FIRST LIGHT

25 July 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing: Positive changes seen

ICICI BANK | TARGET: Rs 1,015 | +2% | HOLD

High core income and lower provisions buoy PAT

HDFC AMC | TARGET: Rs 2,445 | –2% | HOLD

Strong quarter but upsides capped; maintain HOLD

PERSISTENT SYSTEMS | TARGET: Rs 5,330 | +12% | HOLD

Resilient quarter but growth guided to soften near term

Daily macro indicators

Ticker	20-Jul	21-Jul	Chg (%)
US 10Y yield (%)	3.85	3.83	(2bps)
India 10Y yield (%)	7.08	7.08	0bps
USD/INR	81.99	81.96	0.0
Brent Crude (US$/bbl)	79.6	81.1	1.8
Dow	35,225	35,228	0.0
Hang Seng	18,928	19,075	0.8
Sensex	67,572	66,684	(1.3)
India FII (US$ mn)	**19-Jul**	**20-Jul**	**Chg ($ mn)**
FII-D	(21.4)	128.8	150.2
FII-E	267.2	565.4	298.2

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONSOON UPDATE

India's South-West monsoon has gathered momentum with higher rainfall at 5% (above LPA) till 23 Jul 2023. With this pickup, overall kharif sowing is also higher by 1.2% with rice acreage in green though pulses continue to register lower sowing compared with last year. Region wise, North West and Central Region have recorded higher rainfall, while Southern peninsula and Eastern region rainfall are in the deficient zone. A total of 8 subdivisions and 6 states, have received lower rainfall during this period (1 Jun-21 Jul 2023). Distribution of rainfall needs careful monitoring along with sowing of Kharif crops. Any shortage or excess might play a significant role on prospects of agriculture growth.

Click here **for the full report.**

ICICI BANK

- NII growth of 38% YoY along with moderate provisioning aided 40% PAT growth in Q1
- NIM down 6bps QoQ to 4.8% and likely to moderate further on a higher cost of funds; credit cost under control at 51bps
- Maintain HOLD with a TP of Rs 1,015 (2.7x FY25E ABV plus subsidiaries at Rs 132/sh)

Click here **for the full report.**

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HDFC AMC

- Q1 AUM growth robust at 17% YoY with debt seeing inflows after several quarters of outflow; revenue and EBITDA impressive
- Market share improved in overall and equity AUM; yields lower due to large AUM size
- TP raised to Rs 2,445 (vs. Rs 1,946) on a 12%/11% increase in FY24/FY25 PAT estimates and a higher target P/E of 28.5x (vs. 25x)

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PERSISTENT SYSTEMS

- Top BFS client the driving force behind Q1 growth, but management expects weakness in the vertical for the next few quarters
- Bagged marquee hyperscaler and healthcare deals, though spillover of some contracts to Q2 led to softer sequential TCV
- Management remains confident of above-industry growth in FY24; we retain HOLD and a TP of Rs 5,330

Click here for the full report.

MONSOON UPDATE

24 July 2023

Monsoon and Sowing: Positive changes seen

Jahnavi Prabhakar
Economist

India's South-West monsoon has gathered momentum with higher rainfall at 5% (above LPA) till 23 Jul 2023. With this pickup, overall kharif sowing is also higher by 1.2% with rice acreage in green though pulses continue to register lower sowing compared with last year. Region wise, North West and Central Region have recorded higher rainfall, while Southern peninsula and Eastern region rainfall are in the deficient zone. A total of 8 subdivisions and 6 states, have received lower rainfall during this period (1 Jun-21 Jul 2023). Distribution of rainfall needs careful monitoring along with sowing of Kharif crops. Any shortage or excess might play a significant role on prospects of agriculture growth.

Where does Kharif sowing stand?

