

# FIRST LIGHT

## RESEARCH

### BOB Economics Research | Weekly Wrap

Global recovery holds ground

### Tech Mahindra | Target: Rs 1,190 | +24% | BUY

Subdued Q4; deal win acceleration lends visibility

### Banking

RBI caps tenure of bank CEOs at 15 years

## SUMMARY

### India Economics: Weekly Wrap

Resurging flash PMIs and higher US new home sales point to durable economic recovery across the world. However, yields were broadly lower led by India (10Y lower by 5bps) as rising Covid-19 cases and localised lockdowns are showing dip in economic activity. INR fell by 0.9% even as DXY was lower by 0.8%. Indian equity market also fell for the third straight week with higher FII outflows. MPC members reiterated preference to growth over inflation. US Fed decision and slew of economic data will drive global markets this week.

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

### Tech Mahindra

Tech Mahindra (TECHM) posted below-estimated Q4FY21 dollar revenue growth of 1.6% QoQ. EBIT margin expanded 60bps QoQ, bettering our estimate. The telecom vertical has continued to recover (+1.4% QoQ USD), and traction in the manufacturing and BFSI segments aided 1.8% QoQ USD growth in the enterprise business. TCV was strong at US\$ 1.04bn. We keep EPS estimates broadly intact and roll forward to a new Mar'22 TP of Rs 1,190 (vs. Rs 1,130), based on an unchanged target P/E of 15.7x. Maintain BUY.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	320

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	0bps	(17bps)	94bps
India 10Y yield (%)	6.07	0bps	(12bps)	(15bps)
USD/INR	74.89	0	(3.3)	2.3
Brent Crude (US\$/bbl)	65.32	(1.9)	1.2	220.7
Dow	34,137	0.9	4.6	45.4
Shanghai	3,473	0	2.0	22.1
Sensex	47,706	(0.5)	(4.3)	52.0
India FII (US\$ mn)	19 Apr	MTD	CYTD	MTD
FII-D	113.3	91.8	(1,935.5)	91.8
FII-E	(220.9)	(716.0)	6,610.3	(716.0)

Source: Bank of Baroda Economics Research

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## Banking

The RBI has issued final guidelines to strengthen corporate governance and encourage professionalisation of management teams in banks. Private and small finance banks must comply with these instructions beginning Oct'21. Key takeaways: (1) MD & CEO tenure capped, (2) three-year cooling period for reappointment, (3) upper age limit capped.

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

## WEEKLY WRAP

26 April 2021

**Global recovery holds ground**

**Resurging flash PMIs and higher US new home sales point to durable economic recovery across the world. However, yields were broadly lower led by India (10Y lower by 5bps) as rising Covid-19 cases and localised lockdowns are showing dip in economic activity. INR fell by 0.9% even as DXY was lower by 0.8%. Indian equity market also fell for the third straight week with higher FII outflows. MPC members reiterated preference to growth over inflation. US Fed decision and slew of economic data will drive global markets this week.**

Sameer Narang | Sonal Badhan

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**Markets**

- **Bonds:** Even with resilient macro data as seen in flash PMIs and US new home sales, yields fell in most markets (US, UK and Japan). The dip in global yields can be explained by rising Covid-19 cases. Indian 10Y yield fell by 5bps in the week. Crude prices fell by 1% (US\$ 66/bbl) led by risk to demand outlook. System liquidity surplus fell to Rs 4.8tn as on 23 Apr 2021 versus Rs 5.5tn last week.
- **Currency:** Global currencies closed higher. DXY fell by 0.8% in the week as US 10Y yield fell by 2bps. EUR rose the most by 1% as Eurozone's flash services and manufacturing PMIs rose more than anticipated. INR fell by 0.9% amidst a surge in Covid-19 cases and FII outflows (US\$ 483mn).
- **Equity:** Barring Shanghai Comp, other global indices ended lower this week as investors continued to monitor rising Covid-19 cases. Nikkei (2.2%) dropped the most. Sensex (2%) declined for the third straight week over concerns over rising Covid-19 cases and imposition of localised lockdowns. Real estate and consumer durable stocks fell the most.
- **Covid-19 tracker:** Global Covid-19 cases rose by 5.6mn this week versus 5.2mn in last week, led by India which alone added 2mn cases versus 1.2mn WoW. Israel has vaccinated 62% of its population (single dose), UK at 49% and US at 42%. India is at 8.5%.
- **Upcoming key events:** Globally, Q1CY21 GDP prints (US, Europe), China's PMIs and Germany IFO index will be in key focus. Rate decisions of BoJ and US Fed are also due. In India, core sector and fiscal data will be released. Focus will remain on trajectory of Covid-19 cases.



**BUY**

TP: Rs 1,190 | ▲ 24%

**TECH MAHINDRA**

| IT Services

| 26 April 2021

## Subdued Q4; deal win acceleration lends visibility

**Tech Mahindra (TECHM) posted below-estimated Q4FY21 dollar revenue growth of 1.6% QoQ. EBIT margin expanded 60bps QoQ, bettering our estimate. The telecom vertical has continued to recover (+1.4% QoQ USD), and traction in the manufacturing and BFSI segments aided 1.8% QoQ USD growth in the enterprise business. TCV was strong at US\$ 1.04bn. We keep EPS estimates broadly intact and roll forward to a new Mar'22 TP of Rs 1,190 (vs. Rs 1,130), based on an unchanged target P/E of 15.7x. Maintain BUY.**

Ruchi Burde

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**Q4 underperformance:** TECHM posted 1.6% QoQ dollar revenue growth, underperforming our estimate of 3.3%. However, the telecom vertical continued to recover (+1.4% QoQ USD). Traction in the BFSI, technology and manufacturing segments aided 1.8% QoQ USD growth in the enterprise business. EBIT margin at 16.5% was the highest in six years and beat our forecast of 15.8%, expanding 60bps QoQ led by automation, offshoring and lower depreciation. Management has guided for a >15% EBIT margin in FY22.

