FIRST LIGHT

28 May 2021

RESEARCH

BOB Economics Research | RBI Annual Report
Large surplus despite shorter accounting period

Eicher Motors | Target: Rs 2,200 | –16% | SELL
In-line quarter; maintain SELL

IT Services | Q4FY21 Review
Indian IT performs in line with consensus

Banking
Home loan asset quality deteriorates marginally

SUMMARY

India Economics: RBI Annual Report

RBI's balance sheet expanded by 7% in FY21 (Jul'20-Mar'21) to Rs 57tn (29% of GDP) as against 30% increase last year (Jul'19-Jun'20, 26% of GDP). On the liability side, while deposits with RBI increased (excess liquidity), provisions fell sharply (INR, gold and interest rates). Asset side saw increase in domestic and foreign securities (FX reserves, OMOs). Loans to SCBs fell. Even in a shorter accounting period, RBI's surplus increased to Rs 991bn from Rs 571bn last year due to higher other income (trading) and lower provisions.

Click here for the full report.

Eicher Motors

Eicher Motors (EIM) reported in-line Q4FY21 standalone revenue of Rs 29bn, a 22% EBITDA margin and adj. PAT of Rs 4.7bn. We continue to expect the company to clock a brisk volume CAGR of 17% over FY21-FY23 but believe the impact of higher RM costs and an erratic supply chain would take a toll on profits – our FY22/FY23 operating margin forecast of 22% is 200bps below consensus. We maintain our Mar'22 TP of Rs 2,200, valuing EIM's standalone business at 24x FY23E EPS, a 50% premium to peers in line with the long-term average. SELL.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	2bps	8bps	95bps
India 10Y yield (%)	5.97	0bps	(7bps)	20bps
USD/INR	72.78	0.3	2.8	3.7
Brent Crude (US$/bbl)	68.45	(0.3)	1.6	84.2
Dow	34,323	0	1.2	39.8
Shanghai	3,593	0.3	0.6	21.6
Sensex	51,018	0.8	5.1	63.4
India FII (US$ mn)	**24 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(16.7)	244.6	(2,147.7)	(120.5)
FII-E	154.1	(232.6)	5,604.6	(1,721.8)

Source: Bank of Baroda Economics Research

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IT Services: Q4FY21 Preview

The Q4FY21 sequential growth and margin performance of India's IT services sector has been in line with our as well as consensus' optimistic estimates. BFSI emerged as the highest growing vertical, even as the recovery in manufacturing continued from Q3. With ample large deals and record TCV, most firms are on their way to double-digit revenue growth in FY22. However, supply-side pressure with record hiring and rising attrition remains a concern. We stay positive on TCS, HCLT & TECHM among large-caps and LTI & Coforge among mid-caps.

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Banking

9MFY21 home loan trends released by credit bureau CRIF High Mark point to mild deterioration in 90+ DPD by value. Moreover, the bureau noted a steady increase in delinquencies across borrower age groups, with default rates being the lowest in the 45+ age bracket and the highest in the under-25 group. Home loan growth was largely stable at 9.6% YoY in Q3FY21 given a rebound in disbursals. Banks continued to gain market share at the cost of HFCs and NBFCs, with PSBs gaining the most in the premium housing segment.

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RBI ANNUAL REPORT

27 May 2021

Large surplus despite shorter accounting period

RBI's balance sheet expanded by 7% in FY21 (Jul'20-Mar'21) to Rs 57tn (29% of GDP) as against 30% increase last year (Jul'19-Jun'20, 26% of GDP). On the liability side, while deposits with RBI increased (excess liquidity), provisions fell sharply (INR, gold and interest rates). Asset side saw increase in domestic and foreign securities (FX reserves, OMOs). Loans to SCBs fell. Even in a shorter accounting period, RBI's surplus increased to Rs 991bn from Rs 571bn last year due to higher other income (trading) and lower provisions.

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KEY HIGHLIGHTS

- RBI's surplus rises to Rs 991bn in FY21 from Rs 571bn in FY20.
- Interest income declined; 'other income' increased; provisions fell.
- Balance sheet expanded by 7% in FY21 versus 30% in FY20.
- Centre's cash balance higher at Rs 5tn.

RBI's surplus jumps: Despite a shorter accounting year (AY) (9-month ending Mar'21), RBI's surplus increased in FY21 (Jul'20-Mar'21) to Rs 991bn against Rs 571bn in FY20. This can be explained by sharp jump in other income to Rs 642bn in FY21 from Rs 403bn in FY20 attributable to trading gains on exchange rate transactions and rupee and foreign securities. At the same time, provisions fell by Rs 529bn to Rs 207bn. Notably, a higher surplus has been achieved even with lower interest income due to lower yields and shorter AY.

