

RESEARCH
HDFC Bank | Target: Rs 1,275 | +16% | BUY

Strong enough to weather the storm

HCL Technologies | Target: Rs 730 | +17% | BUY

Upbeat margin outlook

SUMMARY
HDFC Bank

HDFC Bank's (HDFCB) Q1FY21 PAT at ~Rs 67bn was driven by 18% YoY growth in NII and a decline in operating expenses. Loans under moratorium remained low at 9%, with 70% of the customers having paid their overdue amounts. MD Aditya Puri hinted that his successor may be an internal candidate and that management transition should not be a concern. The bank has a strong CET-1 ratio of 16.7% and does not intend to raise capital in the short term. Maintain BUY as we roll forward to a Sep'21 TP of Rs 1,275 (from Rs 1,200).

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

HCL Technologies

HCL Tech (HCLT) reported a sharp 7.2% QoQ CC topline decline but resilient EBIT margins of 20.5% in Q1FY21. Mode-1 business slowdown was a drag on growth. The company managed to bag 11 large transformation deals in a difficult quarter. Given strong FY21 margin guidance (19.5-20.5%), we raise FY21/FY22 EPS by 9%/1%. Rolling valuations over, we have a new Jun'21 TP of Rs 730 (vs. Rs 680). We believe the company's strong software business, healthy deal wins and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
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 (%)	0.62	(1bps)	(10bps)	(141bps)
India 10Y yield (%)	5.81	0bps	2bps	(57bps)
USD/INR	75.19	(0.1)	1.1	(9.0)
Brent Crude (US\$/bbl)	43.37	(1.0)	9.2	(30.0)
Dow	26,735	(0.5)	3.8	(1.8)
Shanghai	3,210	(4.5)	11.1	10.6
Sensex	36,472	1.2	9.8	(6.2)
India FII (US\$ mn)	15 Jul	MTD	CYTD	FYTD
FII-D	(77.2)	110.1	(14,171.9)	(4,412.4)
FII-E	(4.7)	(384.6)	(2,826.0)	3,776.9

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 1,275 | ▲ 16%

HDFC BANK

| Banking

| 18 July 2020

Strong enough to weather the storm

HDFC Bank's (HDFCB) Q1FY21 PAT at ~Rs 67bn was driven by 18% YoY growth in NII and a decline in operating expenses. Loans under moratorium remained low at 9%, with 70% of the customers having paid their overdue amounts. MD Aditya Puri hinted that his successor may be an internal candidate and that management transition should not be a concern. The bank has a strong CET-1 ratio of 16.7% and does not intend to raise capital in the short term. Maintain BUY as we roll forward to a Sep'21 TP of Rs 1,275 (from Rs 1,200).

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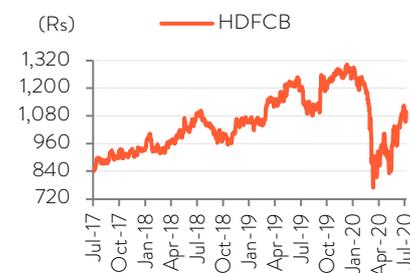
Moratorium portfolio remains in check: HDFCB's moratorium share as of end-June stood at 9% of loans, with 90% of customers flowing in from the first three-month phase of the relief announcement. However, 70% of these customers have paid amounts overdue as of June. The slippage ratio stood at 1.2% which included a 30bps impact from expedited NPA recognition. The bank made contingent provisions worth Rs 10bn in Q1 and has an outstanding floating/contingent provision buffer worth ~Rs 54bn (~0.5% of loans).

Ticker/Price	HDFCB IN/Rs 1,098
Market cap	US\$ 80.5bn
Shares o/s	5,490mn
3M ADV	US\$ 251.3mn
52wk high/low	Rs 1,306/Rs 739
Promoter/FPI/DII	26%/37%/37%

