FIRST LIGHT

25 January 2021

RESEARCH

Reliance Industries | Target: Rs 2,090 | +2% | REDUCE

Oil-to-Chemicals outlook remains cloudy

Mphasis | Target: Rs 1,550 | –3% | REDUCE

DXC revenue contracts further; BFS growth slows

DCB Bank | Target: Rs 100 | –14% | SELL

Growth remains subdued

SUMMARY

Reliance Industries

Q3FY21 highlights: (a) RIL's EBITDA was in line with estimates at Rs 216bn (–5% YoY, +14% QoQ) as Oil-to-Chemicals (O2C) and RJio met expectations while retail outperformed. (b) RJio EBITDA was in line at Rs 89.4bn (+53% YoY) backed by good ARPU (Rs 151) and subscriber adds (5mn net). (c) O2C EBITDA was also on par with estimates at Rs 97bn. However, given the persistently weak GRMs and stronger INR, we downgrade FY22/FY23 EPS by ~10%. Maintain REDUCE as we roll over to a new Mar'22 TP of Rs 2,090 (vs. Rs 2,000).

Click here for the full report.

Mphasis

Mphasis (MPHL) reported dollar revenue growth of 2% QoQ in Q3FY21, in line with estimates but lagging behind peers. As expected, growth was dragged down by tapering DXC business, which fell 18.2% QoQ CC. EBIT margin at 16.4% improved 30bps QoQ (15.9% est.). TCV at US$ 247mn was strong. We increase FY23 EPS by 4% and roll forward to a revised Dec'21 TP of Rs 1,550 (vs. Rs 1,410). Given the laggardly performance vis-à-vis peers, we maintain REDUCE on a largely unchanged P/E multiple of 16.9x.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.11	3bps	17bps	(63bps)
India 10Y yield (%)	5.93	1bps	1bps	(67bps)
USD/INR	73.00	0	1.1	(2.4)
Brent Crude (US$/bbl)	56.10	0	10.2	(9.6)
Dow	31,176	0	3.2	6.9
Shanghai	3,621	1.1	5.9	21.7
Sensex	49,625	(0.3)	8.9	19.9
India FII (US$ mn)	**20 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(276.1)	(961.8)	(961.8)	(5,055.4)
FII-E	341.1	2,562.7	3,019.6	32,995.3

Source: Bank of Baroda Economics Research

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DCB Bank

DCB Bank's (DCBB) Q3FY21 PAT of ~Rs 1bn beat estimates on higher treasury income and contained opex. Collection efficiency improved MoM for home (94%) and CV loans (80%) but moderated slightly in the LAP portfolio (90%). Unlike most banks, DCBB did not tone down restructuring guidance of 3-5% of loans. Credit growth remains muted and is likely to resume gradually. We raise our TP to Rs 100 (vs. Rs 70) as we hike FY21-FY23 EPS by 10-17%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

Click here for the full report.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

REDUCE
TP: Rs 2,090 | ⮝ 2%

RELIANCE INDUSTRIES | Oil & Gas | 23 January 2021

Oil-to-Chemicals outlook remains cloudy

Q3FY21 highlights: (a) RIL's EBITDA was in line with estimates at Rs 216bn (–5% YoY, +14% QoQ) as Oil-to-Chemicals (O2C) and RJio met expectations while retail outperformed. (b) RJio EBITDA was in line at Rs 89.4bn (+53% YoY) backed by good ARPU (Rs 151) and subscriber adds (5mn net). (c) O2C EBITDA was also on par with estimates at Rs 97bn. However, given the persistently weak GRMs and stronger INR, we downgrade FY22/FY23 EPS by ~10%. Maintain REDUCE as we roll over to a new Mar'22 TP of Rs 2,090 (vs. Rs 2,000).

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Cyclical earnings remain a drag: RIL's cyclicals business reporting has become even more opaque, with no disclosures on GRM data this time around – the only global oil major to do this. Considering that O2C EBITDA is in line with our estimates, we believe GRMs would have been ~US$ 7/bbl and petchem EBITDA at Rs 67bn. Singapore benchmark GRMs remain muted at US$ 1-2/bbl. Sharp recovery in the Chinese economy would imply a positive outlook for petrochemical margins. The recent surge in spot LNG prices augurs well for the economics of petcoke gasifiers, giving RIL a strong margin advantage. We remain cautious on cyclicals as margin recovery may be pushed back to FY22.