Provisions saw a sharp decline: RBI's balance sheet increased by 7% (Rs 57tn) for Jul-Mar'21 against 30% (Rs 53tn) in 12-months ending Jul'20. On the liabilities side, while deposits increased by 27%, revaluation provisions—currency and gold revaluation account and investment revaluation account—fell by 18% to Rs 9.24tn. This is attributable to unrealised losses due to rising global yields, lower gold prices and appreciation bias seen in INR. Note issuance increased by 7% to Rs 28.3tn.

Domestic and foreign holdings increase: On the asset side, foreign securities owned by RBI increased by Rs 4.1tn to Rs 39tn, an increase of 11%. This can be explained by deployment of US$ 99bn addition to RBI's forex reserves in FY21. At the same time, domestic securities owned by RBI increased by Rs 1.6tn or 14% to Rs 13tn. Notably, RBI conducted OMOs of Rs 3.1tn in FY21. On the other hand, RBI's loans and advances to SCBs fell to Rs 902bn as of Mar'21 from Rs 2.85tn as of Jun'20 as SCBs repaid their TLTRO borrowings.

Way forward: Centre's cash balance increased to Rs 5tn as of Mar'21 which gives the Centre room to kickstart the economy along with higher spending by states. This can crowd-in private investment which is likely to take time to recover. While RBI noted that consensus growth estimates have come around its 10.5% estimate for FY22, inflation faces both upside and downside risks.

SELL
TP: Rs 2,200 | ⮟ 16%

EICHER MOTORS | Auto Components | 28 May 2021

In-line quarter; maintain SELL

Eicher Motors (EIM) reported in-line Q4FY21 standalone revenue of Rs 29bn, a 22% EBITDA margin and adj. PAT of Rs 4.7bn. We continue to expect the company to clock a brisk volume CAGR of 17% over FY21-FY23 but believe the impact of higher RM costs and an erratic supply chain would take a toll on profits – our FY22/FY23 operating margin forecast of 22% is 200bps below consensus. We maintain our Mar'22 TP of Rs 2,200, valuing EIM's standalone business at 24x FY23E EPS, a 50% premium to peers in line with the long-term average. SELL.

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Q4 in line: EIM's standalone topline grew in line with our projections at 4% QoQ to Rs 29.2bn on the back of a 2% QoQ rise in quarterly volumes and a 2% increase in ASP stemming from pricing action. Gross margin slipped 60bps QoQ and other expenses increased due to a one-off Rs 250mn provision made against advances and currency fluctuations. EBITDA dipped 2% QoQ to Rs 6.4bn and margins shrank 150bps to 22%, in line with projections. Adj. PAT was down 4% QoQ to Rs 4.7bn.

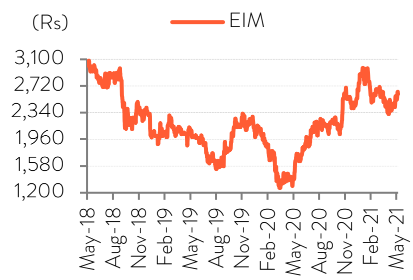
Near-term headwinds: During H2FY21, EIM clocked a quarterly sales run-rate of ~200k units and reported a 23% EBITDA margin. Though we pencil in a healthy 17% volume CAGR for Royal Enfield over FY21-FY23 supported by new launches and pent-up demand, we believe the impact of higher RM costs, an erratic supply chain and inability to take further price hikes would exact a toll on earnings.

Maintain SELL: Our FY22/FY23 revenue forecasts are ~10% below consensus due to lower volume assumptions and we are 200bps below on EBITDA margins at ~22%. We believe consensus margin assumptions could be at risk considering renewed Covid lockdowns and rising RM cost. Our EPS estimates are ~29% lower than the street. Retain SELL with an unchanged Mar'22 TP of Rs 2,200.

Ticker/Price	EIM IN/Rs 2,604
Market cap	US$ 9.8bn
Shares o/s	273mn
3M ADV	US$ 32.0mn
52wk high/low	Rs 3,037/Rs 1,505
Promoter/FPI/DII	49%/32%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	86,190	105,998	125,493
EBITDA (Rs mn)	29,269	22,038	17,865	22,320	27,846
Adj. net profit (Rs mn)	20,544	19,356	13,608	18,340	24,065
Adj. EPS (Rs)	75.8	69.8	48.7	66.0	86.8
Adj. EPS growth (%)	20.7	(8.0)	(30.2)	35.4	31.6
Adj. ROAE (%)	28.8	23.4	14.0	16.7	19.0
Adj. P/E (x)	34.3	37.3	53.4	39.5	30.0
EV/EBITDA (x)	23.8	30.6	37.7	29.4	24.1

Source: Company, BOBCAPS Research | P – Provisional

IT SERVICES | Q4FY21 Review | 27 May 2021

Indian IT performs in line with consensus

The Q4FY21 sequential growth and margin performance of India's IT services sector has been in line with our as well as consensus' optimistic estimates. BFSI emerged as the highest growing vertical, even as the recovery in manufacturing continued from Q3. With ample large deals and record TCV, most firms are on their way to double-digit revenue growth in FY22. However, supply-side pressure with record hiring and rising attrition remains a concern. We stay positive on TCS, HCLT & TECHM among large-caps and LTI & Coforge among mid-caps.

