

RESEARCH

RBL Bank | Target: Rs 145 | +13% | ADD

Operational beat but Covid-19 poses risks

HCL Technologies | Target: Rs 650 | +27% | BUY

First among equals

SUMMARY

RBL Bank

RBL Bank's (RBK) Q4FY20 PAT at Rs 1.1bn (-54% YoY) was ahead of estimates due to an NII beat. The bank has a third of its portfolio by value under moratorium including a larger retail share. Slippages remained elevated at Rs 7bn while PCR improved to 64%. Credit cost in FY21 is guided to be largely similar to FY20. As on 30 April, deposits grew 4% over Q4 levels while government deposits were back to pre-Covid levels. We pare FY21-FY22 EPS by 40-50% on higher credit costs and slower growth, yielding a new Mar'21 TP of Rs 145 (vs. Rs 170). Retain ADD.

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

HCL Technologies

HCL Tech (HCLT) ended FY20 on a strong note with 0.8% QoQ CC and 13.4% YoY CC topline growth and five-year-high EBIT margins of 20.9% in Q4FY20. With 14 large transformation contract wins, the company saw its best deal quarter for the year. Management expects a revenue decline in Q1FY21 (similar to peers). We trim FY21/FY22 EPS by 8%/6% and revise our Mar'21 TP to Rs 650 (vs. Rs 690). We believe the software business, healthy deal wins and cloud/ infrastructure expertise offer better near-to-mid-term growth visibility than peers.

[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

BOBCAPS Research

research@bobcaps.in



ADD

TP: Rs 145 | ▲ 13%

RBL BANK

| Banking

| 07 May 2020

Operational beat but Covid-19 poses risks

RBL Bank's (RBK) Q4FY20 PAT at Rs 1.1bn (-54% YoY) was ahead of estimates due to an NII beat. The bank has a third of its portfolio by value under moratorium including a larger retail share. Slippages remained elevated at Rs 7bn while PCR improved to 64%. Credit cost in FY21 is guided to be largely similar to FY20. As on 30 April, deposits grew 4% over Q4 levels while government deposits were back to pre-Covid levels. We pare FY21-FY22 EPS by 40-50% on higher credit costs and slower growth, yielding a new Mar'21 TP of Rs 145 (vs. Rs 170). Retain ADD.

Vikesh Mehta

research@bobcaps.in

One-third of portfolio under moratorium: According to management, 23%/24% of RBK's credit card/wholesale portfolio is under moratorium as on 30 April. The value of the retail portfolio under moratorium is relatively higher (46% of customers by number), taking ~33% of its overall loan book into moratorium. In addition to the 10% provision requirement on extending the asset classification benefit, RBK has made additional provisions worth ~Rs 1.2bn. Management expects credit costs to be higher in the credit card and MSME segments given Covid-19 but the MFI book could recover fast.

Ticker/Price	RBK IN/Rs 129
Market cap	US\$ 863.4mn
Shares o/s	508mn
3M ADV	US\$ 50.4mn
52wk high/low	Rs 716/Rs 102
Promoter/FPI/DII	0%/24%/76%

Source: NSE

Slippages remain elevated but PCR improves to 64%: The SMA-2 book dipped marginally to 0.6% of loans. Slippages stayed high at Rs 7.1bn (Rs 10.5bn in Q3) as RBK recognised the balance Rs 3bn of its Rs 18bn stressed legacy loan pool as NPA. Reported PCR improved to 64% from 58% in Q3, as provisions on the credit card portfolio availing moratorium were accelerated and contingent provisions were built on the retail portfolio. Management indicated that PCR will continue to improve and credit costs in FY21 should hold at FY20 levels of ~3.4%.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: We pare FY21-FY22 EPS 40-50% assuming higher credit costs and slower credit growth. We derive comfort from RBK's high CET-1 ratio of 15%. Maintain ADD; Mar'21 TP revised to Rs 145.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,663	25,395	36,296	38,020	43,543
NII growth (%)	44.6	43.8	42.9	4.7	14.5
Adj. net profit (Rs mn)	6,350	8,670	5,057	5,486	10,132
EPS (Rs)	16.0	20.5	10.8	10.8	19.9
P/E (x)	8.1	6.3	11.9	11.9	6.5
P/BV (x)	0.8	0.7	0.6	0.6	0.6
ROA (%)	1.1	1.2	0.6	0.6	0.9
ROE (%)	11.5	12.2	5.6	5.1	8.8

