

RESEARCH
NIIT Technologies | Target: Rs 1,600 | +9% | ADD

Solid Q2; cut to ADD on full valuations

Kajaria Ceramics | Target: Rs 625 | +11% | ADD

Tepid quarter; upsides capped – downgrade to ADD

HCL Technologies | Target: Rs 1,260 | +15% | BUY

Organic growth trending higher

Hexaware Technologies | Target: Rs 410 | +12% | ADD

In-line operating show; near-term outlook cloudy

SUMMARY
NIIT Technologies

NIIT Tech (NITEC) reported organic revenue growth of 4.1% QoQ CC and EBITDA margins of 18.3% in Q2FY20, marking a better-than-expected operating performance. Deal wins and executable order book were healthy. Optimistic BFSI commentary and expectations of normal furloughs make for a stark contrast to the outlook put out by peers. We tweak FY21/FY22 EPS and roll forward to a revised Sep'20 TP of Rs 1,600 (vs. Rs 1,550).

Current valuations look full at 16.8x/14.4x FY21E/FY22E P/E – cut from BUY to ADD.

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

Kajaria Ceramics

Kajaria Ceramics (KJC) posted a below-expected Q2FY20 with revenue down 1.5% YoY (volumes +1.1%, realisations –3.5%). Operating margins declined 30bps YoY to 14.7% due to higher raw material and employee costs, causing EBITDA/ PBT to dip 3.4%/6.7%. Management has cut its FY20 tiles volume growth guidance to 9-10% vs. 12-13% and expects operating margins of 15-16%. We trim FY20-FY22 earnings by 7-8% and roll over to a Sep'20 TP of Rs 625 (vs. Rs 650); downgrade from BUY to ADD on limited upsides post the recent rally.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	555
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	730
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.76	(4bps)	4bps	(141bps)
India 10Y yield (%)*	6.71	1bps	(8bps)	(118bps)
USD/INR	70.94	0.3	0	3.6
Brent Crude (US\$/bbl)	59.70	1.3	(7.1)	(21.9)
Dow	26,788	(0.1)	(0.5)	6.3
Shanghai	2,954	0.5	(1.7)	13.9
Sensex	38,964	(0.9)	2.5	15.1
India FII (US\$ mn)	18 Oct	MTD	CYTD	FYTD
FII-D	44.8	105.6	4,079.0	3,534.3
FII-E	15.1	753.7	8,914.4	2,069.2

Source: Bank of Baroda Economics Research | *7.26% GS 2029

BOBCAPS Research

research@bobcaps.in



HCL Technologies

HCL Tech (HCLT) reported an above-expected operating performance in Q2FY20 supported by a margin beat (EBIT margin up 290bps QoQ to 20%). Large deal wins improved sequentially, numbering at 15 transformational deals vs. 12 in the Jun'19 quarter. Completion of IBM IP asset acquisition in Q2 added momentum to the company's Products and Platforms revenues. Revenue guidance has been upped on rising organic growth while margin guidance is intact. We roll over to a Sep'20 TP of Rs 1,260 (vs. Rs 1,230) and retain BUY.

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

Hexaware Technologies

Hexaware (HEXW) reported in-line dollar revenue growth of 11.7% QoQ and EBIT margins of 13.9% in Q3CY19. Inorganic revenues boosted the topline, offsetting revenue headwinds (200bps) from a top client. BFSI commentary turned cautious, and management expects more pronounced furloughs in the Dec'19 quarter. CY19 revenue guidance has been pruned and now implies a wide 1.6-8% QoQ growth band for Q4, highlighting the uncertain outlook. We broadly retain estimates and restate ADD, rolling to a Sep'20 TP of 410 (from Rs 390).

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

ADD

TP: Rs 1,600 | ▲ 9%

NIIT TECHNOLOGIES

| IT Services

| 24 October 2019

Solid Q2; cut to ADD on full valuations

NIIT Tech (NITEC) reported organic revenue growth of 4.1% QoQ CC and EBITDA margins of 18.3% in Q2FY20, marking a better-than-expected operating performance. Deal wins and executable order book were healthy. Optimistic BFSI commentary and expectations of normal furloughs make for a stark contrast to the outlook put out by peers. We tweak FY21/FY22 EPS and roll forward to a revised Sep'20 TP of Rs 1,600 (vs. Rs 1,550). Current valuations look full at 16.8x/14.4x FY21E/FY22E P/E – cut from BUY to ADD.

