BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

14 January 2021

RESEARCH

Infosys | Target: Rs 1,500 | +8% | ADD

Guidance upgraded on strong growth

Wipro | Target: Rs 350 | –24% | SELL

Growth outperforms estimate, but lags behind peers

Banking | Q3FY21 Preview

All eyes on asset quality

Logistics | Q3FY21 Preview

Revenue and earnings growth set for recovery in Q3

Banking

Card spends back to pre-Covid levels; stress to gradually subside

SUMMARY

Infosys

Infosys' (INFO) Q3FY21 dollar revenue growth of 6.2% QoQ beat our estimate of 3.5%, with the company also posting its highest-ever TCV of US$ 7.1bn. Management upped FY21 guidance to 4.5-5% CC vs. 2-3% earlier, which indicates a lukewarm Q4FY21. We raise FY21/FY22/FY23 EPS by 3%/5%/8% and increase our target P/E from 23x to 26x (5% discount to TCS), baking in the enhanced performance, pipeline and updated guidance. On rollover, we have a new Dec'22 TP of Rs 1,500 (vs. Rs 1,210). Retain ADD.

Click here for the full report.

Wipro

Wipro (WPRO) delivered an upbeat QoQ performance in Q3FY21 with 3.4% CC revenue growth, ahead of our estimate of 2.7%. Operating margin at 21.7% came in above expectations. We increase FY21/FY22/FY23 EPS by 5%/11%/3% factoring in the better margins. But given WPRO's past record of sluggish growth and pending implementation of the new business model, we remain skeptical about its mid-term prospects. Reiterate SELL as we roll forward to a Dec'22 TP of Rs 350 (Rs 290 earlier) on an upgraded P/E of 17.2x (vs. 15.2x).

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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 (%)	1.13	(2bps)	23bps	(68bps)
India 10Y yield (%)	5.92	0bps	2bps	(75bps)
USD/INR	73.25	0.2	0.5	(3.4)
Brent Crude (US$/bbl)	56.58	1.7	13.2	(12.3)
Dow	31,069	0.2	3.4	7.4
Shanghai	3,608	2.2	7.8	16.1
Sensex	49,517	0.5	7.4	18.0
India FII (US$ mn)	**11 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(203.4)	(174.6)	(174.6)	(4,268.2)
FII-E	400.3	1,795.5	1,795.5	31,771.3

Source: Bank of Baroda Economics Research

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Banking: Q3FY21 Preview

Q3FY21 is yet another quarter where management commentary will be watched even more keenly than reported earnings. The SC order on asset classification standstill remains in force which will lead banks to report proforma GNPAs. Key monitorables are clarity on expected slippages, restructuring pipeline and collection efficiency. For large private banks, credit growth is likely to beat the industry while credit costs should remain in check as they have built adequate buffers to cope with the impending stress.

Click here for the full report.

Logistics: Q3FY21 Preview

Aggregate revenue of our logistics coverage universe is forecast to grow 11% YoY in Q3FY21 vs. a 1% uptick in Q2. Further, we expect all companies under our coverage to post higher YoY EBITDA and earnings. The revival in domestic and EXIM trade has been much faster than anticipated, as evident from the steadily improving high frequency indicators – rail freight (+11% YoY in Q3), major port cargo (+2%) and e-way bills (+15%) – which may drive earnings surprises for our coverage companies. VRL Logistics is our preferred pick.

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Banking

Key takeaways from our interaction with an expert on the credit card industry: (1) India's credit card industry is poised to clock a 20-25% CAGR over the next five years spurred by multiple factors ranging from the push for digital payments to new underwriting methods. (2) In Oct'20, non-metros and smaller towns registered 23% YoY growth in new card issuances as compared to a decline of 10% for metros. (3) Credit card spend per month per card has grown consistently MoM since Apr'20, reaching pre-Covid levels of ~Rs 11k in Oct'20.

Click here for the full report.

RESULT REVIEW

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ADD
TP: Rs 1,500 | ⮝ 8%

INFOSYS | IT Services | 13 January 2021

Guidance upgraded on strong growth

Infosys' (INFO) Q3FY21 dollar revenue growth of 6.2% QoQ beat our estimate of 3.5%, with the company also posting its highest-ever TCV of US$ 7.1bn. Management upped FY21 guidance to 4.5-5% CC vs. 2-3% earlier, which indicates a lukewarm Q4FY21. We raise FY21/FY22/FY23 EPS by 3%/5%/8% and increase our target P/E from 23x to 26x (5% discount to TCS), baking in the enhanced performance, pipeline and updated guidance. On rollover, we have a new Dec'22 TP of Rs 1,500 (vs. Rs 1,210). Retain ADD.

