FIRST LIGHT

31 January 2020

RESEARCH

eClerx Services | Target: Rs 490 | –22% | SELL

Good show but repeat act unlikely – downgrade to SELL

Bajaj Auto | Target: Rs 3,560 | +13% | ADD

Strong operational performance

Tata Motors | Target: Rs 212 | +14% | ADD

Underwhelming Q3 print; outlook better on cost control efforts

Pidilite Industries | Target: Rs 1,325 | –13% | SELL

Margins surprise positively, CBP volumes disappoint

Transport Corp of India | Target: Rs 355 | +31% | BUY

Topline disappoints, margin resilient

Kotak Mahindra Bank | Target: Rs 1,875 | +15% | BUY

Promoter holding dispute resolved at last

IT Services

Coronavirus crisis hits global travel industry – likely risk for NITEC

SUMMARY

eClerx Services

A mix of favourable yet transient dynamics saw eClerx (ECLX) staging a surprising operational beat in Q3FY20 (revenue up 3% QoQ, EBIT margin up 590bps). We do not expect a repeat performance anytime soon as management has not only guided for a soft Q4 due to offshore weakness and new project delays, but also reiterated a weak and volatile growth outlook. We raise FY21/FY22 EPS by 4%/3% and roll to a Mar'21 TP of Rs 490 (Rs 450 earlier). Growth visibility remains poor – cut to SELL from REDUCE.

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 (%)	1.58	(7bps)	(29bps)	(109bps)
India 10Y yield (%)	6.57	(1bps)	3bps	(75bps)
USD/INR	71.25	0.1	0.1	(0.2)
Brent Crude (US$/bbl)	59.81	0.5	(12.6)	(3.0)
Dow	28,734	0	1.0	14.9
Shanghai	2,977	(2.8)	(2.1)	15.6
Sensex	41,199	0.6	(0.9)	15.8
India FII (US$ mn)	**28 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(171.6)	(1,638.0)	(1,638.0)	1,306.2
FII-E	(110.2)	2,099.6	2,099.6	9,488.8

Source: Bank of Baroda Economics Research

BOBCAPS Research
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Bajaj Auto

Bajaj Auto's (BJAUT) Q3 EBITDA rose 18% YoY led by 17.9% margins (seven-quarter high) and beat estimates by ~10%. While the BS-VI cost push poses near-term demand challenges for domestic 2Ws, BJAUT aims to gain share by offering a higher value proposition in the commuter segment and filling product gaps in the 125cc space. With a diversified mix and improving domestic franchise, BJAUT is one of our preferred 2W plays. The Q3 beat drives a 2-3% earnings upgrade for FY20-FY22. Maintain ADD with a revised Mar'21 TP of Rs 3,560 (vs. Rs 3,470).

Click here for the full report.

Tata Motors

JLR's Q3 EBIT margin at 3.3% was below estimates largely due to forex headwinds. Heavy discounting on CVs weighed on India performance. With Project Charge targets achieved, JLR plans to further cut costs/improve cash flow by GBP 1.1bn by FY21. This should propel EBIT margins closer to the 4-6% range over the next two years, although demand uncertainties persist in key automotive markets. India business recovery is likely sometime away given the tough MHCV demand climate. Maintain ADD with a revised SOTP-based TP of Rs 212 (vs. Rs 220).

Click here for the full report.

Pidilite Industries

Pidilite Industries (PIDI) reported below-expected Q3FY20 consolidated revenue growth of 4% YoY – CBP volumes grew just 2% while industrial volumes rose 13% YoY. Consolidated operating margins swelled 560bps YoY to 24% mainly due to lower RM prices, aiding in-line EBITDA/PBT growth of 36%/38% YoY. Management expects margins to remain steady in light of benign near-term RM prices, but continues to find demand conditions challenging. We roll forward to a Mar'21 TP of Rs 1,325 (from Rs 1,215) and maintain SELL.

Click here for the full report.