Ruchi Burde

research@bobcaps.in

Operating beat: NITEC reported an above-expected operating performance as both revenues as well as margins came in a tad ahead of estimates. Revenues at US\$ 148.7mn increased 7.3% QoQ, backed by healthy organic growth (+4.1% QoQ CC). EBITDA margins at 18.3% expanded by 380bps QoQ on reported basis and by 140bps QoQ adjusted for one-off expenses in the previous quarter.

Deal wins and executable orders continue to trend up: Fresh order intake at US\$ 176mn rose for the ninth straight quarter, supported by strong deal wins in RoW at US\$ 70mn. The 12-month executable order book stood at US\$ 405mn (+11.6% YoY), rising for the eighth quarter in a row.

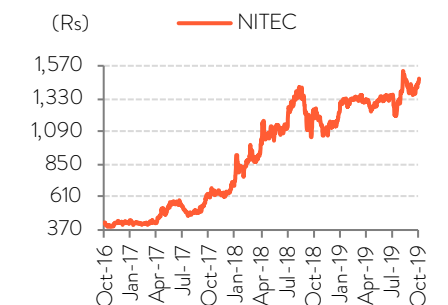
Optimistic BFSI commentary: Unlike peers, NITEC did not allude to secular weakness in the BFSI vertical, though management does expect growth to moderate in the Dec'19 quarter on seasonal weakness.

Valuations full: Current valuations at 16.8x/14.4x FY21E/FY22E P/E leave little upside, leading us to downgrade the stock to ADD from BUY. On rolling valuations forward, we have a revised Sep'20 TP of Rs 1,600 (vs. Rs 1,550).

Ticker/Price	NITEC IN/Rs 1,469
Market cap	US\$ 1.3bn
Shares o/s	62mn
3M ADV	US\$ 7.5mn
52wk high/low	Rs 1,545/Rs 1,031
Promoter/FPI/DII	31%/42%/27%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	29,914	36,762	41,264	46,377	52,154
EBITDA (Rs mn)	5,012	6,453	7,273	8,486	9,543
Adj. net profit (Rs mn)	2,802	4,089	4,469	5,395	6,295
Adj. EPS (Rs)	45.4	66.2	72.3	87.3	101.9
Adj. EPS growth (%)	3.5	45.9	9.3	20.7	16.7
Adj. ROAE (%)	15.3	21.2	20.2	21.3	21.5
Adj. P/E (x)	32.4	22.2	20.3	16.8	14.4
EV/EBITDA (x)	17.4	13.5	11.5	9.5	8.0

Source: Company, BOBCAPS Research



ADD

TP: Rs 625 | ▲ 11%

KAJARIA CERAMICS

Construction Materials

24 October 2019

Tepid quarter; upsides capped – downgrade to ADD

Kajaria Ceramics (KJC) posted a below-expected Q2FY20 with revenue down 1.5% YoY (volumes +1.1%, realisations –3.5%). Operating margins declined 30bps YoY to 14.7% due to higher raw material and employee costs, causing EBITDA/PBT to dip 3.4%/6.7%. Management has cut its FY20 tiles volume growth guidance to 9-10% vs. 12-13% and expects operating margins of 15-16%. We trim FY20-FY22 earnings by 7-8% and roll over to a Sep'20 TP of Rs 625 (vs. Rs 650); downgrade from BUY to ADD on limited upsides post the recent rally.

Arun Baid

research@bobcaps.in

Tepid volume growth: KJC's Q2 revenue dipped 1.5% YoY to Rs 7.1bn as realisations declined 3.5% YoY (+1.6% QoQ) and volumes inched up just 1.1%. As per management, volume growth slowed due to floods in some markets, tight liquidity conditions, loss of sales in Kashmir (J&K together accounts for ~6% of revenues), and a general downturn in demand. Management has cut its FY20 volume growth guidance in the tiles segment from 12-13% to 9-10%, with 10%+ growth in H2FY20 vs. 5.1% in H1.

