FIRST LIGHT

18 January 2021

RESEARCH

HDFC Bank | Target: Rs 1,800 | +23% | BUY

Sailing steady in a storm

HCL Technologies | Target: Rs 1,150 | +16% | BUY

Growth streak continues; guidance raised

PVR | Target: Rs 1,430 | –3% | REDUCE

Improving content pipeline, cost control measures key positives

SUMMARY

HDFC Bank

HDFC Bank's (HDFCB) Q3FY21 PAT of Rs 88bn (+18% YoY) was led by strong 17% growth in operating profit. Headline NPA was stable and various asset quality metrics such as demand resolution (97%) and cheque bounce rates point towards normalisation. The bank's vulnerable SME portfolio estimate has reduced further to 2.3%. Retail disbursals across products picked up sharply on festive demand. We raise our TP to Rs 1,800 (vs. Rs 1,400) as we hike FY21-FY23 EPS 4-15%, roll to Mar'23 valuations and now value the core book at 3.7x P/BV.

Click here **for the full report.**

HCL Technologies

HCL Tech (HCLT) reported 4.4% QoQ dollar revenue growth in Q3FY21, outperforming our 3.2% estimate. EBIT margin stood strong at 22.9%, up 130bps QoQ. Management has upgraded FY21 margin and growth guidance, leading us to raise FY21/FY22/FY23 EPS by 8%/1%/3%. Rolling valuations over, we have a Dec'21 TP of Rs 1,150 (vs. Rs 980) based on an upgraded P/E of 18.8x. The company's strong software business, healthy deal wins, traction in mode-2/3 and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

Click here **for the full report.**

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	5bps	24bps	(68bps)
India 10Y yield (%)	5.89	(2bps)	0bps	(71bps)
USD/INR	73.05	0.1	0.7	(3.0)
Brent Crude (US$/bbl)	56.42	0.6	12.2	(12.7)
Dow	30,992	(0.2)	3.8	5.8
Shanghai	3,566	(0.9)	5.8	16.0
Sensex	49,584	0.2	7.2	18.2
India FII (US$ mn)	**13 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(27.6)	(383.5)	(383.5)	(4,477.1)
FII-E	296.1	2,219.9	2,219.9	32,195.7

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

PVR

PVR (PVRL) reported paltry revenue of Rs 454mn (–95% YoY) in Q3FY21 as a lack of content and the 50% capacity cap weighed on footfalls. Stringent control on fixed costs (–63% YoY) moderated the EBITDA loss to Rs 781mn. The content slate is set to improve as the strong audience response to 'Master' and Covid vaccination drive could encourage pending big-ticket movies to opt for theatrical release. Given the improving outlook, we raise our target EV/EBITDA multiple to 14x (vs. 13x). On rollover, we move to a new Mar'22 TP of Rs 1,430 (vs. Rs 1,160).

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,800 | ▲ 23%

HDFC BANK | Banking | 16 January 2021

Sailing steady in a storm

HDFC Bank's (HDFCB) Q3FY21 PAT of Rs 88bn (+18% YoY) was led by strong 17% growth in operating profit. Headline NPA was stable and various asset quality metrics such as demand resolution (97%) and cheque bounce rates point towards normalisation. The bank's vulnerable SME portfolio estimate has reduced further to 2.3%. Retail disbursals across products picked up sharply on festive demand. We raise our TP to Rs 1,800 (vs. Rs 1,400) as we hike FY21-FY23 EPS 4-15%, roll to Mar'23 valuations and now value the core book at 3.7x P/BV.

Vikesh Mehta
research@bobcaps.in

Improvement in key asset quality metrics: HDFCB's proforma GNPA ratio was stable at 1.4%. The bank sold some retail assets in Q3 while its restructured book remained manageable at 0.5%. Demand resolution increased to 97% in Q3 vs. 95% in Q2 (and 98% pre-Covid). Cheque bounce rates are improving MoM and are around pre-Covid levels across products whereas bounce resolution rates are better than before. The SME portfolio is showing encouraging trends with MoM improvement in +30dpd and the bank's estimate of its vulnerable portfolio has declined to 2.3% of loans (vs. 3%/9% in Q2/Q1).