Transport Corp of India

Transport Corp's (TRPC) consolidated Q3FY20 revenue (–0.6% YoY) was a miss due to lower SCS (–6.8%) and seaways (–1.3%) revenue, while freight grew at a decent clip (+4.5%). EBITDA margin (9.2%, +60bps YoY) beat estimates, yielding broadly in-line EBITDA (+6% YoY). While we remain cautious on prospects over the next 1-2 quarters, management anticipates some uptick in demand and hence a better Q4. We cut FY20-FY22 EBITDA estimates by 3-5% and move to a Mar'21 TP of Rs 355 (vs. Rs 365).

Click here for the full report.

Kotak Mahindra Bank

KMB has received **in-principle approval from RBI** to cap its promoters' voting rights in the bank from ~30% currently to 20% of paid-up voting equity share capital (PUVESC) until Mar'20, and thereafter reduce this to 15%. Promoter shareholding needs to be lowered to 26% (30% currently) within six months of receiving final RBI approval.

Click here for the full report.

IT Services

The coronavirus outbreak in China is expected to exact a heavy toll on the global travel, transport and hospitality (TTH) industry. Revenue losses are likely to be higher than the 2003 SARS epidemic considering the tremendous rise in China's global economic significance. Despite the transient impact on business, we believe Indian IT vendors with significant exposure to the TTH industry could be at risk of client budget cuts – NIIT Tech looks the most vulnerable as nearly a third of its revenue comes from the travel & transportation vertical.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 490 | ⮟ 22%

ECLERX SERVICES | IT Services | 31 January 2020

Good show but repeat act unlikely – downgrade to SELL

A mix of favourable yet transient dynamics saw eClerx (ECLX) staging a surprising operational beat in Q3FY20 (revenue up 3% QoQ, EBIT margin up 590bps). We do not expect a repeat performance anytime soon as management has not only guided for a soft Q4 due to offshore weakness and new project delays, but also reiterated a weak and volatile growth outlook. We raise FY21/FY22 EPS by 4%/3% and roll to a Mar'21 TP of Rs 490 (Rs 450 earlier). Growth visibility remains poor – cut to SELL from REDUCE.

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Surprisingly good quarter…: ECLX reported a beat on both revenue and operating margins in Q3. Revenue at US$ 51.8mn increased 3.4% QoQ alongside 22.8% EBIT margins (+590bps QoQ). EBIT at Rs 856mn (+42% QoQ, +56% YoY) was 47% ahead of our estimate.

…led by favourable but transitory factors: A convergence of unexpected revenue flows and other one-offs helped the company stage a surprise in Q3 – these included (1) project delays and thus below-expected calendar year-end roll-offs (likely adverse spillover effect in Q4), (2) milestone revenue accrual in fixed price engagements, (3) short-term project revenue in CLX business, and (4) upward rate revisions for full time employees (FTE) at select large clients.

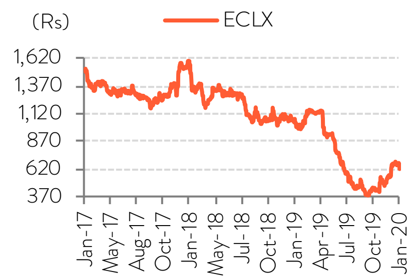
Repeat show unlikely in near term: Management has guided for a soft Q4FY20 due to continued pressure in the offshore business and delays in new project ramp-up. ECLX further indicated a weak and volatile outlook, with muted commentary on business prospects from the top 10 clients.

Cut to SELL: Changing business dynamics over the last three years have structurally impaired the company's profit and growth profile. Even though margins appear to be bottoming out, growth visibility looks cloudy. SELL.

