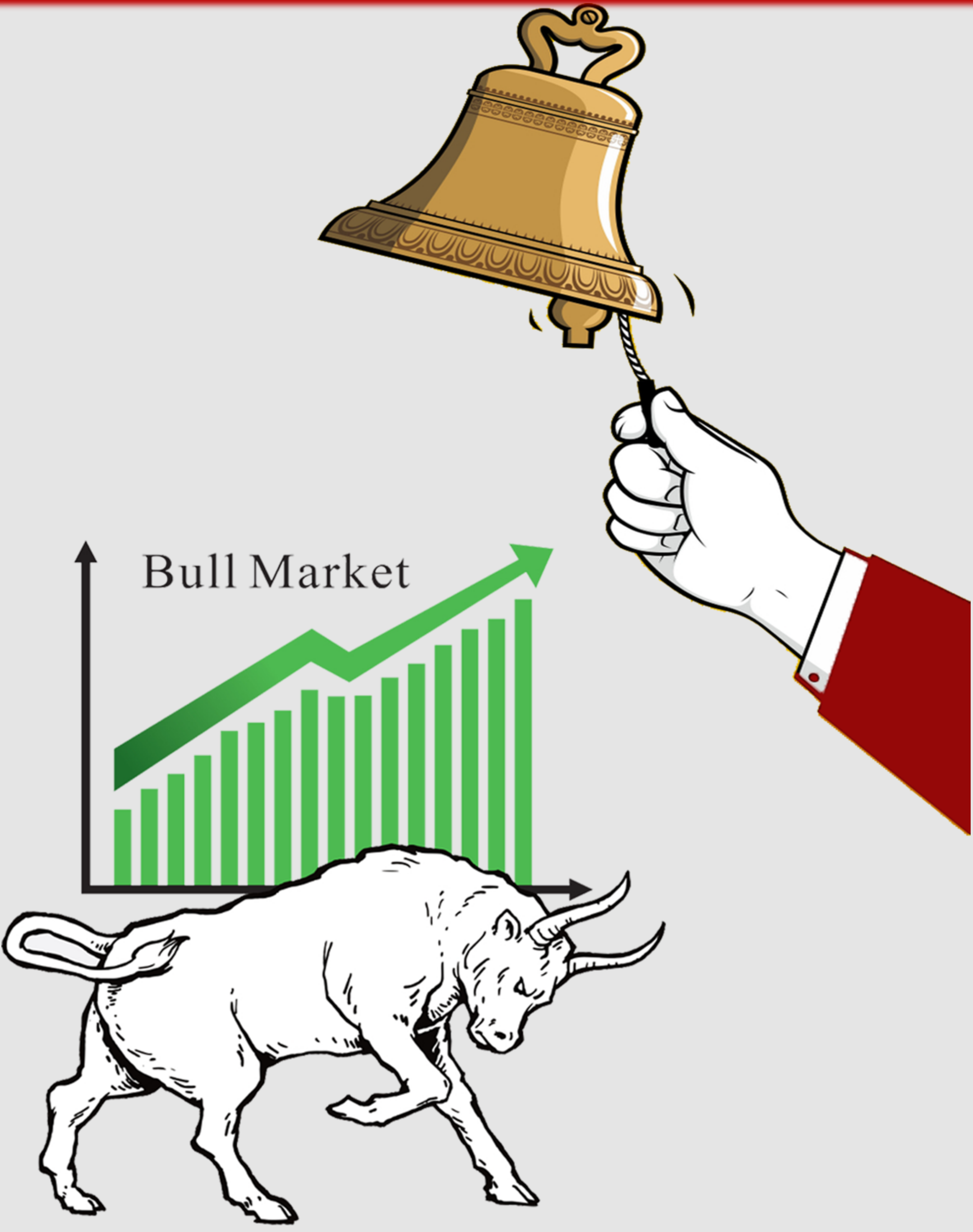
श्री LAKSHMISHREE

Gateway to your Financial Goals

DARK CLOUDS AHEAD

This May Impact Your Investments!!



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HDFC Bank's Merger Pain Is Not Over Yet

Ever since HDFC Bank Ltd first announced its merger with parent HDFC Ltd in April last year, the former's share price has declined more than 7 percent. In fact, the pressure on the stock has only increased once the merger took effect on July 1. The effect of the merger on HDFC Bank's balance sheet as seen in the September quarter results somewhat vindicates investors' cold shoulder towards the bank.