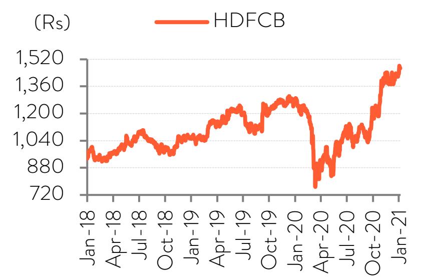
Retail disbursements show strong traction: Loan growth at 16% YoY continued to beat the industry and was backed by ~27% growth in wholesale assets. Retail assets grew 4% QoQ while disbursements grew 40% propelled by strong festive demand. Disbursements across the wholesale and retail portfolios are back to pre-Covid levels. The bank sourced ~2mn liability customers in Q3 (vs. 1.8mn in Q2) and does not expect the RBI's incremental credit card sourcing restriction to have a large impact on CASA or customer acquisition.

Maintain BUY: We raise FY21-FY23 EPS 4-15% to adjust for lower operating expense and credit cost assumptions. We value the core book at 3.7x P/BV (vs. 3.2x earlier) and roll over to a new Mar'22 SOTP- based TP of Rs 1,800.

Ticker/Price	HDFCB IN/Rs 1,467
Market cap	US$ 110.2bn
Shares o/s	5,490mn
3M ADV	US$ 203.0mn
52wk high/low	Rs 1,497/Rs 739
Promoter/FPI/DII	26%/37%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	654,507	772,610	927,576
NII growth (%)	20.3	16.5	16.5	18.0	20.1
Adj. net profit (Rs mn)	210,782	262,573	309,555	381,447	461,024
EPS (Rs)	39.6	48.0	56.5	69.6	84.1
P/E (x)	37.0	30.5	26.0	21.1	17.4
P/BV (x)	5.4	4.7	4.1	3.6	3.1
ROA (%)	1.8	1.9	1.9	2.0	2.0
ROE (%)	16.5	16.4	16.9	18.2	19.1

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,150 | ⮝ 16%

HCL TECHNOLOGIES | IT Services | 15 January 2021

Growth streak continues; guidance raised

HCL Tech (HCLT) reported 4.4% QoQ dollar revenue growth in Q3FY21, outperforming our 3.2% estimate. EBIT margin stood strong at 22.9%, up 130bps QoQ. Management has upgraded FY21 margin and growth guidance, leading us to raise FY21/FY22/FY23 EPS by 8%/1%/3%. Rolling valuations over, we have a Dec'21 TP of Rs 1,150 (vs. Rs 980) based on an upgraded P/E of 18.8x. The company's strong software business, healthy deal wins, traction in mode-2/3 and cloud/infrastructure expertise offer good midterm growth visibility. BUY.

Ruchi Burde | Seema Nayak
research@bobcaps.in

Growth outperforms: Q3 revenue grew 4.4% USD/3.5% CC, beating our estimate of 3.2% USD/2.8% CC and exceeding the guided range of 1.5-2.5% CC. HCLT reached the US$ 10bn milestone in CY20. Q3 growth was driven by a 13% QoQ increase in Mode-2 business. Mode-3 growth held strong at 7.7% while mode-1 was flat QoQ. Demand has risen for digital, cloud, products and platforms. Among verticals, media and entertainment led the momentum with a double-digit uptick. Five of seven verticals posted positive CC growth. EBIT margin was at a 22-quarter high of 22.9% (est. 20.1%), up 130bps QoQ, despite salary hikes (50bps QoQ impact) helped by lower SG&A costs.

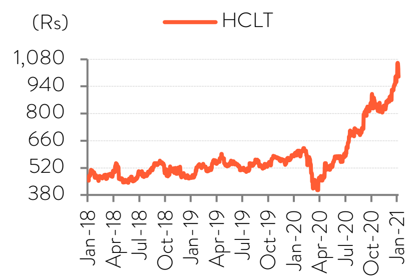
Healthy deal signings: HCLT won 13 transformational deals (vs. 15 in Q2FY21; 12 in Q3FY20) across industry verticals, including life sciences and healthcare, technology and financial services. TCV increased 13% YoY. The pipeline remains strong with triple-digit growth in new licenses in the software business.

Guidance raised: As anticipated, HCLT has slightly updated its revenue growth guidance for Q4FY21 to a range of 2-3% vs. 1.5-2.5% QoQ CC before and expects FY21 growth to be positive. Guidance includes DWS revenue and factors in the impact from product and platforms seasonality in Q4. EBIT margin guidance for the year has been raised from 20-21% to 21-21.5%.