Ticker/Price	ECLX IN/Rs 626
Market cap	US$ 329.8mn
Shares o/s	38mn
3M ADV	US$ 1.1mn
52wk high/low	Rs 1,175/Rs 388
Promoter/FPI/DII	50%/25%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,651	14,305	14,481	15,934	17,997
EBITDA (Rs mn)	3,668	3,092	3,365	3,665	4,129
Adj. net profit (Rs mn)	2,887	2,283	2,080	2,337	2,573
Adj. EPS (Rs)	74.5	60.1	55.3	62.1	68.3
Adj. EPS growth (%)	(15.7)	(19.4)	(8.0)	12.3	10.1
Adj. ROAE (%)	23.9	20.2	19.0	19.8	20.1
Adj. P/E (x)	8.4	10.4	11.3	10.1	9.2
EV/EBITDA (x)	5.5	6.3	6.0	5.6	4.8

Source: Company, BOBCAPS Research

ADD
TP: Rs 3,560 | ⮝ 13%

BAJAJ AUTO | Automobiles | 30 January 2020

Strong operational performance

Bajaj Auto's (BJAUT) Q3 EBITDA rose 18% YoY led by 17.9% margins (seven-quarter high) and beat estimates by ~10%. While the BS-VI cost push poses near-term demand challenges for domestic 2Ws, BJAUT aims to gain share by offering a higher value proposition in the commuter segment and filling product gaps in the 125cc space. With a diversified mix and improving domestic franchise, BJAUT is one of our preferred 2W plays. The Q3 beat drives a 2-3% earnings upgrade for FY20-FY22. Maintain ADD with a revised Mar'21 TP of Rs 3,560 (vs. Rs 3,470).

Navin Matta | Nishant Chowhan, CFA
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Strong margin-led beat: Topline growth of 3% YoY was slightly below estimates on account of the mix effect and consumer engagement schemes being classed as costs and deducted directly from revenues. EBITDA at Rs 13.6bn (+18% YoY) beat estimates by ~10%. EBITDA margin at 17.9% (+230bps YoY, +130bps QoQ) was at a seven-quarter high led by gross margin improvement. A richer variant mix within commuter brands, ~1% QoQ improvement in USD/INR realisation on exports and benign commodity costs aided margin expansion.

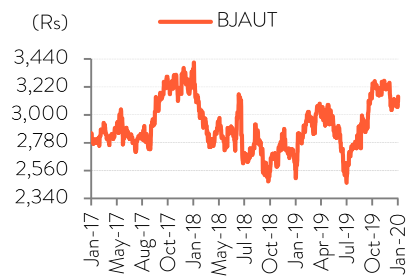
Near-term 2W demand outlook clouded but market share focus intact: BJAUT clarified that the recent BS-VI launches for the CT/Platina brands carry its indigenous solution (electronic injection system). While the cost rise on these models is large at 13-22%, they come with additional features to improve the overall value proposition. With these initiatives and an aim to beef up its presence in the 125cc segment, the company remains focused on improving market share. However, management did acknowledge that demand could be subdued for a few quarters given the large regulatory-led cost push.

Maintain ADD: Strong Q3 margins drive a 2-3% increase in our FY20-FY22 earnings estimates. Valuations at 17x FY21E P/E are in line with the past 5Y average and look sustainable. Our TP of Rs 3,560 is set at 17x FY22E EPS.

Ticker/Price	BJAUT IN/Rs 3,146
Market cap	US$ 12.7bn
Shares o/s	289mn
3M ADV	US$ 16.8mn
52wk high/low	Rs 3,289/Rs 2,442
Promoter/FPI/DII	54%/14%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	251,649	302,500	310,985	345,750	375,891
EBITDA (Rs mn)	47,834	49,820	51,995	55,833	61,876
Adj. net profit (Rs mn)	40,921	44,187	50,398	54,750	60,596
Adj. EPS (Rs)	141.4	153.3	174.2	189.2	209.4
Adj. EPS growth (%)	6.9	8.4	13.6	8.6	10.7
Adj. ROAE (%)	22.1	21.2	21.3	20.6	20.4
Adj. P/E (x)	22.3	20.5	18.1	16.6	15.0
EV/EBITDA (x)	16.6	15.2	14.1	12.7	11.0