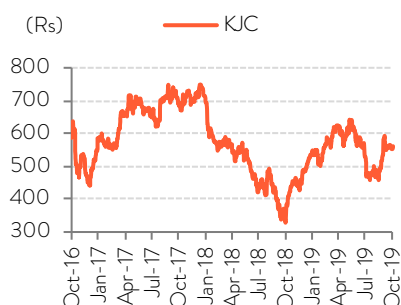
Operating margins contract: Operating margins declined by 30bps YoY to 14.7% due to lower gross margins (-64bps YoY) and higher employee cost (+84bps YoY), which was partly offset by lower other expenditure (-120bps YoY). EBITDA/PBT thus fell 3.4%/6.7% YoY, whereas a lower tax rate led to adj. PAT growth of 74% YoY. Gross margins suffered due to higher volumes from subsidiaries and outsourcing. Management has guided for operating margins of 15-16% in H2 (vs. 14.9% in H1) due to lower gas prices.

Downgrade to ADD: We cut FY20-FY22 earnings by 7-8% due to the tepid Q2 and move to a Sep'20 TP of Rs 625. The stock has rallied ~10% since our upgrade in Jul'19 to trade at 27x FY21E EPS; cut from BUY to ADD.

Ticker/Price	KJC IN/Rs 562
Market cap	US\$ 1.3bn
Shares o/s	159mn
3M ADV	US\$ 3.9mn
52wk high/low	Rs 650/Rs 310
Promoter/FPI/DII	48%/26%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	27,106	29,562	31,089	34,659	38,657
EBITDA (Rs mn)	4,564	4,495	4,687	5,431	6,251
Adj. net profit (Rs mn)	2,342	2,314	2,782	3,291	3,833
Adj. EPS (Rs)	14.7	14.6	17.5	20.7	24.1
Adj. EPS growth (%)	(7.4)	(1.2)	20.2	18.3	16.5
Adj. ROAE (%)	18.5	15.8	16.6	17.3	17.6
Adj. P/E (x)	38.1	38.6	32.1	27.1	23.3
EV/EBITDA (x)	19.8	20.0	18.7	15.9	13.7

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,260 | ▲ 15%

HCL TECHNOLOGIES

| IT Services

| 24 October 2019

Organic growth trending higher

HCL Tech (HCLT) reported an above-expected operating performance in Q2FY20 supported by a margin beat (EBIT margin up 290bps QoQ to 20%). Large deal wins improved sequentially, numbering at 15 transformational deals vs. 12 in the Jun'19 quarter. Completion of IBM IP asset acquisition in Q2 added momentum to the company's Products and Platforms revenues. Revenue guidance has been upped on rising organic growth while margin guidance is intact. We roll over to a Sep'20 TP of Rs 1,260 (vs. Rs 1,230) and retain BUY.

Ruchi Burde

research@bobcaps.in

Operating performance ahead of estimates: HCLT reported 6% QoQ CC revenue growth with 20% EBIT margins (+290bps QoQ) in Q2, translating into better than estimated operating performance. Margin expansion was broad-based across mode 1, mode 2 and mode 3 services.

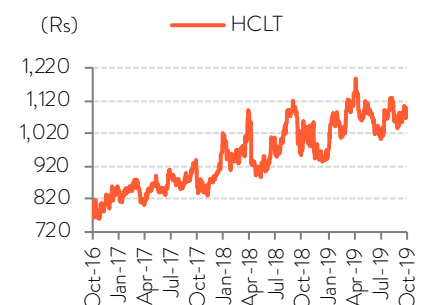
FY20 revenue guidance upped: Management raised FY20 revenue guidance to 15-17% YoY CC growth from 14-16% earlier on the back of an uptrend in organic growth (guided at 10-11% YoY CC vs. 9-11% earlier) and healthy deal wins. The revised revenue guidance implies -0.4% and +1.8% CQGR at the lower and upper ends respectively over the next two quarters. Management, however, is confident of sequential revenue growth in the organic business. Guided EBIT margins remain unchanged at 18.5-19.5%.

Retain BUY: We maintain BUY and roll over to a revised Sep'20 TP of Rs 1,260 (vs. Rs 1,230 earlier). In our view, valuations at 13.1x/11.6x FY21E/FY22E P/E are inexpensive and factor in IP product concerns. Moreover, HCLT offers strong near-term growth visibility and margin stability.