Optically, the bank's net profit surged 51 percent year-on-year to Rs 15,976 crore for the July-September period. But the merger makes comparison with the year ago metrics useless. A sequential comparison provides some clarity on the merger's effect. HDFC Bank's management had provided proforma numbers for the first quarter to give a sense of how the merged entity would look. Analysts at Jefferies India Pvt Ltd calculate that adjusted for the merger of HDFC Ltd, the bank's net profit declined by 2 percent sequentially against the reported 33 percent jump.

Net interest income, the core income a bank earns through lending, declined by 8 percent sequentially while operating profit was down 9 percent, according to the Jefferies report. Significantly, the bank's net interest margin showed a contraction of a whopping 70 basis points on a sequential basis to 3.4 percent. HDFC Bank's margins were historically around 4 percent and a hallmark in the industry.

These metrics certainly do not burnish the image of India's most valuable private sector bank known for its consistently impeccable performance. But a merger of the scale of HDFC Bank and HDFC is bound to be a drag on performance at least for a couple of quarters. Also, the merger between the two is essentially the meeting of two different accounting rules and even differential regulation. To be fair, the management prepared investors for the changes to come as the merger progressed. Analysts had already penciled in a negative impact on profitability in the short term.

The concern now is that this pain could stretch. When HDFC Bank swallowed HDFC's loans, it had to increase its liquidity position to meet the merger needs and the costs that come with merging. These costs, such as maintenance of regulatory ratios such as cash reserve ratio on an enlarged balance sheet, and synchronisation of personnel, systems, and processes, weighed on HDFC Bank.

Increasing liquidity through deposit mobilization alone was a challenge and therefore the bank had to borrow from the market. The resulting debt, which is around Rs 5 lakh crore as per management, increased its cost of borrowing since deposits are the low-cost option. In an interaction with the media post results on Monday, the management said that some of the debt is long-term and will be replaced by deposits over a period of time.

Simply put, HDFC Bank's cost of borrowing will come down but not fast enough. It may take more than a year to reach a 4 percent margin. Then there is the question of HDFC's non-retail loans which have been shrinking. According to the management, about Rs 5,000 crore worth of loans are restructured which had to be labelled non-performing on the bank's balance sheet because of regulation. These loans are performing, the management clarified.

Be that as it may, the hit from HDFC's non-individual balance sheet is something that investors must digest. That said, HDFC Bank's bad loan ratios remain one of the best in the industry.

The sum of its earnings performance is that HDFC Bank's return ratios could moderate and that leaves investors with less reason to side with the bank.

Infosys Trumps TCS And HCL In Order Wins But Lags In Revenue Collection

Tata Consultancy Services (TCS), Infosys and HCL Technologies saw good order inflows during the September 2023 quarter. Infosys is at the forefront and reported a 185 percent rise in order inflows from the year ago quarter. Order inflows at TCS rose by 38 percent and at HCL by 66 percent. Infosys also outpaced TCS and HCL on sequential constant currency revenue growth.

However, Infosys lagged TCS and HCL in revenue and cash management. TCS and HCL have lower receivables than Infosys. Total days sales outstanding (DSO), including the account receivables and unbilled receivables, stood at 98 days for Infosys, as per calculations by analysts, higher than 88 days at TCS and 82 days at HCL. Both TCS and HCL managed to make a significant dent to the DSO days over the last couple of years. For Infosys, however, the DSO days more or less remained close to 100 days.

Infosys has been seeing higher unbilled receivables than TCS and HCL for some time now. As per Kotak Institutional Equities, the higher unbilled receivables can be due to greater contribution from large projects. Revenues from such projects are recognised on execution basis whereas the billing to client happens on the achievement of a milestone, explain analysts at Kotak.

Even so, TCS also has a good share of large projects but has managed to keep receivables lower. As Kotak explains, higher receivables tend to raise working capital intensity and weigh on cash flow conversion metrics and return ratios. This is visible in superior cash flow generation at TCS.

TCS’s cash flow from operations (CFO) have consistently matched or exceeded its reported earnings (100 percent or more) and are better than Infosys', show an analysis by Jefferies India. Even in the September 2023 quarter, TCS's free cash flow to profit after tax ratio is notably better than that of Infosys.