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 212 | ⮝ 14%

TATA MOTORS | Automobiles | 31 January 2020

Underwhelming Q3 print; outlook better on cost control efforts

JLR's Q3 EBIT margin at 3.3% was below estimates largely due to forex headwinds. Heavy discounting on CVs weighed on India performance. With Project Charge targets achieved, JLR plans to further cut costs/improve cash flow by GBP 1.1bn by FY21. This should propel EBIT margins closer to the 4-6% range over the next two years, although demand uncertainties persist in key automotive markets. India business recovery is likely sometime away given the tough MHCV demand climate. Maintain ADD with a revised SOTP-based TP of Rs 212 (vs. Rs 220).

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JLR's operational performance below expectations: JLR's topline growth at 3% YoY was largely in line with estimates but EBITDA margins at 10.8% fell short. The absence of structural savings, forex (~150bps) and commodity cost (~50bps) headwinds, and higher variable marketing expense (~30bps) led to a 150bps QoQ drop in EBIT margin to 3.3%. Contrary to our expectations, FCF profile was weak (–£144mn) as working capital remained a drag. JLR has initiated another GBP 1.1bn cost rationalisation plan spread over 15 months which could potentially drive EBIT margins towards ~4-6% over FY22-FY23.

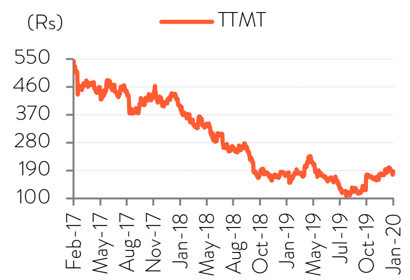
High discounting in CVs hurt India business: The CV segment witnessed increased pressure and higher discounting dragged down ASP by 11% YoY. Below-expected topline growth (–33% YoY) led to a sharp miss at the operational level. Despite cost control efforts and MHCV market share focus, the sharp cost push for BS-VI changeover and overhang from excess system capacity is likely to weigh on MHCV industry volume outlook. New launches should aid PV business recovery but this is unlikely to be a big contributor.

Maintain ADD: JLR's aggressive cost control efforts should aid EBIT margin recovery and drive a strong earnings rebound off a low base. We cut FY20 EPS by 9% to reflect the Q3 miss but largely maintain FY21-FY22 estimates.

Ticker/Price	TTMT IN/Rs 186
Market cap	US$ 9.4bn
Shares o/s	3,598mn
3M ADV	US$ 88.2mn
52wk high/low	Rs 239/Rs 106
Promoter/FPI/DII	38%/19%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Click here for our Sector Report 'Mixed signals – prefer PVs, 2Ws'

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	2,946,192	3,019,384	2,820,710	3,059,840	3,358,310
EBITDA (Rs mn)	373,480	297,948	324,975	382,334	469,702
Adj. net profit (Rs mn)	71,091	(9,721)	14,342	36,973	82,432
Adj. EPS (Rs)	20.9	(2.9)	4.0	9.7	21.5
Adj. EPS growth (%)	6.5	(113.7)	(239.3)	142.2	122.9
Adj. ROAE (%)	9.3	(1.2)	2.2	5.1	10.1
Adj. P/E (x)	8.9	(65.0)	46.7	19.3	8.6
EV/EBITDA (x)	2.9	3.9	4.0	3.8	3.2

Source: Company, BOBCAPS Research

SELL
TP: Rs 1,325 | ⮟ 13%

PIDILITE INDUSTRIES | Construction Materials | 30 January 2020

Margins surprise positively, CBP volumes disappoint

Pidilite Industries (PIDI) reported below-expected Q3FY20 consolidated revenue growth of 4% YoY – CBP volumes grew just 2% while industrial volumes rose 13% YoY. Consolidated operating margins swelled 560bps YoY to 24% mainly due to lower RM prices, aiding in-line EBITDA/PBT growth of 36%/38% YoY. Management expects margins to remain steady in light of benign near-term RM prices, but continues to find demand conditions challenging. We roll forward to a Mar'21 TP of Rs 1,325 (from Rs 1,215) and maintain SELL.

