BOBCAPS
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FIRST LIGHT

07 May 2020

RESEARCH

NIIT Technologies | Target: Rs 1,330 | +12% | ADD

Good quarter with confident commentary – upgrade to ADD

Persistent Systems | Target: Rs 530 | +5% | REDUCE

IP business spoils the show yet again

Market Strategy | Macro View

Excise duties on fuel hiked to meet fiscal challenges

Oil & Gas

Mar'20 natural gas consumption slips

SUMMARY

NIIT Technologies

NIIT Tech (NITEC) reported a strong Q4FY20 with 3% QoQ CC revenue growth and resilient operating margins. It secured three large deals and has a healthy executable order book (+20% YoY). Contrary to peers, NITEC expects FY21 to be a growth year but sees 80bps of margin headwinds. We trim FY21/FY22 EPS by 11%/6% on Covid-led demand and profit compression, and lower our Mar'21 TP to Rs 1,330 (from Rs 1,800). Valuation comfort (40% correction in three months), a strong Q4 and confident commentary drive our upgrade from SELL to ADD.

Click here for the full report.

Persistent Systems

Persistent Systems (PSYS) reported a weak Q4FY20 as revenue declined 1.8% QoQ to US$ 127mn due to a 24% drop in IP revenue. This was the weakest IP revenue show in 35 quarters on an already soft Q3FY20 base. The services (non-IP) business held strong with 4.2% QoQ dollar revenue growth. We cut FY21/FY22 EPS by 29%/16% to bake in pandemic-led challenges and revise our Mar'21 TP to Rs 530 (vs. Rs 650). Retain REDUCE as we remain wary of IP business volatility and subpar expertise in the enterprise business.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.66	3bps	7bps	(179bps)
India 10Y yield (%)	6.07	(1bps)	(23bps)	(131bps)
USD/INR	75.64	0.1	0.7	(8.9)
Brent Crude (US$/bbl)	30.97	13.9	(9.2)	(55.7)
Dow	23,883	0.6	13.4	(8.0)
Shanghai	2,860	1.3	3.5	(2.3)
Sensex	31,454	(0.8)	14.0	(17.8)
India FII (US$ mn)	**4 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(38.9)	(38.9)	(11,382.6)	(1,623.1)
FII-E	(123.3)	(123.3)	(6,756.8)	(153.8)

Source: Bank of Baroda Economics Research

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Market Strategy: Macro View

The Centre has hiked excise duties on petrol and diesel by Rs 10 and Rs 13 per litre respectively as it strives to balance the fiscal math, translating to an estimated windfall of ~Rs 2tn for the exchequer. These hikes could make up for the shortfall in GST collections arising due to the economic shutdown. But with the government unlikely to meet divestment revenue targets of ~Rs 2tn for FY21, we see a high probability of further increases in excise duty. This could create room for another round of economic stimulus.

Click here for the full report.

Oil & Gas

Natural gas consumption in Q4FY20 increased a mere 2.6% YoY to 150mmscmd as offtake inched up across sectors and power demand dropped – CGD (28.6mmscmd, +10% YoY), other industrials (50.6mmscmd, +8.2% YoY) and fertiliser (45.4mmscmd, +4% YoY). Power sector consumption slowed to 26mmscmd (–14% YoY). CGD was the biggest swing factor, improving by 2.6mmscmd YoY during the quarter. However, the economic shutdown curtailed gas consumption in the month of March to ~139mmscmd vs. the average of 156.2mmscmd for Jan-Feb'20.

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ADD
TP: Rs 1,330 | ⮝ 12%

NIIT TECHNOLOGIES | IT Services | 06 May 2020

Good quarter with confident commentary – upgrade to ADD

NIIT Tech (NITEC) reported a strong Q4FY20 with 3% QoQ CC revenue growth and resilient operating margins. It secured three large deals and has a healthy executable order book (+20% YoY). Contrary to peers, NITEC expects FY21 to be a growth year but sees 80bps of margin headwinds. We trim FY21/FY22 EPS by 11%/6% on Covid-led demand and profit compression, and lower our Mar'21 TP to Rs 1,330 (from Rs 1,800). Valuation comfort (40% correction in three months), a strong Q4 and confident commentary drive our upgrade from SELL to ADD.