The overall kharif sown area has increased by 1.2% as of 21 Jul 2023, (-2% in the previous week) compared with last year. Acreage of rice picked up pace (2.7%) and is in surplus for the first time in this season. Led by improvement in sown area of Bajra (11.3%) and steady pick up in Jowar and maize, the overall sown area of coarse cereals (4.8%) has improved compared with last year. Steady improvement was also registered in the sown area of sugarcane and oilseeds. However, pulses sowing has declined by 9.8% led by Arhar (-18.4%) and Urad (-9.7%). Even cotton and Jute & Mesta has registered lower sowing this year.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	134.9	128.8	4.8
Jowar	10.1	9.7	3.6
Bajra	58.0	52.1	11.3
Maize	63.0	62.9	0.2
Rice	180.2	175.5	2.7
Pulses	85.9	95.2	(9.8)
Oilseeds	160.4	155.3	3.3
Cotton	109.7	110.0	(0.3)
Sugarcane	56.0	53.3	5.0
Jute and Mesta	6.4	6.9	(8.1)
All Crops	733.4	725.0	1.2

Source: CEIC, Bank of Baroda | Data as of 21 Jul 2023

Monsoon:

For the period 1 Jun 2023 to 23 Jul 2023, South West Monsoon is 5% above LPA compared with last year.

- A large part of the country is in in green receiving normal rainfall, including central and Southern region.

RESULT REVIEW

HOLD
TP: Rs 1,015 | ⮝ 2%

ICICI BANK | Banking | 24 July 2023

High core income and lower provisions buoy PAT

- **NII growth of 38% YoY along with moderate provisioning aided 40% PAT growth in Q1**
- **NIM down 6bps QoQ to 4.8% and likely to moderate further on a higher cost of funds; credit cost under control at 51bps**
- **Maintain HOLD with a TP of Rs 1,015 (2.7x FY25E ABV plus subsidiaries at Rs 132/sh)**

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NII up 38% YoY…: ICICIBC's Q1FY24 NII grew 38% YoY (+3% QoQ) despite higher interest expense while other income increased 17% YoY (+7% QoQ) supported by treasury gains and dividends, enabling net income growth of 32% YoY (4% QoQ). Strong NII growth was anchored by higher yields in retail and unsecured loans as well as increased investment yield.

…buoying PAT: NIM (calc.) contracted 6bps QoQ to 4.8% as the cost of funds moved up due to deposit repricing. Management expects this trend to continue through the fiscal. PPOP grew 37% YoY but only 2% QoQ due to higher employee cost which is likely to remain elevated amid network expansion. ICICIBC posted a 40% YoY (+6% QoQ) rise in PAT aided by strong NII growth and lower provisions.

Broad-based growth: Loans grew 18% YoY supported by a steady focus on the high-yield retail business (+22%) and, more recently, the corporate book (+19%). Within retail, ICICIBC saw traction in personal loans (+39% YoY), credit cards (+45%) and two-wheeler loans (+35%), while the home (+17%), rural (+18%) and commercial vehicle (+8%) businesses were subdued. Deposit growth held strong at 18% YoY led by term deposits (+26%), inducing a 255bps QoQ drop in CASA ratio. We retain our credit and deposit CAGR estimates of 18.1% and 16% respectively over FY23-FY25.

Stable asset quality: Credit cost fell 16bps QoQ to 51bps as higher slippages in retail, unsecured loans and agriculture business were set off by lower corporate defaults. GNPA improved 5bps to 2.8% and NNPA was flat QoQ at 0.5%. Total provisions stood at 2.1% of loans and the bank sees no major near-term asset quality concerns.

Maintain HOLD: The stock is trading at 2.7x FY25E P/ABV. We continue to estimate NIM at 4.4-4.5%, credit cost of 70bps and a PPOP CAGR of 15.3% over FY23-FY25. In our view, the bank's ability to deliver robust growth and margins is largely priced into valuations. We maintain our HOLD rating with an unchanged TP of Rs 1,015, set at 2.7x FY25E ABV (Gordon Growth Model), with subsidiaries valued at Rs 132/sh.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ICICIBC IN/Rs 997
Market cap	US$ 84.7bn
Free float	74%
3M ADV	US$ 203.7mn
52wk high/low	Rs 1,001/Rs 789
Promoter/FPI/DII	0%/44%/45%