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CBP volume growth below estimates: PIDI's consolidated Q3 revenue grew 4.3% YoY to Rs 19.3bn, with 10% YoY CC growth in overseas subsidiaries. Standalone revenue increased 4.7% YoY to Rs 16.6bn with subdued 2.9% volume growth (2.3% in the consumer & bazaar (CBP) segment and 12.6% in the industrial segment). The industrial segment did better on the back of higher exports. Management pointed to tough demand conditions in CBP but is hopeful of recovery in FY21.

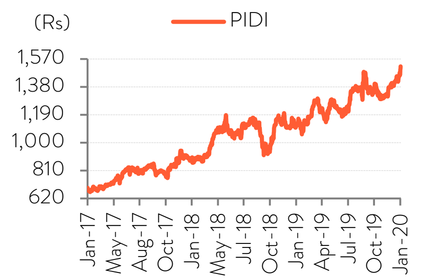
Operating margins expand 560bps: Consolidated gross margins expanded 660bps YoY due to lower raw material cost, resulting in consolidated operating margins increasing 560bps YoY to 24% despite higher employee expenses (+96bps). Consequently, EBITDA/PBT grew 36%/38% YoY for the quarter. Management expects gross margins to hold at current levels in Q4 as raw material prices remain benign.

Maintain SELL on expensive valuations: PIDI's margins beat estimates though CBP volume growth was disappointing. We increase our FY20-FY22 PAT estimates by 2-4% and roll forward to a revised Mar'21 TP of Rs 1,325. Maintain SELL given that valuations at 46x FY22E P/E are rich, especially amid the weak demand climate.

Ticker/Price	PIDI IN/Rs 1,521
Market cap	US$ 10.8bn
Shares o/s	508mn
3M ADV	US$ 11.1mn
52wk high/low	Rs 1,545/Rs 1,046
Promoter/FPI/DII	70%/11%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,324	70,787	75,826	87,040	99,434
EBITDA (Rs mn)	13,412	13,682	16,757	19,497	22,373
Adj. net profit (Rs mn)	9,159	8,901	12,630	14,466	16,778
Adj. EPS (Rs)	18.0	17.5	24.9	28.5	33.0
Adj. EPS growth (%)	7.5	(2.9)	41.9	14.5	16.0
Adj. ROAE (%)	26.0	23.1	28.1	27.6	27.5
Adj. P/E (x)	84.3	86.8	61.2	53.4	46.0
EV/EBITDA (x)	57.6	56.4	46.1	39.5	34.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 355 | ⮝ 31%

TRANSPORT CORP OF INDIA | Logistics | 30 January 2020

Topline disappoints, margin resilient

Transport Corp's (TRPC) consolidated Q3FY20 revenue (–0.6% YoY) was a miss due to lower SCS (–6.8%) and seaways (–1.3%) revenue, while freight grew at a decent clip (+4.5%). EBITDA margin (9.2%, +60bps YoY) beat estimates, yielding broadly in-line EBITDA (+6% YoY). While we remain cautious on prospects over the next 1-2 quarters, management anticipates some uptick in demand and hence a better Q4. We cut FY20-FY22 EBITDA estimates by 3-5% and move to a Mar'21 TP of Rs 355 (vs. Rs 365).

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Seaways – revenue disappoints, margin surprises: Despite the addition of a ship (28,500dwt), seaways revenue dipped 1% YoY amidst subdued freight availability and intense competition, especially on the west coast. TRPC only pursued profitable business opportunities, which restricted growth but yielded a 410bps rise in segmental EBIT margin. The company's ability to effectively pass on the rise in fuel costs post IMO implementation will be a key monitorable in Q4.

