BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

19 April 2021

RESEARCH

Mindtree | Target: Rs 2,180 | +5% | ADD

Continued recovery in travel; TCV robust

HDFC Bank | Target: Rs 1,800 | +26% | BUY

Asset quality stable despite NPA recognition

Banking | Q4FY21 Preview

NPA recognition begins; provision buffers to cushion earnings

SUMMARY

Mindtree

Mindtree (MTCL) reported a strong Q4FY21 performance with dollar revenue growth of 5.2% QoQ, ahead of estimates. EBIT margin was in line at 18.6% (–100bps QoQ). Deal wins were healthy, rising 20% QoQ to US$ 375mn. Management expects double-digit growth and a 20%+ EBITDA margin for FY22. We raise FY22/FY23 EPS by 14% each on better growth and margin assumptions. Rolling valuations over, we have a revised Mar'22 TP of Rs 2,180 (vs. Rs 1,850), based on an unchanged target P/E of 23.4x. Retain ADD.

Click here for the full report.

HDFC Bank

HDFC Bank's (HDFCB) Q4FY21 PAT was in line at Rs 82bn (+18% YoY) and asset quality was stable with GNPA ratio at ~1.3% despite the SC vacating its stay on NPA recognition. The restructured book was manageable at Rs 65bn (0.6% of loans). The bank has an adequate provision buffer and the Rs 13bn contingent provision made in Q4 is precautionary. Retail demand resolution and bounce rates have been improving steadily since Oct'20 and retail asset traction is returning to pre-Covid levels. Maintain BUY, Mar'22 TP unchanged at Rs 1,800.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	(6bps)	(3bps)	95bps
India 10Y yield (%)	6.13	12bps	(7bps)	(31bps)
USD/INR	74.93	0.2	(3.4)	2.4
Brent Crude (US$/bbl)	66.94	0.5	(2.8)	140.6
Dow	34,036	0.9	3.3	44.6
Shanghai	3,399	(0.5)	(0.6)	20.5
Sensex	48,804	0.5	(3.2)	59.5
India FII (US$ mn)	**12Apr**	**MTD**	**CYTD**	**FYTD**
FII-D	46.1	(361.0)	(2,388.2)	(361.0)
FII-E	(331.6)	(287.2)	7,039.2	(287.2)

Source: Bank of Baroda Economics Research

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Banking: Q4FY21 Preview

The SC has lifted its stay on tagging of NPAs but we expect slippages to be lower in Q4FY21 as banks have recognised a bulk of the Covid-related stress in their proforma numbers. Most players have created healthy provisioning buffers – this coupled with corporate resolutions should cushion earnings. Management commentary regarding the growth and asset quality effects of the second Covid wave will be keenly watched. We maintain our preference for frontline banks (ICICIBC, HDFCB, SBIN) as they are well provisioned and adequately capitalised.

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ADD

TP: Rs 2,180 | ⮝ 5%

MINDTREE | IT Services | 16 April 2021

Continued recovery in travel; TCV robust

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Mindtree (MTCL) reported a strong Q4FY21 performance with dollar revenue growth of 5.2% QoQ, ahead of estimates. EBIT margin was in line at 18.6% (–100bps QoQ). Deal wins were healthy, rising 20% QoQ to US$ 375mn. Management expects double-digit growth and a 20%+ EBITDA margin for FY22. We raise FY22/FY23 EPS by 14% each on better growth and margin assumptions. Rolling valuations over, we have a revised Mar'22 TP of Rs 2,180 (vs. Rs 1,850), based on an unchanged target P/E of 23.4x. Retain ADD.

Travel and manufacturing recovery continues: Despite seasonality, MTCL's dollar revenue increased 5.2% QoQ vs. 4.7% estimated. Sequential growth was driven by a 17% uptick in travel, media & services and a 9% uptick in manufacturing. Communications, media and technology grew at a healthy 4.1% QoQ. BFSI was flattish due to a few large deals being pushed to Q1FY22. Among geographies, Europe led the momentum at 8.6%. TCV at US$ 375mn increased 20% QoQ. Overall, MTCL has delivered Q4 growth on par with tier-I IT players.