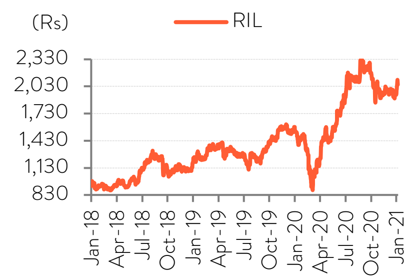
RJio earnings surge sustains; retail recovers sharply: ARPU expansion to Rs 151 (+4% QoQ) and in-line subscriber additions (5mn net) aided EBITDA of Rs 89bn for RJio, meeting our estimate. Per capita data consumption improved 4% QoQ to 12.9GB/month. Retail business EBITDA at Rs 31bn was above estimates (+14% YoY) on improvement in margins, and one-time investment income of Rs7.75 bn from transfer of petroleum retail outlets.

Deleveraging well priced in: We need to see earnings traction to justify the recent surge in stock price as the rally factors in positives from debt reduction. O2C earnings growth remains elusive in the current pandemic led uncertainty.

Ticker/Price	RIL IN/Rs 2,050
Market cap	US$ 190.0bn
Shares o/s	6,762mn
3M ADV	US$ 412.0mn
52wk high/low	Rs 2,369/Rs 876
Promoter/FPI/DII	50%/25%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	4,113,535	5,821,650	6,217,523
EBITDA (Rs mn)	841,670	882,170	850,123	1,307,959	1,598,365
Adj. net profit (Rs mn)	400,860	443,240	444,114	759,988	968,550
Adj. EPS (Rs)	59.3	65.6	65.7	112.4	143.2
Adj. EPS growth (%)	13.6	10.6	0.2	71.1	27.4
Adj. ROAE (%)	11.7	11.1	8.7	11.7	13.2
Adj. P/E (x)	34.6	31.3	31.2	18.2	14.3
EV/EBITDA (x)	18.7	18.2	19.5	12.5	10.0

Source: Company, BOBCAPS Research

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REDUCE
TP: Rs 1,550 | ∨ 3%

MPHASIS | IT Services | 22 January 2021

DXC revenue contracts further; BFS growth slows

Mphasis (MPHL) reported dollar revenue growth of 2% QoQ in Q3FY21, in line with estimates but lagging behind peers. As expected, growth was dragged down by tapering DXC business, which fell 18.2% QoQ CC. EBIT margin at 16.4% improved 30bps QoQ (15.9% est.). TCV at US$ 247mn was strong. We increase FY23 EPS by 4% and roll forward to a revised Dec'21 TP of Rs 1,550 (vs. Rs 1,410). Given the laggardly performance vis-à-vis peers, we maintain REDUCE on a largely unchanged P/E multiple of 16.9x.

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DXC contraction continues: MPHL reported QoQ revenue growth (ex-hedging gains) of 2% USD/1.6% CC, in line with our estimates. Banking and capital markets' growth slowed to 1% vs. 15% in Q2. DXC revenue continued to slide, falling 18.2% QoQ CC and worsening from the 15.5% decline in Q2. Growth now relies entirely on the direct-international segment (85% of revenue) as the minimum revenue commitment-MRC with DXC ends in Sep'21. EBIT margin was at 16.4% (est. 15.9%), up 30bps QoQ but below the Q3 peer average. Management expects the upward bias in EBIT margin to continue as higher demand for offshore services aids structural gains.

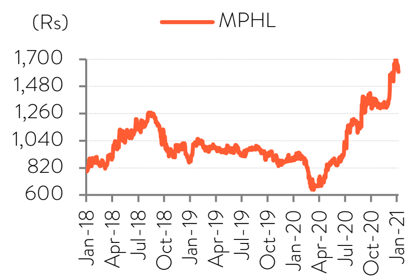
Deal pipeline strong: TCV stood at US$ 247mn, down from US$ 360mn in Q2. MPHL bagged large deals in insurance (~US$ 50mn) and logistics-transportation. The pipeline remains strong, growing 49% YoY, and is now tilted towards large deals.