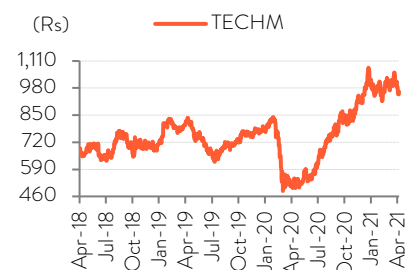
**Strong TCV momentum:** TCV rebounded to pre-Covid levels after three quarters of recovery, breaching the billion-dollar mark with a print of US\$ 1.04bn (+106% YoY), divided equally between enterprise (US\$ 525mn) and communications (US\$ 518mn). The Telefonica Germany deal win contributed significantly. Q1FY22 deal wins are expected to be on similar lines.

**Acquisition in BPS space:** TECHM has acquired a 100% stake in US-based business process services company Eventus Solutions for a cash consideration of US\$ 44mn. The transaction is expected to close by 15 June this year. The company has more than 100 employees and posted revenue of US\$ 33.2mn (+38% YoY) in CY20. The acquisition will enable TECHM to move up the value chain in the BPS business.

Ticker/Price	TECHM IN/Rs 962
Market cap	US\$ 11.2bn
Shares o/s	873mn
3M ADV	US\$ 55.8mn
52wk high/low	Rs 1,082/Rs 490
Promoter/FPI/DII	36%/39%/25%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	347,421	368,677	378,551	448,118	528,753
EBITDA (Rs mn)	63,368	57,261	68,471	85,580	102,096
Adj. net profit (Rs mn)	42,975	42,505	44,281	56,345	66,900
Adj. EPS (Rs)	47.7	48.3	50.4	64.1	76.1
Adj. EPS growth (%)	11.9	1.2	4.2	27.2	18.7
Adj. ROAE (%)	21.4	19.8	18.7	21.1	22.3
Adj. P/E (x)	20.2	19.9	19.1	15.0	12.6
EV/EBITDA (x)	13.2	14.6	12.2	9.7	8.0

Source: Company, BOBCAPS Research | P – Provisional



**BANKING**

26 April 2021

**RBI caps tenure of bank CEOs at 15 years**

The RBI has issued final guidelines to strengthen corporate governance and encourage professionalisation of management teams in banks. Private and small finance banks must comply with these instructions beginning Oct'21.

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**MD & CEO tenure capped:** In order to encourage professionalisation of management teams, the continuous term of a bank MD & CEO has been capped at 15 years while that of a promoter MD & CEO has been restricted to 12 years. In extraordinary circumstances, the RBI can extend this to 15 years.

**Three-year cooling period for reappointment:** An MD & CEO can be considered for reappointment by the board after a cooling period of three years. However, during these three years, the concerned individual shall not be appointed or associated with the bank or its group entities in any capacity, either directly or indirectly.

**Upper age limit capped:** The upper age limit for the MD & CEO has been maintained at 70 years while that for the Chairman and independent directors has now been limited to 75 years.

**Our view:** We believe these guidelines will affect Kotak Mahindra Bank sooner than others as Uday Kotak's term as promoter MD & CEO ends in Dec'24 and with over 15 years at the post, he may not be eligible for reappointment. Banks with professional CEOs such as DCB Bank, Federal Bank and RBL Bank have residual tenures of 3-4 years under the new norms. Large private banks such as ICICI, Axis and HDFC Bank will not be immediately affected.

**FIG 1 – PROMOTERS & MD-CEOs IN PRIVATE BANKS UNDER COVERAGE**

Bank	MD	Date of first appointment	Tenure as on date	Expiry of current term	MD & Promoter
HDFCB	Sashidhar Jagdishan	27-Oct-20	5M	Oct-23	No
ICICIBC	Sandeep Bakhshi	15-Oct-18	2Y 6M	Oct-21	No
AXSB	Amitabh Chaudhry	1-Jan-19	2Y 3M	Dec-21	No
KMB	Uday Kotak	1-Feb-03	18Y 2M	Dec-20	Yes
IIB	Sumant Kathpalia	24-Mar-20	1Y 1M	Mar-23	No
RBK	Vishwavir Ahuja	Jul-10	10Y 9M	Jun-21	No
FB	Shyam Srinivasan	23-Sep-10	10Y 7M	Sep-21	No
DCBB	Murali Natarajan	6-May-09	11Y 11M	Apr-22	No
IDFCFB	V Vaidyanathan	19-Dec-18	2Y 4M	Dec-21	No
BANDHAN	Chandra Shekhar Ghosh	Jul-15	5Y 9M	Jul-21	No
AUBANK	Sanjay Agarwal	1-Apr-17	4Y	Apr-23	Yes

Source: Company, BOBCAPS Research



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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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