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Best Q3 since FY13: INFO posted QoQ growth of 6.2% USD/5.3% CC, much ahead of our estimates of 3.5% USD/3.2% CC. Growth was backed by momentum across verticals, especially in life sciences/BFSI/manufacturing which were up 10.8%/9.8%/8.5% QoQ, USD. Digital revenue share breached the 50% mark. TCV stood at an all-time high of US$ 7.13bn (incl. the largest deal win in Indian IT), up 126% QoQ and 293% YoY. Based on the strong Q3 performance, increased cloud demand and market share gains, INFO has upgraded its FY21 growth guidance from 2-3% CC to 4.5-5%. The Q4 pipeline remains healthy, especially in the telecom vertical.

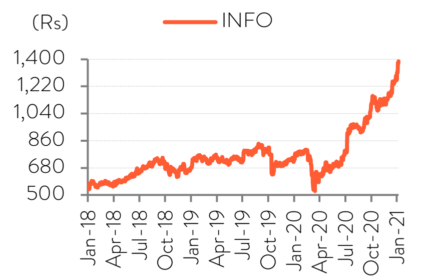
Margin guidance raised: EBIT margin at 25.4% was up 350bps YoY and flat QoQ, in line with our estimate of 25.6%. Salary hikes are to be rolled out from Q4FY21. Based on a low onsite mix, structurally reduced costs due to automation gains, pyramid optimisation, and low subcontractor and travel costs (97% of employees continue to work from home), management has upgraded margin guidance for FY21 to 24-24.5% from 23-24% guided in Q2FY21.

Q4 to be lukewarm: New FY21 growth guidance of 4.5-5% CC indicates a ~2.5% QoQ topline increase in Q4FY21. Impending salary hikes including 100% variable pay will also impact the margin, likely capping it below 24%.

Ticker/Price	INFO IN/Rs 1,387
Market cap	US$ 82.4bn
Shares o/s	4,349mn
3M ADV	US$ 171.5mn
52wk high/low	Rs 1,393/Rs 509
Promoter/FPI/DII	13%/35%/52%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	1,011,913	1,198,013	1,350,223
EBITDA (Rs mn)	208,890	222,680	279,641	322,238	354,579
Adj. net profit (Rs mn)	154,100	167,350	197,826	227,212	250,948
Adj. EPS (Rs)	35.4	39.0	46.4	53.3	58.9
Adj. EPS growth (%)	(4.0)	10.3	19.0	14.9	10.4
Adj. ROAE (%)	24.5	26.5	28.3	29.0	28.6
Adj. P/E (x)	39.2	35.5	29.9	26.0	23.6
EV/EBITDA (x)	27.9	26.3	20.9	18.2	16.5

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 350 | ⮟ 24%

WIPRO | IT Services | 13 January 2021

Growth outperforms estimate, but lags behind peers

Wipro (WPRO) delivered an upbeat QoQ performance in Q3FY21 with 3.4% CC revenue growth, ahead of our estimate of 2.7%. Operating margin at 21.7% came in above expectations. We increase FY21/FY22/FY23 EPS by 5%/11%/ 3% factoring in the better margins. But given WPRO's past record of sluggish growth and pending implementation of the new business model, we remain skeptical about its mid-term prospects. Reiterate SELL as we roll forward to a Dec'22 TP of Rs 350 (Rs 290 earlier) on an upgraded P/E of 17.2x (vs. 15.2x).

