

RESEARCH
BOB Economics Research | Monthly Chartbook

Broader recovery still afar

L&T Infotech | Target: Rs 2,010 | +23% | BUY

Analyst meet takeaways

SUMMARY
India Economics: Monthly Chartbook

While manufacturing and services PMIs picked up in Nov'19, muted diesel demand, decelerating railway freight and non-oil-non-gold imports imply that broader economic activity is muted. State government spending remains up, financed by 43% increase in borrowings in H1. This along with surprise pause by RBI has driven 10Y yield up by 24bps this month. CPI inflation is estimated to increase to 5.34% in Nov'19 and further acceleration is likely in Dec'19 and Jan'20. Hence, 10Y yield may rise further, before reverting lower.

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

L&T Infotech

L&T Infotech's (LTI) analyst meet reassured us that its strong sales engine and efficient delivery will continue to drive profitable growth. Client centricity, industry-leading capabilities and a strong leadership team are key differentiators versus peers. In our view, the company is headed for a growth rebound on the back of large deal wins and cessation of client-specific challenges. We expect a 11.5%/12.2% revenue/earnings CAGR over FY20-FY22. LTI is our sole BUY-rated stock amongst mid-cap IT services companies.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.84	2bps	(10bps)	(104bps)
India 10Y yield (%)	6.71	4bps	15bps	(82bps)
USD/INR	70.93	0.2	0.5	1.3
Brent Crude (US\$/bbl)	64.34	0.1	2.9	6.9
Dow	27,882	(0.1)	0.7	14.4
Shanghai	2,917	0.1	(1.6)	12.5
Sensex	40,240	(0.6)	(0.2)	14.5
India FII (US\$ mn)	9 Dec	MTD	CYTD	FYTD
FII-D	6.1	244.7	4,489.4	3,944.8
FII-E	103.1	(35.2)	13,337.2	6,492.0

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Broader recovery still afar

While manufacturing and services PMIs picked up in Nov'19, muted diesel demand, decelerating railway freight and non-oil-non-gold imports imply that broader economic activity is muted. State government spending remains up, financed by 43% increase in borrowings in H1. This along with surprise pause by RBI has driven 10Y yield up by 24bps this month. CPI inflation is estimated to increase to 5.34% in Nov'19 and further acceleration is likely in Dec'19 and Jan'20. Hence, 10Y yield may rise further, before reverting lower.

Rural demand may recover: Private consumption demand did improve to 5% in Q2FY20 from 3.1% in Q1FY20. In Q3, auto sales seem to have bottomed out. Non-oil-non-gold imports continue to decelerate at (-) 10% vs (-) 8.9% in Sep'19. Consumer confidence has fallen to to 5-year low in Nov'19 at 85.7 (89.4 in Sep'19). While rural wage growth is muted, rising domestic and global food prices along with anticipation of record output in this rabi season implies rural demand may see a revival.

State capex on the upswing: Both centre and state spending has seen slight moderation in Oct'19. However, states have stepped up on capex which has improved to 14% in Oct'19 vs 8% in Sep'19 (3MMA basis). With revenues under pressure, this has been funded by a 43% increase in state borrowings in H1. GST Council in its meeting on 18 Dec'19 is widely expected to raise GST rates to increase revenue mobilisation. At the

current run-rate, Centre is likely to fall short of its direct and indirect tax targets. Corporate tax has increased by 0.9% compared with BE of 15.4%. Customs, excise and GST collections are also running behind BE. Clearly, divestments is the way forward.

Growth outlook is muted: RBI reduced its GDP growth estimate for FY20 to 5% from 6.1% earlier and 7.2% in Apr'19. Lead indicators for Q3 such as diesel consumption, railway freight traffic, credit growth and tax collections imply ~5% growth in Q3FY20 as well.

Inflation and rates: While growth has fallen, inflation has been rising due to supply disruptions on account of unseasonal rainfall. Telecom inflation is structural. We expect CPI inflation to increase to 5.34% in Nov'19 from 4.62% in Oct'19. Yields have already risen by 24bps in Dec'19 (MTD basis) and may inch up more as inflation remains above 5% in the near-term and fiscal concerns emerge.

INR weakens in Nov'19: INR fell by (-) 1.1% in Nov'19 as oil prices rose by 5% MoM even as FII inflows were steady at US\$ 2.7bn versus US\$ 2.8bn in Oct'19. However, INR has risen by 1.1% in Dec'19 after RBI surprised with a pause. We continue to have an optimistic view on INR as forex inflows remain buoyant and oil prices are expected to be stable. Higher oil prices as a result of OPEC cuts or geo-political tensions and fiscal expansion remain key risks to our view.



BUY

TP: Rs 2,010 | ▲ 23%

L&T INFOTECH

| IT Services

| 11 December 2019

Analyst meet takeaways

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Incubating new growth catalysts: Management intends to “productise” its services by developing domain-focused, repeatable and standardised offerings that will facilitate scale of business and deliver predictable outcomes.

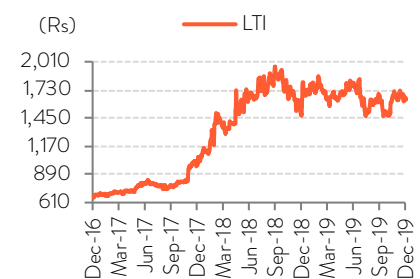
Investment in digital capabilities bearing fruit: LTI's digital client accounts have risen from 141 in FY17 to 206 as of Sep'19. As per management, companies with combined revenue of US\$ 1tn+ have entrusted LTI with reimagining core operations and functioning as a strategic data partner, while its transformation services have a reach of 2bn+ consumers and employees (Fig 1).

Refined sales engine to power growth: LTI's sales engine has powered (1) a healthy overall deal pipeline (up 42% YoY) which includes 37% new-age deals, and (2) 22% growth in large deal pipeline (which stood at US\$ 1bn+ last year), of which 67% is in the proposal stage. Besides a traditional sales team, management highlighted that its strategic alliances with technology partners and active marketing efforts are contributing significantly to augmenting the deal pipeline.

Ticker/Price	LTI IN/Rs 1,635
Market cap	US\$ 4.0bn
Shares o/s	175mn
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,897/Rs 1,436
Promoter/FPI/DII	75%/8%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19E	FY20E	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	1,03,286	1,14,878	1,28,327
EBITDA (Rs mn)	11,875	18,835	19,232	22,606	25,252
Adj. net profit (Rs mn)	11,124	15,157	15,082	17,613	19,002
Adj. EPS (Rs)	63.5	86.5	85.9	100.3	108.3
Adj. EPS growth (%)	(8.2)	36.1	(0.6)	16.8	7.9
Adj. ROAE (%)	31.8	34.6	28.3	28.1	25.9
Adj. P/E (x)	25.7	18.9	19.0	16.3	15.1
EV/EBITDA (x)	23.9	15.0	14.7	12.3	10.7

Source: Company, BOBCAPS Research



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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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