Ticker/Price	HCLT IN/Rs 990
Market cap	US$ 36.8bn
Shares o/s	2,713mn
3M ADV	US$ 98.3mn
52wk high/low	Rs 1,067/Rs 375
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	604,280	706,780	759,502	866,906	967,129
EBITDA (Rs mn)	140,020	166,930	203,155	232,633	261,409
Adj. net profit (Rs mn)	99,757	110,940	134,698	149,993	171,473
Adj. EPS (Rs)	36.7	40.9	49.6	55.3	63.2
Adj. EPS growth (%)	16.3	11.5	21.4	11.4	14.3
Adj. ROAE (%)	25.2	23.5	24.2	23.8	24.0
Adj. P/E (x)	27.0	24.2	19.9	17.9	15.7
EV/EBITDA (x)	19.1	16.0	13.2	11.4	9.7

Source: Company, BOBCAPS Research

REDUCE
TP: Rs 1,430 | ⋎ 3%

PVR | Media | 16 January 2021

Improving content pipeline, cost control measures key positives

PVR (PVRL) reported paltry revenue of Rs 454mn (–95% YoY) in Q3FY21 as a lack of content and the 50% capacity cap weighed on footfalls. Stringent control on fixed costs (–63% YoY) moderated the EBITDA loss to Rs 781mn. The content slate is set to improve as the strong audience response to 'Master' and Covid vaccination drive could encourage pending big-ticket movies to opt for theatrical release. Given the improving outlook, we raise our target EV/EBITDA multiple to 14x (vs. 13x). On rollover, we move to a new Mar'22 TP of Rs 1,430 (vs. Rs 1,160).

Sayan Das Sharma
research@bobcaps.in

Content slate set to improve: Though most of PVRL's screens were operational in Q3, a lack of new content and strict operating guidelines dented footfalls (–96% YoY). However, a strong response to new movie 'Master' could mark a turnaround for the industry. The movie netted Rs 200mn on the first day of release in Tamil Nadu alone (Rs 500mn after three days) – the second-best ever for the state. This coupled with the vaccination drive and waning virus apprehensions (evident in strong footfalls in malls and restaurants) could usher in theatrical release of pending big-ticket movies, boosting the content slate.

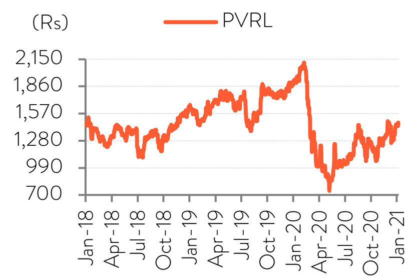
Cost control measures augur well: PVRL has reached a settlement with 88% of its landlords for a discount/rebate in rent liability for FY21, translating into a 70% YoY decline in rent and maintenance charges in Q3. This together with a tight leash on other costs (–58% YoY) yielded an impressive 63% YoY (+59% QoQ) decline in total fixed costs, even though screens resumed operations. While rent will revert to pre-Covid levels from FY22, PVRL expects 10-15% of achieved staff cost and overhead reduction to continue post pandemic.

TP raised: Factoring in the muted Q3 topline, we cut our FY21 revenue estimates but maintain FY22-FY23 forecasts. We roll over to a revised Mar'22 TP of Rs 1,430 and retain REDUCE as rich valuations cap near-term upside.

Ticker/Price	PVRL IN/Rs 1,475
Market cap	US$ 1.1bn
Shares o/s	55mn
3M ADV	US$ 34.6mn
52wk high/low	Rs 2,125/Rs 718
Promoter/FPI/DII	19%/27%/39%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,856	34,144	5,056	30,790	37,098
EBITDA (Rs mn)	5,863	10,766	(2,272)	9,617	12,435
Adj. net profit (Rs mn)	1,898	273	(5,373)	447	2,341
Adj. EPS (Rs)	40.6	5.3	(97.4)	8.1	42.4
Adj. EPS growth (%)	51.5	(85.6)	(2068.1)	(108.3)	423.7
Adj. ROAE (%)	12.7	1.8	(43.2)	3.5	16.0
Adj. P/E (x)	36.3	277.4	(15.1)	182.0	34.8
EV/EBITDA (x)	15.2	8.5	(40.7)	9.6	7.5

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)

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