ASIAMONEY Brokers Poll 2020 (India)

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	49,771	-0.2	4.2
Nifty-50	14,736	-0.1	5.4
Nifty-M 100	23,604	0.8	13.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,941	0.7	4.9
Nasdaq	13,378	1.2	3.8
FTSE 100	6,726	0.3	4.1
DAX	14,657	0.2	6.8
Hang Seng	11,307	0.2	5.3
Nikkei 225	29,174	-2.1	6.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	64	-0.7	24.5
Gold ($/OZ)	1,739	-0.4	-8.4
Cu (US$/MT)	9,116	0.5	17.6
Almn (US$/MT)	2,243	0.4	13.7
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	72.4	-0.2	-0.9
USD/EUR	1.2	0.2	-2.3
USD/JPY	108.9	0.0	5.4
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.2	-0.01	0.3
10 Yrs AAA Corp	7.2	-0.01	0.6
Flows (USD b)	**22-Mar**	**MTD**	**CY21**
FIIs	-0.11	3.05	8.15
DIIs	0.07	-0.43	-4.39
Volumes (INRb)	**22-Mar**	**MTD***	**YTD***
Cash	620	740	807
F&O	29,072	44,714	40,910

Note: *Average

Today's top research idea

HCL Technology: Valuations continue to discount Product opportunity

- We see HCLT as a key beneficiary of increasing Cloud spend (growing at 15-18% CAGR between CY20-25E), given its large exposure to IT infrastructure and its position as a top vendor in the Cloud migration space.
- We see HCLT as a potential re-rating candidate due to continued outperformance from its Product business, which is growing in double-digits (over 13.4% YoY growth in six months ending Dec'20).
- We expect this business to deliver 13% revenue CAGR over FY21-23E. This should also help improve RoIC from FY22E onward.
- The company remains one the most attractive stocks in our coverage, trading at 15x FY23E P/E (38%/26% discount to TCS/Infosys), despite delivering 20% earnings growth in FY21 YTD.

Research covered

Cos/Sector	Key Highlights
HCL Technology	Valuations continue to discount Product opportunity
Financials	Capitalizing on opportunities; on track to achieve decade high RoEs

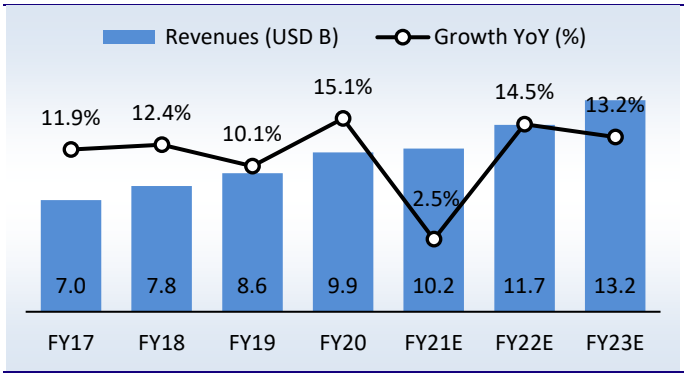
Piping hot news

Maruti Suzuki India to raise prices to tackle higher costs

The country's largest carmaker Maruti Suzuki on Monday announced a price increase across its range of vehicles from April to offset the impact of rising input costs. "Over the past year the cost of company's vehicles has been impacted adversely due to increase in various input costs. Hence, it has become imperative for the company to pass on some impact ofthe above additional cost to customers through a price increase in April, 2021", the company said in a statement to the bourses.