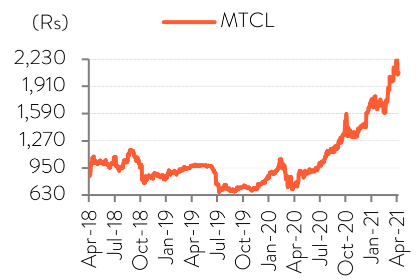
Margins steady: EBITDA margin stood at 21.9%, in line with management's guidance of achieving a 20%+ EBITDA margin for Q4. EBIT margin contracted 100bps QoQ to 18.6% due to salary hikes and a spike in hiring. Utilisation was at an all-time high of 84.3%, up 120bps QoQ. MTCL has embarked on a positive growth cycle following new CEO takeover, resulting in elevated margins due to an aggressive focus on profitable growth (using levers such as utilisation, offshoring and deep account mining).

Healthy pipeline; positive outlook: Per management, MTCL is on track to achieve double-digit growth in FY22 (already factored in our estimates), given its robust pipeline where a majority of the deals are annuity in nature. EBITDA margin is guided to hold above 20% in FY22.

Ticker/Price	MTCL IN/Rs 2,070
Market cap	US$ 4.6bn
Shares o/s	165mn
3M ADV	US$ 30.0mn
52wk high/low	Rs 2,276/Rs 721
Promoter/FPI/DII	74%/11%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	70,215	77,643	79,678	97,011	110,247
EBITDA (Rs mn)	10,645	10,623	16,426	21,913	23,006
Adj. net profit (Rs mn)	7,542	6,309	11,103	14,627	15,257
Adj. EPS (Rs)	45.8	38.3	67.4	88.8	92.7
Adj. EPS growth (%)	32.1	(16.3)	76.0	31.7	4.3
Adj. ROAE (%)	24.9	19.5	29.7	31.3	28.0
Adj. P/E (x)	45.2	54.0	30.7	23.3	22.3
EV/EBITDA (x)	31.9	31.9	20.5	15.2	14.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,800 | ⮝ 26%

HDFC BANK | Banking | 17 April 2021

Asset quality stable despite NPA recognition

HDFC Bank's (HDFCB) Q4FY21 PAT was in line at Rs 82bn (+18% YoY) and asset quality was stable with GNPA ratio at ~1.3% despite the SC vacating its stay on NPA recognition. The restructured book was manageable at Rs 65bn (0.6% of loans). The bank has an adequate provision buffer and the Rs 13bn contingent provision made in Q4 is precautionary. Retail demand resolution and bounce rates have been improving steadily since Oct'20 and retail asset traction is returning to pre-Covid levels. Maintain BUY, Mar'22 TP unchanged at Rs 1,800.

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Headline NPAs stable: HDFCB's GNPA ratio remained largely stable at 1.32% (proforma 1.38% in Q3) given that the slippage ratio stood at ~1.7% (vs. 1.8% in Q3). The bank used contingent provisions worth Rs 36bn towards these slippages and set aside a further Rs 5bn towards reversal of interest-on-interest, as per regulatory guidelines. NPAs in the wholesale book were marginal and a large portion of these may be upgraded once a Covid resolution plan is implemented.

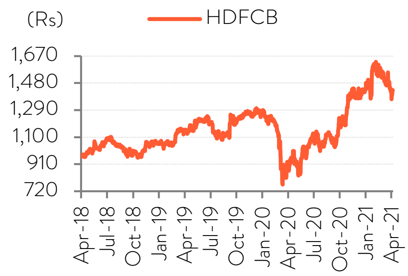
Retail demand resolution and cheque bounce rates improving: Retail demand resolution and cheque bounce rates continued to improve in Q4, though the latter has deteriorated marginally in April. States such as Maharashtra, Madhya Pradesh, Punjab and Telangana are showing higher stress. SME loans form ~20% of the overall portfolio and delinquency levels across buckets in this segment are now closer to pre-Covid levels.