As we explained in this story an income statement indicates the sales and net earnings of the company during a given period of time. The actual cash may be received later. This makes the operating cash flow ratio an important financial metric to gauge the company's cash and liquidity position. Also note that order inflow details vary across the companies. Infosys reports only large deals. TCS reveals the total value of all contracts won while HCL reports net new orders.

To sum up, Infosys may be doing a good job in winning new orders. But its revenue and cash conversion metrics are lagging peers.

Look What Our Research Analyst Has To Say...

Nifty on the weekly charts has formed a tweezer top after the wick reversal in the week before last week which is negative and concerning for the bulls. Major resistance range the bulls is placed between 19800 19850. Rallies towards the said range should be used to exit longs and rejection candles should be used to enter fresh shorts.

Immediate supports are placed in the range of 19450 19400. The support zone is weak but should be used to book profits on shorts. Any breach below 19400 will trigger broad base sell off for an immediate target of 19250 19200. We are not very positive on the markets and sell on rise is the key for the week ahead.

Anshul Jain

Sr. Research Analyst

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Wealth Bagger Stock Picks For The Week

Bajaj Finance

About The Company

Bajaj Finance Ltd (BFL), a subsidiary of Bajaj Finserv Ltd, operates as a non-banking financial services provider that engages in accepting deposits. The company offers a diverse range of financial products, including loans, investments, insurance, and cards. Their lending solutions encompass personal loans, home loans, gold loans, loans against shares, property loans, fixed deposits, lease rent discounting, professional loans, and vehicle loans. In the realm of investment services, they provide options like mutual funds and fixed deposits. BFL's insurance portfolio includes offerings for life, health, and non-life coverage. The company's headquarters are located in Pune, Maharashtra, India.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 4,70,750 Cr	₹ 217	₹ 13,118 Cr	55.9%	8,192 / 5,486

Outlook & Valuation

In the second quarter of FY24, Bajaj Finance (BAF) recorded an impressive 33% year on year growth in its Assets Under Management (AUM). Notably, its Net Interest Income (NII) grew by 30% YoY, outpacing the rise in operating expenses (20% YoY), leading to a 30% increase in operating profit, reaching approximately Rs 58.3 billion. The company is well-capitalized and boasts sufficient liquidity to harness the ongoing positive credit cycle.

Key takeaways from this quarter include robust loan growth, particularly in mortgages and the consumer (B2C) sector, which marked the eighth consecutive quarter of 25%+ loan growth since the pandemic-induced slowdown. Bajaj Finance's strong capital position and liquidity, despite increased provisions, position it well to absorb potential risks to asset quality.

The company's resilience, diversified funding base, high credit rating, and effective risk management, combined with new tech initiatives and strategic partnerships, make it a compelling investment opportunity. The stock is currently trading at 6.1x FY25E BV with an expected FY25E RoE of around 26%.

Prestige Estates

About The Company

Prestige Estates Projects Ltd (PEPL) is a real estate development company that specializes in residential, commercial, retail, leisure, and hospitality properties. PEPL caters to a diverse range of customers, offering condominiums, duplexes, row houses, apartments for various asset classes, and commercial offices, including IT parks for corporate clients.

They also create shopping and entertainment spaces and manage hotels. Notable brands under their umbrella are Inventure Academy, Indehaus, Angsana, Art Bengaluru, The Luxury Collection, and Forum. PEPL's presence spans across South India, encompassing cities like Chennai, Goa, Hyderabad, Bangalore, Mysore, Mangalore, and Kochi. The company is headquartered in Bangalore, Karnataka, India.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 29,816 Cr	₹ 25	₹ 1,134 Cr	65.5%	796 / 391

Outlook & Valuation

Prestige Estates Projects Limited (PEPL) has demonstrated remarkable growth, increasing its pre-sales from INR 55 billion in FY21 to INR 129 billion in FY23. This expansion can be attributed to the company's successful entry into the Mumbai market and its strong presence in Bengaluru, where it achieved approximately INR 80 billion in bookings. In the first half of FY24, PEPL launched 19 million square feet (msf) of new projects, resulting in INR 110 billion in bookings and reaching 85% of the bookings reported in FY23.

With forthcoming significant launches in Hyderabad, Chennai, and the Mumbai Metropolitan Region (MMR), the company now anticipates achieving INR 200 billion in bookings for FY24, surpassing its initial guidance of INR 160 billion. Additionally, the company is actively engaged in constructing 24 msf of commercial projects and plans to undertake an additional 15 msf over the next five years.

THANK YOU

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