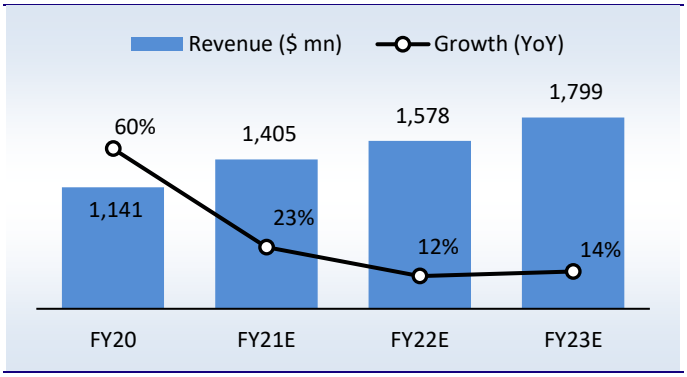
Chart of the Day: HCL Technology (Valuations continue to discount Product opportunity)

Expect 13.8% growth CAGR...



Source: Company, MOFSL

P&P to post 13% revenue CAGR over FY21-23E



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Maruti Suzuki India to raise prices to tackle higher costs

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2

India to launch supercharged push for global electric vehicle players

India plans to offer fresh incentives to companies making electric vehicles (EVs) as part of a broad auto sector scheme it expects to attract $14 billion of investment over five years, according to industry sources and a document seen by Reuters. The country's efforts to promote EVs to reduce its oil dependence and cut pollution have been stymied so far by a lack of investment and weak demand, as well as the patchwork nature of existing incentives that vary from state to state...

3

Government exits from Tata Communications, nets Rs 8,846 crore

The government has fully exited Tata Communications Ltd by selling its 26.12% stake and has netted Rs 8,846 crore in the process, the department of investment and public asset management (DIPAM) said Monday. The government has divested its holding through two steps, by selling 16.12% in TCL, previously called VSNL,...

4

Tata eyes stake sales in financial services units

Tata Sons Ltd is considering selling stakes in some of its financial services units, a move that the company hopes will help unlock value and raise funds for investments in newer businesses such as online retail, two people directly aware of the company's plans said...

5

MobiKwik targets IPO by September, seeks to raise $200-$250 mn: Report

One MobiKwik System Pvt, the Indian digital wallet and payments startup, is targeting an initial public offering before September that could raise between $200 million and $250 million, according to people familiar with the matter. MobiKwik is planning to file its draft IPO prospectus by May for an offering in Mumbai that could value the company at more than $1 billion, the people said, asking not to be identified as the information is private. The Gurgaon-based company intends to hold a pre-IPO funding round that could give the startup a valuation of about $700 million, the people said...

6

Bharat Gas to merge with BPCL

The board of privatisation-bound Bharat Petroleum Corporation Ltd on Monday approved the merger of its gas subsidiary, BGRL with itself in a bid to streamline corporate structure. "The board of directors of the company at its meeting today, ie March 22, 2021, has considered and approved the Scheme of Amalgamation of Bharat Gas...

7

NCR has 1.7 lakh unsold housing units: ICRA

NCR residential realty market, which is the second largest residential realty market in India after MMR, has unsold stock of around 222 mn sq ft across 1.7 lakh units (as on December, 2020), spread over three key micro markets – Faridabad, Gurgaon and Noida, according to a report by ICRA...

HCL Technologies

BSE SENSEX	S&P CNX
49,771	14,736

Stock Info

Bloomberg	HCLT IN
Equity Shares (m)	2,714
M.Cap.(INRb)/(USDb)	2652.9 / 36.7
52-Week Range (INR)	1074 / 400
1, 6, 12 Rel. Per (%)	6/-13/53
12M Avg Val (INR M)	5919

Financials Snapshot (INR b)