Source: NSE

Retail growth slows: Wholesale loans grew 37% YoY given demand from large domestic conglomerates, entities with international parentage and Navratna-quality PSUs. Retail growth declined 4% QoQ as loan originations plunged 70%. Segment-wise, personal loan originations nosedived 86% due to tightened credit policies, while credit card sourcing/spends dropped 87%/44%. Originations declined 66% for vehicle loans and 15% for gold loans. The bank has disbursed ~Rs 100bn under the emergency credit line guarantee scheme (ECLGS) for MSMEs.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We like HDFCB for its strong processes, risk management practices and stable asset quality. Rolling valuations forward, we move to a Sep'21 TP of Rs 1,275 (vs. Rs 1,200 earlier).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	664,364	765,687	886,619
NII growth (%)	20.3	16.5	18.2	15.3	15.8
Adj. net profit (Rs mn)	210,782	262,573	292,091	318,795	370,239
EPS (Rs)	39.6	48.0	53.3	58.1	67.5
P/E (x)	27.7	22.9	20.6	18.9	16.3
P/BV (x)	4.0	3.5	3.0	2.7	2.4
ROA (%)	1.8	1.9	1.8	1.7	1.7
ROE (%)	16.5	16.4	15.7	15.0	15.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 730 | ▲ 17%

HCL TECHNOLOGIES

| IT Services

| 17 July 2020

Upbeat margin outlook

HCL Tech (HCLT) reported a sharp 7.2% QoQ CC topline decline but resilient EBIT margins of 20.5% in Q1FY21. Mode-1 business slowdown was a drag on growth. The company managed to bag 11 large transformation deals in a difficult quarter. Given strong FY21 margin guidance (19.5-20.5%), we raise FY21/FY22 EPS by 9%/1%. Rolling valuations over, we have a new Jun'21 TP of Rs 730 (vs. Rs 680). We believe the company's strong software business, healthy deal wins and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

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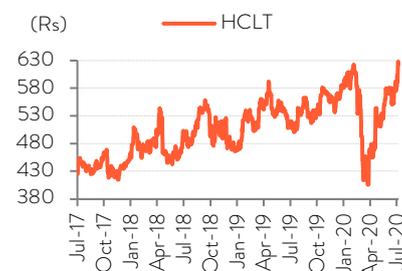
Margins resilient: HCLT's dollar revenue decline of 7.4% QoQ was broadly in line with our/street estimates (-7%) and stemmed partly from offshoring of large deals and supply constraints, besides the Covid-led demand slowdown. Operationally, HCLT outperformed estimates with a 20.5% EBIT margin (17.3% est.), down 40bps QoQ. This was the result of tight control over SG&A cost which dipped 30bps (as a % of sales). Automation, offshoring and a Mode-3 pivot aided margins. Mode-1 revenues declined 9.5% CC. Mode-3, the product and platforms segment, that was expected to be resilient also registered a 4.7% fall.

Ticker/Price	HCLT IN/Rs 623
Market cap	US\$ 22.6bn
Shares o/s	2,713mn
3M ADV	US\$ 42.4mn
52wk high/low	Rs 652/Rs 375
Promoter/FPI/DII	60%/27%/13%

Source: NSE

Pipeline grows QoQ: HCLT won 11 net new transformational deals in Q1 across the telecom, financial services, manufacturing, life sciences and healthcare verticals. Net new TCV increased, YoY. The deal pipeline swelled 40% QoQ, contributed by wins in life sciences, technology and financial services. In addition, renewals were robust. HCLT sees continued vendor consolidation momentum as opportunity for gaining market share.

STOCK PERFORMANCE



Source: NSE

Strong margin guidance: The pandemic-led demand slowdown has stabilised and management believes Q1 was the trough. Cyber-security, cloud and ecommerce are gaining momentum. HCLT has guided for a 2.3-0.8% YoY CC revenue decline and operating margin in the range 19.5-20.5% for FY21.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	604,280	706,780	741,066	827,812	905,901
EBITDA (Rs mn)	140,020	166,930	189,568	212,819	235,768
Adj. net profit (Rs mn)	99,757	110,940	119,522	131,738	149,253
Adj. EPS (Rs)	36.7	40.9	44.0	48.5	55.0
Adj. EPS growth (%)	16.3	11.5	7.7	10.2	13.3
Adj. ROAE (%)	25.4	23.7	21.8	21.5	21.8
Adj. P/E (x)	17.0	15.2	14.1	12.8	11.3
EV/EBITDA (x)	12.0	10.0	8.9	7.8	6.6

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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