

RESEARCH

Top picks

- **Large-cap ideas**
 - TCS replaced by **Bajaj Finance**
 (see [Healthy performance in secular slowdown, 30Jan20](#))

NIIT Technologies | Target: Rs 1,800 | -7% | SELL

Risk-reward unfavourable; cut to SELL

Bajaj Finance | Target: Rs 5,200 | +18% | BUY

Healthy performance in secular slowdown

HG Infra Engineering | Target: Rs 400 | +50% | BUY

Subdued execution; order inflow and AD award hold key

SUMMARY

NIIT Technologies

NIIT Tech's (NITEC) Q3FY20 performance was mixed with a miss on operating margins (-20bps QoQ to 18.1%) but healthy deal wins.

Management is optimistic on growth prospects and reiterated its target FY20 EBIT margin of ~18% (excl. one-offs). We tweak estimates and roll forward to a revised Mar'21 TP of Rs 1,800 (vs. Rs 1,600). While we acknowledge the improvement in operating performance led by management's initiatives toward predictable and profitable growth, risk-reward looks unfavourable at current valuations – cut from ADD to SELL.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.66	5bps	(22bps)	(105bps)
India 10Y yield (%)	6.58	2bps	7bps	(74bps)
USD/INR	71.34	0.1	0	(0.3)
Brent Crude (US\$/bbl)	59.51	0.3	(12.7)	(3.0)
Dow	28,723	0.7	0.3	16.9
Shanghai	2,977	(2.8)	(0.9)	14.7
Sensex	40,967	(0.5)	(1.5)	15.1
India FII (US\$ mn)	27 Jan	MTD	CYTD	FYTD
FII-D	(24.2)	(1,466.4)	(1,466.4)	1,477.7
FII-E	(24.4)	2,209.7	2,209.7	9,599.0

Source: Bank of Baroda Economics Research

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Bajaj Finance

Bajaj Finance (BAF) reported healthy 35% YoY growth in AUM in Q3FY20. With opex (+37% YoY) growing slower than NII (+42% YoY), operating profit grew 44% YoY to Rs 30bn. We note an uptick in provisions to Rs 8.3bn (vs. Rs 6bn in Q2FY20) and remain cautious with a credit cost forecast of ~210bps in FY20. PAT grew 52% YoY to Rs 16.1bn as a lower tax rate offset higher provisions. We think BAF is well capitalised to weather the secular slowdown. We revise our Mar'21 TP to Rs 5,200 (vs. Rs 5,000).

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

HG Infra Engineering

HG Infra's (HGIEL) Q3FY20 earnings (+18% YoY) were below estimates due to softer revenue and higher interest cost and taxes. Revenue growth was modest at 4% YoY owing to the Delhi-NCR construction ban, land acquisition hurdles in Maharashtra EPC projects and delayed appointed dates. EBITDA margin expanded 75bps YoY to 15.4% (15% est.) due to better efficiency. The order backlog was at Rs 61.6bn (incl. L1), 2.9x TTM revenues. We trim FY21-FY22 earnings by 2-5% and roll over to a Mar'21 TP of Rs 400 (vs. Rs 390).

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

SELL

TP: Rs 1,800 | ▼ 7%

NIIT TECHNOLOGIES

IT Services

30 January 2020

Risk-reward unfavourable; cut to SELL

NIIT Tech's (NITEC) Q3FY20 performance was mixed with a miss on operating margins (-20bps QoQ to 18.1%) but healthy deal wins. Management is optimistic on growth prospects and reiterated its target FY20 EBIT margin of ~18% (excl. one-offs). We tweak estimates and roll forward to a revised Mar'21 TP of Rs 1,800 (vs. Rs 1,600). While we acknowledge the improvement in operating performance led by management's initiatives toward predictable and profitable growth, risk-reward looks unfavourable at current valuations – cut from ADD to SELL.

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In-line revenue, miss on margins: Q3 revenue was up 2% QoQ CC to US\$ 150.3mn (ex-hedging gains), in line with our expectations. EBITDA margins declined 20bps QoQ to 18.1% (vs. 19.5% expected), mainly due to large-deal transition costs and furloughs. PAT at Rs 1.2bn (+3.2% QoQ, 23% YoY) met estimates aided by a below-expected tax rate (20.7% vs. 24% est.).