Retail growth gradually picking up: Demand in the retail secured/unsecured segments has normalised with disbursements growing at 21% YoY/6% QoQ in Q4. Segments such as auto, housing and personal loans are showing good traction. The bank has disbursed loans worth Rs 265bn under ECLGS 1 & 2.

Ticker/Price	HDFCB IN/Rs 1,429
Market cap	US$ 105.5bn
Shares o/s	5,490mn
3M ADV	US$ 205.5mn
52wk high/low	Rs 1,641/Rs 826
Promoter/FPI/DII	26%/37%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	482,432	561,863	648,796	765,703	920,305
NII growth (%)	20.3	16.5	15.5	18.0	20.2
Adj. net profit (Rs mn)	210,782	262,573	311,165	373,592	448,710
EPS (Rs)	39.6	48.0	56.6	67.8	81.4
P/E (x)	36.0	29.7	25.2	21.1	17.6
P/BV (x)	5.2	4.6	3.9	3.4	3.0
ROA (%)	1.8	1.9	1.9	2.0	2.0
ROE (%)	16.5	16.4	16.6	17.2	18.2

Source: Company, BOBCAPS Research | P – Provisional

BANKING | Q4FY21 Preview | 16 April 2021

NPA recognition begins; provision buffers to cushion earnings

The SC has lifted its stay on tagging of NPAs but we expect slippages to be lower in Q4FY21 as banks have recognised a bulk of the Covid-related stress in their proforma numbers. Most players have created healthy provisioning buffers – this coupled with corporate resolutions should cushion earnings. Management commentary regarding the growth and asset quality effects of the second Covid wave will be keenly watched. We maintain our preference for frontline banks (ICICIBC, HDFCB, SBIN) as they are well provisioned and adequately capitalised.

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Pace of slippages likely to moderate: The Supreme Court recently lifted the standstill on NPA recognition, which implies better clarity on asset quality in Q4. Despite this, we expect the pace of incremental slippages to be lower QoQ as most of our coverage has recognised a bulk of the stress in their proforma numbers till Q3. Recovery from Bhushan Power and resolution of a few small cases should aid the sector. Credit cost is projected to be lower QoQ with large banks such as Axis Bank (AXSB) and ICICI (ICICIBC) potentially seeing writebacks of excess provisions. Variation in slippages from actual stress recognition and proforma reporting will be key monitorables. Fresh restructuring is likely to be negligible.

Loan growth yet to pick up meaningfully: As per RBI data, loan growth for the system remained sluggish at ~6% YoY in Q4. A large part of the growth was likely driven by retail and the emergency credit line scheme (ECLGS) while corporate growth remained negative. As per Q4 business updates provided by select banks, HDFC Bank (HDFCB) is the only outlier with a 14% YoY uptick in credit, Federal Bank (FB) grew 9%, and IndusInd (IIB) and RBL Bank (RBK) were largely flat. Deposit growth in the system stood at ~11% YoY in Q4 with HDFCB, IIB, Bandhan and RBK reporting healthy 10-14% QoQ growth in CASA deposits.

Interest reversals pose risk to NIM: A large float of CASA deposits is likely to provide tailwinds to margins but following the SC judgement, banks have to refund the interest-on-interest charged on overdue loans. Moreover, players that have not reversed interest on proforma NPAs but treated this under provisions run the risk of a one-off impact on NIM. Non-interest income is likely to be aided by QoQ improvement in fees and recoveries from written-off accounts. However, we expect treasury income to be lower as bond yields have risen ~30bps QoQ during the quarter.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AUBANK IN	1,077	1,500	BUY
AXSB IN	669	760	BUY
BANDHAN IN	323	375	ADD
CBK IN	134	150	ADD
FB IN	76	85	ADD
HDFCB IN	1,428	1,800	BUY
ICICIBC IN	567	675	BUY
IDFCFB IN	54	23	SELL
IIB IN	865	1,100	BUY
KMB IN	1,766	2,100	BUY
RBK IN	188	195	SELL
SBIN IN	340	475	BUY

Price & Target in Rupees | Price as of 16 Apr 2021

Disclaimer

Recommendation scale: 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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