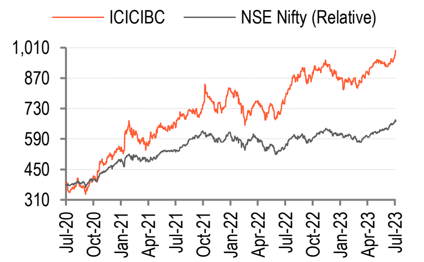
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	62,129	72,330	82,133
NII growth (%)	30.9	16.4	13.6
Adj. net profit (Rs mn)	31,897	37,654	42,996
EPS (Rs)	45.8	53.9	61.6
Consensus EPS (Rs)	45.8	51.5	59.3
P/E (x)	21.8	18.5	16.2
P/BV (x)	3.5	3.0	2.6
ROA (%)	2.1	2.2	2.2
ROE (%)	17.2	17.5	17.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

HOLD
TP: Rs 2,445 | ⩔ 2%

HDFC AMC | NBFC | 25 July 2023

Strong quarter but upsides capped; maintain HOLD

- **Q1 AUM growth robust at 17% YoY with debt seeing inflows after several quarters of outflow; revenue and EBITDA impressive**
- **Market share improved in overall and equity AUM; yields lower due to large AUM size**
- **TP raised to Rs 2,445 (vs. Rs 1,946) on a 12%/11% increase in FY24/FY25 PAT estimates and a higher target P/E of 28.5x (vs. 25x)**

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Strong growth: HDFC AMC's AUM grew 17% YoY to Rs 4.9tn in Q1FY24 with actively managed equity funds growing at an even higher 26% YoY. Revenue/ EBITDA at Rs 7.3bn/Rs 5.9bn increased 37.5%/46.3% YoY. Revenue growth was bumped up by abnormal other income (MTM gains) of Rs 1.6bn. SIP AUM rose 46% YoY to Rs 1tn, of which ~77% has a tenure of >10Y. Based on the Q1 print, we increase our AUM estimates by 10%/13% for FY24/FY25 to Rs 5.2tn/Rs 5.9tn and raise net profit forecasts by 11-12% each.

Equity tilt; market share improves: HDFC AMC maintained its #3 rank in overall MAAUM with 11.4% market share in Q1FY24 while equity MAAUM share moved up to 12.4% from 12.2% at end-FY23. Equity constituted 56% of MAAUM at end-Q1FY24 vs. 57% in FY23. Debt came as a surprise with both the industry and company witnessing inflows. Calculated revenue yield stood at 47bps of AUM in Q1 (48bps in Q4) and operating margin held at 34bps (35bps in Q4).

Diversified distribution network: HDFC AMC has 229 branches (151 in B30 cities) and tie-ups with over 75,000 distribution partners, servicing customers across ~99% of India's pin-codes. Direct channels contributed 42% of AUM in Q1FY24 whereas MFDs contributed 28%. HDFC Bank, however, brought in only 5.8% of business as compared to 10.3% in FY18, which the company intends to increase now that the bank's merger with HDFC is complete. Within equity AUM, direct channels accounted for 23% share whereas MFDs brought in 40% of business. The company asserted that it maintains a high wallet share in each distribution channel.

Maintain HOLD: The stock is trading at 29.3x FY25E EPS. Apart from raising profit estimates, we also value the stock at a higher 28.5x FY25E EPS vs. 25x earlier, translating to a revised TP of Rs 2,445 (vs. Rs 1,946). Our multiple upgrade stems from a gradual recouping of market share, new scheme launches, improved equity scheme performance, and expectations of a conducive TER rule framework. However, the low share of HDFC Bank in generating business and soft industry net flows will likely remain a drag on growth for a big player like HDFC AMC and thus we value it at a 20% discount to the long-term mean. Our TP carries 2% downside; HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCAMC IN/Rs 2,498
Market cap	US$ 6.5bn
Free float	37%
3M ADV	US$ 19.4mn
52wk high/low	Rs 2,589/Rs 1,590
Promoter/FPI/DII	63%/8%/18%

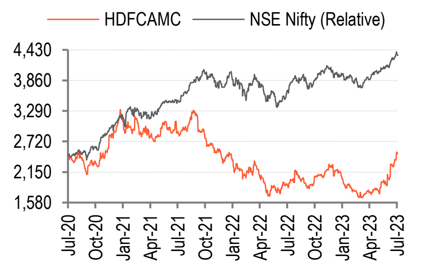
Source: NSE | Price as of 24 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	15,549	16,955	19,457
Core PBT (YoY)	1.1	9.0	14.8
Adj. net profit (Rs mn)	14,239	16,825	18,299
EPS (Rs)	66.7	78.8	85.8
Consensus EPS (Rs)	66.7	71.2	81.0
MCap/AAAUM (%)	11.9	10.2	9.0
ROAAAUM (bps)	31.7	32.1	30.9
ROE (%)	24.5	26.5	26.6
P/E (x)	37.4	31.7	29.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 5,330 | ⮝ 12%