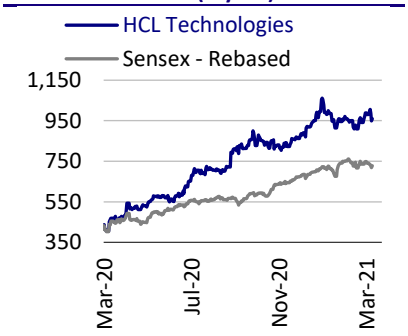
Y/E Mar	FY21E	FY22E	FY23E
Sales	761	875	990
EBIT Margin (%)	21.6	21.8	22.1
PAT	130	153	176
EPS (INR)	48.0	56.5	65.0
EPS Gr. (%)	18.0	17.5	15.1
BV/Sh. (INR)	217	241	260
Ratios			
RoE (%)	23.6	24.6	25.9
RoCE (%)	20.8	21.7	22.9
Payout (%)	37.5	50.0	60.0
Valuations			
P/E (x)	20.3	17.3	15.0
P/BV (x)	4.5	4.1	3.8
EV/EBITDA (x)	12.8	10.9	9.6
Div Yield (%)	1.8	2.9	4.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	60.3	60.3	60.0
DII	10.3	10.7	8.5
FII	24.9	24.9	27.7
Others	4.5	4.1	3.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR978 TP: INR1,300 (+33%) Buy

Valuations continue to discount Product opportunity

HCLT remains one the most attractive stocks in our coverage, trading at 15x FY23E P/E (38%/26% discount to TCS/Infosys), despite delivering 20% earnings growth in FY21 YTD. We expect this discount to narrow as it benefits from increasing Cloud spend, given its large exposure to IT infrastructure. It can potentially re-rate if it continues to deliver growth in the Software Product business, which remains a key overhang on the stock price, despite outperforming expectations over the last two quarters.

Cloud remains a large opportunity

- We view Cloud deployment and application migration to be among the biggest areas of corporate spend in the medium term, growing at 15-18% CAGR between CY20-25E (Exhibit 3).
- With its high exposure to Infrastructure Management Services (over 30% of total revenue), HCLT would be one of the key beneficiaries to the Cloud shift. It continues to be rated among the top vendors by industry analyst in the Cloud migration space.
- We expect HCLT's Mode 2 business to grow at 26% CAGR over FY20-23E to reach 28% of total revenue in FY23E.

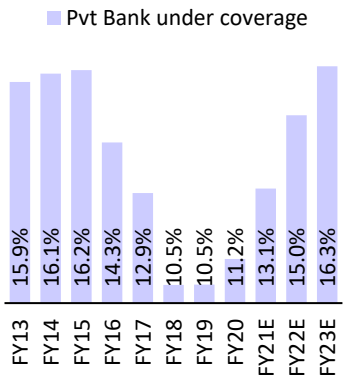
P&P performing better than expected

- HCLT has delivered double-digit growth (over 13.4% YoY growth in six months ending Dec'20) in its IBM software-led Product and Platform (P&P) business. This should help address investor concerns since the acquisition of these IP in Dec'18, mainly on account of legacy software like Domino/Lotus Notes.
- We expect this business to continue to grow well and deliver 13% revenue CAGR over FY21-23E. Despite the investment impact, we expect EBIT margin to stay meaningfully above IT Services profitability.
- With the upcoming launch of Domino V12 (third major update in 2.5 years after the last update under IBM in CY13) and a large user base (partially dormant), we see upside risk for P&P growth led by client upgrades.
- We expect the drag from a large investment on HCLT's RoIC to bottom out in FY21E (Exhibit 10 and 11).

Valuation and view

- Higher exposure to IMS (over 30% of revenue), aided by strong demand for Cloud services, should help deliver over 14% revenue growth in FY22E.
- Broad-based sequential growth, coupled with healthy deal wins and a robust pipeline, indicates a good demand outlook. We expect strong performance in the Products business, driven by HCLT's capabilities to rightly align and sell these products.
- Given its deep capabilities in the IMS space and strategic partnerships, investments in Cloud, and Digital capabilities, we expect HCLT to emerge stronger on the back of an expected increase in enterprise demand for these services. The stock is currently trading at a modest ~15x FY23E earnings, which offers a margin of safety. Our TP is based on 20x FY23E EPS (a 20% discount to TCS). Maintain Buy.