Freight steady, SCS sluggish: Freight revenue and EBIT grew at a healthy 4.5% and 16% YoY respectively, led mainly by market share gains in the LTL segment. Supply chain (SCS) revenue/EBIT declined 7%/15% YoY due to a slowdown in the key auto vertical. Q4 is likely to be better for both segments as management anticipates a pickup in business sentiment and uptick in auto production logistics.

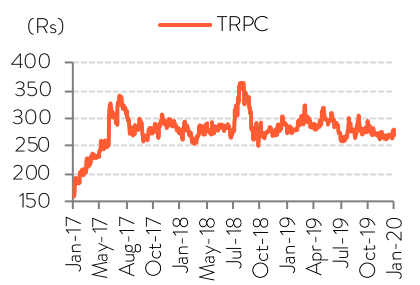
EBITDA margin resilient: Higher freight and seaways profitability catalysed 60bps expansion in EBITDA margin. A lower share of profit from the Transystem JV (–77% YoY) – stemming from plummeting volumes of the anchor customer – dented PBT growth (–16.4% YoY). PAT rose 3.2% YoY aided by lower taxes.

Reiterate BUY: We cut FY20-FY22 revenue and EBITDA by 4-7% and 3-5% respectively, leading to a revised SOTP-based Mar'21 TP of Rs 355 (vs. Rs 365).

Ticker/Price	TRPC IN/Rs 272
Market cap	US$ 291.0mn
Shares o/s	77mn
3M ADV	US$ 0.1mn
52wk high/low	Rs 328/Rs 250
Promoter/FPI/DII	67%/2%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	23,499	27,536	28,323	31,949	37,167
EBITDA (Rs mn)	2,165	2,495	2,671	3,148	3,746
Adj. net profit (Rs mn)	1,238	1,460	1,603	1,853	2,263
Adj. EPS (Rs)	16.2	19.0	20.9	24.2	29.5
Adj. EPS growth (%)	52.4	17.7	9.8	15.6	22.1
Adj. ROAE (%)	17.6	17.7	16.7	16.6	17.6
Adj. P/E (x)	16.8	14.3	13.0	11.2	9.2
EV/EBITDA (x)	11.1	9.9	9.4	8.0	6.5

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,875 | ⮝ 15%

KOTAK MAHINDRA BANK | Banking | 30 January 2020

Promoter holding dispute resolved at last

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KMB and RBI reach an agreement: KMB has received in-principle approval from RBI to cap its promoters' voting rights in the bank from ~30% currently to 20% of paid-up voting equity share capital (PUVESC) until Mar'20, and thereafter reduce this to 15%. Promoter shareholding needs to be lowered to 26% (30% currently) within six months of receiving final RBI approval.

Overhang ceases: KMB and RBI's ongoing legal tussle coupled with the lack of clarity on promoter stake treatment was an overhang on the stock given the potential risk of aggressive dilution or M&A that KMB may have felt compelled to take. This overhang now ceases and is sentimentally positive for the stock.

Maintain BUY: We like KMB for its strong liability profile and sound asset quality – both key drivers for a sustained valuation premium. Maintain BUY with an SOTP-based TP of Rs 1,875.

RBI'S IN-PRINCIPLE APPROVAL FOR PROMOTER STAKE TREATMENT

Particulars

- Promoters' voting rights in the bank:
  - to be capped to 20% of PUVESC until 31 Mar 2020, and
  - 15% of PUVESC from 1 Apr 2020 onwards
- Promoters' shareholding in the bank:
  - to be reduced to 26% of PUVESC within six months from the date of final RBI approval
  - promoters will not purchase any further paid-up voting equity shares of the bank till their shareholding reaches 15% of PUVESC
  - promoters will be entitled to purchase paid-up voting equity shares of the bank up to 15% of PUVESC and exercise voting rights on such shares