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Good FY21 print despite Q1 dip: Despite the Covid-19 slump in Q1FY21, Indian IT companies have shown resilience with most players registering positive YoY revenue growth in FY21, barring Wipro (WPRO), Mindtree (MTCL), and Tech Mahindra (TECHM). The BFSI and hi-tech verticals have driven growth. Manufacturing started recovering in H2FY21 while retail remained a mixed bag.

L&T Infotech (LTI) and Persistent Systems (PSYS) had the highest YoY growth at 9.5% and 12.9% USD respectively in FY21. LTI's performance is commendable as it comes on the back of 13% YoY growth in FY20. EBIT margin expanded by an average of 227bps YoY for our universe in FY21, aided by increased offshoring, higher utilisation, and lower travel, marketing and SG&A costs. Q4 revenue and margins were in line with our and the street's upbeat estimates.

Supply pressure causing proactive hiring: With utilisation reaching an all-time high, attrition has accelerated QoQ. TCS has been able to maintain its industry-low attrition rate despite talent shortage. Increased hiring reflects upcoming revenue, buoyant demand and ahead-of-curve supply capability buildup, besides safeguards against delivery risks due to India's Covid surge. We do not expect hiring to have a negative impact on margins as utilisation levels are likely to remain stable. Improved deal pricing will also bode well for margins in FY22.

Double-digit growth in FY22: Most companies are confident of achieving double-digit revenue growth in FY22, with HCL Tech (HCLT) and Coforge explicitly guiding for this (in line with our estimates). MPHL forecasts above-industry growth in its direct channel. TCS' management has said it is on track to achieve a double-digit print in FY22. We believe the uptick will be fuelled by a strong FY22 pipeline, record exit TCVs, a multiyear technology upcycle, and low base of FY21. On the margin front, most players are confident of stability and expect FY21 levels to sustain despite some higher costs anticipated in FY22.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	3,159	3,780	BUY
INFO IN	1,397	1,540	ADD
HCLT IN	946	1,190	BUY
TECHM IN	1,008	1,190	BUY
LTI IN	3,800	4,710	BUY
MPHL IN	1,914	1,580	SELL
PSYS IN	2,515	1,340	SELL
COFORGE IN	3,485	4,080	BUY

Price & Target in Rupees | Price as of 26 May 2021

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BANKING

27 May 2021

Home loan asset quality deteriorates marginally

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Delinquencies rise across ticket sizes: In terms of value, delinquencies in the housing loan book as measured by 90+ days past due (DPD) increased 20bps YoY to 2.49% in Dec'20. Defaults have risen across ticket sizes with the <Rs 1mn loan segment the hardest hit at 4.4% (90+ DPD). Lender-wise, HFCs and NBFCs have the highest delinquency level at 2.8% due to stress in the <Rs 1.5mn ticket book, while public sector banks (PSB) have the lowest default rate at 1.9%. The deterioration is across borrower age groups but especially visible in the under-25 bracket at 4.2% (vs. 3.9% in Dec'19).

Housing loan growth largely stable: Despite pandemic headwinds, growth in home loans was stable at 9.6% YoY in Q3FY21 given a sharp 28% QoQ jump in disbursements. Affordable housing (ticket size <Rs 3.5mn) constitutes 60% of the home loan market by value and nearly 90% by volume as of Dec'20. A large part of the growth in affordable housing has come from tier-2, 3 & beyond geographies where demand traction has outpaced metro markets.

HFCs and NBFCs continue to lose ground: PSBs remain the largest players in home loans with a dominant market share of 44-46% in the mid-to-affordable segments. Moreover, their market share in the premium space (loans >Rs 7.5mn) has increased by ~7ppt to 27.4% over the last three years. Nevertheless, private banks continue to lead the premium segment with 34.5% market share. HFCs and NBFCs are large players as well with 33-38% share across ticket sizes but continue to lose ground due to their cautious lending approach.

Maintain preference for larger banks: ICICI Bank (BUY, TP Rs 675), State Bank of India (BUY, TP Rs 515) and HDFC Bank (BUY, TP Rs 1,800) remain our top picks in the sector given their well-managed asset quality coupled with strong liability franchise and high capitalisation which gives them the leeway to exploit growth opportunities and improve return ratios.

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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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