FIRST LIGHT

29 July 2020

RESEARCH

RBL Bank | Target: Rs 150 | –18% | SELL

Potential stress to keep ROE subdued – cut to SELL

NIIT Tech | Target: Rs 1,880 | +6% | ADD

Strong guidance despite weak quarterly performance

Hexaware Technologies | Target: Rs 410 | +9% | ADD

Results outperform of estimates

IndusInd Bank | Target: Rs 620 | +18% | BUY

Profit beats estimates; moratorium share drops

SUMMARY

RBL Bank

RBL Bank's (RBK) Q1FY21 PAT at Rs 1.4bn was below our estimate as non-interest income fell 30% YoY due to lower credit offtake, a conservative approach and reduced credit card income. RBK's Covid-related provision buffer stands at 0.6% of loans, which we believe is low considering the nature of its portfolio. Overall moratorium share declined to 13.7% (vs. 33% earlier), but retail share remained high at 30% with credit card/MFI at 21%/35%. Downgrade from ADD to SELL as potential stress on the large unsecured book is likely to mute ROE.

Click here for the full report.

NIIT Tech

NIIT Tech (NITEC) reported a poor Q1FY21 performance marked by a 9.8% QoQ USD revenue decline due to weakness in the travel and transportation vertical. Operating margins at 11.5% contracted 230bps QoQ. Nonetheless, management's FY21 outlook was positive backed by strong deal wins. We revise FY21/FY22 EPS by –8%/+1% and roll over to a Jun'21 TP of Rs 1,880 (from Rs 1,430). We reset our target P/E from 13.6x to 17x (unwinding the 20% Covid discount), backed by a robust deal pipeline and diversified revenue mix.

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	780

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 (%)	0.62	3bps	(3bps)	(145bps)
India 10Y yield (%)	5.86	3bps	(6bps)	(56bps)
USD/INR	74.84	0	1.1	(8.9)
Brent Crude (US$/bbl)	43.41	0.2	5.8	(31.9)
Dow	26,585	0.4	6.3	(2.3)
Shanghai	3,205	0.3	7.6	9.0
Sensex	37,935	(0.5)	7.9	0.7
India FII (US$ mn)	**24 Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	(27.7)	(178.9)	(14,460.9)	(4,701.4)
FII-E	517.3	1,094.9	(1,346.6)	5,256.4

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Hexaware Technologies

Hexaware (HEXW) reported a resilient Q2CY20 with a dollar revenue decline of just 1.4% QoQ. Traction in the BFSI and healthcare verticals offset the drop in travel and hospitality. EBIT margin at 13.2% was up 140bps QoQ due to higher gross margins and a 330bps rise in utilisation. TCV was healthy at US$ 46mn, rising 28% YoY. We raise CY21/CY22 EPS by ~11% each and roll over to a Jun'21 TP of Rs 410 (from Rs 350), based on an unchanged 15x P/E. Near-term stock movement hinges on the delisting outcome. Retain ADD.

Click here for the full report.

IndusInd Bank

IndusInd Bank's (IIB) Q1FY21 PAT of Rs 5.1bn beat our estimate of Rs 3.8bn on better NII growth, stable NIMs and higher treasury gains. Moratorium share stood at 14% under phase-2 with the corporate/retail share at 9%/19%. Slippages totalled Rs 15.4bn with 90% turning NPA given conservatism. The board has approved a Rs 32.8bn preferential issue to long-term investors (incl. promoter so as to maintain 15% stake) that will add 125bps to CRAR, taking it to 16.5% (15.2% in Q1). We roll forward to a Sep'21 TP of Rs 620 (vs. Rs 590).

Click here for the full report.

SELL
TP: Rs 150 | ⋎ 18%

RBL BANK | Banking | 29 July 2020

Potential stress to keep ROE subdued – cut to SELL

RBL Bank's (RBK) Q1FY21 PAT at Rs 1.4bn was below our estimate as non-interest income fell 30% YoY due to lower credit offtake, a conservative approach and reduced credit card income. RBK's Covid-related provision buffer stands at 0.6% of loans, which we believe is low considering the nature of its portfolio. Overall moratorium share declined to 13.7% (vs. 33% earlier), but retail share remained high at 30% with credit card/MFI at 21%/35%. Downgrade from ADD to SELL as potential stress on the large unsecured book is likely to mute ROE.