Hi-tech to drive growth: The information technology, communication & entertainment vertical was up 10.7% QoQ in Q3. Its countercyclical nature and robust pipeline make it a growth driver. Among geographies, Europe remains strong, up 12% QoQ in rupee terms and emerging as a key market for FY21.

Ticker/Price	MPHL IN/Rs 1,599
Market cap	US$ 4.1bn
Shares o/s	186mn
3M ADV	US$ 8.5mn
52wk high/low	Rs 1,735/Rs 630
Promoter/FPI/DII	52%/29%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	77,311	88,436	97,849	114,911	133,933
EBITDA (Rs mn)	13,240	16,505	18,221	22,584	26,361
Adj. net profit (Rs mn)	10,734	11,849	12,273	15,108	17,806
Adj. EPS (Rs)	57.7	63.7	65.9	81.2	95.7
Adj. EPS growth (%)	30.9	10.4	3.6	23.1	17.9
Adj. ROAE (%)	20.0	21.4	20.1	22.4	23.8
Adj. P/E (x)	27.7	25.1	24.3	19.7	16.7
EV/EBITDA (x)	22.3	18.0	16.3	13.2	11.1

Source: Company, BOBCAPS Research

RESULT REVIEW

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SELL
TP: Rs 100 | ⋎ 14%

DCB BANK | Banking | 23 January 2021

Growth remains subdued

DCB Bank's (DCBB) Q3FY21 PAT of ~Rs 1bn beat estimates on higher treasury income and contained opex. Collection efficiency improved MoM for home (94%) and CV loans (80%) but moderated slightly in the LAP portfolio (90%). Unlike most banks, DCBB did not tone down restructuring guidance of 3-5% of loans. Credit growth remains muted and is likely to resume gradually. We raise our TP to Rs 100 (vs. Rs 70) as we hike FY21-FY23 EPS by 10-17%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

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Visibility on asset quality remains elusive: DCBB's reported GNPA ratio declined 31bps QoQ to ~2% due to the court stay on asset classification, but the proforma ratio shot up to 3.7% (vs. 2.4% in Q2). Management expects NPAs to rise for the next 3-4 quarters and intends to provide adequately. The bank is restructuring accounts worth ~Rs 1.6bn under the Covid-19 relief/ MSME restructure framework (it has already included proforma slippages worth ~Rs 4.5bn) and believes 3-5% of its portfolio may eventually be restructured. Higher restructuring proposals have come from the LAP and CV segments while home and SME/MSME borrowers are displaying less interest currently.

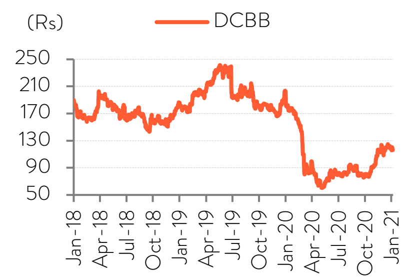
Loan growth still subdued: DCBB's loan book remained flat in Q3 though management expects growth to pick up in Q1FY22. The bank highlighted that gold, home, Kisan Credit Card and tractor loans are showing good traction but it remains cautious on corporate and SME/MSME working capital loans. Retail term deposits grew 22% YoY and CASA ratio improved to 24.1% (22.4% in Q2). NIM was stable QoQ at 3.75%.

Maintain SELL: We raise FY21-FY23 EPS by 10-17% to factor in higher other income, lower operating expenses and slightly better credit growth. Valuing the stock at 0.8x P/BV (0.6x earlier), we roll to a new Mar'22 TP of Rs 100.

Ticker/Price	DCBB IN/Rs 116
Market cap	US$ 493.2mn
Shares o/s	310mn
3M ADV	US$ 3.3mn
52wk high/low	Rs 186/Rs 58
Promoter/FPI/DII	15%/15%/70%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	11,493	12,649	12,672	12,907	14,446
NII growth (%)	15.5	10.1	0.2	1.9	11.9
Adj. net profit (Rs mn)	3,254	3,379	2,589	3,092	3,956
EPS (Rs)	10.5	10.9	7.8	8.7	11.1
P/E (x)	11.0	10.7	14.9	13.3	10.4
P/BV (x)	1.3	1.1	1.0	1.0	0.9
ROA (%)	1.0	0.9	0.7	0.7	0.9
ROE (%)	11.0	10.3	6.8	7.2	8.6

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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