Ticker/Price	HCLT IN/Rs 1,095
Market cap	US\$ 21.0bn
Shares o/s	1,357mn
3M ADV	US\$ 29.4mn
52wk high/low	Rs 1,188/Rs 920
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,05,700	6,04,280	6,87,705	7,53,687	8,27,591
EBITDA (Rs mn)	1,14,400	1,39,690	1,62,931	1,86,565	2,03,845
Adj. net profit (Rs mn)	87,820	1,01,450	1,01,727	1,13,411	1,28,475
Adj. EPS (Rs)	63.0	74.6	75.0	83.6	94.7
Adj. EPS growth (%)	5.4	18.3	0.6	11.5	13.3
Adj. ROAE (%)	25.0	25.8	22.9	22.7	22.8
Adj. P/E (x)	17.4	14.7	14.6	13.1	11.6
EV/EBITDA (x)	12.9	10.5	9.0	7.4	6.4

Source: Company, BOBCAPS Research



ADD

TP: Rs 410 | ▲ 12%

**HEXWARE
TECHNOLOGIES**

| IT Services

| 24 October 2019

In-line operating show; near-term outlook cloudy

Hexaware (HEXW) reported in-line dollar revenue growth of 11.7% QoQ and EBIT margins of 13.9% in Q3CY19. Inorganic revenues boosted the topline, offsetting revenue headwinds (200bps) from a top client. BFSI commentary turned cautious, and management expects more pronounced furloughs in the Dec'19 quarter. CY19 revenue guidance has been pruned and now implies a wide 1.6-8% QoQ growth band for Q4, highlighting the uncertain outlook. We broadly retain estimates and restate ADD, rolling to a Sep'20 TP of 410 (from Rs 390).

Ruchi Burde

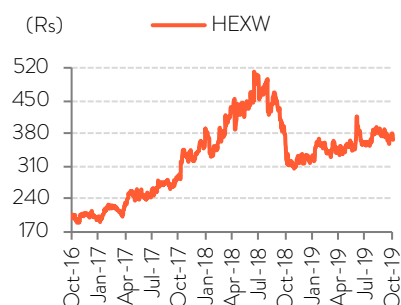
research@bobcaps.in

Operating performance meets estimates: HEXW reported 11.7% QoQ dollar revenue growth and 13.9% EBIT margins (-80bps QoQ) in the Sep'19 quarter. Revenue growth was boosted by the consolidation of Mobiquity – though management did not disclose inorganic revenues, per our estimate these yielded growth tailwinds of ~750bps. Net profit at Rs 1.8bn (+21.5% QoQ, +6.6% YoY) was ahead of estimates on higher forex gains and lower taxes.

Ticker/Price	HEXW IN/Rs 366
Market cap	US\$ 1.6bn
Shares o/s	302mn
3M ADV	US\$ 4.9mn
52wk high/low	Rs 456/Rs 294
Promoter/FPI/DII	71%/15%/14%

Source: NSE

CY19 outlook cut for second consecutive quarter: Management lowered its CY19 revenue growth guidance to 17-18% YoY from 19% earlier to factor in bigger challenges than estimated at a large secondary-mortgage industry client and also a deeper impact from furloughs. We highlight that the revised guidance implies a wide range of sequential growth at 1.6-8% for the Dec'19 quarter, underscoring the uncertain outlook.

STOCK PERFORMANCE

Source: NSE

BFSI commentary turns negative: Management cautioned that broad-based weakness in the BFSI vertical is weighing on the performance of HEXW as well as Mobiquity – this marks yet another downshift in commentary from an optimistic view last quarter.

KEY FINANCIALS

Y/E 31 Dec	CY17A	CY18A	CY19E	CY20E	CY21E
Total revenue (Rs mn)	39,419	46,477	55,640	64,043	71,496
EBITDA (Rs mn)	6,553	7,335	8,722	9,741	11,064
Adj. net profit (Rs mn)	4,993	5,833	6,755	7,126	8,079
Adj. EPS (Rs)	16.6	19.3	22.3	23.6	26.7
Adj. EPS growth (%)	21.1	16.6	15.5	5.5	13.4
Adj. ROAE (%)	26.9	26.5	25.7	22.9	22.2
Adj. P/E (x)	22.1	18.9	16.4	15.5	13.7
EV/EBITDA (x)	16.2	14.4	11.8	10.1	8.5

Source: Company, 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)

Rating distribution

As of 30 September 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 15 are rated ADD, 6 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.