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Strong broad-based growth: WPRO reported 3.9% USD/3.4% CC QoQ revenue growth vs. 3% USD/2.7% CC estimated, entering the upper end of the guided range of 1.5-3.5% CC. TCV was reported at US$ 1.2bn (including Metro-AG), of which a significant portion is net new. Growth was broad-based with all verticals up ~4%+ each, except BFSI and media-telecom which grew 1.6% and 2%, QoQ, USD. Life sciences and energy & utilities are seeing increased demand due to ramp-up in large oil and gas deals. Based on a robust deal pipeline, WPRO has guided for 1.5-3.5% QoQ growth in Q4FY21 – conservative given the second half is usually strong for the company

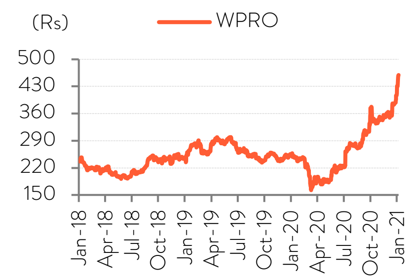
Margin gains to sustain partially: IT services operating margin stood at 21.7% (+250bps QoQ), a 22-quarter high for WPRO due to cost optimisation from higher offshoring, utilisation and automation as well as lower subcontracting costs. Margin gains are expected to come off partially in FY22-FY23 due to a return of some costs, but should remain higher than FY20 levels.

Europe growth picks up: Due to transition of the Metro-AG deal, Europe grew 10.1% QoQ, USD. Management expects momentum in the geography to continue going forward. Most deals from Europe are centered around cloud migration, driving efficiency, digital transition and cost optimisation.

Ticker/Price	WPRO IN/Rs 459
Market cap	US$ 35.8bn
Shares o/s	5,715mn
3M ADV	US$ 67.5mn
52wk high/low	Rs 467/Rs 159
Promoter/FPI/DII	74%/9%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	624,397	704,142	779,291
EBITDA (Rs mn)	121,661	124,867	139,635	152,475	160,185
Adj. net profit (Rs mn)	90,074	95,295	104,406	108,930	116,338
Adj. EPS (Rs)	14.9	16.7	18.5	19.3	20.6
Adj. EPS growth (%)	12.3	11.6	11.1	4.3	6.8
Adj. ROAE (%)	17.1	16.9	18.7	18.0	16.5
Adj. P/E (x)	30.7	27.5	24.8	23.7	22.2
EV/EBITDA (x)	22.3	21.1	18.3	17.0	16.1

Source: Company, BOBCAPS Research

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TRUST | INNOVATION | EXCELLENCE

BANKING | Q3FY21 Preview | 13 January 2021

All eyes on asset quality

Q3FY21 is yet another quarter where management commentary will be watched even more keenly than reported earnings. The SC order on asset classification standstill remains in force which will lead banks to report proforma GNPAs. Key monitorables are clarity on expected slippages, restructuring pipeline and collection efficiency. For large private banks, credit growth is likely to beat the industry while credit costs should remain in check as they have built adequate buffers to cope with the impending stress.

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Standstill on NPA recognition continues: As in Q2FY21, banks will continue to report proforma slippages/GNPAs in Q3 unless the Supreme Court lifts the asset classification standstill before results are declared. Our checks suggest that stress remains elevated in the credit card, CV and MFI space but could be much lower than earlier anticipated. Moreover, the damage in the SME and MSME segments has been largely contained by the ECLG scheme. A grey area that bears close monitoring is the stress accumulated over recent months due to the standstill.

Elevated provisions could cap earnings: Overall operating profit growth is likely to be modest for banks under our coverage. We expect treasury gains to be lower in Q3. Fee income should be better QoQ while we might see some uptick in opex. NIM is projected to remain flat but could decline as banks reverse interest on slippages. We believe that large private banks and State Bank of India have built adequate provision buffers to deal with the impending stress, but some smaller banks may continue shoring up their buffers in Q3 as well.

Credit growth remains subdued: As per the latest RBI data, credit growth in the system remains weak at <7% YoY. We expect Q3 credit growth for banks under our coverage to be marginally better than Q2 given the festive demand. As per Q3 business updates provided by select banks, HDFC Bank is the only outlier with a ~16% YoY uptick in credit while Federal Bank grew ~6% and IndusInd Bank stayed flat. Our channel checks suggest that traction in the mortgage and auto loan segments has picked up, but broad-based recovery in credit growth looks difficult before FY22.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AXSB IN	BUY
CBK IN	ADD
DCBB IN	SELL
FB IN	ADD
HDFCB IN	BUY
ICICIBC IN	BUY
IDFCFB IN	SELL
IIB IN	BUY
KMB IN	BUY
RBK IN	SELL
SBIN IN	BUY

Source: BOBCAPS Research

LOGISTICS | Q3FY21 Preview | 13 January 2021

Revenue and earnings growth set for recovery in Q3

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Aggregate revenue of our logistics coverage universe is forecast to grow 11% YoY in Q3FY21 vs. a 1% uptick in Q2. Further, we expect all companies under our coverage to post higher YoY EBITDA and earnings. The revival in domestic and EXIM trade has been much faster than anticipated, as evident from the steadily improving high frequency indicators – rail freight (+11% YoY in Q3), major port cargo (+2%) and e-way bills (+15%) – which may drive earnings surprises for our coverage companies. VRL Logistics is our preferred pick.