Source: Company

Ticker/Price	KMB IN/Rs 1,628
Market cap	US$ 43.5bn
Shares o/s	1,910mn
3M ADV	US$ 58.3mn
52wk high/low	Rs 1,735/Rs 1,210
Promoter/FPI/DII	30%/40%/30%

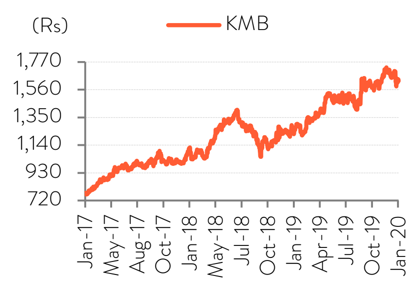
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Net interest income	133,258	160,501	196,487
NII growth (%)	1,835.7	2,044.4	2,242.1
Adj. net profit (Rs mn)	61,842	77,531	97,975
EPS (Rs)	32.4	40.6	51.3
P/E (x)	50.3	40.1	31.7
P/BV (x)	6.4	5.6	4.8
ROA (%)	1.9	2.1	2.2
ROE (%)	13.6	14.9	16.3

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

Click here for our last detailed report

IT SERVICES

30 January 2020

Coronavirus crisis hits global travel industry – likely risk for NITEC

The coronavirus outbreak in China is expected to exact a heavy toll on the global travel, transport and hospitality (TTH) industry. Revenue losses are likely to be higher than the 2003 SARS epidemic considering the tremendous rise in China's global economic significance. Despite the transient impact on business, we believe Indian IT vendors with significant exposure to the TTH industry could be at risk of client budget cuts – NIIT Tech looks the most vulnerable as nearly a third of its revenue comes from the travel & transportation vertical.

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Coronavirus outbreak triggers suspension of flights: In response to the current virus epidemic that originated in China, airlines across the globe have moved to ground flights to and from the country. Between 23 and 29 January, over 6,600 flights or 9% of total flights in and out of China were cancelled. As many as 16 airlines have already suspended China operations and 2 have announced operational ramp-down (Fig 2). This portends sizeable revenue losses for the global TTH industry.

Global aviation industry lost 3% of business to SARS in 2003: In 2003, when China was at the epicenter of the SARS outbreak, Asia Pacific carriers had to cut back more than a third of capacity and the global aviation industry lost ~3% of business (~US$ 10bn), as per IATA (International Air Transport Association).

Risk of higher losses this time round: As per IATA, international traffic in and out of China has leapfrogged ten-fold between 2003 and 2019. At present, China accounts for sizeable business share of large global airlines and hospitality players. The country represents 6% of rooms for Hilton Worldwide and 8.5% for Marriott International, besides 7% and 6% of revenues for US-based United Airlines and Air Canada respectively.

IT budgets at risk – NITEC most vulnerable: Despite the transient nature of such business losses, we believe technology budget allocations could come under pressure. Among our coverage, NIIT Tech (NITEC) has the highest exposure to the travel and transportation vertical, predominately airlines and airports (29% of revenues in Q3FY20), followed by Mindtree (MTCL) (Fig 1). In our view, NITEC has an unenviable combination of expensive valuations (21.4x/ 18.4x FY21E/ FY22E P/E) and likely growth risk due to its vertical exposure –reiterate SELL with an unchanged Mar'21 TP of Rs 1,800, set at 17x FY22E P/E.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,155	2,390	ADD
INFO IN	790	840	ADD
WPRO IN	247	240	SELL
HCLT IN	609	690	BUY
TECHM IN	803	740	REDUCE
LTI IN	1,958	2,230	BUY
MPHL IN	932	1,020	ADD
MTCL IN	887	780	SELL
HEXW IN	355	410	ADD
PSYS IN	698	650	REDUCE
NITEC IN	1,941	1,800	SELL
ECLX IN	662	450	REDUCE

Price & Target in Rupees

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

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