

FIRST LIGHT

RESEARCH

[Sector Report] IT Services

Deep Dive 2: Telecom tech spends resilient – upgrade TECHM

Pidilite Industries | Target: Rs 1,110 | –20% | SELL

Lockdown weighs on growth

SUMMARY

IT Services

Global 5G rollout is estimated to offer a mega US\$ 10bn business opportunity for Indian IT players. As against consensus apprehensions of widespread 5G delays post-pandemic, roadmaps for network rollout in the US and China are on course. Top US telco players with >95% market share have reaffirmed 5G investment commitments. We are upbeat on prospects for Tech Mahindra (TECHM) given its highest telecom exposure among large-cap IT at 42%, which leads us to raise FY21/ FY22 EPS by 5%/7%, increase our TP to Rs 690 and upgrade the stock to BUY.

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

Pidilite Industries

Pidilite Industries' (PIDI) consolidated Q4FY20 revenue declined 6% YoY as volumes slipped 3% in the domestic consumer & bazaar (CBP) segment. Operating margins expanded 250bps YoY to 19.5% primarily due to lower raw material cost, resulting in EBITDA growth of 8% YoY. Management believes it is too early to forecast a return to business normalcy post lockdown. We broadly maintain estimates with an unchanged Mar'21 target price of Rs 1,110. Retain SELL.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	140
Petronet LNG	Buy	330
Eicher Motors	Add	18,100

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.74	(1bps)	8bps	(137bps)
India 10Y yield (%)	6.01	(2bps)	19bps	(96bps)
USD/INR	76.17	0.1	(0.6)	(8.8)
Brent Crude (US\$/bbl)	40.63	(0.5)	22.2	(34.8)
Dow	26,120	(0.6)	8.8	(1.3)
Shanghai	2,936	0.1	0.8	0.1
Sensex	33,508	(0.3)	6.9	(14.7)
India FII (US\$ mn)	16 Jun	MTD	CYTD	FYTD
FII-D	(67.6)	(372.5)	(14,427.8)	(4,668.3)
FII-E	(195.0)	2,384.7	(2,529.8)	4,073.2

Source: Bank of Baroda Economics Research

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IT SERVICES

18 June 2020

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US, China on track in 5G race despite Covid-19: In our view, the street has overestimated Covid-led 5G capex delays and thus misjudged telecom tech spending trends. Telecom’s status as an essential service has ensured uninterrupted 5G network building. Barring Europe which could see delays, the 5G roadmap in early mover countries is largely on track: (1) US – AT&T, Verizon and T-Mobile (+Sprint) who collectively account for 95%+ market share have indicated timely 5G network progress. (2) China has doubled down on national network deployments targets for CY20 backed by a forceful central government push.

Telecom sector resilient: Telecom is a relatively defensive sector in the current environment and hence telecom technology spends will be resilient, in our view. Operators across geographies have pointed to a benign impact on the low-margin handset business and on roaming charges. At the same time, the sudden shift to online sales channels and negligible customer churn due to the lockdown will aid operating margins. Our view of sustained technology spends in the sector is validated by Gartner who sees positive traction in telecom tech spending in the short and long term due to Covid-19.

Upgrade TECHM to BUY: TECHM has the highest telecom exposure among large-caps at 42% of revenue and hence would benefit the most from healthy 5G spends. We raise FY21/FY22 EPS for the company by 5%/7%, revise our Mar’21 TP to Rs 690 (Rs 570 earlier), and upgrade the stock from REDUCE to BUY on attractive valuations. Our FY22 EPS estimates are 10% above Bloomberg consensus. After correcting 29% in 2020 YTD, valuations at 12.6x/9.7x FY21E/ FY22E P/E factor in near-term operational weakness.