Growth set to rebound: We forecast an aggregate revenue increase of 11% YoY (+6% QoQ) for our coverage universe in Q3FY21 vs. 1% YoY growth in Q2, as most lead industry indicators point to a strong demand revival. In Q3, total e-way bills generated leaped 15% YoY, rail freight volume rose 11%, container rail volume increased 13%, and major port volumes moved up 2% – all implying a sustained recovery in domestic and EXIM trade.

Gati consolidation to boost AGLL's financials; TCIEXP steady: Allcargo Logistics (AGLL) is likely to post the highest revenue/EBITDA growth in our coverage universe at 26%/24% YoY, led mainly by the consolidation of Gati and an uptick in global container trade. We expect TCI Express's (TCIEXP) revenue to rise 5% YoY, but fixed cost savings and operational efficiency gains should propel EBITDA up a higher 10% YoY.

Auto volume recovery bodes well for MLL and TRPC: Strong auto production volumes augur well for Mahindra Logistics (MLL) and Transport Corp's (TRPC) supply chain segment. We expect MLL's revenue to grow by 4% YoY (–2% in Q2), aided by 15% growth in the non-anchor client segment and a 6% increase in anchor customer revenue. Higher warehousing share should drive 13% growth in MLL's EBITDA. TRPC's SCS segment (~80% auto) is projected to grow by 3% YoY; this coupled with a 9% YoY rise in the seaways vertical is forecast to drive a 5%/6% increase in consolidated revenue/EBITDA.

Land license fee could mar CCRI's EBITDA: Container volumes carried by rail surged 13% YoY in Q3 (–5% YoY in Q2). Accordingly, Container Corp's (CCRI) provisional volume has also ticked up 6% vs. 9% contraction in Q2. We expect CCRI's revenue to increase 4% YoY after a 14% decline in Q2. EBITDA is likely to be flat YoY owing to a sharp increase in land licensing fee in Q3FY21.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	SELL
MAHLOG IN	BUY
TCIEXP IN	BUY
TPRC IN	BUY
VRLL IN	BUY

MAHLOG = MLL

BANKING

13 January 2021

Card spends back to pre-Covid levels; stress to gradually subside

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Key takeaways from our interaction with an expert on the credit card industry:

- India's credit card industry is poised to clock a 20-25% CAGR over the next five years spurred by multiple factors ranging from the push for digital payments to new underwriting methods.
- The thrust on digital payments by the government as well as RBI is providing an impetus to the issuance and acceptance of cards.
- In Oct'20, non-metros and smaller towns registered 23% YoY growth in new card issuances as compared to a decline of 10% for metros.
- The rising proportion of millennials (18-25 years) is yet another factor that would contribute to growth. This age group accounted for 14% of all new card issuances in FY20 as compared to a mere 1.6% in FY16.
- New underwriting methods made possible via alternative scoring and behavioural insights adopted by fintechs are helping to widen the target customer base.
- Credit card spend per month per card has grown consistently MoM since Apr'20. It reached pre-Covid levels of ~Rs 11k in Oct'20, registering sharp MoM growth due to the festive season.
- In order to address infrastructure constraints for digital payments in cities beyond tier-2, RBI has created a Payments Infrastructure Development Fund (PIDF) that will subsidise deployment of payment acceptance infrastructure. This will encourage issuers to deploy infrastructure in tier-3 to tier-6 centres.
- Pre-pandemic, the average GNPA ratio was 4-4.5% for credit card players. There was a temporary spike to 11-14% in Q2FY21 due to the loan moratorium and subsequent non-payment of dues.
- Q4FY21 / Q1FY22 should see visible green shoots in terms of lower delinquencies and write-back of losses, but GNPAs are expected to settle 100-150bps higher than pre-Covid levels.

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)

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