PERSISTENT SYSTEMS | Technology & Internet | 24 July 2023

Resilient quarter but growth guided to soften near term

- **Top BFS client the driving force behind Q1 growth, but management expects weakness in the vertical for the next few quarters**
- **Bagged marquee hyperscaler and healthcare deals, though spillover of some contracts to Q2 led to softer sequential TCV**
- **Management remains confident of above-industry growth in FY24; we retain HOLD and a TP of Rs 5,330**

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Resilient Q1: PSYS delivered a topline of US$ 283mn, up 2.9% QoQ and 16.9% YoY in Q1FY24, led by the top client (T1) which increased 13% QoQ (10.2% of total revenue). Non-top clients and smaller accounts contributed modest gains, with revenue from the top 50 bracket up 5.7% QoQ, backed by IP (+8%) and services (+2.7%) business. Recent macro challenges have led to execution delays, particularly in BFS, and hence management expects this vertical to soften over the near term. The hi-tech vertical was flat and life sciences/healthcare dipped 5% QoQ due to a material drag from the scientific instrument and medical device segment.

Poor deal TCV and softer growth outlook: Total deal TCV declined 11% sequentially to US$ 380mn off a high base and due to the spillover of some signings into Q2. Despite marquee deal wins in the hyperscaler, healthcare and offshore development centre domains for software and hi-tech clients, average contract value declined materially by 14% QoQ with the book-to-bill ratio falling below 1x in Q1 (1.1x in Q4FY23). Management moderated its quarterly revenue growth guidance for FY24 to 2-4% from 3-5%.

EBIT margin dips QoQ: EBIT margin at 14.9% contracted 44bps QoQ as topline growth was offset by higher visa cost (-40bps impact), amortisation and doubtful debt. Higher G&A expense due to new office space (+20bps) along with debt provisions (-10bps) had a further negative impact. Though wage hikes will affect Q2, management expects to leverage fresher billing and utilisation for the next few quarters. Days sales outstanding have declined which we believe will aid OCF in Q2-Q3. Headcount was at 23,130, up by 241, and attrition moderated materially to 15.5% in Q1 from 19.8% in Q4FY23. Management has guided for the FY24 margin to hold at FY23 levels of ~15%.

Upside limited; maintain HOLD: PSYS aspires to achieve above-industry growth of 7-10% for FY24 and now guides for quarterly growth of 2-4%. The stock is currently trading at 26.7x FY25E EPS, having rallied 7% over the past one quarter, which leaves limited upside. We maintain our HOLD rating and TP of Rs 5,330, based on 30x FY25E EPS (vs. the stock's historical average of 34.4x over FY20-FY23.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	PSYS IN/Rs 4,750
Market cap	US$ 4.6bn
Free float	70%
3M ADV	US$ 21.5mn
52wk high/low	Rs 5,279/Rs 3,092
Promoter/FPI/DII	30%/26%/44%

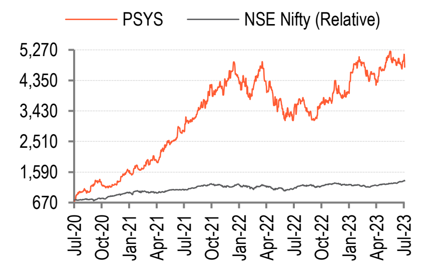
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	83,506	96,822	1,11,253
EBITDA (Rs mn)	15,191	18,155	21,063
Adj. net profit (Rs mn)	9,507	11,422	13,574
Adj. EPS (Rs)	124.4	149.4	177.6
Consensus EPS (Rs)	124.4	146.7	174.8
Adj. ROAE (%)	27.4	30.8	33.7
Adj. P/E (x)	38.2	31.8	26.7
EV/EBITDA (x)	24.9	21.1	18.1
Adj. EPS growth (%)	43.7	20.1	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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