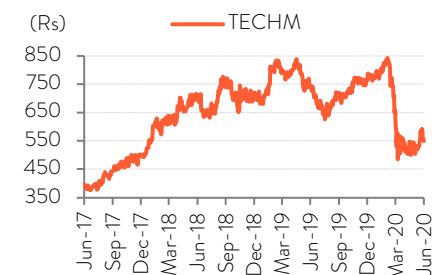
We revise USDINR assumptions for our coverage universe to Rs 76.5/Rs 78 for FY21/FY22 (from Rs 75/US\$ earlier) and accordingly adjust our EPS estimates by –6% to +12% and reset our target prices, but keep ratings unchanged.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,048	2,160	ADD
INFO IN	704	760	ADD
WPRO IN	218	170	SELL
HCLT IN	576	680	BUY
TECHM IN	535	690	BUY
LTI IN	1,880	2,230	BUY
MPHL IN	840	780	SELL
MTCL IN	906	880	REDUCE
HEXW IN	315	350	ADD
PSYS IN	594	590	REDUCE
NITEC IN	1,335	1,430	ADD
ECLX IN	434	420	REDUCE

Price & Target in Rupees

TECHM – STOCK PERFORMANCE



Source: NSE



SELL

TP: Rs 1,110 | ▼ 20%

PIDILITE INDUSTRIES

Construction Materials

18 June 2020

Lockdown weighs on growth

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Operating margins expanded 250bps YoY to 19.5% primarily due to lower raw material cost, resulting in EBITDA growth of 8% YoY. Management believes it is too early to forecast a return to business normalcy post lockdown. We broadly maintain estimates with an unchanged Mar'21 target price of Rs 1,110. Retain SELL.

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Revenue declines due to lockdown: PIDI's consolidated Q4 revenue fell 6% YoY to Rs 15.4bn, with 3.5% growth in overseas subsidiaries and a 12% decline in the domestic subsidiary. Standalone revenue dipped 4% YoY to Rs 13.2bn as volumes in the CBP segment fell ~3% while business-to-business (B2B) volumes declined 4.5%. The company estimates that it lost sales of Rs 1.5bn due to the lockdown. Management expects a challenging near-term demand environment arising from lower availability of manpower, both at the consumer and company level, but expects this issue to be resolved as demand revives.

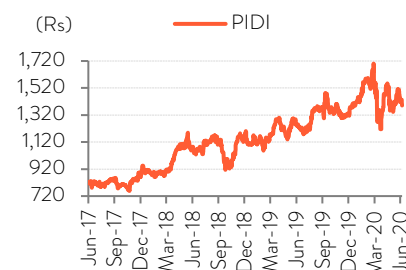
EBITDA boosted by lower RM cost: PIDI's consolidated operating margin swelled 250bps YoY to 19.5% due to lower raw material cost (-500bps YoY). This resulted in EBITDA growth of 8% YoY. However, PBT (before extraordinary) decreased 12% YoY due to lower other income (-75% YoY), stemming from reduced MTM gains/interest earned on investments.

Maintain SELL: PIDI faces near-term demand challenges arising out of the pandemic. While we like the company for its strong franchise and broad portfolio, we believe valuations at 50.3x FY22E P/E are rich. Maintain SELL with an unchanged Mar'21 TP of Rs 1,110.

Ticker/Price	PIDI IN/Rs 1,391
Market cap	US\$ 9.3bn
Shares o/s	508mn
3M ADV	US\$ 17.3mn
52wk high/low	Rs 1,710/Rs 1,168
Promoter/FPI/DII	70%/12%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	60,324	70,787	72,945	65,827	84,090
EBITDA (Rs mn)	13,412	13,682	15,760	13,758	19,257
Adj. net profit (Rs mn)	9,159	8,901	11,590	9,655	14,051
Adj. EPS (Rs)	18.0	17.5	22.8	19.0	27.7
Adj. EPS growth (%)	7.5	(2.9)	30.2	(16.7)	45.5
Adj. ROAE (%)	26.0	23.1	26.9	20.8	27.4
Adj. P/E (x)	77.1	79.4	61.0	73.2	50.3
EV/EBITDA (x)	52.7	51.6	44.8	51.2	36.5

Source: Company, BOBCAPS Research



Disclaimer

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)

Rating distribution

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