Deal wins and executable orders continue to trend up: Fresh order intake at US\$ 218mn rose for the tenth straight quarter, supported by strong deal wins in RoW at US\$ 66mn. 9MFY20 order intake at US\$ 569mn was up 19.5% YoY, again largely led by RoW markets. The 12-month executable order book stood at US\$ 424mn (+13% YoY), rising for the ninth quarter in a row.

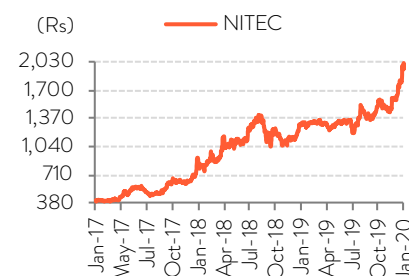
Large deals make a comeback: After a lull in H1FY20, NITEC won four large deals in insurance, travel and BFS. Three of these are net new engagements. The deal pipeline is healthy even after four large closures in Q3, per management.

Valuations full: The stock is already trading above the maximum price set for the ensuing buyback (Rs 1,725/sh) and has rallied 34% since the Dec'19 buyback intimation. At 21.4x/18.4x FY21E/FY22E P/E, valuations are the highest among mid-cap IT services players and at 73% premium to its 5Y average. Cut to SELL.

Ticker/Price	NITEC IN/Rs 1,941
Market cap	US\$ 1.7bn
Shares o/s	62mn
3M ADV	US\$ 13.1mn
52wk high/low	Rs 2,060/Rs 1,178
Promoter/FPI/DII	70%/13%/17%

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	41,641	46,866	52,696
EBITDA (Rs mn)	5,012	6,453	7,243	8,575	9,642
Adj. net profit (Rs mn)	2,802	4,089	4,508	5,595	6,507
Adj. EPS (Rs)	45.4	66.2	73.0	90.6	105.3
Adj. EPS growth (%)	3.5	45.9	10.2	24.1	16.3
Adj. ROAE (%)	15.3	20.3	18.6	19.9	20.3
Adj. P/E (x)	42.8	29.3	26.6	21.4	18.4
EV/EBITDA (x)	23.3	18.0	15.7	12.7	10.8

Source: Company, BOBCAPS Research



BUY

TP: Rs 5,200 | ▲ 18%

BAJAJ FINANCE

| NBFC

| 30 January 2020

Healthy performance in secular slowdown

Bajaj Finance (BAF) reported healthy 35% YoY growth in AUM in Q3FY20. With opex (+37% YoY) growing slower than NII (+42% YoY), operating profit grew 44% YoY to Rs 30bn. We note an uptick in provisions to Rs 8.3bn (vs. Rs 6bn in Q2FY20) and remain cautious with a credit cost forecast of ~210bps in FY20. PAT grew 52% YoY to Rs 16.1bn as a lower tax rate offset higher provisions. We think BAF is well capitalised to weather the secular slowdown. We revise our Mar'21 TP to Rs 5,200 (vs. Rs 5,000).

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Healthy loan growth despite secular slowdown: AUM grew 35% YoY to Rs 1.45tn largely driven by mortgages (+44% YoY) and consumer finance (+34% YoY). Loan volumes also increased due to geographic expansion (+443 branches YoY) and growth in customer franchise to 40mn (+24% YoY). Management expects to increase the customer base by 7-8mn every year.

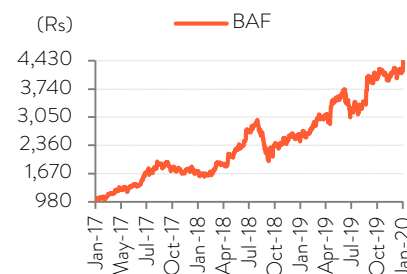
Strong operating profit growth: NII grew 42% YoY to Rs 45.4bn driven by growth in AUM and the recent capital raise of Rs 85bn. Spreads on loans (calc.) were largely stable at 9.4%. Opex grew slower than NII at 37% YoY, resulting in 44% YoY growth in operating profit to Rs 30bn.

Well capitalised to absorb asset quality concerns: BAF reported provisions of Rs 8.3bn, of which Rs 850mn was for Karvy exposure. The sharp increase in provisions was largely offset by a lower tax rate, aiding 52% YoY growth in net profit to Rs 16.1bn. Management has indicated some chunky resolutions in the near term. With the recent capital raise, the company remains well capitalised (23.2% tier-1 ratio) to absorb asset quality concerns. (see our Jan'20 initiation report for details: [BAF 2.0 – Revamped growth engine; initiate with BUY](#)).