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Strong quarter: Revenue grew by 3% QoQ CC despite strong headwinds in the travel sector (–3.1% QoQ in INR terms). Growth was aided by ramp-up of deals won in Q3FY20. Insurance and Other verticals grew 6.8% QoQ and 11.6% QoQ respectively (in INR terms). Efficient and timely cost control rescued profitability, with reported EBITDA margins at 17.8% (–30bps QoQ, +20bps YoY).

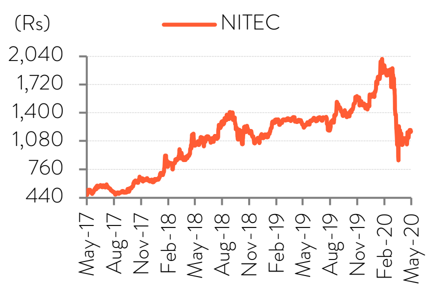
Healthy deal wins: NITEC bagged three large deals (two from BFSI and one from APAC business outside India), exiting Q4 with a healthy order intake of US$ 180mn. Management indicated that the deal pipeline going into Q1FY21 looks robust with a changing deal mix – more consolidation, captive unit takeover and employee rebadging deals.

Bold outlook in challenging times: Bucking industry trends, NITEC expects FY21 to be a growth year even as Q1FY21 is likely to witness a sequential revenue decline. Management's FY21 outlook counts on (1) ramp-up of recent large deal wins (three in Q4 and four in Q3), (2) a large executable order book (+20% YoY), and (3) continued momentum outside the travel vertical.

Ticker/Price	NITEC IN/Rs 1,190
Market cap	US$ 970.2mn
Shares o/s	62mn
3M ADV	US$ 11.0mn
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	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	29,914	36,762	41,839	44,997	49,754
EBITDA (Rs mn)	5,012	6,453	7,431	7,765	9,104
Adj. net profit (Rs mn)	2,802	4,089	4,724	4,994	6,096
Adj. EPS (Rs)	45.4	66.2	76.5	80.8	98.7
Adj. EPS growth (%)	3.5	45.9	15.5	5.7	22.1
Adj. ROAE (%)	15.3	20.3	19.4	17.7	19.1
Adj. P/E (x)	26.2	18.0	15.6	14.7	12.1
EV/EBITDA (x)	14.0	10.8	9.1	8.1	6.4

Source: Company, BOBCAPS Research

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REDUCE
TP: Rs 530 | ⮝ 5%

PERSISTENT SYSTEMS | IT Services | 06 May 2020

IP business spoils the show yet again

Persistent Systems (PSYS) reported a weak Q4FY20 as revenue declined 1.8% QoQ to US$ 127mn due to a 24% drop in IP revenue. This was the weakest IP revenue show in 35 quarters on an already soft Q3FY20 base. The services (non-IP) business held strong with 4.2% QoQ dollar revenue growth. We cut FY21/FY22 EPS by 29%/16% to bake in pandemic-led challenges and revise our Mar'21 TP to Rs 530 (vs. Rs 650). Retain REDUCE as we remain wary of IP business volatility and subpar expertise in the enterprise business.

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Continued weak performance in IP segment: PSYS saw the highest QoQ decline in IP revenues in the last 35 quarters, partly due to seasonality. IBM royalty revenues dropped despite PSYS securing gold partner status. The reseller business is also facing challenges due to structural and leadership changes. Despite induction of an ex-IBM CEO, IP revenues have failed to ramp up over the last year. The Alliance business with IBM needs to be revived by cross-selling, in our view.