Vikesh Mehta
research@bobcaps.in

Moratorium share in retail remains at ~30%: RBK's share of loans under moratorium phase-2 declined to 13.7% vs. 33% earlier as the share of wholesale loans declined to 5% (vs. 22% in phase-1). However, retail share remained high at 30% (~33% in Q4), with credit card/MFI loans under moratorium at 21%/35%. Management highlighted that 58% of customers in the credit card segment rolled over to phase-2 of the moratorium. The bank prudently made added Covid-related provisions worth Rs 2.4bn, a majority of which was towards the credit card portfolio (covering ~10% of the moratorium book).

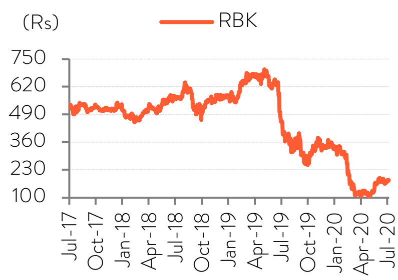
Loan book flat, NIMs decline: Loan growth remained muted, as anticipated, while NIM declined 8bps QoQ to 4.85%. Management indicated that ~95% of centre meetings in its micro banking business were held in June and 62% of payments were collected. Disbursements have started where payments are regular but normalcy is likely to return only from Dec'20. RBK has disbursed ~Rs 1.9bn under the Emergency Credit Guarantee Scheme.

Downgrade to SELL: Valuations look attractive at 0.8x FY22E P/BV, but ROE is likely to remain subdued as potential stress emerges from a higher share of unsecured loans. We cut FY21/FY22 EPS by ~5% each and roll to a Sep'21 TP of Rs 150 (Rs 145 earlier), resetting our target P/BV to 0.6x (0.7x earlier). SELL.

Ticker/Price	RBK IN/Rs 182
Market cap	US$ 1.2bn
Shares o/s	509mn
3M ADV	US$ 85.9mn
52wk high/low	Rs 461/Rs 102
Promoter/FPI/DII	0%/29%/71%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	40,463	46,571	56,374
NII growth (%)	43.8	42.9	11.5	15.1	21.1
Adj. net profit (Rs mn)	8,670	5,057	5,148	9,657	12,730
EPS (Rs)	20.5	10.8	10.1	19.0	25.0
P/E (x)	8.9	16.8	18.0	9.6	7.3
P/BV (x)	1.0	0.9	0.8	0.8	0.7
ROA (%)	1.2	0.6	0.5	0.9	1.0
ROE (%)	12.2	5.6	4.8	8.5	10.3

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 1,880 | ⮝ 6%

NIIT TECHNOLOGIES | IT Services | 29 July 2020

Strong guidance despite weak quarterly performance

NIIT Tech (NITEC) reported a poor Q1FY21 performance marked by a 9.8% QoQ USD revenue decline due to weakness in the travel and transportation vertical. Operating margins at 11.5% contracted 230bps QoQ. Nonetheless, management's FY21 outlook was positive backed by strong deal wins. We revise FY21/FY22 EPS by –8%/+1% and roll over to a Jun'21 TP of Rs 1,880 (from Rs 1,430). We reset our target P/E from 13.6x to 17x (unwinding the 20% Covid discount), backed by a robust deal pipeline and diversified revenue mix.

Ruchi Burde | Seema Nayak
research@bobcaps.in

Revenue and margin below estimates: USD revenue declined 9.8% QoQ vs. a 5.7% drop estimated. Most of the weakness in the travel vertical was due to demand contraction, especially in the airline segment. Revenues from NITL and Wishworks slowed as well. Excluding travel, NITEC's revenue grew 3.2% QoQ. EBITDA margin post-RSU stood at 15.9%, down 180bps QoQ owing to gross margin contraction. EBIT margin at 11.5% slipped 230bps QoQ.

