters supported in-line reported EBIT margins of 15.5% (-30bps QoQ). Management is targeting above-industry growth in the direct core business and industry-level growth in DXC/HP for FY20. The guided EBIT margin range remains at 15-17%. We trim FY20/FY21 EPS by 2%/3.6% on a lower currency reset and higher delivery costs. On rollover to Jun'20, our TP stays at Rs 1,150.

Ruchi Burde

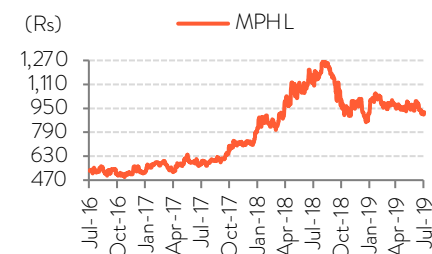
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Operating performance meets expectations: MPHL's June quarter revenue at US\$ 297mn (+3% QoQ) was largely on par with our estimate. The company clocked 2% QoQ growth each in the direct channel (ex-Digital Risk) and DXC/HP channel. Digital Risk revenues were stable, per our calculations. Reported EBIT margins at 15.5% were in line and supported by hedging gains of Rs 19mn vs. hedging losses in the four prior quarters. EBIT margins excluding hedging gains stood at 15.4%, declining 130bps QoQ due to mid-term wage revision, visa costs and one-off bad debt provision.

Ticker/Price	MPHL IN/Rs 930
Market cap	US\$ 2.6bn
Shares o/s	193mn
3M ADV	US\$ 2.9mn
52wk high/low	Rs 1,279/Rs 858
Promoter/FPI/DII	60%/23%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

FY20 growth outlook intact: Management maintained its guidance of above-industry growth in the direct core business, industry-level growth in DXC/HP and 15-17% EBIT margins. We highlight the steady traction in BFSI (+1.9% QoQ in dollar terms in Q1) and absence of client-specific concerns, which contrasts with the growth challenges and soft BFSI commentary from peers.

Retain BUY: We reiterate BUY on robust growth prospects for MPHL backed by differentiated growth avenues, namely HP/DXC and Blackstone portfolio companies. In our view, these unique channels also serve to insulate growth amid global macro concerns.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	8,507	10,734	11,521	12,754	14,378
Adj. EPS (Rs)	44.1	57.7	61.9	68.5	77.2
Adj. EPS growth (%)	14.9	30.9	7.3	10.7	12.7
Adj. ROAE (%)	14.6	20.0	20.9	21.0	21.5
Adj. P/E (x)	21.1	16.1	15.0	13.6	12.0
EV/EBITDA (x)	16.5	13.5	10.9	9.4	8.2

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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