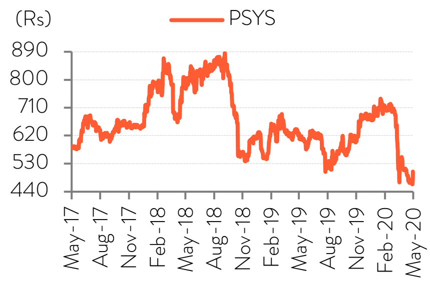
Margins resilient in Q4 but slump in FY20: Despite a slowdown in the lucrative IP business, Q4 EBITDA margins improved 40bps QoQ to 13.8%, aided by 30bps of currency-led tailwinds. But FY20 margins at 13.8% contracted 340bps due to higher sales, marketing and employee costs. Management is hopeful of recovery supported by the absence of some one-time costs and rebranding expenses (US$ 1.5mn). We see downside risk to FY21 margin recovery targets given a weak demand outlook and increasing requests for concessions from clients struggling with Covid-19 challenges.

Retain REDUCE: We trim FY21/FY22 earnings estimates by 29%/16%, pare our target FY22E P/E multiple to 11.3x (vs. 12.5x earlier) baking in Covid-led uncertainty, and revise our TP to Rs 530.

Ticker/Price	PSYS IN/Rs 505
Market cap	US$ 531.7mn
Shares o/s	80mn
3M ADV	US$ 0.8mn
52wk high/low	Rs 740/Rs 420
Promoter/FPI/DII	30%/26%/44%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	30,337	33,659	35,658	37,181	41,749
EBITDA (Rs mn)	4,687	5,805	4,930	5,537	6,635
Adj. net profit (Rs mn)	3,231	3,516	3,403	2,972	3,766
Adj. EPS (Rs)	40.4	43.9	42.7	37.3	47.2
Adj. EPS growth (%)	7.1	8.8	(2.9)	(12.7)	26.7
Adj. ROAE (%)	16.0	15.7	14.1	11.5	13.5
Adj. P/E (x)	12.5	11.5	11.8	13.5	10.7
EV/EBITDA (x)	8.3	6.6	7.8	7.0	5.7

Source: Company, BOBCAPS Research

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MACRO VIEW

06 May 2020

Excise duties on fuel hiked to meet fiscal challenges

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The Centre has hiked excise duties on petrol and diesel by Rs 10 and Rs 13 per litre respectively as it strives to balance the fiscal math, translating to an estimated windfall of ~Rs 2tn for the exchequer. These hikes could make up for the shortfall in GST collections arising due to the economic shutdown. But with the government unlikely to meet divestment revenue targets of ~Rs 2tn for FY21, we see a high probability of further increases in excise duty. This could create room for another round of economic stimulus.

Government eyeing >Rs 4tn windfall from oil price crash: As highlighted in our **Mar'20 report**, the government has begun to benefit from low oil prices via (1) a ~Rs 15/ltr hike in excise duties on petrol/diesel (yielding ~Rs 2tn in additional revenues for FY21), and (2) savings on petroleum subsidies (budgeted at Rs 350bn for FY21). The Centre could target cumulative gains of ~Rs 4tn in order to neutralise potentially lower GST collections and divestment revenues, implying a further excise hike of Rs 10/ltr in FY21.

Indirect tax hikes only way to meet capex targets: With the heavy economic damage inflicted by Covid-19, it is imperative for the government to maintain capex targets (budgeted estimate of ~Rs 4tn for FY21) to support a revival in GDP growth. Thus, it may move into politically unpopulist territory comprising steep taxes on fuel (and liquor) to maintain the fiscal balance. Since consumption revival is the need of the hour, GST hikes on consumer products could be counterproductive.

Room for more stimulus: The government's initial round of stimulus (Rs 1.7tn), followed up by >Rs 3tn in liquidity inducement measures by the RBI are clearly falling short. As per **media reports**, plans for additional stimulus to prop up MSMEs are also on the anvil. The current excise duty hikes could open up the headroom to facilitate such measures.