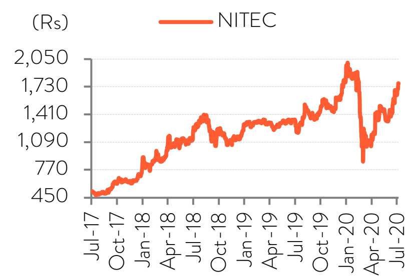
Strong deal pipeline: NITEC reported healthy order intake worth US$ 186mn in Q1FY21 vs. US$ 180mn in Q4FY20 and US$ 175mn in Q1FY20. The company won three large deals – one US$ 30mn BFSI contract and two in the travel technology space. In addition, it closed two large deals in July in healthcare and the government sector (outside India).

Outlook upbeat despite slowdown: Despite the pandemic-led downturn, management expects strong sequential recovery in Q2FY21 and has guided for mid-single-digit CC growth in FY21. This outlook comes on the back of a strong deal pipeline, reduced share of airlines in the revenue mix and traction outside the travel, transportation and hospitality vertical. Operating margin for the year is guided to remain steady (excluding ~100bps RSU impact).

Ticker/Price	NITEC IN/Rs 1,767
Market cap	US$ 1.5bn
Shares o/s	62mn
3M ADV	US$ 16.1mn
52wk high/low	Rs 2,060/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	46,578	54,465	61,334
EBITDA (Rs mn)	6,453	7,431	7,914	9,837	10,871
Adj. net profit (Rs mn)	4,089	4,539	4,683	6,629	7,216
Adj. EPS (Rs)	66.2	73.5	75.8	107.3	116.8
Adj. EPS growth (%)	45.9	11.0	3.2	41.5	8.9
Adj. ROAE (%)	20.3	18.7	16.8	21.0	20.0
Adj. P/E (x)	26.7	24.1	23.3	16.5	15.1
EV/EBITDA (x)	16.4	13.9	12.4	9.6	8.2

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 410 | ⮝ 9%

HEXAWARE TECHNOLOGIES | IT Services | 28 July 2020

Results outperform of estimates

Hexaware (HEXW) reported a resilient Q2CY20 with a dollar revenue decline of just 1.4% QoQ. Traction in the BFSI and healthcare verticals offset the drop in travel and hospitality. EBIT margin at 13.2% was up 140bps QoQ due to higher gross margins and a 330bps rise in utilisation. TCV was healthy at US$ 46mn, rising 28% YoY. We raise CY21/CY22 EPS by ~11% each and roll over to a Jun'21 TP of Rs 410 (from Rs 350), based on an unchanged 15x P/E. Near-term stock movement hinges on the delisting outcome. Retain ADD.

Ruchi Burde | Seema Nayak
research@bobcaps.in

Resilient performance: Dollar revenue declined 1.4% QoQ, far better than the 6.7% drop estimated. Higher volumes partially mitigated headwinds from lower billing rates, supply challenges, adverse currency movement and onsite/offshore mix change. BFSI's strong performance continued from Q1CY20. EBIT margin at 13.2% was well above our (10.5%) and street estimates, expanding 140bps QoQ, supported largely by gross margin expansion (+220bps QoQ).

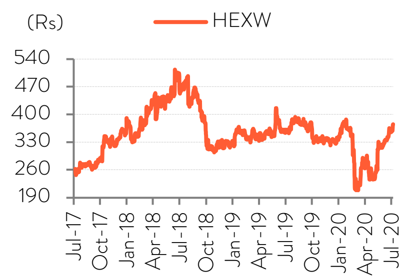
Healthy deal wins – trend similar to peers: As with other IT peers, deal win TCV was a positive surprise at US$ 46mn (+28% YoY), albeit down 33% sequentially. Management stated that the contract wins represented market share gains from other significant players as technology budget hikes were rare in the pandemic-hit Jun'20 quarter. Customer service transformation and cloud migration are emerging areas of demand.

Recovery in sight in H2CY20: Management believes Q2 marks a bottom in the current pandemic crisis and expects flat-to-positive volume growth going into Q3CY20. In addition, HEXW expects sequential growth in one of its top 3 clients where revenues have been soft for the past three quarters. Near-term EBIT margins are guided to be in the narrow range of 12.2-12.6%, close to H1CY20 margins of 12.5%.