Source: Company, BOBCAPS Research



BUY

TP: Rs 650 | ▲ 27%

HCL TECHNOLOGIES

| IT Services

| 07 May 2020

First among equals

HCL Tech (HCLT) ended FY20 on a strong note with 0.8% QoQ CC and 13.4% YoY CC topline growth and five-year-high EBIT margins of 20.9% in Q4FY20. With 14 large transformation contract wins, the company saw its best deal quarter for the year. Management expects a revenue decline in Q1FY21 (similar to peers). We trim FY21/FY22 EPS by 8%/6% and revise our Mar'21 TP to Rs 650 (vs. Rs 690). We believe the software business, healthy deal wins and cloud/infrastructure expertise offer better near-to-mid-term growth visibility than peers.

Ruchi Burde | Seema Nayak

research@bobcaps.in

Q4 performance ahead of peers: With sequentially flat dollar revenues (and 0.8% QoQ CC growth), HCLT reported the most resilient topline in Q4FY20 among large peers (which posted dollar revenue contraction in the range of 1-4.3% QoQ). EBIT margins at 20.9% marked a five-year high and inched up 60bps QoQ, aided by currency tailwinds and operational efficiency in the IT business.

Mode-3 to de-risk portfolio: The software business unit (represented by the mode-3 segment) continued to do well and was largely immune to Covid-19 adversities in Q4. Management stated that deal renewal velocity maintains healthy momentum. Mode-2 (digital segment) led the way at 5.5% QoQ dollar growth. Mode-2 and 3 now from 35% of total revenue from 29.5% last year.

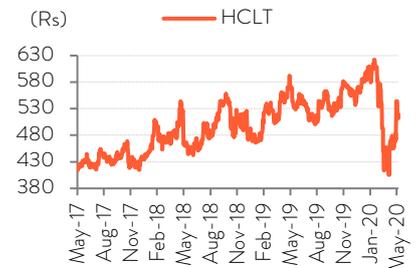
Reassuring capital allocation and healthy balance sheet: HCLT announced dividend of Rs 2/sh (on double the number of shares post the 1:1 bonus issue) and assured investors of continuity in quarterly dividend payouts.

Management's unshaken commitment to honor the US\$ 800mn IBM product payment installment on time (Jun'20) highlights a healthy balance sheet. HCLT had US\$ 2bn in gross cash and US\$ 673mn in borrowings as at end-Q4FY20.

Ticker/Price	HCLT IN/Rs 512
Market cap	US\$ 18.3bn
Shares o/s	2,713mn
3M ADV	US\$ 39.5mn
52wk high/low	Rs 624/Rs 375
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,05,700	6,04,280	7,06,780	7,51,305	8,09,309
EBITDA (Rs mn)	1,14,400	1,40,020	1,66,930	1,74,856	1,99,830
Adj. net profit (Rs mn)	87,820	99,757	1,10,940	1,06,708	1,24,738
Adj. EPS (Rs)	31.5	36.7	40.9	39.3	46.0
Adj. EPS growth (%)	5.4	16.3	11.5	(3.8)	16.9
Adj. ROAE (%)	26.5	25.4	23.7	19.6	20.6
Adj. P/E (x)	16.2	14.0	12.5	13.0	11.1
EV/EBITDA (x)	12.1	9.8	8.2	7.9	6.8

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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