FIG 1 – EXCISE DUTY

(Rs/ltr)	Basic excise duty	Special additional excise duty	Additional excise duty (Road & Infra cess)	Expected revenues (Rs bn)
Petrol	2.98	10	10	9,200
Petrol (revised)	2.98	12	18	13,200
Diesel	4.83	4	10	19,000
Diesel (revised)	4.83	9	18	34,000
Earlier estimate				**28,200**
Revised estimate				**47,200**

Source: BOBCAPS Research, PPAC

OIL & GAS

06 May 2020

Mar'20 natural gas consumption slips

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Consumption gains pre-crisis pared in March: Natural gas consumption in Q4FY20 increased a mere 2.6% YoY to 150mmscmd as offtake inched up across sectors and power demand dropped – CGD (28.6mmscmd, +10% YoY), other industrials (50.6mmscmd, +8.2% YoY) and fertiliser (45.4mmscmd, +4% YoY). Power sector consumption slowed to 26mmscmd (–14% YoY). CGD was the biggest swing factor, improving by 2.6mmscmd YoY during the quarter. However, the economic shutdown curtailed gas consumption in the month of March to ~139mmscmd vs. the average of 156.2mmscmd for Jan-Feb'20.

Offtake from fertiliser, power and CGD dip: Fertiliser, power and CGD demand in Mar'20 declined by 5.4mmscmd, 5mmscmd and 5.3mmscmd YoY respectively, far below the average consumption registered during Jan'20 and Feb'20. Refineries and petrochemicals were less affected with offtake down by 0.3mmscmd on average from both sectors in March.

Domestic gas production declines: Gas production slipped 8% YoY to 83mmscmd during Mar'20, with the biggest decline of 30% YoY to 10.1mmscmd seen with private players. ONGC and OILN also reduced production on average during Q4FY20 at 65.5 mmscmd (-6% YoY) and 7mmscmd (-5% YoY) respectively. This trend would worsen in Q1FY21 given disruptions in demand due to the economic slowdown.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
GAIL IN	94	140	BUY
PLNG IN	233	330	BUY
IGL IN	469	433	BUY
MAHGL IN	895	750	ADD
GUJS IN	195	275	BUY
GUJGA IN	235	265	BUY

Price & Target in Rupees

GAS CONSUMPTION

(mmscmd)	Mar'20	Mar'19	YoY (%)
Fertiliser			
Domestic	15.9	19.3	(17.7)
R-LNG	25.9	24.3	6.6
Total	**41.8**	**43.6**	**(4.1)**
Power			
Domestic	17.8	22.0	(19.3)
R-LNG	4.8	6.4	(25.1)
Total	**22.6**	**28.5**	**(20.6)**
CGD			
Domestic	12.1	15.2	(20.3)
R-LNG	12.9	10.2	27.3
Total	**25.1**	**25.4**	**(1.3)**
Other Industrials			
Domestic	11.0	15.2	(27.4)
R-LNG	38.2	31.9	19.9
Total	**49.2**	**47.0**	**4.7**
Total Consumption	**138.6**	**144.5**	**(4.0)**
Total R-LNG	**81.9**	**72.7**	**12.5**
Total Domestic	**56.8**	**71.7**	**(20.8)**

Source: PPAC, BOBCAPS Research

FIG 1 – GAS CONSUMPTION

(mmscmd)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Fertiliser	45.4	43.7	3.9	45.7	(0.8)	43.9	41.3	6.4
Power	25.9	30.1	(14.1)	28.4	(8.7)	30.3	32.5	(6.8)
CGD	28.6	26.0	9.9	30.1	(5.0)	28.6	25.3	13.4
Other industrials:	50.5	46.7	8.2	49.9	1.3	50.4	48.7	3.6
Refineries	22.9	18.5	23.7	21.5	6.3	21.3	19.3	10.7
Petrochemicals	9.7	9.4	2.9	9.3	4.3	9.7	9.3	5.1
Miscellaneous	18.0	18.8	(4.3)	19.1	(5.9)	19.3	20.1	(4.0)
Total	**150.4**	**146.5**	**2.6**	**154.1**	**(2.4)**	**153.2**	**147.7**	**3.7**

Source: PPAC, 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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