Ticker/Price	HEXW IN/Rs 375
Market cap	US$ 1.5bn
Shares o/s	302mn
3M ADV	US$ 4.8mn
52wk high/low	Rs 399/Rs 202
Promoter/FPI/DII	71%/15%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Dec	CY18A	CY19A	CY20E	CY21E	CY22E
Total revenue (Rs mn)	46,477	55,825	63,412	71,233	79,775
EBITDA (Rs mn)	7,335	8,778	10,540	11,946	13,379
Adj. net profit (Rs mn)	5,833	6,748	6,762	7,387	8,528
Adj. EPS (Rs)	19.3	22.3	22.4	24.4	28.2
Adj. EPS growth (%)	16.6	15.4	0.2	9.2	15.4
Adj. ROAE (%)	26.5	26.2	22.5	21.1	21.0
Adj. P/E (x)	19.4	16.8	16.8	15.4	13.3
EV/EBITDA (x)	14.8	12.2	10.3	9.1	7.7

Source: Company, BOBCAPS Research

BUY
TP: Rs 620 | 18%

INDUSIND BANK | Banking | 28 July 2020

Profit beats estimates; moratorium share drops

Vikesh Mehta
research@bobcaps.in

IndusInd Bank's (IIB) Q1FY21 PAT of Rs 5.1bn beat our estimate of Rs 3.8bn on better NII growth, stable NIMs and higher treasury gains. Moratorium share stood at 14% under phase-2 with the corporate/retail share at 9%/19%. Slippages totalled Rs 15.4bn with 90% turning NPA given conservatism. The board has approved a Rs 32.8bn preferential issue to long-term investors (incl. promoter so as to maintain 15% stake) that will add 125bps to CRAR, taking it to 16.5% (15.2% in Q1). We roll forward to a Sep'21 TP of Rs 620 (vs. Rs 590).

Covid could have 92bps/65bps impact on slippages/credit costs: IIB offered an opt-in moratorium option to all retail (barring MFI) and corporate customers under phase-2. The overall share of loans under moratorium, including MFI, stood at 14% as of Jun'20. Corporate loans under moratorium declined to 9% (vs. 23% earlier) while retail loans dropped to 19% (vs. 75% earlier). All overdue corporate loans that exited moratorium are paying their dues. In retail, out of the 56% decline in moratorium share, 46% of customers are paying. Based on its recent stress test, management expects Covid-19 to have an incremental impact of 92bps/65bps on slippages/credit costs.

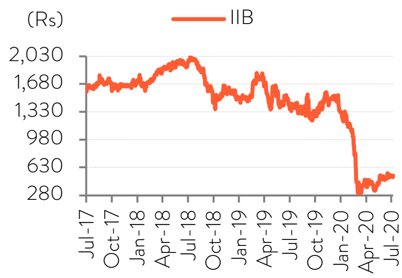
Prudence drives higher corporate slippages: Overall slippages remained elevated at Rs 15.4bn (vs. Rs 20.6bn in Q4) given that a coffee group and a healthcare provider account worth ~Rs 11bn (earlier classified as stressed) were transited to NPAs as a prudent measure. PCR improved to ~67% while the total Covid-related provision buffer increased to Rs 12bn (0.6% of loans).

Loan book slows down sharply: Advances grew just 2.4% YoY despite 10% growth in consumer loans, as the corporate segment declined 6% due to loans worth Rs 36bn being sold by the bank. Collection efficiency in CVs has recovered from lows of 30-35% to 70%; in the MFI portfolio, collections are tracking at >80%.

Ticker/Price	IIB IN/Rs 527
Market cap	US$ 4.9bn
Shares o/s	694mn
3M ADV	US$ 185.4mn
52wk high/low	Rs 1,597/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	132,105	152,996	181,667
NII growth (%)	18.0	36.3	9.6	15.8	18.7
Adj. net profit (Rs mn)	33,011	44,445	27,621	55,706	66,346
EPS (Rs)	54.9	68.6	37.7	72.2	85.9
P/E (x)	9.6	7.7	14.0	7.3	6.1
P/BV (x)	1.2	1.1	1.0	0.9	0.8
ROA (%)	1.3	1.5	0.8	1.5	1.5
ROE (%)	13.1	14.7	7.2	12.4	13.4

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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