Ticker/Price	BAF IN/Rs 4,419
Market cap	US\$ 37.3bn
Shares o/s	602mn
3M ADV	US\$ 75.8mn
52wk high/low	Rs 4,444/Rs 3,950
Promoter/FPI/DII	56%/22%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	69,716	97,252	135,172	171,485	213,464
NII growth (%)	42.2	39.5	39.0	26.9	24.5
Adj. net profit (Rs mn)	24,964	39,950	60,969	81,853	101,928
EPS (Rs)	43.4	69.3	101.3	136.0	169.4
P/E (x)	101.8	63.8	43.6	32.5	26.1
P/BV (x)	16.0	12.9	7.9	6.5	5.3
ROA (%)	3.4	3.8	4.1	4.3	4.3
ROE (%)	20.1	22.5	22.9	22.0	22.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 400 | ▲ 50%

**HG INFRA
ENGINEERING**

Infrastructure

29 January 2020

Subdued execution; order inflow and AD award hold key

HG Infra's (HGIEL) Q3FY20 earnings (+18% YoY) were below estimates due to softer revenue and higher interest cost and taxes. Revenue growth was modest at 4% YoY owing to the Delhi-NCR construction ban, land acquisition hurdles in Maharashtra EPC projects and delayed appointed dates. EBITDA margin expanded 75bps YoY to 15.4% (15% est.) due to better efficiency. The order backlog was at Rs 61.6bn (incl. L1), 2.9x TTM revenues. We trim FY21-FY22 earnings by 2-5% and roll over to a Mar'21 TP of Rs 400 (vs. Rs 390).

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Slow execution: Topline growth was limited to 4% YoY at Rs 5.7bn (Rs 5.9bn est.) as HGIEL lost revenue of Rs 750mn-800mn due to a construction ban at the Gurgaon-Sohna project (halted for 40 days in Q3), land issues in seven ongoing EPC projects in Maharashtra and delays in award of appointed dates (AD). Recent award of AD in the Delhi-Vadodara/Rewari-Ateli projects should push up execution in Q4.

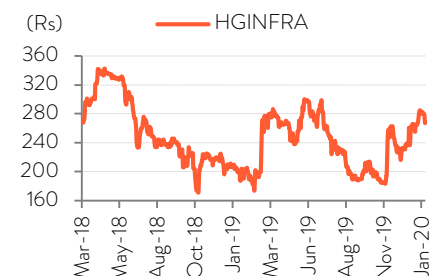
Operating efficiencies aid margins: Cost efficiency measures and a favourable revenue mix aided 75bps YoY EBITDA margin expansion to 15.4%. However, interest cost on mobilisation advances and a higher tax rate capped PAT at Rs 415mn (Rs 434mn est.).

Order flows subdued: As against strong Rs 39bn inflows in FY19, the FY20 YTD figure was subdued at ~Rs 13.5bn. Q4 order inflow guidance stands at Rs 20bn-25bn and management expects a pickup in NHAI tenders by early-Feb'20. Given aggressive bidding and competition, we assume inflows of Rs 20bn in Q4.

Maintain BUY: We trim FY20/FY21/FY22 EPS by 0.1%/2%/5% to factor in the lower revenues. On rollover, we have a revised Mar'21 TP of Rs 400. Key near-term stock catalysts are the award of pending ADs and order inflows.

Ticker/Price	HGINFRA IN/Rs 267
Market cap	US\$ 243.9mn
Shares o/s	65mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 308/Rs 173
Promoter/FPI/DII	74%/0%/20%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,927	20,098	23,734	29,616	33,239
EBITDA (Rs mn)	2,081	3,032	3,607	4,437	4,988
Adj. net profit (Rs mn)	843	1,236	1,794	2,283	2,585
Adj. EPS (Rs)	20.3	19.0	27.5	35.0	39.7
Adj. EPS growth (%)	(31.7)	(6.4)	45.2	27.3	13.2
Adj. ROAE (%)	23.5	20.6	24.0	24.1	21.8
Adj. P/E (x)	13.2	14.1	9.7	7.6	6.7
EV/EBITDA (x)	9.0	6.3	5.5	4.5	4.1

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)

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