Expect RoE for Private Banks to be at decade highs by FY23E



Capitalizing on opportunities; on track to achieve decade high RoEs

Expect market share of Private Banks to touch 54% by FY30E

- **The Banking sector is entering a golden period, with the focus shifting from asset quality issues towards strong growth opportunities, market share gains, and earnings pendulum swings towards decade high RoEs. Large Banks have prudently provided for anticipated loan losses and raised the highest amount of capital, thus equipping them for a sustained turnaround. Private Banks are well placed to accelerate market share gains. We expect their share in the total Banking system credit to increase to ~45%/54% by FY25E/FY30E.**
- **Earnings estimates for our coverage universe saw a 23%/21% upgrade in FY21E/FY22E from the trough during 1QFY21. Aggregate RoE for Private Banks in our coverage universe is likely to improve to a decade high of 16.3% by FY23E (v/s 10-11% over FY18-20). Among PSUs, we estimate SBIN's RoE to touch ~15% by FY23E.**
- **The SoTP story for large Banks provides significant support to overall valuations. Currently, subsidiaries of ICICIBC/SBIN contribute ~20%/~34% to our SoTP. As these businesses further gain scale and market share, contribution of subsidiaries to the SoTP story of Banks is expected to improve.**
- **We roll forward our multiples to FY23E and our revised TP implies an upside of 23-42% across Banks, barring KMB and BANDHAN, where we maintain our Neutral stance. We estimate that earnings in a Bull case will expand by 13-26% across Banks (barring HDFCB and KMB, where the upgrades are in single-digits).**
- **Strong earnings growth and improving return ratios will continue to drive a re-rating in Banking stocks, which still trade near or below their five/10-year average valuation multiples (barring HDFCB, ICICIBC and KMB). Our top picks remain HDFCB, ICICIBC, and SBIN. We prefer AUBANK among mid-size peers. AXSB could witness continued re-rating on improving asset quality, while IIB could benefit from cyclical tailwinds.**

Private Banks: Pace of market share gains to quicken, mix to touch 45% by FY25E

- Large Private Banks are well placed to accelerate market share gains, given their strong capital position, robust liability franchise, and higher provisioning coverage on stressed assets. During 9MFY21, ~57% of incremental loan growth was driven by SBIN, HDFCB, and ICICIBC, with most large Private Banks reporting 3-7% QoQ growth. Though the strong sequential growth is supported by ECLGS disbursements (45% of FY21 YTD incremental loans), the growth in many business segments has crossed pre-COVID levels. We expect the growth momentum to remain strong as we project FY22E/FY23E systemic loan growth at 11%/13%, with the mix of retail loans increasing to 31%. This will be led by 14-19% growth in Private Banks. We estimate Private Banks share in total banking credit to increase to ~45% by FY25E.

Asset quality: Banks finally winning the long drawn battle

- Large Banks have shown strong improvement in collection efficiency, while slippages/restructuring outlook remains in control. Pro forma GNPA/NNPA ratios have increased marginally across Banks like AXSB, HDFCB, and ICICIBC, while SBIN saw a decline of 44bp/27bp. Restructured book across all large Banks stood in the 0.3-0.8% range, boding well for a normalized slippage trajectory from FY22E onwards. Higher pro forma coverage, coupled with higher quantum of contingent provisions (0.5-2.2% of loans), should avert any provisioning shock and aid normalization of credit cost for larger Banks over FY22E/FY23E, though elevated provisioning will continue in a few mid-size peers (RBK, BANDHAN, and DCBB).

Earnings upgrade cycle kick-starts; revival in the investment cycle to aid recovery

- Bank earnings have witnessed a strong rebound as asset quality fears have subsided, while growth momentum across many business segments has touched pre-COVID levels. Earnings estimates for our coverage universe saw a 23%/21% upgrade in FY21E/FY22E from a trough in 1QFY21. Among Private Banks, ICICIBC saw the highest increase (65%/36%) for FY21E/FY22E, followed by ~22% each for KMB/AXSB for FY22E. Mid-size Banks too saw a sharp increase of 20-40%. We expect the earnings cycle to remain buoyant, led by a steady revival in credit growth, healthy margin on deployment of excess liquidity, continued moderation in funding cost, and anticipated normalization in credit cost, mainly across large Banks.

Decadal high RoE to drive further re-rating

- We expect large Private Banks to see strong improvement in profitability led by market share gains, lower cost of funds to support margin, retail bounceback to revive fee income trends, and controlled credit cost as they are carrying excess provisions. We expect aggregate RoE for Private Banks in our coverage universe to improve to a decadal high of 16.3% by FY23E (v/s 10-11% over FY18-20). Among PSUs, we estimate RoE for SBIN to touch ~15% by FY23E. Earning swings and improving return ratios will continue to drive a re-rating in Banking stocks.

Valuations compelling; earnings to rise by 13-26% in a Bull case

- Most Banks are trading near or lower than their five/10-year average valuation multiples (barring HDFCB, ICICIBC and KMB). We roll forward our multiples to FY23E and our revised TP implies an upside of 23-42% across Banks, barring KMB and BANDHAN, where we maintain our Neutral stance after downgrading ratings in recent months. We estimate that earnings in a Bull case will expand by 13-26% across Banks (barring HDFCB and KMB, where the upgrades are in single-digits). In our Bull case, we expect an upside of 26-68% across Banks. **Our top picks remain HDFCB, ICICIBC, and SBIN among large Banks. We prefer AUBANK among mid-size peers. AXSB could witness continued re-rating on improving asset quality, while IIB could benefit from cyclical tailwinds.**

Base case TP implies an upside of 23-42% barring KMB, BANDHAN and AUBANK

INR	Base Case		
	CMP	TP	Upside (%)
AXSB	716	900	26%
BANDHAN	353	370	5%
HDFCB	1,469	1,800	23%
ICICIBC	573	770	34%
IIB	968	1,300	34%
KMB	1,824	2,000	10%
FB	77	110	42%
RBK	225	300	33%
AUBANK	1,223	1,350	10%
SBIN	367	500	36%

Source: MOFSL, Company

Bull case TP implies an upside of 26-68%

INR	Bull Case		
	CMP	TP	Upside (%)
AXSB	716	1,100	54%
HDFCB	1,469	2,100	43%
ICICIBC	573	900	57%
IIB	968	1,600	65%
KMB	1,824	2,300	26%
FB	77	130	68%
SBIN	367	600	63%

Source: MOFSL, Company

SBI Cards: Card industry has reached pre-COVID levels now; Rama Mohan Rao Amara, MD & CEO

- Card industry has reached pre-COVID levels now; company reached pre-COVID levels in October 2020
- Share of online spends has steadily increased by 900 points for company
- Travel and other segments continue to show poor performance
- Q4 has given fair idea of the restructuring book performance
- Credit costs will remain elevated in the short-term, like in Q3
- Q4 spends are lower than Q3 spends; haven't seen impact on spends so far

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Prestige Estates: Will have surplus of Rs. 900 crore after Blackstone deal; Irfan Razack, CMD

- Less reliance on debt gives aggressive plans to build newer assets
- Focussing on freeing up capital and getting cash in the system
- Bengaluru and Kochi projects will be ready soon
- Bengaluru showing good demand for office spaces
- Will meet the targets that we've set without much stress
- Have lot of interest for office space leasing in BKC, Mahalaxmi areas in Mumbai
- Residential sales have picked up very well
- Net debt was at Rs. 8500 crore which will be a surplus of Rs. 900 crore post Blackstone deal
- Net debt will be in-line with pre-dilution levels by 2026

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Havells: Expect market share to cross 50% in premium and decorative fans; Ravindra Singh Negi, Pres-Electrical Cons Durables

- We are looking at summer season differently this time
- Industry is still negative YTD due to Q1 being a wash out
- Have spent the pandemic preparing for the future
- Looking at product innovation to boost sales
- Have market share of over 40% in premium and decorative fans; expect market share to cross 50% in premium and decorative fans
- Fans priced above Rs. 3000 are in the premium category
- Remain positive on growth for the next year

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